

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 2023 Annual Report on Form 10-K filed with the SEC on March 21, 2024.

Our fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. Fiscal 2024 will end on February 2, 2025 and will be a 53-week year. Fiscal 2023 was a 52-week year and ended on January 28, 2024. Fiscal 2024 and fiscal 2023 are referred to as "2024," and "2023," respectively. The first three quarters of 2024 and 2023 ended on October 27, 2024 and October 29, 2023, 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](#)
- [Year-to-Date Results of Operations](#)
- [Comparable Sales](#)
- [Non-GAAP Financial Measures](#)
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We use comparable sales as a metric to evaluate the performance of our business. Refer to the Comparable Sales section of this management's discussion and analysis of financial condition and results of operations for further information.

We provide constant dollar changes and adjusted financial results, which are non-GAAP financial measures, as supplemental information that enable evaluation of the underlying trend in our operating performance, and enable a comparison to our historical financial information. Refer to the Non-GAAP Financial Measures section of this management's discussion and analysis of financial condition and results of operations for reconciliations between the adjusted non-GAAP financial measures and the most directly comparable measures calculated in accordance with GAAP.

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. Information contained on or accessible through our websites is not incorporated into, and does not form a part of, this Quarterly Report or any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

As reported in our fiscal 2023 Annual Report on Form 10-K filed with the SEC on March 21, 2024, we changed our operating segments during the fourth quarter of fiscal 2023. We report three segments: Americas, China Mainland, and Rest of World, which is Asia Pacific ("APAC") and Europe and the Middle East ("EMEA") on a combined basis. Previously, our segments were based on selling channel. We have recast our previously reported amounts for segmented net revenue and segmented income from operations to reflect the current presentation.

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 technical athletic 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.

Financial Highlights

The summary below compares the third quarter of 2024 to the third quarter of 2023, and provides both GAAP and non-GAAP financial measures. The adjusted financial measures for 2023 exclude \$72.1 million of post-tax asset impairment and other charges recognized in relation to lululemon Studio.

- Net revenue increased 9% to \$2.4 billion. On a constant dollar basis, net revenue increased 8%.
- Comparable sales increased 4%, or 3% on a constant dollar basis.
 - Americas comparable sales decreased 2%.
 - China Mainland comparable sales increased 27%, or 24% on a constant dollar basis.
 - Rest of World comparable sales increased 23%, or 20% on a constant dollar basis.
- Gross profit increased 12% to \$1.4 billion. Adjusted gross profit increased 9%.
- Gross margin increased 150 basis points to 58.5%. Adjusted gross margin increased 40 basis points.
- Income from operations increased 45% to \$490.7 million. Adjusted income from operations increased 12%.
- Operating margin increased 520 basis points to 20.5%. Adjusted operating margin increased 70 basis points.
- Income tax expense increased 54% to \$152.5 million. Our effective tax rate for the third quarter of 2024 was 30.2% compared to 28.5% for the third quarter of 2023. The adjusted effective tax rate was 28.1% for the third quarter of 2023.
- Diluted earnings per share were \$2.87 compared to \$1.96 in the third quarter of 2023. Adjusted diluted earnings per share were \$2.53 in the third quarter of 2023.

Market Conditions and Trends

Macroeconomic conditions, including consumer purchasing behaviors and foreign currency fluctuations, impact our business and operating costs. Such factors are expected to continue to impact our business throughout 2024, with the impact varying by market.

Consumer purchasing behaviors and their propensity to spend in our sector have been impacted by uncertain economic conditions including inflation, higher interest rates, and other factors, which has adversely impacted consumer demand for our products. We continue to monitor macroeconomic conditions and the trends in consumer demand for our products, including the economic environment in China Mainland.

We experienced revenue and traffic growth in the first three quarters of 2024 in all markets, but have experienced a reduction in our overall revenue growth in the Americas, driven by our operations in the United States. During the first three quarters of 2024, Americas comparable sales decreased 2%, or 1% on a constant dollar basis.

Foreign currency fluctuations have adversely impacted our financial results. Foreign currency fluctuations reduced the growth of our net revenue by \$25.7 million when comparing the first three quarters of 2024 to the first three quarters of 2023, primarily due to the overall appreciation of the US dollar. We expect future exchange rate volatility to impact our results.

