

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. Components of management's discussion and analysis of financial condition and results of operations include:

- [Overview](#)
- [Financial Highlights and Market Conditions and Trends](#)
- [Results of Operations](#)
- [Comparison of 2023 to 2022](#)
- [Comparison of 2022 to 2021](#)
- [Comparable Sales and Sales Per Square Foot](#)
- [Non-GAAP Financial Measures](#)
- [Liquidity and Capital Resources](#)
- [Liquidity Outlook](#)
- [Contractual Obligations and Commitments](#)
- [Critical Accounting Policies and Estimates](#)

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 2023, 2022, and 2021 were each 52-week years. Fiscal 2024 will be a 53-week year.

This discussion and analysis contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations, and intentions included in the "Special Note Regarding Forward-Looking Statements." Our actual results and the timing of events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in the "Item 1A. Risk Factors" section and elsewhere in this Annual Report on Form 10-K.

We use comparable sales as a metric to evaluate the performance of our business. Refer to the Comparable Sales and Sales Per Square Foot 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 Annual 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.

During the fourth quarter of 2023, we revised the financial information which is regularly reviewed and used by our CODM to evaluate performance and allocate resources. Historically, our segments were based on selling channel. As we have further executed on our omni-channel retail strategy, and with the continued expansion of our international operations, our resource allocation decisions have evolved to focus on regional markets. We organize our operations into four regional markets: Americas, China Mainland, APAC, and EMEA. We report three segments, Americas, China Mainland, and Rest of World, which is comprised of the APAC and EMEA regions on a combined basis. Our prior year segment results have been recast to reflect our new segment reporting structure.

Overview

In 2023, lululemon celebrated its 25th anniversary and delivered another strong year of financial results. We continued to execute against our Power of Three x2 growth plan, growing net revenue 19% and diluted earnings per share 83%, or 27% on an adjusted basis, as our teams were able to successfully navigate an uncertain macroeconomic environment.

Our growth continued across regions, merchandise categories, and channels. We delivered strong net revenue growth across our regions including 12% in the Americas, 67% in China Mainland, and 43% in Rest of World. Net revenue from our women's product range increased 17%, men's increased 15%, and net revenue from our other categories increased 36%. We

opened 56 net new company-operated stores, contributing to a 15% increase in square footage, while total company-operated store net revenue increased 21% and e-commerce net revenue increased 17%.

We believe this broad-based growth was underpinned by our ability to bring new innovations into our product assortment, while also increasing our brand awareness and bringing new guests into our brand.

Product Innovation

By innovating through our Science of Feel approach, we continue to seek to solve the unmet needs of our guests. While continuing to see strength from our key collections including Align, Scuba, Define, and Softstreme for women and our ABC collection for men, we launched new innovations as well. For women, we launched Wundermost, our new bodywear collection, we expanded our dual gender golf and tennis assortments. On the men's side, we launched Steady State and Soft Jersey, to expand our lounge offering, while also enhancing our Pace Breaker short. In accessories, we continued to see strength across our bag assortment, and in footwear we updated our Blissfeel and Chargefeel styles, and in early 2024, we launched our first footwear styles for men. We also announced a new textile-to-textile recycling partnership with the goal of enabling circularity in our supply chain by transforming apparel waste into high quality nylon and polyester.

Brand Awareness

We believe that increasing our brand awareness and introducing new guests to the lululemon brand remains one of our largest opportunities, both in the Americas and to an even greater degree in our international markets.

In order to grow brand awareness we combine our community-based, grass roots model of guest engagement, with larger scale brand activations and global brand campaigns. With connection points across both our physical and digital channels, we aim to bring new guests into our brand, engage with them in ways that are more than just transactional and create deeper connections.

In 2023, we executed several strategies designed to connect with guests, bring new guests into our brand, and grow awareness. Highlights include: hosting our Dupe Swap event in Los Angeles; testing our first men's focused TV campaign featuring our ABC pants; taking over the West Bund in Shanghai for one week to host wellness-centric events and experiences intended to bring awareness to World Mental Health Day; and continuing to grow our Essentials membership program.

In addition, in September 2023 we announced our new partnership with Peloton. Peloton is now the exclusive provider of content for our lululemon Studio members, we have become their primary apparel provider. We plan to jointly engage our global communities through special programming, experiences, and events.

Financial Highlights

The summary below compares 2023 to 2022 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. The adjusted financial measures for 2022 exclude \$442.7 million of post-tax goodwill impairment and other charges recognized in relation to lululemon Studio and the post-tax net gain on the sale of an administrative building of \$8.5 million.

- Net revenue increased 19% to \$9.6 billion. On a constant dollar basis, net revenue increased 20%.
- Comparable sales increased 13%, or 14% on a constant dollar basis.
 - Americas comparable sales increased 8%, or 9% on a constant dollar basis.
 - China Mainland comparable sales increased 39%, or 46% on a constant dollar basis.
 - Rest of World comparable sales increased 32%, or 33% on a constant dollar basis.
- Gross profit increased 25% to \$5.6 billion. Adjusted gross profit increased 24% to \$5.6 billion.
- Gross margin increased 290 basis points to 58.3%. Adjusted gross margin increased 240 basis points to 58.6%.
- Income from operations increased 61% to \$2.1 billion. Adjusted income from operations increased 25% to \$2.2 billion.
- Operating margin increased 580 basis points to 22.2% from 16.4% in 2022. Adjusted operating margin increased 110 basis points to 23.2% from 22.1% in 2022.

