

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the statements contained in this Form 10-Q and any documents incorporated herein by reference constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q are forward-looking statements, particularly statements which relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "intends," "predicts," "potential" or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q and any documents incorporated herein by reference reflect our current views about future events and are subject to risks, uncertainties, assumptions, and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance, or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described in "Risk Factors" and elsewhere in this report.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Form 10-Q. Except as required by applicable securities law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

This information should be read in conjunction with the unaudited interim consolidated financial statements and the notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our fiscal 2022 Annual Report on Form 10-K filed with the SEC on March 28, 2023. Fiscal 2023 and fiscal 2022 are referred to as "2023," and "2022," respectively. The first quarter of 2023 and 2022 ended on April 30, 2023 and May 1, 2022, respectively. Components of management's discussion and analysis of financial condition and results of operations include:

- [Overview](#)
- [Financial Highlights and Market Conditions and Trends](#)
- [Quarter-to-Date Results of Operations](#)
- [Comparable Store Sales and Total Comparable Sales](#)
- [Non-GAAP Financial Measures](#)
- [Seasonality](#)
- [Liquidity and Capital Resources](#)
- [Critical Accounting Policies and Estimates](#)
- [Operating Locations](#)

We disclose material non-public information through one or more of the following channels: our investor relations website (<http://corporate.lululemon.com/investors>), the social media channels identified on our investor relations website, press releases, SEC filings, public conference calls, and webcasts.

Overview

lululemon athletica inc. is principally a designer, distributor, and retailer of technical athletic apparel, footwear, and accessories. We have a vision to create transformative products and experiences that build meaningful connections, unlocking greater possibility and wellbeing for all. Since our inception, we have fostered a distinctive corporate culture; we promote a set of core values in our business which include taking personal responsibility, acting with courage, valuing connection and inclusion, and choosing to have fun. These core values attract passionate and motivated employees who are driven to achieve personal and professional goals, and share our purpose "to elevate human potential by helping people feel their best."

We offer a comprehensive line of performance apparel, footwear, and accessories marketed under the lululemon brand. Our apparel assortment includes items such as pants, shorts, tops, and jackets designed for a healthy lifestyle including athletic activities such as yoga, running, training, and most other activities. We also offer apparel designed for being on the

move and fitness-inspired accessories. We expect to continue to broaden our merchandise offerings through expansion across these product areas. To help build our community of guests, and as part of our membership program, we offer in-home connected fitness and associated content subscriptions through lululemon Studio.

Financial Highlights

For the first quarter of 2023, compared to the first quarter of 2022:

- Net revenue increased 24% to \$2.0 billion. On a constant dollar basis, net revenue increased 27%.
- Total comparable sales increased 14%, or 17% on a constant dollar basis.
 - Comparable store sales increased 13%, or 16% on a constant dollar basis.
 - Direct to consumer net revenue increased 16%, or 18% on a constant dollar basis.
- Gross profit increased 32% to \$1.2 billion.
- Gross margin increased 360 basis points to 57.5%.
- Income from operations increased 54% to \$401.4 million.
- Operating margin increased 400 basis points to 20.1%.
- Income tax expense increased 69% to \$119.0 million. Our effective tax rate for the first quarter of 2023 was 29.1% compared to 27.0% for the first quarter of 2022.
- Diluted earnings per share were \$2.28 compared to \$1.48 in the first quarter of 2022.

Refer to the non-GAAP reconciliation tables contained in the "Non-GAAP Financial Measures" section of this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" for reconciliations between constant dollar changes in net revenue, total comparable sales, comparable store sales, and direct to consumer net revenue and the most directly comparable measures calculated in accordance with GAAP.

Market Conditions and Trends

Macroeconomic conditions, supply chain disruption, and the COVID-19 pandemic have impacted our business and operating costs. Certain trends are expected to continue throughout 2023, with the impact varying by market.