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

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

	Third Quarter			
	2024	2023	2024	2023
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>	
Net revenue	\$ 2,396,660	\$ 2,204,218	100.0 %	100.0 %
Cost of goods sold	995,054	947,554	41.5	43.0
Gross profit	1,401,606	1,256,664	58.5	57.0
Selling, general and administrative expenses	909,827	842,795	38.0	38.2
Impairment of assets and restructuring costs	—	74,501	—	3.4
Amortization of intangible assets	1,118	1,253	—	0.1
Income from operations	490,661	338,115	20.5	15.3
Other income (expense), net	13,743	9,842	0.6	0.4
Income before income tax expense	504,404	347,957	21.0	15.8
Income tax expense	152,534	99,243	6.4	4.5
Net income	\$ 351,870	\$ 248,714	14.7 %	11.3 %

Net Revenue

Net revenue increased \$192.4 million, or 9%, to \$2.4 billion for the third quarter of 2024 from \$2.2 billion for the third quarter of 2023. On a constant dollar basis, net revenue increased 8%. Comparable sales increased 4%, or 3% on a constant dollar basis. The increase in net revenue was primarily due to increased China Mainland and Rest of World net revenue. Americas net revenue also increased.

Net revenue for the third quarter of 2024 and 2023 is summarized below:

	Third Quarter						
	2024	2023	2024	2023	Year over year change		
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>	<i>(Constant dollar change)</i>
Americas	\$ 1,770,382	\$ 1,732,398	73.9 %	78.6 %	\$ 37,984	2 %	2 %
China Mainland	318,338	228,595	13.3	10.4	89,743	39 %	36 %
Rest of World	307,940	243,225	12.8	11.0	64,715	27 %	23 %
Net revenue	\$ 2,396,660	\$ 2,204,218	100.0 %	100.0 %	\$ 192,442	9 %	8 %

Americas. The increase in Americas net revenue was primarily due to a \$71.6 million increase from new or expanded company-operated stores and our other channels. We added 28 net new company-operated stores in the Americas since the third quarter of 2023, including 14 company-operated stores from the acquisition of the Mexico operations. Americas comparable sales decreased 2%. The decrease in comparable sales was primarily a result of decreased conversion rates, partially offset by a higher dollar value per transaction and an increase in e-commerce traffic.

China Mainland. The increase in China Mainland net revenue was primarily due to an increase in comparable sales, which increased 27%, or 24% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic, partially offset by a lower dollar value per transaction. The increase in China Mainland net revenue was also driven by a \$35.7 million increase in net revenue from new or expanded company-operated stores and our other channels. We have opened 24 net new company-operated stores in China Mainland since the third quarter of 2023.

Rest of World. The increase in Rest of World net revenue was primarily due to an increase in comparable sales, which increased 23%, or 20% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic and a higher dollar value per transaction, partially offset by a decrease in conversion rates. The increase in Rest of World net revenue was also driven by a \$19.6 million increase in net revenue from new or expanded company-operated stores and our other channels. We have opened 11 net new company-operated stores in Rest of World since the third quarter of 2023.

Gross Profit

	Third Quarter			Year over year change (Percentage)
	2024	2023		
	(In thousands)		(In thousands)	
Gross profit	\$ 1,401,606	\$ 1,256,664	\$ 144,942	11.5 %
Gross margin	58.5 %	57.0 %	150 basis points	

As a result of our decision to cease selling the lululemon Studio Mirror, we recognized an inventory obsolescence provision of \$23.7 million during the third quarter of 2023, which reduced gross margin by 110 basis points. Please refer to Note 4. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report.

Gross margin increased 150 basis points, or increased 40 basis points on an adjusted basis. The 40 basis point increase in adjusted gross margin was primarily the result of:

- a decrease in costs related to our product departments as a percentage of net revenue of 70 basis points;
- a net increase in product margin of 50 basis points, primarily due to lower inventory provisions, as well as lower product costs, partially offset by higher freight costs in the current year; and
- a favorable impact of foreign currency exchange rates of 10 basis points.

The increase in adjusted gross margin was partially offset by an increase in occupancy and depreciation costs as a percentage of net revenue of 70 basis points, and an increase in distribution center costs as a percentage of net revenue of 20 basis points.

Selling, General and Administrative Expenses

	Third Quarter			Year over year change (Percentage)
	2024	2023		
	(In thousands)		(In thousands)	
Selling, general and administrative expenses	\$ 909,827	\$ 842,795	\$ 67,032	8.0 %
Selling, general and administrative expenses as a percentage of net revenue	38.0 %	38.2 %	(20) basis points	

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

- an increase in costs related to our operating channels of \$37.3 million, comprised of:
 - an increase in employee costs of \$13.9 million primarily due to increased salaries and wages expense for retail employees primarily from the growth in our business, partially offset by decreased incentive compensation;

- an increase in brand and community costs of \$12.9 million primarily due to increased digital marketing expenses;
- an increase in other operating costs of \$7.5 million primarily due to increased depreciation and security costs; and
- an increase in technology costs of \$5.9 million.

The increase in costs related to our operating channels was partially offset by a decrease in variable costs of \$2.9 million primarily due to decreased distribution cost rates, partially offset by increased credit card fees and packaging costs as a result of higher net revenue.