- Income tax expense increased 31% to \$625.5 million. Our effective tax rate for 2023 was 28.8% compared to 35.9% for 2022. The adjusted effective tax rate was 28.7% and 28.1% for 2023 and 2022, respectively.
- Diluted earnings per share were \$12.20 for 2023 compared to \$6.68 in 2022. Adjusted diluted earnings per share were \$12.77 for 2023 compared to \$10.07 in 2022.

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 2024, 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 \$89.8 million when comparing 2023 to 2022, primarily due to the overall appreciation of the US dollar. We expect future exchange rate volatility to impact our results. We have also experienced increased wage rates which increased our employee costs when comparing 2023 to 2022.

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. While we experienced traffic and net revenue growth in 2023 in all markets, over the course of 2023 we saw moderation in the year over year traffic and net revenue growth in the Americas. We continue to monitor macroeconomic conditions and the trends in consumer demand for our products.

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

COVID-19 Pandemic

Most of our retail locations were open throughout 2023, 2022, and 2021, with certain locations temporarily closed due to COVID-19 resurgences during the first quarter of 2022 and at various times in 2021. The effect of COVID-19, including store closures, impacted our revenue and operating margins in 2021 and the first quarter of 2022 in China Mainland.

Results of Operations

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

	2023	2022	2021	2023	2022	2021
	<i>(In thousands)</i>			<i>(Percentage of net revenue)</i>		
Net revenue	\$ 9,619,278	\$ 8,110,518	\$ 6,256,617	100.0 %	100.0 %	100.0 %
Cost of goods sold	4,009,873	3,618,178	2,648,052	41.7	44.6	42.3
Gross profit	5,609,405	4,492,340	3,608,565	58.3	55.4	57.7
Selling, general and administrative expenses	3,397,218	2,757,447	2,225,034	35.3	34.0	35.6
Impairment of goodwill and other assets, restructuring costs	74,501	407,913	—	0.8	5.0	—
Amortization of intangible assets	5,010	8,752	8,782	0.1	0.1	0.1
Acquisition-related expenses	—	—	41,394	—	—	0.7
Gain on disposal of assets	—	(10,180)	—	—	(0.1)	—
Income from operations	2,132,676	1,328,408	1,333,355	22.2	16.4	21.3
Other income (expense), net	43,059	4,163	514	0.4	0.1	—
Income before income tax expense	2,175,735	1,332,571	1,333,869	22.6	16.4	21.3
Income tax expense	625,545	477,771	358,547	6.5	5.9	5.7
Net income	\$ 1,550,190	\$ 854,800	\$ 975,322	16.1 %	10.5 %	15.6 %

Comparison of 2023 to 2022

Net Revenue

Net revenue increased \$1.5 billion, or 19%, to \$9.6 billion in 2023 from \$8.1 billion in 2022. On a constant dollar basis, net revenue increased 20%. Comparable sales increased 13%, or 14% on a constant dollar basis. The increase in net revenue was primarily due to increased Americas net revenue. China Mainland and Rest of World net revenue also increased.

Net revenue for 2023 and 2022 is summarized below, and reflects our updated segments, including comparatives.

	2023		2022		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	\$ 7,631,647	\$ 6,817,454	79.3 %	84.1 %	\$ 814,193	11.9 %	12.0 %
China Mainland	963,760	576,503	10.0	7.1	387,257	67.2	75.0
Rest of World	1,023,871	716,561	10.6	8.8	307,310	42.9	44.0
Net revenue	\$ 9,619,278	\$ 8,110,518	100.0 %	100.0 %	\$ 1,508,760	18.6 %	20.0 %

Americas. The increase in Americas net revenue was primarily due to an increase in comparable sales, which increased 8%, or 9% 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 and a decrease in conversion rates. The increase in Americas net revenue was also driven by a \$327.6 million increase in non-comparable sales, primarily from our company-operated stores that were opened or significantly expanded since 2022 as well as increased outlet, wholesale, and license and supply arrangement net revenue, partially offset by fewer temporary locations and lower lululemon Studio net revenue.

China Mainland. The increase in China Mainland net revenue was primarily due to an increase in comparable sales, which increased 39%, or 46% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic, partially offset by a decrease in conversion rates and a lower dollar value per transaction. The increase in China Mainland net revenue was also driven by a \$180.6 million increase in non-comparable sales, primarily from our company-operated stores that were opened or significantly expanded since 2022 as well as increased net revenue from outlets.

Rest of World. The increase in Rest of World net revenue was primarily due to an increase in comparable sales, which increased 32%, or 33% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic, partially offset by a decrease in conversion rates. The increase in Rest of World net revenue was also driven by a \$118.9 million increase in non-comparable sales, primarily from our company-operated stores that were opened or significantly expanded since 2022 as well as increased license and supply arrangements and outlets net revenue.