Macroeconomic Conditions

Macroeconomic conditions, including foreign currency fluctuations, have impacted our financial results. Foreign currency fluctuations reduced the growth of our net revenue by \$44.6 million when comparing the first quarter of 2023 to 2022 primarily due to the overall appreciation of the US dollar. We expect that future exchange rate volatility will impact our results. We have also experienced increased wage rates when comparing the first quarter of 2023 to 2022.

Guest traffic in our company-operated stores and online increased in the first quarter of 2023, compared to the first quarter of 2022. Consumer purchasing behaviors may be impacted by current economic conditions including inflation, higher interest rates, and other macroeconomic factors which may have an adverse effect on our future operating margins.

Supply chain disruption

In 2021 and 2022 we experienced supply chain disruption, including delays in inbound delivery of our products as well as in manufacturing. This supply chain disruption caused us to use higher cost modes of transport, including increasing our use

of air freight. We have seen an improvement in the supply chain disruption during the second half of 2022 and the first quarter of 2023, including reductions in freight costs and reductions in our levels of air freight usage.

In the first quarter of 2023 compared to the first quarter of 2022 our product margin increased by 430 basis points, primarily due to lower air freight costs from rate reductions and reduced usage. We expect that we will see improved product margin in the first half of 2023 compared to the prior year.

COVID-19 Pandemic

Most of our retail locations were open throughout the first quarter of 2023 and 2022, with certain locations temporarily closed due to COVID-19 resurgences during the first quarter of 2022, including certain closures in the People's Republic of China ("PRC"), including the Company's third party distribution center. Net revenue from the PRC increased 79% in the first quarter of 2023 compared to the first quarter of 2022, with improvements in COVID-19 trading conditions contributing to this increase.

Quarter-to-Date Results of Operations: First Quarter Results

The following table summarizes key components of our results of operations for the periods indicated:

	First Quarter			
	2023	2022	2023	2022
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>	
Net revenue	\$ 2,000,792	\$ 1,613,463	100.0 %	100.0 %
Cost of goods sold	849,987	743,070	42.5	46.1
Gross profit	1,150,805	870,393	57.5	53.9
Selling, general and administrative expenses	747,513	607,851	37.4	37.7
Amortization of intangible assets	1,878	2,195	0.1	0.1
Income from operations	401,414	260,347	20.1	16.1
Other income (expense), net	8,025	(22)	0.4	—
Income before income tax expense	409,439	260,325	20.5	16.1
Income tax expense	119,034	70,327	5.9	4.4
Net income	\$ 290,405	\$ 189,998	14.5 %	11.8 %

Net Revenue

Net revenue increased \$387.3 million, or 24%, to \$2.0 billion for the first quarter of 2023 from \$1.6 billion for the first quarter of 2022. On a constant dollar basis, assuming the average foreign currency exchange rates for the first quarter of 2023 remained constant with the average foreign currency exchange rates for the first quarter of 2022, net revenue increased \$432.0 million, or 27%.

The increase in net revenue was primarily due to increased company-operated store net revenue, including from new company-operated stores and increased comparable store sales, as well as due to increased direct to consumer net revenue. Other net revenue also increased.

Total comparable sales, which includes comparable store sales and direct to consumer net revenue, increased 14% for the first quarter of 2023 compared to the first quarter of 2022. Total comparable sales increased 17% on a constant dollar basis.

Net revenue for the first quarter of 2023 and 2022 is summarized below.

