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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and related notes in Item 1 of this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and MD&A in our Annual Report on Form 10-K for fiscal 2024.

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about our financial condition, results of operations, business strategies, growth opportunities, market trends, and future performance. Forward-looking statements can often be identified by words such as "may," "will," "expects," "plans," "anticipates," "believes," "estimates," "intends," and similar expressions.

These forward-looking statements are based on our current expectations and assumptions, are subject to risks and uncertainties, and may differ materially from actual results due to various factors, including those described under "Risk Factors" and elsewhere in this report. We undertake no obligation to update any forward-looking statements, except as required by applicable law.

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 2025 will end on February 1, 2026 and will be a 52-week year. Fiscal 2024 was a 53-week year and ended on February 2, 2025. Fiscal 2025 and fiscal 2024 are referred to as "2025," and "2024," respectively. The first quarter of 2025 and 2024 ended on May 4, 2025 and April 28, 2024, respectively.

Components of this MD&A include:

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

We use comparable sales as a metric to evaluate the performance of our business. Due to the 53rd week in 2024, comparable sales are calculated on a one week shifted basis such that the 13 weeks ended May 4, 2025 is compared to the 13 weeks ended May 5, 2024 rather than April 28, 2024. Refer to the Comparable Sales section of this MD&A for further information.

We provide constant dollar changes, which is a non-GAAP financial measure, as supplemental information to help investors understand the underlying growth rate of net revenue excluding the impact of changes in foreign currency exchange rates. Refer to the Non-GAAP Financial Measures section of this MD&A for reconciliations between the 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.

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 first quarter of 2025 to the first quarter of 2024:

- Net revenue increased 7% to $2.4 billion. On a constant dollar basis, net revenue increased 8%.
- Comparable sales increased 1%.
  - Americas comparable sales decreased 2%, or 1% on a constant dollar basis.
  - China Mainland comparable sales increased 7%, or 8% on a constant dollar basis.
  - Rest of World comparable sales increased 6%, or 7% on a constant dollar basis.
- Gross profit increased 8% to $1.4 billion.
- Gross margin increased 60 basis points to 58.3%.
- Income from operations increased 1% to $438.6 million.
- Operating margin decreased 110 basis points to 18.5%.
- Income tax expense increased 1% to $135.8 million. Our effective tax rate for the first quarter of 2025 was 30.2% compared to 29.5% for the first quarter of 2024.
- Diluted earnings per share were $2.60 compared to $2.54 in the first quarter of 2024.

Market Conditions and Trends

Our business continues to be negatively influenced by macroeconomic conditions, including consumer demand, trade policies, inflation, and foreign currency fluctuations. These factors have had varying effects across our markets and are expected to remain relevant throughout 2025.

While total net revenue increased across all regions in the first quarter of 2025, comparable sales in the Americas decreased 2%, or 1% on a constant dollar basis. We experienced lower store traffic in the Americas, partially reflective of economic uncertainty, inflationary pressures, lower consumer confidence, and changes in discretionary spending.

Recently imposed tariffs on products imported into the United States, along with trade actions by other countries, may adversely affect our business. As a result of the tariffs imposed since April 2025, the cost of inventory in the United States has increased, which could lead to a significant reduction in gross margin and income from operations. Additionally, higher tariffs may lead to macroeconomic volatility, both in the United States and globally, potentially affecting consumer demand. We are taking steps to mitigate some of the financial impact from higher tariffs, which may include sourcing optimization, vendor negotiations, cost reductions, and selective price increases.

Foreign currency fluctuations negatively impacted our financial results during the first quarter of 2025, reducing net revenue growth by $21.3 million compared to the first quarter of 2024, primarily due to the overall appreciation of the US dollar. We expect ongoing exchange rate volatility to continue affecting our financial results.