Gross Profit

	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Gross profit	\$ 5,609,405	\$ 4,492,340	\$ 1,117,065	24.9 %
Gross margin	58.3 %	55.4 %	290 basis points	

During 2022, we decided to shift our lululemon Studio strategy to focus on providing digital app-based services. While we continued to sell at-home hardware in 2023, we reached the decision to cease selling the lululemon Studio Mirror during the third quarter of 2023. These strategy shifts resulted in the recognition of an inventory obsolescence provision of \$62.9 million in 2022 and a further provision of \$23.7 million in 2023. These provisions reduced gross margin by 80 basis points and 30 basis points in 2022 and 2023 respectively. Please refer to Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs included in Item 8 of Part II of this report.

Gross margin increased 290 basis points, or excluding the impact of the lululemon Studio obsolescence provisions detailed above, increased 240 basis points. This 240 basis point net increase was primarily a result of:

- a net increase in product margin of 290 basis points, primarily due to lower freight costs from rate reductions and reduced air freight, as well as lower duty costs, modestly offset by higher inventory provisions and shrink in the current year;
- an unfavorable impact of foreign currency exchange rates of 20 basis points; and
- deleverage on occupancy costs of 20 basis points and an increase in costs related to our distribution centers as a percentage of net revenue of 10 basis points.

Selling, General and Administrative Expenses

	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Selling, general and administrative expenses	\$ 3,397,218	\$ 2,757,447	\$ 639,771	23.2 %
Selling, general and administrative expenses as a percentage of net revenue	35.3 %	34.0 %	130 basis points	

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

- an increase in head office costs of \$327.7 million, comprised of:
 - an increase in employee costs of \$108.8 million primarily due to increased salaries and wages expense as well as increased stock-based compensation and incentive compensation, primarily as a result of headcount growth and increased wage rates;
 - an increase in brand and community costs of \$95.4 million primarily due to increased marketing expenses;
 - an increase in depreciation of \$46.0 million;
 - an increase in other head office costs of \$40.4 million, primarily due to increased professional fees; and
 - an increase in technology costs, including cloud computing amortization, of \$37.1 million.
- an increase in costs related to our operating channels of \$319.1 million, comprised of:
 - an increase in employee costs of \$145.1 million primarily due to increased salaries and wages expense, incentive compensation, and benefit costs for retail employees, primarily from the growth in our business and increased wage rates;
 - an increase in other operating costs of \$67.7 million primarily due to increased depreciation costs, technology costs, and repairs and maintenance costs;
 - an increase in variable costs of \$66.8 million primarily due to increased credit card fees, distribution costs, and packaging costs, primarily as a result of increased net revenue; and
 - an increase in brand and community costs of \$39.5 million primarily due to increased digital marketing expenses.

The increase in selling, general and administrative expenses was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of \$7.0 million.

Impairment of Goodwill and Other Assets, Restructuring Costs

	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Impairment of goodwill and other assets, restructuring costs	\$ 74,501	\$ 407,913	\$ (333,412)	(81.7)%

During 2023, we recognized certain asset impairments and restructuring costs, and during 2022, we recognized impairment of goodwill and other assets, each in relation to lululemon Studio. Please refer to Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs included in Item 8 of Part II of this report for further information.

Amortization of Intangible Assets

	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Amortization of intangible assets	\$ 5,010	\$ 8,752	\$ (3,742)	(42.8)%

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

Gain on Disposal of Assets

	2023	2022	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Gain on disposal of assets	\$ —	\$ (10,180)	\$ 10,180	(100.0)%

During the second quarter of 2022, we completed the sale of an administrative office building, which resulted in a pre-tax gain of \$10.2 million.

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. Our prior year segment results have been recast to reflect our new segment reporting structure.

	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:						
Americas	\$ 2,937,184	\$ 2,503,740	38.5 %	36.7 %	\$ 433,444	17.3 %
China Mainland	337,316	196,865	35.0	34.1	140,451	71.3
Rest of World	201,832	103,204	19.7	14.4	98,628	95.6
	\$ 3,476,332	\$ 2,803,809			\$ 672,523	24.0 %
General corporate expenses	1,240,436	1,005,988			234,448	23.3
lululemon Studio obsolescence provision	23,709	62,928			(39,219)	(62.3)
Impairment of goodwill and other assets, restructuring costs	74,501	407,913			(333,412)	(81.7)
Amortization of intangible assets	5,010	8,752			(3,742)	(42.8)
Gain on disposal of assets	—	(10,180)			10,180	(100.0)
Income from operations	\$ 2,132,676	\$ 1,328,408			\$ 804,268	60.5 %
Operating margin	22.2 %	16.4 %			580 basis points	

Americas. The increase in Americas income from operations was primarily the result of increased gross profit of \$691.7 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 deleverage on distribution center costs. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher employee costs, increased digital marketing expenses, increased credit card fees, packaging costs, and distribution costs driven by higher net revenue, and

increased depreciation, and technology costs. Income from operations as a percentage of Americas net revenue increased due to higher gross margin, partially offset by 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 \$228.1 million, driven by increased net revenue. Gross margin was consistent year over year, primarily due to leverage on occupancy and other costs, partially offset by unfavorable foreign currency exchange rates and lower product margin. 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 digital marketing expenses, increased packaging costs, distribution costs, and credit card fees driven by higher net revenue, and increased technology costs. Income from operations as a percentage of China Mainland net revenue increased due to leverage 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 \$190.2 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, as well as increased digital marketing expenses, increased distribution costs, credit card fees, and packaging costs driven by higher net revenue, and increased technology costs. Income from operations as a percentage of Rest of World net revenue increased due to higher gross margin and leverage on selling, general and administrative expenses.