	First Quarter					
	2023	2022	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(Percentages)</i>		<i>(In thousands)</i>	<i>(Percentages)</i>
Company-operated stores	\$ 958,087	\$ 731,604	47.9 %	45.3 %	\$ 226,483	31.0 %
Direct to consumer	834,942	721,253	41.7	44.7	113,689	15.8
Other	207,763	160,606	10.4	10.0	47,157	29.4
Net revenue	\$ 2,000,792	\$ 1,613,463	100.0 %	100.0 %	\$ 387,329	24.0 %

Company-Operated Stores. The increase in net revenue from our company-operated stores was driven by net revenue from company-operated stores that we opened or significantly expanded since the first quarter of 2022 which contributed \$137.9 million. We have opened 83 net new company-operated stores since the first quarter of 2022, including 39 stores in Asia Pacific, 37 stores in North America, and seven stores in Europe. The increase in net revenue from our company-operated stores was also driven by increased comparable store sales. Comparable store sales increased 13%, or 16% on a constant dollar basis. The increase in comparable store sales was primarily a result of increased store traffic, partially offset by a decrease in conversion rates. Dollar value per transaction was consistent year over year.

Direct to Consumer. Direct to consumer net revenue increased 16%, or 18% on a constant dollar basis. The increase in net revenue from our direct to consumer segment was primarily a result of increased traffic, partially offset by a decrease in conversion rates and a lower dollar value per transaction.

Other. The increase in other net revenue was primarily due to increased outlet sales, license and supply arrangement revenue, sales to wholesale accounts, and recommerce revenue. The increase in net revenue was partially offset by a decrease in net revenue from our temporary locations, which had fewer locations open compared to the prior year, and lululemon Studio.

Gross Profit

	First Quarter			Year over year change (Percentage)
	2023	2022		
	(In thousands)		(In thousands)	
Gross profit	\$ 1,150,805	\$ 870,393	\$ 280,412	32.2 %
Gross margin	57.5 %	53.9 %	360 basis points	

The increase in gross margin was primarily the result of:

- a net increase in product margin of 430 basis points, primarily due to lower air freight costs from rate reductions and reduced usage, modestly offset by higher inventory provisions in the current year; and
- a decrease in occupancy and depreciation costs as a percentage of net revenue of 10 basis points, driven primarily by the increase in net revenue.

The increase in gross margin was partially offset by an unfavorable impact of foreign currency exchange rates of 50 basis points, and an increase in costs related to our product departments and distribution centers as a percentage of net revenue of 30 basis points.

Selling, General and Administrative Expenses

	First Quarter			Year over year change (Percentage)
	2023	2022		
	(In thousands)		(In thousands)	
Selling, general and administrative expenses	\$ 747,513	\$ 607,851	\$ 139,662	23.0 %
Selling, general and administrative expenses as a percentage of net revenue	37.4 %	37.7 %	(30) basis points	

The increase in selling, general and administrative expenses was primarily due to:

- an increase in head office costs of \$79.3 million, comprised of:
 - an increase of \$45.5 million primarily due to an increase in depreciation of \$14.8 million, increased brand and community costs, including charitable donations, of \$12.6 million, increased technology costs, including cloud computing amortization, of \$11.0 million, as well as professional fees; and
 - an increase in employee costs of \$33.8 million primarily due to an increase in salaries and wages of \$18.9 million and increased incentive compensation and stock-based compensation of \$8.1 million, primarily as a result of headcount growth and increased wage rates, as well as increased benefit costs and travel costs.
- an increase in costs related to our operating channels of \$61.6 million, comprised of:

- an increase in employee costs of \$34.4 million primarily due to an increase in salaries and wages expense and incentive compensation in our company-operated stores channel, primarily from the growth in our business and increased wage rates;
- an increase in variable costs of \$13.7 million primarily due to an increase in credit card fees, distribution costs, and packaging costs, primarily as a result of increased net revenue;
- an increase in other costs of \$8.2 million primarily due to increased technology costs, professional fees, and repairs and maintenance costs; and
- an increase in brand and community costs of \$5.3 million primarily due to an increase in digital marketing expenses related to our direct to consumer channel, partially offset by a decrease in marketing expenses related to lululemon Studio.

The increase in selling, general and administrative expenses was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of \$1.3 million.