- an increase in head office costs of \$22.7 million, comprised of:
 - an increase in advisory and professional fees of \$10.9 million;
 - an increase in technology costs, including cloud computing amortization, of \$7.4 million;
 - an increase in depreciation of \$5.3 million; and
 - an increase in other head office costs of \$4.7 million.

The increase in costs related to our head office was partially offset by a net decrease in employee costs of \$5.5 million primarily due to decreased incentive compensation, partially offset by increased salaries and wages expense.

- an increase in net foreign currency exchange and derivative revaluation losses of \$7.0 million.

Impairment of Assets and Restructuring Costs

	Third Quarter			
	2024	2023	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Impairment of assets and restructuring costs	\$ —	\$ 74,501	\$ (74,501)	n/a

During the third quarter of 2023, we recognized certain asset impairments and restructuring costs related to lululemon Studio. Please refer to Note 4. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report for further information.

Amortization of Intangible Assets

	Third Quarter			
	2024	2023	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Amortization of intangible assets	\$ 1,118	\$ 1,253	\$ (135)	(10.8)%

The amortization of intangible assets in 2024 was primarily the result of the amortization of intangible assets recognized upon the acquisition of the Mexico operations. The amortization of intangible assets in 2023 was primarily the result of the amortization of intangible assets recognized upon the acquisition of MIRROR, which we rebranded as lululemon Studio.

Income from Operations

On a segment basis, we determine income from operations without taking into account our general corporate expenses and certain other expenses. General corporate expenses include centrally managed support functions and other head office

costs, including product design teams and brand costs which support all regions. Segmented income from operations is summarized below.

	Third Quarter					
	2024	2023	2024	2023	Year over year change	
	(In thousands)		(Percentage of net revenue of respective operating segment)		(In thousands)	(Percentage)
Segmented income from operations:						
Americas	\$ 654,939	\$ 636,714	37.0 %	36.8 %	\$ 18,225	2.9 %
China Mainland	110,600	76,792	34.7	33.6	33,808	44.0
Rest of World	68,762	45,552	22.3	18.7	23,210	51.0
	\$ 834,301	\$ 759,058			\$ 75,243	9.9 %
General corporate expense	342,522	321,480			21,042	6.5
lululemon Studio obsolescence provision	—	23,709			(23,709)	n/a
Impairment of assets and restructuring costs	—	74,501			(74,501)	n/a
Amortization of intangible assets	1,118	1,253			(135)	(10.8)
Income from operations	\$ 490,661	\$ 338,115			\$ 152,546	45.1 %
Operating margin	20.5 %	15.3 %			520 basis points	

Americas. The increase in Americas income from operations was primarily the result of increased gross profit of \$14.1 million, driven by increased net revenue, partially offset by lower gross margin. The decrease in gross margin was primarily due to deleverage on occupancy costs and distribution center costs. The increase in Americas income from operations was also driven by a decrease in selling, general and administrative expenses, primarily due to decreased distribution cost rates and lower employee costs, partially offset by increased marketing expenses. Income from operations as a percentage of Americas net revenue increased primarily due to leverage on selling, general and administrative expenses, partially offset by lower gross margin.

China Mainland. The increase in China Mainland income from operations was primarily the result of increased gross profit of \$61.8 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to leverage on occupancy costs, favorable foreign currency exchange rates, as well as higher product margin. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to increased marketing expenses and higher employee costs, as well as increased technology costs. Income from operations as a percentage of China Mainland net revenue increased primarily due to higher gross margin, partially offset by deleverage on selling, general and administrative expenses.

Rest of World. The increase in Rest of World income from operations was primarily the result of increased gross profit of \$41.4 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin and favorable foreign currency exchange rates, partially offset by deleverage on occupancy costs. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher employee costs, as well as increased distribution costs and credit card fees driven by higher net revenue. Income from operations as a percentage of Rest of World net revenue increased primarily due to higher gross margin and leverage on selling, general and administrative expenses.

General Corporate Expense. The increase in general corporate expense was primarily due to increased advisory and professional fees, technology costs and depreciation. The increase was also due to an increase in net foreign currency exchange and derivative revaluation losses of \$7.0 million. The increase in general corporate expense was partially offset by a net decrease in employee costs and decreased brand and community costs.

Other Income (Expense), Net

	Third Quarter					
	2024	2023	Year over year change			
	(In thousands)		(In thousands)		(Percentage)	
Other income (expense), net	\$ 13,743	\$ 9,842	\$ 3,901	39.6 %		

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

Income Tax Expense

	Third Quarter			
	2024	2023	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Income tax expense	\$ 152,534	\$ 99,243	\$ 53,291	53.7 %
Effective tax rate	30.2 %	28.5 %	170 basis points	

The increase in the effective tax rate was primarily due to a decrease in tax benefits related to stock-based compensation, an increase in non-deductible expenses in international jurisdictions, and adjustments upon the filing of certain income tax returns. The increase in the effective tax rate was partially offset by an increase in tax credits, and the income tax impact of certain non-deductible impairment and other charges related to lululemon Studio.