General Corporate Expenses. The increase in general corporate expenses was primarily due to increased employee costs, as well as increased brand and community costs, depreciation, technology costs, professional fees, and product team costs. The increase in general corporate expenses was partially offset by a decrease in net foreign currency exchange and derivative losses of \$7.0 million.

Other Income (Expense), Net

	2023	2022	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Other income (expense), net	\$ 43,059	\$ 4,163	\$ 38,896	934.3 %

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

Income Tax Expense

	2023	2022	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Income tax expense	\$ 625,545	\$ 477,771	\$ 147,774	30.9 %
Effective tax rate	28.8 %	35.9 %	(710) basis points	

The decrease in the effective tax rate was primarily due the income tax impact of certain non-deductible impairment and other charges recognized in 2022 and 2023 related to lululemon Studio, partially offset by a lower tax rate on the gain on the sale of an administrative building in 2022. These items increased the effective tax rate by 780 basis points and 10 basis points in 2022 and 2023, respectively.

Excluding the income tax effects of the impairment and other charges recognized in 2022 and 2023 in relation to lululemon Studio, and excluding the tax effect of the gain on the sale of the administrative building in 2022, the adjusted effective tax rate increased to 28.7% in 2023 from 28.1% in 2022.

The increase in the adjusted effective tax rate was primarily due to withholding taxes on unremitted earnings which are not considered to be permanently reinvested, partially offset by adjustments upon the filing of certain income tax returns, and a decrease in U.S. state taxes.

Net Income

	2023	2022	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Net income	\$ 1,550,190	\$ 854,800	\$ 695,390	81.4 %

The increase in net income in 2023 was primarily due to an increase in gross profit of \$1.1 billion, an increase in other income (expense), net of \$38.9 million, and impairment and restructuring charges recognized in 2023 of \$74.5 million compared to impairment charges of \$407.9 million recognized in 2022, partially offset by an increase in selling, general and administrative expenses of \$639.8 million, an increase in income tax expense of \$147.8 million, and a gain on disposal of assets of \$10.2 million in the prior year.

Excluding certain inventory provisions, goodwill and other asset impairments, and restructuring costs recognized in relation to lululemon Studio in 2023 and 2022 and the gain on sale of an administrative building in 2022, and their tax effects, adjusted net income increased \$333.4 million or 26%.

Comparison of 2022 to 2021

Net Revenue

Net revenue increased \$1.9 billion, or 30%, to \$8.1 billion in 2022 from \$6.3 billion in 2021. On a constant dollar basis, net revenue increased 32%. Comparable sales increased 25%, or 28% on a constant dollar basis. The increase in net revenue was primarily due to increased Americas net revenue. China Mainland and Rest of World net revenue also increased.

Net revenue for 2022 and 2021 is summarized below, and reflects our updated segments, including comparatives.

	2022		2021		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	\$ 6,817,454	\$ 5,299,906	84.1 %	84.7 %	\$ 1,517,548	28.6 %	30.0 %
China Mainland	576,503	434,261	7.1	6.9	142,242	32.8	40.0
Rest of World	716,561	522,450	8.8	8.4	194,111	37.2	49.0
Net revenue	\$ 8,110,518	\$ 6,256,617	100.0 %	100.0 %	\$ 1,853,901	29.6 %	32.0 %

Americas. The increase in Americas net revenue was primarily due to an increase in comparable sales, which increased 28%, or 29% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic, partially offset by a decrease in conversion rates. Americas net revenue also increased due to a \$296.9 million increase in non-comparable sales, primarily from our company-operated stores that were opened or significantly expanded since 2021 as well as increased outlet, wholesale, and re-commerce net revenue, partially offset by lower license and supply arrangement and lululemon Studio net revenue.

China Mainland. The increase in China Mainland net revenue was primarily due to an increase in comparable sales, which increased 17%, or 23% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic, partially offset by a decrease in conversion rates. The increase in China Mainland net revenue was also driven by a \$77.5 million increase in non-comparable sales, primarily from our company-operated stores that were opened or significantly expanded since 2021.

Rest of World. The increase in Rest of World net revenue was primarily due to a \$151.5 million increase in non-comparable sales, primarily from our company-operated stores that were opened or significantly expanded since 2021 as well as increased license and supply arrangements, outlets, and wholesale net revenue. The increase in Rest of World net revenue was also driven by an increase in comparable sales, which increased 10%, or 19% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic, partially offset by a decrease in conversion rates.

Gross Profit

	2022		2021		Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>		<i>(Percentage)</i>	
Gross profit	\$ 4,492,340	\$ 3,608,565	\$ 883,775	24.5 %		
Gross margin	55.4 %	57.7 %	(230) basis points			

During 2022, we updated our lululemon Studio strategy to focus on digital app-based services, which meant we no longer expected to be able to sell all of the in-home hardware inventory above cost. We recognized a provision of \$62.9 million against hardware inventory during 2022. This reduced 2022 gross margin by 80 basis points. Please refer to Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs included in Item 8 of Part II of this report.