Amortization of Intangible Assets

	First Quarter		
	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(In thousands)</i> <i>(Percentage)</i>
Amortization of intangible assets	\$ 1,878	\$ 2,195	\$ (317) (14.4)%

The amortization of intangible assets was primarily the result of the amortization of intangible assets recognized upon the acquisition of MIRROR.

Income from Operations

On a segment basis, we determine income from operations without taking into account our general corporate expenses and certain other expenses. Segmented income from operations is summarized below.

	First Quarter				
	2023	2022	2023	2022	Year over year change
	<i>(In thousands)</i>		<i>(Percentage of net revenue of respective operating segment)</i>		<i>(In thousands)</i> <i>(Percentage)</i>
Segmented income from operations:					
Company-operated stores	\$ 259,819	\$ 160,706	27.1 %	22.0 %	\$ 99,113 61.7 %
Direct to consumer	369,453	285,107	44.2	39.5	84,346 29.6
Other	44,083	19,527	21.2	12.2	24,556 125.8
	\$ 673,355	\$ 465,340			\$ 208,015 44.7 %
General corporate expense	270,063	202,798			67,265 33.2
Amortization of intangible assets	1,878	2,195			(317) (14)
Income from operations	\$ 401,414	\$ 260,347			\$ 141,067 54.2 %
Operating margin	20.1 %	16.1 %			400 basis points

Company-Operated Stores. The increase in income from operations from our company-operated stores was primarily the result of increased gross profit of \$149.8 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower air freight costs and lower markdowns, partially offset by higher inventory provisions. The increase in gross margin was also due to leverage on occupancy and depreciation costs, partially offset by an unfavorable impact of foreign currency exchange rates and deleverage in costs from our distribution centers and product teams. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher employee and operating costs. Employee costs increased primarily due to higher salaries and wages expense and higher incentive compensation as a result of the growth in our business and increased wage rates. Store operating costs increased primarily due to increases in credit card fees, packaging costs, and distribution costs, as a result of higher net revenue, as well as increased repairs and maintenance. Income from operations as a percentage of company-operated stores net revenue increased due to higher gross margin and leverage on selling, general and administrative expenses.

Direct to Consumer. The increase in income from operations from our direct to consumer segment was primarily the result of increased gross profit of \$111.0 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower air freight costs, partially offset by higher inventory provisions. The increase in gross margin was partially offset by an unfavorable impact of foreign currency exchange rates and deleverage in costs from our distribution centers and product teams. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher variable operating costs including distribution costs, packaging costs, and credit card fees, as a result of higher net revenue, as well as higher digital marketing expenses and technology costs. Income from operations as a percentage of direct to consumer net revenue increased primarily due to higher gross margin.

Other. The increase in income from operations from our other channels was primarily the result of increased operating profit from our other lululemon retail operations and a reduction in lululemon Studio marketing expenses. Increased net revenue from outlets, license and supply arrangements, sales to wholesale accounts, and recommerce resulted in increased gross profit. This was partially offset by a decrease in net revenue from our temporary locations and lululemon Studio. Selling, general and administrative expenses decreased primarily due to lower lululemon Studio marketing costs. Income from operations as a percentage of other net revenue increased primarily due to leverage on selling, general and administrative expenses, partially offset by lower gross margin driven by higher markdowns.

General Corporate Expense. The increase in general corporate expense was primarily due to increased employee costs, primarily from headcount growth and increased wage rates, as well as increased depreciation, brand and community costs, technology costs, and professional fees. The increase in general corporate expense was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of \$1.3 million.

Other Income (Expense), Net

	First Quarter			
	2023	2022	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Other income (expense), net	\$ 8,025	\$ (22)	\$ 8,047	n/a

The increase in other income, net was primarily due to an increase in interest income as a result of higher interest rates and higher cash balances.

Income Tax Expense

	First Quarter			
	2023	2022	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Income tax expense	\$ 119,034	\$ 70,327	\$ 48,707	69.3 %
Effective tax rate	29.1 %	27.0 %	210 basis points	

The effective tax rate for the first quarter of 2023 has increased compared to the first quarter of 2022 primarily due to the accrual of withholding taxes on unremitted foreign earnings and a decrease in deductions related to stock-based compensation. This was partially offset by a reduction in non-deductible expenses in international jurisdictions.