Excluding the income tax effects of the impairment and other charges recognized in relation to lululemon Studio in 2023, our adjusted effective tax rate was 28.1% for the third quarter of 2023.

Net Income

	Third Quarter			
	2024	2023	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Net income	\$ 351,870	\$ 248,714	\$ 103,156	41.5 %

The increase in net income was primarily due to an increase in gross profit of \$144.9 million, impairment and other charges recognized in the third quarter of 2023 of \$74.5 million, an increase in other income (expense), net of \$3.9 million, partially offset by an increase in selling, general and administrative expenses of \$67.0 million, and an increase in income tax expense of \$53.3 million.

Excluding the impairment and other charges recognized in relation to lululemon Studio in 2023, and their tax effects, adjusted net income increased \$31.0 million or 10%.

Year-to-Date Results of Operations: First Three Quarters Results

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

	First Three Quarters			
	2024	2023	2024	2023
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>	
Net revenue	\$ 6,976,629	\$ 6,414,175	100.0 %	100.0 %
Cost of goods sold	2,887,770	2,708,195	41.4	42.2
Gross profit	4,088,859	3,705,980	58.6	57.8
Selling, general and administrative expenses	2,624,212	2,407,683	37.6	37.5
Impairment of assets and restructuring costs	—	74,501	—	1.2
Amortization of intangible assets	1,118	5,010	—	0.1
Income from operations	1,463,529	1,218,786	21.0	19.0
Other income (expense), net	55,020	25,229	0.8	0.4
Income before income tax expense	1,518,549	1,244,015	21.8	19.4
Income tax expense	452,336	363,293	6.5	5.7
Net income	\$ 1,066,213	\$ 880,722	15.3 %	13.7 %

Net Revenue

Net revenue increased \$562.5 million, or 9%, to \$7.0 billion for the first three quarters of 2024 from \$6.4 billion for the first three quarters of 2023. Comparable sales increased 4%. The increase in net revenue was primarily due to increased China Mainland and Rest of World net revenue. Americas net revenue also increased.

Net revenue for the first three quarters of 2024 and 2023 is summarized below:

	First Three Quarters									
	2024		2023		2024		2023		Year over year change	
	<i>(In thousands)</i>		<i>(Percentage of net revenue)</i>		<i>(In thousands)</i>		<i>(Percentage)</i>		<i>(Constant dollar change)</i>	
Americas	\$	5,134,079	\$	5,019,909	73.6 %	78.3 %	\$	114,170	2 %	2 %
China Mainland		936,313		673,108	13.4	10.5		263,205	39 %	41 %
Rest of World		906,237		721,158	13.0	11.2		185,079	26 %	26 %
Net revenue	\$	6,976,629	\$	6,414,175	100.0 %	100.0 %	\$	562,454	9 %	9 %

Americas. The increase in Americas net revenue was primarily due to a \$180.2 million increase from new or expanded company-operated stores and our other channels. We added 28 net new company-operated stores in the Americas since the third quarter of 2023, including 14 company-operated stores from the acquisition of the Mexico operations. Americas comparable sales decreased 2%, or 1% on a constant dollar basis. The decrease in comparable sales was primarily a result of decreased conversion rates, partially offset by an increase in traffic and a higher dollar value per transaction.

China Mainland. The increase in China Mainland net revenue was primarily due to an increase in comparable sales, which increased 25%, or 27% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic, partially offset by a lower dollar value per transaction. The increase in China Mainland net revenue was also driven by a \$111.6 million increase in net revenue from new or expanded company-operated stores and our other channels. We have opened 24 net new company-operated stores in China Mainland since the third quarter of 2023.

Rest of World. The increase in Rest of World net revenue was primarily due to an increase in comparable sales, which increased 21%, or 22% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic and a higher dollar value per transaction, partially offset by a decrease in conversion rates. The increase in Rest of World net revenue was also driven by a \$63.3 million increase in net revenue from new or expanded company-operated stores and our other channels. We have opened 11 net new company-operated stores in Rest of World since the third quarter of 2023.

Gross Profit

	First Three Quarters						
	2024		2023		Year over year change		
	<i>(In thousands)</i>		<i>(In thousands)</i>		<i>(Percentage)</i>		
Gross profit	\$	4,088,859	\$	3,705,980	\$	382,879	10.3 %
Gross margin		58.6 %		57.8 %		80 basis points	

As a result of our decision to cease selling the lululemon Studio Mirror, we recognized an inventory obsolescence provision of \$23.7 million during the third quarter of 2023, which reduced gross margin by 30 basis points. Please refer to Note 4. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report.