The remaining 150 basis point decrease in gross margin was primarily the result of:

- a decrease in product margin of 100 basis points primarily due to higher markdowns, sales mix, and increased damages and shrink, partially offset by lower air freight costs;
- an increase in costs related to our product departments and distribution centers as a percentage of net revenue of 60 basis points; and
- an unfavorable impact of foreign currency exchange rates of 40 basis points.

The decrease in gross margin was partially offset by leverage on occupancy and depreciation costs of 50 basis points, driven primarily by the increase in net revenue.

Selling, General and Administrative Expenses

	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Selling, general and administrative expenses	\$ 2,757,447	\$ 2,225,034	\$ 532,413	23.9 %
Selling, general and administrative expenses as a percentage of net revenue	34.0 %	35.6 %	(160) basis points	

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

- an increase in head office costs of \$283.7 million, comprised of:
 - an increase in costs of \$142.2 million primarily due to increased depreciation of \$43.5 million and increased technology costs, including cloud computing amortization, of \$35.7 million, as well as increased brand and community costs and professional fees; and
 - an increase in employee costs of \$141.5 million primarily due to an increase in salaries and wages expense of \$76.5 million and incentive compensation of \$34.8 million, as well as increased stock-based compensation expense and travel costs, primarily as a result of headcount growth and increased wage rates.
- an increase in costs related to our operating channels of \$249.5 million, comprised of:
 - an increase in variable costs of \$127.6 million primarily due to an increase in distribution costs and credit card fees, primarily as a result of increased net revenue;
 - an increase in employee costs of \$104.2 million primarily due to an increase in salaries and wages expense and incentive compensation in our company-operated store and e-commerce channels, primarily due to growth in our business and increased wage rates;
 - an increase in other costs of \$15.3 million primarily due to an increase in repairs and maintenance costs, depreciation, and technology costs, partially offset by a decrease in professional fees; and
 - an increase in brand and community costs of \$2.4 million primarily due to an increase in digital marketing expenses related to our e-commerce 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 exchange and derivative revaluation losses of \$0.8 million.

Impairment of Goodwill and Other Assets, Restructuring Costs

	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands) (Percentage)</i>	
Impairment of goodwill and other assets, restructuring costs	\$ 407,913	\$ —	\$ 407,913	n/a

During 2022, we recognized an impairment of goodwill and other long-lived assets in relation to our lululemon Studio business unit. Please refer to Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs included in Item 8 of Part II of this report.

Amortization of Intangible Assets

	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands) (Percentage)</i>	
Amortization of intangible assets	\$ 8,752	\$ 8,782	\$ (30)	(0.3)%

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

Acquisition-Related Expenses

	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands) (Percentage)</i>	
Acquisition-related expenses	\$ —	\$ 41,394	\$ (41,394)	(100.0)%

In connection with our acquisition of MIRROR, we recognized acquisition-related compensation expenses of \$38.4 million and transaction and integration related costs of \$3.0 million in 2021. There were no acquisition-related expenses in 2022. Please refer to Note 9. Acquisition-Related Expenses included in Item 8 of Part II of this report for further information.

Gain on Disposal of Assets

	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands) (Percentage)</i>	
Gain on disposal of assets	\$ (10,180)	\$ —	\$ (10,180)	n/a

During the second quarter of 2022, we completed the sale of an administrative office building, which resulted in a pre-tax gain of \$10.2 million.

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. Our prior segment results have been recast to reflect our new segment reporting structure.

	2022	2021	2022	2021	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:						
Americas	\$ 2,503,740	\$ 1,867,016	36.7 %	35.2 %	\$ 636,724	34.1 %
China Mainland	196,865	167,318	34.1	38.5	29,547	17.7
Rest of World	103,204	67,674	14.4	13.0	35,530	52.5
	\$ 2,803,809	\$ 2,102,008			\$ 701,801	33.4 %
General corporate expenses	1,005,988	718,477			287,511	40.0
lululemon Studio obsolescence provision	62,928	—			62,928	n/a
Impairment of goodwill and other assets, restructuring costs	407,913	—			407,913	n/a
Amortization of intangible assets	8,752	8,782			(30)	(0.3)
Acquisition-related expenses	—	41,394			(41,394)	(100.0)
Gain on disposal of assets	(10,180)	—			(10,180)	n/a
Income from operations	\$ 1,328,408	\$ 1,333,355			\$ (4,947)	(0.4)%
Operating margin	16.4 %	21.3 %			(490) basis points	

Americas. The increase in Americas income from operations was primarily the result of increased gross profit of \$855.2 million, driven by increased net revenue, partially offset by lower gross margin. The decrease in gross margin was primarily due to lower product margin, partially offset by leverage on occupancy and other 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, and increased technology costs. Income from operations as a percentage of Americas net revenue increased due to leverage 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 \$70.4 million, driven by increased net revenue, partially offset by lower gross margin. The decrease in gross margin was primarily due to unfavorable foreign currency exchange rates as well as deleverage on distribution center and other 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 digital marketing expenses, increased packaging and distribution costs driven by higher net revenue, and increased technology costs. Income from operations as a percentage of China Mainland net revenue decreased primarily due to lower gross margin.