Net Income

	First Quarter			
	2023	2022	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Net income	\$ 290,405	\$ 189,998	\$ 100,407	52.8 %

The increase in net income was primarily due to an increase in gross profit of \$280.4 million and an increase in other income (expense), net of \$8.0 million, partially offset by an increase in selling, general and administrative expenses of \$139.7 million and an increase in income tax expense of \$48.7 million.

Comparable Store Sales and Total Comparable Sales

We use comparable store sales to assess the performance of our existing stores as it allows us to monitor the performance of our business without the impact of recently opened or expanded stores. We use total comparable sales to evaluate the performance of our business from an omni-channel perspective. We believe investors would similarly find these metrics useful in assessing the performance of our business.

Comparable store sales reflect net revenue from company-operated stores that have been open, or open after being significantly expanded, for at least 12 full fiscal months. Net revenue from a store is included in comparable store sales beginning with the first fiscal month for which the store has a full fiscal month of sales in the prior year. Comparable store sales exclude sales from new stores that have not been open for at least 12 full fiscal months, from stores which have not been in their significantly expanded space for at least 12 full fiscal months, and from stores which have been temporarily relocated for renovations or temporarily closed. Comparable store sales also exclude sales from direct to consumer and our other operations, as well as sales from company-operated stores that have closed.

Total comparable sales combines comparable store sales and direct to consumer net revenue.

In fiscal years with 53 weeks, the 53rd week of net revenue is excluded from the calculation of comparable sales. In the year following a 53 week year, the prior year period is shifted by one week to compare similar calendar weeks.

Opening new stores and expanding existing stores is an important part of our growth strategy. Accordingly, total comparable sales is just one way of assessing the success of our growth strategy insofar as comparable sales do not reflect the performance of stores opened, or significantly expanded, within the last 12 full fiscal months. The comparable sales measures we report may not be equivalent to similarly titled measures reported by other companies.

Non-GAAP Financial Measures

Constant dollar changes in net revenue, total comparable sales, comparable store sales, and direct to consumer net revenue are non-GAAP financial measures.

A constant dollar basis assumes the average foreign currency exchange rates for the period remained constant with the average foreign currency exchange rates for the same period of the prior year. We provide constant dollar changes in our results to help investors understand the underlying growth rate of net revenue excluding the impact of changes in foreign currency exchange rates.

The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or with greater prominence to, the financial information prepared and presented in accordance with GAAP. A reconciliation of the non-GAAP financial measures follows, which includes more detail on the GAAP financial measure that is most directly comparable to each non-GAAP financial measure, and the related reconciliations between these financial measures. Our non-GAAP financial measures may be calculated differently from, and therefore may not be directly comparable to, similarly titled measures reported by other companies.

Constant Dollar Changes in Net Revenue

The below changes in net revenue show the change compared to the corresponding period in the prior year.

	First Quarter 2023	
	Net Revenue	
	<i>(In thousands)</i>	<i>(Percentages)</i>
Change	\$ 387,329	24 %
Adjustments due to foreign currency exchange rate changes	44,624	3
Change in constant dollars	\$ 431,953	27 %

Constant Dollar Changes in Total Comparable Sales, Comparable Store Sales, and Direct to Consumer Net Revenue

The below changes in total comparable sales, comparable store sales, and direct to consumer net revenue show the change compared to the corresponding period in the prior year.

	First Quarter 2023		
	Total Comparable Sales ^{(1),(2)}	Comparable Store Sales ⁽²⁾	Direct to Consumer Net Revenue
Change	14 %	13 %	16 %
Adjustments due to foreign currency exchange rate changes	3	3	2
Change in constant dollars	17 %	16 %	18 %

⁽¹⁾ Total comparable sales includes comparable store sales and direct to consumer net revenue.