Gross margin increased 80 basis points, or increased 50 basis points on an adjusted basis. The 50 basis point increase in adjusted gross margin was primarily the result of:

- a net increase in product margin of 90 basis points, primarily due to lower product costs, as well as lower inventory provisions in the current year; and
- a decrease in costs related to our product departments as a percentage of net revenue of 70 basis points.

The increase in adjusted gross margin was partially offset by an increase in occupancy and depreciation costs as a percentage of net revenue of 70 basis points, an increase in distribution center costs as a percentage of net revenue of 30 basis points, and an unfavorable impact of foreign currency exchange rates of 10 basis points.

Selling, General and Administrative Expenses

	First Three Quarters			
	2024	2023	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Selling, general and administrative expenses	\$ 2,624,212	\$ 2,407,683	\$ 216,529	9.0 %
Selling, general and administrative expenses as a percentage of net revenue	37.6 %	37.5 %	10 basis points	

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

- an increase in costs related to our operating channels of \$109.3 million, comprised of:
 - an increase in employee costs of \$40.1 million primarily due to increased salaries and wages expense and benefit costs for retail employees primarily from the growth in our business, partially offset by decreased incentive compensation;
 - an increase in brand and community costs of \$24.5 million primarily due to increased digital marketing expenses;
 - an increase in other operating costs of \$24.2 million primarily due to increased depreciation costs, and repairs and maintenance costs;
 - an increase in technology costs of \$12.2 million; and
 - an increase in variable costs of \$8.4 million primarily due to increased credit card fees and packaging costs, primarily as a result of increased net revenue, partially offset by decreased distribution cost rates.
- an increase in head office costs of \$99.0 million, comprised of:
 - an increase in brand and community costs of \$37.7 million primarily due to increased marketing expenses and brand campaigns, partially offset by decreased charitable donations;
 - an increase in advisory and professional fees of \$35.7 million;
 - an increase in technology costs, including cloud computing amortization, of \$17.5 million;
 - an increase in depreciation of \$10.8 million; and
 - an increase in other head office costs of \$5.6 million.

The increase in costs related to our head office was partially offset by a net decrease in employee costs of \$8.3 million primarily due to decreased incentive compensation, partially offset by increased salaries and wages expense.

- an increase in net foreign currency exchange and derivative revaluation losses of \$8.2 million.

Impairment of Assets and Restructuring Costs

	First Three Quarters			
	2024	2023	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Impairment of assets and restructuring costs	\$ —	\$ 74,501	\$ (74,501)	n/a

During the third quarter of 2023, we recognized certain asset impairments and restructuring costs related to lululemon Studio. Please refer to Note 4. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report for further information.

Amortization of Intangible Assets

	First Three Quarters		
	2024	2023	Year over year change
	(In thousands)		(In thousands) (Percentage)
Amortization of intangible assets	\$ 1,118	\$ 5,010	\$ (3,892) (77.7)%

The amortization of intangible assets in 2024 was primarily the result of the amortization of intangible assets recognized upon the acquisition of the Mexico operations. The amortization of intangible assets in 2023 was primarily the result of the amortization of intangible assets recognized upon the acquisition of MIRROR, which we rebranded as lululemon Studio.

Income from Operations

On a segment basis, we determine income from operations without taking into account our general corporate expenses and certain other expenses. General corporate expenses include centrally managed support functions and other head office costs, including product design teams and brand costs which support all regions. Segmented income from operations is summarized below.

	First Three Quarters				
	2024	2023	2024	2023	Year over year change
	(In thousands)		(Percentage of net revenue of respective operating segment)		(In thousands) (Percentage)
Segmented income from operations:					
Americas	\$1,889,206	\$1,878,506	36.8 %	37.4 %	\$ 10,700 0.6 %
China Mainland	349,463	234,158	37.3	34.8	115,305 49.2
Rest of World	209,443	140,638	23.1	19.5	68,805 48.9
	\$2,448,112	\$2,253,302			\$ 194,810 8.6 %
General corporate expense	983,465	931,296			52,169 5.6
lululemon Studio obsolescence provision	—	23,709			(23,709) n/a
Impairment of assets and restructuring costs	—	74,501			(74,501) n/a
Amortization of intangible assets	1,118	5,010			(3,892) (77.7)
Income from operations	\$1,463,529	\$1,218,786			\$ 244,743 20.1 %
Operating margin	21.0 %	19.0 %			200 basis points

Americas. The increase in Americas income from operations was primarily the result of increased gross profit of \$45.3 million, driven by increased net revenue, partially offset by lower gross margin. The decrease in gross margin was primarily due to deleverage on distribution center and occupancy costs, partially offset by higher product margin. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to increased marketing expenses and higher depreciation, partially offset by decreased distribution cost rates and lower employee costs. Income from operations as a percentage of Americas net revenue decreased due to lower gross margin and deleverage on selling, general and administrative expenses.