Rest of World. The increase in Rest of World income from operations was primarily the result of increased gross profit of \$80.9 million, driven by increased net revenue, partially offset by lower gross margin. The decrease in gross margin was primarily due to unfavorable foreign currency exchange rates as well as lower product margin, partially offset by leverage on occupancy and other 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, credit card fees, and packaging costs driven by higher net revenue, and increased digital marketing expenses. Income from operations as a percentage of Rest of World net revenue increased due to leverage on selling, general and administrative expenses.

General Corporate Expenses. The increase in general corporate expenses was primarily due to higher employee costs, as well as increased depreciation, brand and community costs, technology costs, professional fees, and product team costs. The increase in general corporate expenses was partially offset by a decrease in net foreign exchange and derivative losses of \$0.8 million.

Other Income (Expense), Net

	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Other income (expense), net	\$ 4,163	\$ 514	\$ 3,649	709.9 %

The increase in other income, net was primarily due to an increase in interest income from higher interest rates, partially offset by an increase in other expenses.

Income Tax Expense

	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Income tax expense	\$ 477,771	\$ 358,547	\$ 119,224	33.3 %
Effective tax rate	35.9 %	26.9 %	900 basis points	

The increase in the effective tax rate was primarily due to certain non-deductible expenses related to the impairment of goodwill and other assets recognized in relation to our lululemon Studio business unit (formerly MIRROR) partially offset by the gain on sale of an administrative building in 2022 which increased the effective tax rate by 780 basis points. Certain non-deductible expenses related to the MIRROR acquisition increased the effective tax rate by 70 basis points in 2021. The increase in the effective tax rate was also due to the accrual of U.S. state tax and Canadian withholding taxes on unremitted earnings which are not considered to be permanently reinvested, adjustments upon filing of certain income tax returns, and a decrease in deductions for stock-based compensation, partially offset by a decrease in non-deductible expenses in international jurisdictions.

Excluding the impairment of goodwill and other assets recognized in relation to our lululemon Studio business unit (formerly MIRROR) and the gain on sale of an administrative building in 2022, and the MIRROR acquisition-related expenses in 2021, and their tax effects, our adjusted effective tax rates were 28.1% and 26.2% for 2022 and 2021, respectively.

Net Income

	2022	2021	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Net income	\$ 854,800	\$ 975,322	\$ (120,522)	(12.4)%

The decrease in net income in 2022 was primarily due to an increase in selling, general and administrative expenses of \$532.4 million, an impairment charge recognized in 2022 of \$407.9 million, an increase in income tax expense of \$119.2 million, partially offset by an increase in gross profit of \$883.8 million, a decrease in acquisition-related expenses of \$41.4 million, a gain on disposal of assets of \$10.2 million, and an increase in other income (expense), net of \$3.6 million. Excluding the impairment of goodwill and other assets recognized in relation to our lululemon Studio business unit (formerly MIRROR) and the gain on sale of an administrative building in 2022, and the MIRROR acquisition-related expenses in 2021, and their tax effects, adjusted net income increased \$273.7 million or 27.0%.

Comparable Sales and Sales Per Square Foot

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 our buy online pick-up in store, back-back room, and ship from store omni-channel retailing capabilities in addition to our websites, other region-specific websites, digital marketplaces, and mobile apps. 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.

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-comparable sales includes all net revenue other than comparable sales.

Sales Per Square Foot

We use sales per square foot to assess the performance of our company-operated stores relative to their square footage. We believe that sales per square foot is useful in evaluating the performance of our company-operated stores. Sales per square foot is calculated using total net revenue from all company-operated stores divided by the average ending square footage of the stores for each period during the year. In fiscal years with 53 weeks, the 53rd week of net revenue is excluded from the calculation of sales per square foot. The square footage of our company-operated stores includes all retail related space, including selling space as well as storage and back-office areas. The sales per square foot metric we report may not be equivalent to similarly titled metrics reported by other companies.

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, goodwill and other asset impairments, and restructuring costs recognized in relation to lululemon Studio, the gain on disposal of assets for the sale of an administrative office building, the MIRROR acquisition-related expenses, 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 or disposal gains 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.

	2023 Compared to 2022			2022 Compared to 2021		
	Change	Foreign exchange changes	Change in constant dollars	Change	Foreign exchange changes	Change in constant dollars
Net Revenue						
Americas	12 %	— %	12 %	29 %	1 %	30 %
China Mainland	67	8	75	33	7	40
Rest of World	43	1	44	37	12	49
Total net revenue	19 %	1 %	20 %	30 %	2 %	32 %
Comparable sales⁽¹⁾						
Americas	8 %	1 %	9 %	28 %	1 %	29 %
China Mainland	39	7	46	17	6	23
Rest of World	32	1	33	10	9	19
Total comparable sales	13 %	1 %	14 %	25 %	3 %	28 %

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

Adjusted Financial Measures

The following tables reconcile the most directly comparable measures calculated in accordance with GAAP with the adjusted financial measures. The 2023 and 2022 adjustments relate to certain inventory provisions, goodwill and other asset impairments, and restructuring costs recognized in relation to lululemon Studio, and their related tax effects. The 2022 adjustments also relate to the gain on sale of an administrative office building, and their related tax effects. The 2021 adjustments relate to MIRROR acquisition-related expenses, and their related tax effects. Please refer to Note 5. Property and Equipment, Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs, and Note 9. Acquisition-Related Expenses included in Item 8 of Part II of this report for further information on the nature of these amounts.