⁽²⁾ Comparable store sales reflects net revenue from company-operated stores that have been open for at least 12 full fiscal months, or open for at least 12 full fiscal months after being significantly expanded.

Seasonality

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. As a result, a substantial portion of our operating profits are typically generated in the fourth quarter of our fiscal year. For example, we generated approximately 44% of our full year operating profit during the fourth quarter of 2021. Our operating profits in 2022 were not weighted towards our fourth quarter primarily due to the impairment of goodwill and other assets recognized in relation to our lululemon Studio business unit during that quarter.

Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flows from operations, and capacity under our committed revolving credit facility, including to fund short-term working capital requirements. Our primary cash needs are capital expenditures for opening new stores and remodeling or relocating existing stores, investing in our distribution centers, investing in technology and making system enhancements, funding working capital requirements, and making other strategic capital investments both in North America and internationally. We may also use cash to repurchase shares of our common stock. Cash and cash equivalents in excess of our needs are held in interest bearing accounts with financial institutions, as well as in money market funds and term deposits.

The following table summarizes our net cash flows provided by and used in operating, investing, and financing activities for the periods indicated:

	First Quarter		
	2023	2022	Year over year change
<i>(In thousands)</i>			
Total cash provided by (used in):			
Operating activities	\$ 45,503	\$ (243,256)	\$ 288,759
Investing activities	(138,219)	(101,328)	(36,891)
Financing activities	(115,399)	(259,560)	144,161
Effect of foreign currency exchange rate changes on cash	3,855	(6,711)	10,566
Increase (decrease) in cash and cash equivalents	\$ (204,260)	\$ (610,855)	\$ 406,595

Operating Activities

The increase in cash provided by operating activities was primarily as a result of:

- an increase in cash flows from the changes in operating assets and liabilities of \$156.1 million, primarily driven by changes in inventories and accounts payable, partially offset by changes in accrued liabilities;

- increased net income of \$100.4 million; and
- changes in adjusting items of \$32.2 million, primarily driven by increased depreciation and higher cash inflows related to derivatives not designated in a hedging relationship.

Investing Activities

The increase in cash used in investing activities was primarily due to increased capital expenditures and the settlement of net investment hedges. The increase in capital expenditures was primarily due to an increase in company-operated store expenditures driven by opening new stores and remodeling existing stores as well as increased investment in our new and existing distribution facilities. There has also been an increase in direct to consumer expenditures driven by investment in our distribution centers as well as other technology infrastructure and system initiatives. Corporate expenditures also increased driven by investment in technology and business systems and increased expenditures on corporate office renovations.

Financing Activities

The decrease in cash used in financing activities was primarily the result of a decrease in our stock repurchases. During the first quarter of 2023, 0.3 million shares were repurchased at a total cost including commissions and excise taxes of \$98.5 million. During the first quarter of 2022, 0.7 million shares were repurchased at a total cost including commissions of \$232.6 million. The common stock was repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors.

Liquidity Outlook

We believe that our cash and cash equivalent balances, cash generated from operations, and borrowings available to us under our committed revolving credit facility will be adequate to meet our liquidity needs and capital expenditure requirements for at least the next 12 months. Our cash from operations may be negatively impacted by a decrease in demand for our products, as well as the other factors described in "Item 1A. Risk Factors". In addition, we may make discretionary capital improvements with respect to our stores, distribution facilities, headquarters, or systems, or we may repurchase shares under an approved stock repurchase program, which we would expect to fund through the use of cash, issuance of debt or equity securities or other external financing sources to the extent we were unable to fund such expenditures out of our cash and cash equivalents and cash generated from operations.

The following table includes certain measures of our liquidity:

	April 30, 2023
	<i>(In thousands)</i>
Cash and cash equivalents	\$ 950,607
Working capital excluding cash and cash equivalents ⁽¹⁾	845,924
Capacity under committed revolving credit facility	393,546

⁽¹⁾ Working capital is calculated as current assets of \$3.1 billion less current liabilities of \$1.3 billion.