China Mainland. The increase in China Mainland income from operations was primarily the result of increased gross profit of \$180.6 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin as well as leverage on occupancy and other costs, partially offset by unfavorable foreign currency exchange rates. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher employee costs and increased marketing expenses, as well as increased distribution costs and packaging costs driven by higher net revenue. Income from operations as a percentage of China Mainland net revenue increased primarily due to higher gross margin.

Rest of World. The increase in Rest of World income from operations was primarily the result of increased gross profit of \$121.0 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin, partially offset by unfavorable foreign currency exchange rates. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher employee costs and increased marketing expenses, as well as increased distribution costs and credit card fees driven by higher net revenue. Income from operations as a percentage of Rest of World net revenue increased primarily due to higher gross margin and leverage on selling, general and administrative expenses.

General Corporate Expense. The increase in general corporate expense was primarily due to increased advisory and professional fees, technology costs, and depreciation. The increase was also due to an increase in net foreign currency exchange and derivative revaluation losses of \$8.2 million. The increase in general corporate expense was partially offset by decreased charitable donations and a net decrease in employee costs.

Other Income (Expense), Net

	First Three Quarters			
	2024	2023	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Other income (expense), net	\$ 55,020	\$ 25,229	\$ 29,791	118.1 %

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

Income Tax Expense

	First Three Quarters			
	2024	2023	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Income tax expense	\$ 452,336	\$ 363,293	\$ 89,043	24.5 %
Effective tax rate	29.8 %	29.2 %	60 basis points	

The increase in the effective tax rate was primarily due to a decrease in tax benefits related to stock-based compensation, an increase in non-deductible expenses in international jurisdictions, and adjustments upon the filing of certain income tax returns. The increase in the effective tax rate was partially offset by an increase in tax credits, and the income tax impact of certain non-deductible impairment and other charges related to lululemon Studio.

Excluding the income tax effects of the impairment and other charges recognized in relation to lululemon Studio in 2023, our adjusted effective tax rate was 29.0% for the first three quarters of 2023.

Net Income

	First Three Quarters			
	2024	2023	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Net income	\$ 1,066,213	\$ 880,722	\$ 185,491	21.1 %

The increase in net income was primarily due to an increase in gross profit of \$382.9 million, impairment and other charges recognized in 2023 of \$74.5 million, and an increase in other income (expense), net of \$29.8 million, partially offset by an increase in selling, general and administrative expenses of \$216.5 million, and an increase in income tax expense of \$89.0 million.

Excluding the impairment and other charges recognized in relation to lululemon Studio in 2023, and their tax effects, adjusted net income increased \$113.4 million or 12%.

Comparable Sales

We use comparable sales to evaluate the performance of our company-operated store and e-commerce businesses from an omni-channel perspective. It allows us to monitor the performance of our business without the impact of recently opened or expanded stores. We believe investors would similarly find these metrics useful in assessing the performance of our business.

Comparable sales includes comparable company-operated store and all e-commerce net revenue. E-commerce net revenue includes buy online pick-up in store, back-back room, and ship from store net revenue in addition to our websites, other region-specific websites, digital marketplaces, and mobile apps. Our back-back room capability allows our store educators to access inventory located at our other locations and have product shipped directly to a guest's address or a store. Comparable company-operated stores have been open, or open after being significantly expanded, for at least 12 full fiscal

months. Net revenue from a company-operated store is included in comparable sales beginning with the first fiscal month for which the store has a full fiscal month of sales in the prior year. Comparable sales excludes 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, from stores which have been temporarily relocated for renovations or temporarily closed, and sales from company-operated stores that have closed. Comparable sales also excludes sales from our selling channels other than company-operated stores and e-commerce. The comparable sales measures we report may not be equivalent to similarly titled measures reported by other companies.

Company-operated stores acquired as a result of the acquisition of the Mexico operations will be considered comparable beginning after 12 full fiscal months of sales from the date of acquisition. Prior to the acquisition, wholesale sales were made to a third party under a license and supply arrangement.

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.

Non-GAAP Financial Measures

Constant dollar changes and adjusted financial results 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.

Adjusted gross profit, gross margin, income from operations, operating margin, income tax expense, effective tax rates, net income, and diluted earnings per share exclude certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio, and the related income tax effects of these items. We believe these adjusted financial measures are useful to investors as they provide supplemental information that enable evaluation of the underlying trend in our operating performance, and enable a comparison to our historical financial information. Further, due to the finite and discrete nature of these items, we do not consider them to be normal operating expenses that are necessary to run our business, or impairments that are expected to arise in the normal course of our operations.