	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	\$5,609,405	58.3 %	\$2,132,676	22.2 %	\$ 625,545	28.8 %	\$1,550,190	\$ 12.20
lululemon Studio charges:								
lululemon Studio obsolescence provision	23,709	0.3	23,709	0.2			23,709	0.19
Impairment of assets			44,186	0.5			44,186	0.35
Restructuring costs			30,315	0.3			30,315	0.24
Tax effect of the above					26,085	(0.1)	(26,085)	(0.21)
	23,709	0.3	98,210	1.0	26,085	(0.1)	72,125	0.57
Adjusted results (non-GAAP)	\$5,633,114	58.6 %	\$2,230,886	23.2 %	\$ 651,630	28.7 %	\$1,622,315	\$ 12.77

	2022							
	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	\$4,492,340	55.4 %	\$1,328,408	16.4 %	\$ 477,771	35.9 %	\$ 854,800	\$ 6.68
lululemon Studio charges:								
lululemon Studio obsolescence provision	62,928	0.8	62,928	0.8			62,928	0.49
Impairment of goodwill and other assets			407,913	5.0			407,913	3.19
Tax effect of the above					28,171	(7.8)	(28,171)	(0.22)
	62,928	0.8	470,841	5.8	28,171	(7.8)	442,670	3.46
Gain on disposal of assets			(10,180)	(0.1)			(10,180)	(0.08)
Tax effect of the above					(1,661)	—	1,661	0.01
Adjusted results (non-GAAP)	\$4,555,268	56.2 %	\$1,789,069	22.1 %	\$ 504,281	28.1 %	\$1,288,951	\$ 10.07

	2021						
	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	\$1,333,355	21.3 %	\$ 358,547	26.9 %	\$ 975,322	\$ 7.49	
Transaction and integration costs	2,989	—			2,989	0.02	
Acquisition-related compensation	38,405	0.7			38,405	0.29	
Tax effect of the above			1,417	(0.7)	(1,417)	(0.01)	
Adjusted results (non-GAAP)	\$1,374,749	22.0 %	\$ 359,964	26.2 %	\$1,015,299	\$ 7.79	

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:

	2023	2022	Year over year change
<i>(In thousands)</i>			
Total cash provided by (used in):			
Operating activities	\$ 2,296,164	\$ 966,463	\$ 1,329,701
Investing activities	(654,132)	(569,937)	(84,195)
Financing activities	(548,828)	(467,487)	(81,341)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(4,100)	(34,043)	29,943
Increase (decrease) in cash and cash equivalents	\$ 1,089,104	\$ (105,004)	\$ 1,194,108

Operating Activities

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

- an increase in cash flows from changes in operating assets and liabilities of \$859.1 million, primarily driven by changes in inventories, accounts payable, and prepaid expenses and other current assets, partially offset by changes in income taxes and accrued liabilities; and
- increased net income of \$695.4 million.

The increase in cash provided by operating activities was partially offset by changes in adjusting items of \$224.8 million, primarily driven by goodwill and other asset impairments and restructuring costs recognized in relation to lululemon Studio, as well as increased depreciation and higher cash inflows related to derivatives.

Investing Activities

The increase in cash used in investing activities was primarily due to the settlement of net investment hedges and increased capital expenditures. The increase in capital expenditures was primarily due to investment in our distribution centers as well as other technology infrastructure and system initiatives, partially offset by a decrease in company-operated store and corporate capital expenditures.

Financing Activities

The increase in cash used in financing activities was primarily the result of an increase in our stock repurchases. During 2023, 1.5 million shares were repurchased at a total cost including commissions and excise taxes of \$558.7 million. During 2022, 1.4 million shares were repurchased at a total cost including commissions and excise taxes of \$444.0 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 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:

	January 28, 2024
	<i>(In thousands)</i>
Cash and cash equivalents	\$ 2,243,971
Working capital excluding cash and cash equivalents ⁽¹⁾	185,345
Capacity under committed revolving credit facility	393,661

⁽¹⁾ Working capital is calculated as current assets of \$4.1 billion less current liabilities of \$1.6 billion.

Capital expenditures are expected to range between \$690.0 million and \$710.0 million in 2024.

Our current commitments with respect to inventory purchases are included within our purchase obligations outlined below. 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 January 28, 2024 was \$1.3 billion, a decrease of 9% from January 29, 2023. We expect our inventories to decrease during the first half of 2024 compared to the first half of 2023, and then increase in the second half of 2024 compared to the second half of 2023.

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 January 28, 2024, aside from letters of credit of \$6.3 million, we had no other borrowings outstanding under this credit facility. Further information regarding our credit facilities and associated covenants is outlined in Note 12. Revolving Credit Facilities included in Item 8 of Part II of this report.

Contractual Obligations and Commitments

Leases. We lease certain store and other retail locations, distribution centers, offices, and equipment under non-cancellable operating leases. Our leases generally have initial terms of between two and 15 years, and generally can be extended in increments between two and five years, if at all. The following table details our future minimum lease payments. Minimum lease commitments exclude variable lease expenses including contingent rent payments, common area maintenance, property taxes, and landlord's insurance.