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes, and duties. As of April 30, 2023, letters of credit and letters of guarantee totaling \$10.0 million had been issued, including \$6.5 million under our committed revolving credit facility.

Our committed North America credit facility provides for \$400.0 million in commitments under an unsecured five-year revolving credit facility. The credit facility has a maturity date of December 14, 2026, subject to extension under certain circumstances. As of April 30, 2023, aside from letters of credit of \$6.5 million, we had no other borrowings outstanding under this credit facility. Further information regarding our credit facilities and associated covenants is outlined in Note 3. Revolving Credit Facilities and Supply Chain Financing Program included in Item 1 of Part I of this report.

The timing and cost of our inventory purchases will vary depending on a variety of factors such as revenue growth, assortment and purchasing decisions, product costs including freight and duty, and the availability of production capacity and speed. Our inventory balance as of April 30, 2023 was \$1.6 billion, an increase of 24% from May 1, 2022.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of significant judgment. Actual results may vary from our estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements.

Our critical accounting policies, estimates, and judgements are discussed within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2022 Annual Report on Form 10-K filed with the SEC on March 28, 2023.

Operating Locations

Our company-operated stores by country as of April 30, 2023 and January 29, 2023 are summarized in the table below.

Number of company-operated stores by country (market)	April 30, 2023	January 29, 2023
United States	357	350
People's Republic of China ⁽¹⁾	119	117
Canada	69	69
Australia	32	32
United Kingdom	20	20
South Korea	16	16
Germany	9	10
New Zealand	8	8
Singapore	7	8
Japan	7	7
France	4	4
Ireland	4	4
Spain	3	3
Malaysia	2	2
Sweden	2	2
Netherlands	1	1
Norway	1	1
Switzerland	1	1
Total company-operated stores	662	655

⁽¹⁾ PRC included 101 stores in China Mainland, nine stores in Hong Kong Special Administrative Region, seven stores in Taiwan, and two stores in Macao Special Administration Region, as of April 30, 2023. As of January 29, 2023, there were 99 stores in China Mainland, nine stores in Hong Kong Special Administrative Region, seven stores in Taiwan, and two stores in Macao Special Administration Region.

Retail locations operated by third parties under license and supply arrangements are not included in the above table. As of April 30, 2023, there were 26 licensed locations, including 12 in Mexico, seven in the United Arab Emirates, three in Qatar, three in Saudi Arabia, and one in Kuwait.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk. The functional currency of our international subsidiaries is generally the applicable local currency. Our consolidated financial statements are presented in U.S. dollars. Therefore, the net revenue, expenses, assets, and liabilities of our international subsidiaries are translated from their functional currencies into U.S. dollars. Fluctuations in the value of the U.S. dollar affect the reported amounts of net revenue, expenses, assets, and liabilities. Foreign currency exchange differences which arise on translation of our international subsidiaries' balance sheets into U.S.

dollars are recorded as other comprehensive income (loss), net of tax in accumulated other comprehensive income or loss within stockholders' equity.

We also have exposure to changes in foreign currency exchange rates associated with transactions which are undertaken by our subsidiaries in currencies other than their functional currency. Such transactions include intercompany transactions and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. As a result, we have been impacted by changes in foreign currency exchange rates and may be impacted for the foreseeable future. The potential impact of currency fluctuation increases as our international expansion increases.

As of April 30, 2023, we had certain forward currency contracts outstanding in order to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. We also had certain forward currency contracts outstanding in an effort to reduce our exposure to the foreign currency exchange revaluation gains and losses that are recognized by our Canadian and Chinese subsidiaries on U.S. dollar denominated monetary assets and liabilities. Please refer to Note 6. Derivative Financial Instruments included in Item 1 of Part I of this report for further information, including details of the notional amounts outstanding.