Management uses these adjusted financial measures and constant currency metrics internally when reviewing and assessing financial performance.

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

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

	Third Quarter 2024 Compared to Third Quarter 2023			First Three Quarters 2024 Compared to First Three Quarters 2023		
	Change	Foreign exchange changes	Change in constant dollars	Change	Foreign exchange changes	Change in constant dollars
Net Revenue						
Americas	2 %	— %	2 %	2 %	— %	2 %
China Mainland	39	(3)	36	39	2	41
Rest of World	27	(4)	23	26	—	26
Total net revenue	9 %	(1)%	8 %	9 %	— %	9 %
Comparable sales⁽¹⁾						
Americas	(2)%	— %	(2)%	(2)%	1 %	(1)%
China Mainland	27	(3)	24	25	2	27
Rest of World	23	(3)	20	21	1	22
Total comparable sales	4 %	(1)%	3 %	4 %	— %	4 %

⁽¹⁾ Comparable sales includes comparable company-operated store and e-commerce net revenue.

Adjusted Financial Measures

The following tables reconcile adjusted 2023 financial measures with the most directly comparable measures calculated in accordance with GAAP. The adjustments relate to certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio and their related tax effects. Please refer to Note 4. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report for further information on the nature of these amounts.

	Third Quarter 2023							
	Gross Profit	Gross Margin	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
<i>(In thousands, except per share amounts)</i>								
GAAP results	\$ 1,256,664	57.0 %	\$ 338,115	15.3 %	\$ 99,243	28.5 %	\$ 248,714	\$ 1.96
lululemon Studio charges:								
lululemon Studio obsolescence provision	23,709	1.1	23,709	1.1			23,709	0.19
Impairment of assets			44,186	2.0			44,186	0.35
Restructuring costs			30,315	1.4			30,315	0.24
Tax effect of the above					26,085	(0.4)	(26,085)	(0.21)
	23,709	1.1	98,210	4.5	26,085	(0.4)	72,125	0.57
Adjusted results (non-GAAP)	\$ 1,280,373	58.1 %	\$ 436,325	19.8 %	\$ 125,328	28.1 %	\$ 320,839	\$ 2.53

	First Three Quarters 2023							
	Gross Profit	Gross Margin	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
<i>(In thousands, except per share amounts)</i>								
GAAP results	\$ 3,705,980	57.8 %	\$ 1,218,786	19.0 %	\$ 363,293	29.2 %	\$ 880,722	\$ 6.92
lululemon Studio charges:								
lululemon Studio obsolescence provision	23,709	0.3	23,709	0.3			23,709	0.19
Impairment of assets			44,186	0.7			44,186	0.35
Restructuring costs			30,315	0.5			30,315	0.24
Tax effect of the above					26,085	(0.2)	(26,085)	(0.21)
	23,709	0.3	98,210	1.5	26,085	(0.2)	72,125	0.57
Adjusted results (non-GAAP)	\$ 3,729,689	58.1 %	\$ 1,316,996	20.5 %	\$ 389,378	29.0 %	\$ 952,847	\$ 7.49

Seasonality

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is typically weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season in the Americas, while our operating expenses are generally 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 43% of our full year operating profit during the fourth quarter of 2023.

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. 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 Three Quarters		
	2024	2023	Year over year change
<i>(In thousands)</i>			
Total cash provided by (used in):			
Operating activities	\$ 871,323	\$ 912,066	\$ (40,743)
Investing activities	(575,214)	(445,325)	(129,889)
Financing activities	(1,328,510)	(510,583)	(817,927)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(23,151)	(19,887)	(3,264)
Decrease in cash and cash equivalents	\$ (1,055,552)	\$ (63,729)	\$ (991,823)

Operating Activities

Net income increased \$185.5 million. The decrease in cash provided by operating activities was primarily a result of changes in operating assets and liabilities of \$117.1 million, primarily driven by changes in inventories, accrued compensation, other assets, and accounts payable, partially offset by changes in income taxes, and accrued liabilities. The decrease in cash

provided by operating activities was also a result of changes in impairment and other charges recognized in relation to lululemon Studio in 2023, and lower cash inflows related to derivatives, partially offset by increased depreciation.

Investing Activities

The increase in cash used in investing activities was primarily due the acquisition of the lululemon branded retail locations and operations run by a third party in Mexico, increased capital expenditures, and an increase in other investing activities, partially offset by the settlement of net investment hedges. The modest increase in capital expenditures was primarily due to an increase in company-operated stores expenditures and system initiatives, partially offset by a decrease in corporate and digital technology infrastructure capital expenditures.