Purchase obligations. The amounts listed for purchase obligations in the table below represent agreements (including open purchase orders) to purchase products and for other expenditures in the ordinary course of business that are enforceable and legally binding and that specify all significant terms. In some cases, values are subject to change, such as for product purchases throughout the production process. The reported amounts exclude liabilities included in our consolidated balance sheets as of January 28, 2024.

One-time transition tax payable. The U.S. tax reforms enacted in December 2017 imposed a mandatory transition tax on accumulated foreign subsidiary earnings which have not previously been subject to U.S. income tax. The one-time transition tax is payable over eight years beginning in fiscal 2018. The one-time transition tax payable is net of foreign tax credits, and the table below outlines the expected payments due by fiscal year.

The following table summarizes our contractual arrangements due by fiscal year as of January 28, 2024, and the timing and effect that such commitments are expected to have on our liquidity and cash flows in future periods:

	Total	2024	2025	2026	2027	2028	Thereafter
	<i>(In thousands)</i>						
Operating leases (minimum rent)	\$1,645,318	\$ 300,379	\$ 287,224	\$ 232,510	\$ 214,519	\$ 158,252	\$ 452,434
Purchase obligations	688,934	656,376	5,566	10,506	2,899	13,587	—
One-time transition tax payable	28,555	12,691	15,864	—	—	—	—

As of January 28, 2024, our operating lease commitments for distribution center operating leases which have been committed to, but not yet commenced, was \$299.6 million, which is not reflected in the table above.

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes, and duties. As of January 28, 2024, letters of credit and letters of guarantee totaling \$10.2 million had been issued, including \$6.3 million under our committed revolving credit facility.

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 as follows, and see Note 2. Summary of Significant Accounting Policies included in Item 8 of Part II for additional information:

Inventory provision

Inventory is valued at the lower of cost and net realizable value. We periodically review our inventories and make a provision for obsolescence and goods that have quality issues or that are damaged. We record a provision at an amount that is equal to the difference between the inventory cost and its net realizable value. As of January 28, 2024 the net carrying value of our inventories was \$1.3 billion, which included provisions for obsolete and damaged inventory of \$139.7 million. The

provision is determined based upon assumptions about product quality, damages, future demand, selling prices, and market conditions, and includes a provision of \$63.0 million against lululemon Studio Mirror inventory.

Deferred taxes on undistributed net investment of foreign subsidiaries.

We have not recognized U.S. state income taxes and foreign withholding taxes on the net investment in our subsidiaries which we have determined to be indefinitely reinvested. This determination is based on the cash flow projections and operational and fiscal objectives of each of our foreign subsidiaries. Such estimates are inherently imprecise since many assumptions utilized in the projections are subject to revision in the future.

For the portion of our net investment in our Canadian subsidiaries that is not indefinitely reinvested, we have recorded a deferred tax liability for the taxes which would be due upon repatriation. For distributions made by our Canadian subsidiaries, the amount of tax payable is partially dependent on how the repatriation transactions are made. The deferred tax liability has been recorded on the basis that we would choose to make the repatriation transactions in the most tax efficient manner. Specifically, to the extent that the Canadian subsidiaries have sufficient paid-up-capital, any such distributions would be made as a return of capital, rather than as a dividend, and therefore would not be subject to Canadian withholding tax.

As of January 28, 2024, the net investment in our Canadian subsidiaries was \$2.5 billion, of which \$1.6 billion was determined to be indefinitely reinvested. The paid-up-capital balance of the Canadian subsidiaries was approximately \$140.0 million.

We have recognized a deferred tax liability of \$41.2 million as of January 28, 2024 which represents the Canadian withholding taxes payable on the portion of our Canadian earnings that are not indefinitely reinvested and cannot be repatriated as a return of capital, and U.S. state income taxes payable upon repatriation of the amounts which are not indefinitely reinvested.

In future periods, if the net investment in our Canadian subsidiaries continues to grow, whether due to the accumulation of profits by these subsidiaries or due to a change in the amount that is indefinitely reinvested, we will record additional deferred tax liabilities, including both Canadian withholding taxes for the amount in excess of the paid-up capital balance and U.S. state income taxes.

Contingencies

We are involved in legal proceedings regarding contractual and employment relationships and a variety of other matters. We record contingent liabilities when a loss is assessed to be probable and its amount is reasonably estimable. If it is reasonably possible that a material loss could occur through ongoing litigation, we provide disclosure in the footnotes to our financial statements. Assessing probability of loss and estimating the amount of probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third-party claimants and courts. Should we experience adverse court judgments or should negotiated outcomes differ to our expectations with respect to such ongoing litigation it could have a material adverse effect on our results of operations, financial position, and cash flows.

ITEM 7A. 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 \$89.8 million lower in 2023 in comparison to 2022.

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 (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. The impact to other comprehensive loss of translation of our Canadian subsidiaries was an increase in the loss of \$9.0 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 January 28, 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 January 28, 2024 was a liability of \$2.2 million. As of January 28, 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 \$29.8 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 17. Derivative Financial Instruments included in Item 8 of Part II 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 January 28, 2024, aside from letters of credit of \$6.3 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 January 28, 2024, we held cash and cash equivalents of \$2.2 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. During 2022 and 2023, our operating margin was impacted by increased wage rates. During 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.