In the future, in an effort to reduce foreign currency exchange risks, we may enter into further derivative financial instruments including hedging additional currency pairs. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

We currently generate a significant portion of our net revenue and incur a significant portion of our expenses in Canada. We also hold a significant portion of our net assets in Canada. The reporting currency for our consolidated financial statements is the U.S. dollar. A strengthening of the U.S. dollar against the Canadian dollar results in:

- the following impacts to the consolidated statements of operations:
 - a decrease in our net revenue upon translation of the sales made by our Canadian operations into U.S. dollars for the purposes of consolidation;
 - a decrease in our selling, general and administrative expenses incurred by our Canadian operations upon translation into U.S. dollars for the purposes of consolidation;
 - foreign currency exchange revaluation gains by our Canadian subsidiaries on U.S. dollar denominated monetary assets and liabilities; and
 - derivative valuation losses on forward currency contracts not designated in a hedging relationship;
- the following impacts to the consolidated balance sheets:
 - a decrease in the foreign currency translation adjustment which arises on the translation of our Canadian subsidiaries' balance sheets into U.S. dollars; and
 - net investment hedge losses from derivative valuation losses on forward currency contracts, entered into as net investment hedges of a Canadian subsidiary.

During the first quarter of 2023, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$22.8 million increase in accumulated other comprehensive loss within stockholders' equity. During the first quarter of 2022, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$11.4 million increase in accumulated other comprehensive loss within stockholders' equity.

A 10% appreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the foreign currency exchange rates in effect for the first quarter of 2023 would have resulted in lower income from operations of approximately \$83.9 million. This assumes a consistent 10% appreciation in the U.S. dollar against the Canadian dollar over the first quarter of 2023. The timing of changes in the relative value of the U.S. dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign currency exchange rates have on our income from operations.

Interest Rate Risk. Our committed revolving credit facility provides us with available borrowings in an amount up to \$400.0 million. Because our revolving credit facilities bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of April 30, 2023, aside from letters of credit of \$6.5 million, there were no borrowings outstanding under these credit facilities. We currently do not engage in any interest rate hedging activity and currently have no intention to do so. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times

enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Our cash and cash equivalent balances are held in the form of cash on hand, bank balances, and short-term deposits with original maturities of three months or less, and in money market funds. We do not believe these balances are subject to material interest rate risk.

Credit Risk. We have cash on deposit with various large, reputable financial institutions and have invested in AAA-rated money market funds, which include investments in government bonds. The amount of cash and cash equivalents held with certain financial institutions exceeds government-insured limits. We are also exposed to credit-related losses in the event of nonperformance by the financial institutions that are counterparties to our forward currency contracts. The credit risk amount is our unrealized gains on our derivative instruments, based on foreign currency rates at the time of nonperformance. We have not experienced any losses related to these items, and we believe credit risk to be minimal. We seek to minimize our credit risk by entering into transactions with investment grade credit worthy and reputable financial institutions and by monitoring the credit standing of the financial institutions with whom we transact. We seek to limit the amount of exposure with any one counterparty.

Inflation

Inflationary factors such as increases in the cost of our product, as well as overhead costs and capital expenditures may adversely affect our operating results. During 2022 and the first quarter of 2023, our operating margin was impacted by increased wage rates. During the first half of 2022, our gross margin was impacted by higher air freight costs as a result of global supply chain disruption.

Sustained increases in transportation costs, wages, and raw material costs, or other inflationary pressures in the future may have an adverse effect on our ability to maintain current levels of operating margin if the selling prices of our products do not increase with these increased costs, or we cannot identify cost efficiencies.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, to allow timely decisions to be made regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a quarterly basis, and as needed.

Our management, including our principal executive officer and principal financial and accounting officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of April 30, 2023. Based on that evaluation, our principal executive officer and principal financial and accounting officer concluded that, as of April 30, 2023, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended April 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.