Financing Activities

The increase in cash used in financing activities was primarily the result of an increase in our stock repurchases. During the first three quarters of 2024, we repurchased 4.2 million shares at a total cost including commissions and excise taxes of \$1.3 billion. During the first three quarters of 2023, we repurchased 1.4 million shares at a total cost including commissions and excise taxes of \$504.6 million. We repurchased the shares of common stock 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:

	October 27, 2024
	<i>(In thousands)</i>
Cash and cash equivalents	\$ 1,188,419
Working capital ⁽¹⁾ excluding cash and cash equivalents	613,337
Capacity under committed revolving credit facility	393,507

⁽¹⁾ Working capital is calculated as current assets of \$3.6 billion less current liabilities of \$1.8 billion.

We enter into standby letters of credit and guarantee to secure certain of our obligations, including leases, taxes, and duties. As of October 27, 2024, letters of credit and guarantee totaling \$12.9 million had been issued, including \$6.5 million under our committed revolving credit facility.

Our existing Americas 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 October 27, 2024, aside from letters of credit and guarantee 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 5. Revolving Credit Facilities 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 October 27, 2024 was \$1.8 billion, an increase of 8% from October 29, 2023.

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 2023 Annual Report on Form 10-K filed with the SEC on March 21, 2024.

Operating Locations

Our company-operated stores by market as of October 27, 2024 and January 28, 2024 are summarized in the table below.

Number of company-operated stores by market	October 27, 2024	January 28, 2024
United States	373	367
Canada	71	71
Mexico	15	—
Americas	459	438
China Mainland	138	127
Australia	33	33
South Korea	20	19
Hong Kong SAR	10	9
Japan	9	8
New Zealand	8	8
Taiwan	8	8
Singapore	7	7
Malaysia	5	3
Thailand	3	1
Macau SAR	2	2
APAC	105	98
United Kingdom	19	20
Germany	9	9
France	6	6
Ireland	4	4
Spain	3	3
Netherlands	2	2
Sweden	2	2
Norway	1	1
Switzerland	1	1
EMEA	47	48
Total company-operated stores	749	711

On September 10, 2024, we acquired the lululemon branded retail locations and operations run by a third party in Mexico. We had previously granted the third party the right to operate retail locations and to sell lululemon products in Mexico. Of the 16 retail locations acquired, 14 are company-operated stores and two are pop-up locations. Subsequent to the acquisition, and during the third quarter of 2024, we opened one additional new company-operated store in Mexico.

Retail locations operated by third parties by market as of October 27, 2024 and January 28, 2024 are summarized in the table below.

Number of retail locations operated by third parties by market	October 27, 2024	January 28, 2024
Mexico	—	15
United Arab Emirates	10	8
Saudi Arabia	8	6
Israel	5	3
Qatar	4	3
Kuwait	3	3
Bahrain	1	1
Total locations operated by third parties under license and supply arrangements	31	39

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

Translation 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. As a result of the fluctuation in exchange rates compared to the U.S. dollar our revenue was \$25.7 million lower in the first three quarters of 2024 in comparison to the first three quarters of 2023.

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. A significant portion of our net assets are held by our Canadian dollar subsidiary. We enter into forward currency contracts in order to hedge a portion of the foreign currency exposure associated with the translation of our net investment in our Canadian subsidiary. During the first three quarters of 2024, the impact to other comprehensive loss of translation of our Canadian subsidiaries was an increase in the loss of \$46.5 million, inclusive of net investment hedge gains.

Transaction Risk. 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. We also hold cash and cash equivalents and other monetary assets in currencies that are different to the functional currency of our subsidiaries. As of October 27, 2024, we had certain forward currency contracts outstanding in order to economically hedge the foreign currency revaluation gains and losses recognized by our foreign subsidiaries, including our Canadian and Chinese subsidiaries, on their monetary assets and liabilities denominated in currencies other than their functional currency.

We perform a sensitivity analysis to determine the market risk exposure associated with the fair values of our forward currency contracts. The net fair value of outstanding derivatives as of October 27, 2024 was an asset of \$2.3 million. As of October 27, 2024, a 10% depreciation in the U.S. dollar against the hedged currencies would have resulted in the net fair value of outstanding derivatives depreciating by \$16.3 million. The hypothetical change in the fair value of the forward currency contracts would have been substantially offset by a corresponding but directionally opposite change in the underlying hedged items.

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.

Please refer to Note 9. Derivative Financial Instruments included in Item 1 of Part I of this report for further details on the nature of our financial instruments.

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 October 27, 2024, 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. As of October 27, 2024, we held cash and cash equivalents of \$1.2 billion. Interest generated on cash balances is subject to variability as interest rates increase or decrease.

Credit Risk. We have cash on deposit with various large, reputable financial institutions and have invested in AAA-rated money market funds. 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.

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 October 27, 2024. Based on that evaluation, our principal executive officer and principal financial and accounting officer concluded that, as of October 27, 2024, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended October 27, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.