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

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

	First Quarter			
	2025	2024	2025	2024
	(In thousands)		*(Percentage of net revenue)*	
Net revenue	$ 2,370,660	$ 2,208,891	100.0 %	100.0 %
Cost of goods sold	987,534	933,823	41.7	42.3
Gross profit	1,383,126	1,275,068	58.3	57.7
Selling, general and administrative expenses	942,871	842,426	39.8	38.1
Amortization of intangible assets	1,630	—	0.1	—
Income from operations	438,625	432,642	18.5	19.6
Other income (expense), net	11,786	23,283	0.5	1.1
Income before income tax expense	450,411	455,925	19.0	20.6
Income tax expense	135,839	134,504	5.7	6.1
Net income	$ 314,572	$ 321,421	13.3 %	14.6 %

Net Revenue

	First Quarter						
	2025	2024	2025	2024	Year over year change		
	(In thousands)		*(Percentage of net revenue)*		*(In thousands)*	*(Percentage)*	*(Constant dollar change)*
Americas	$ 1,674,558	$ 1,622,264	70.6 %	73.4 %	$ 52,294	3 %	4 %
China Mainland	368,101	303,786	15.5	13.8	64,315	21 %	22 %
Rest of World	328,001	282,841	13.8	12.8	45,160	16 %	17 %
Net revenue	$ 2,370,660	$ 2,208,891	100.0 %	100.0 %	$ 161,769	7 %	8 %

The increase in net revenue was primarily due to increased China Mainland net revenue. Americas and Rest of World net revenue also increased and global comparable sales increased 1%.

Gross Profit

	First Quarter			
	2025	2024	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Gross profit	$ 1,383,126	$ 1,275,068	$ 108,058	8.5 %
Gross margin	58.3 %	57.7 %	60 basis points	

The increase in gross margin was primarily the result of a net increase in product margin of 110 basis points, comprised of:

- a net increase of 130 basis points from lower product costs and higher average unit retail, as well as lower damages, partially offset by higher freight costs; and
- an unfavorable impact of foreign currency exchange rates of 20 basis points.

The increase in product margin was partially offset by a net increase in other cost of sales as a percentage of net revenue of 50 basis points, comprised of:

- an increase in occupancy and depreciation costs of 30 basis points; and
- an increase in costs related to our product departments of 20 basis points.

Selling, General and Administrative Expenses

	First Quarter			
	2025	2024	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Selling, general and administrative expenses	$ 942,871	$ 842,426	$ 100,445	11.9 %
Selling, general and administrative expenses as a % of net revenue	39.8 %	38.1 %	170 basis points	

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

- an increase in head office costs of $51.6 million, comprised of:
  - an increase in employee costs of $11.5 million primarily due to increased salaries and wages expense;
  - an increase in technology costs, including cloud computing amortization, of $11.0 million;
  - an increase in contractor, advisory, and professional services of $8.9 million;
  - an increase in brand and community costs of $8.8 million;
  - an increase in depreciation of $7.3 million; and
  - an increase in other head office costs of $4.1 million.
- an increase in costs related to our operating channels of $38.1 million, comprised of:
  - an increase in employee costs of $25.4 million primarily due to increased salaries and wages expense for retail employees;
  - an increase in other operating costs of $9.5 million primarily due to increased depreciation and occupancy costs;
  - an increase in digital marketing costs of $9.4 million; and
  - an increase in technology costs of $2.6 million.

  The increase in costs related to our operating channels was partially offset by a decrease in variable costs of $8.8 million primarily due to decreased distribution cost rates, partially offset by increased credit card fees as a result of higher net revenue.
- an increase in net foreign currency exchange and derivative revaluation losses of $10.8 million.

Amortization of Intangible Assets

	First Quarter			
	2025	2024	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Amortization of intangible assets	$ 1,630	$ —	$ 1,630	n/a

The amortization of intangible assets in 2025 was primarily the result of the amortization of intangible assets recognized upon the acquisition of the Mexico operations.

Segment Results

On a segment basis, we determine income from operations without taking into account corporate expenses and certain other expenses. Corporate expenses include the cost of centrally managed support functions including product design, raw material development, product innovation, sourcing, supply chain, and global merchandising which are included in other cost of sales. Administrative corporate expenses include technology, brand and marketing, finance, human resources, legal, and other head office costs.

Americas

	First Quarter			
	2025	2024	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Net revenue	$ 1,674,558	$ 1,622,264	$ 52,294	3.2 %
Product costs	480,820	482,295	(1,475)	(0.3)
Other cost of sales	156,647	147,177	9,470	6.4
Gross profit	1,037,091	992,792	44,299	4.5
Selling, general and administrative expenses	447,760	427,952	19,808	4.6
Segmented income from operations	$ 589,331	$ 564,840	$ 24,491	4.3 %
Product margin	71.3 %	70.3 %	100 basis points	
Gross margin	61.9 %	61.2 %	70 basis points	
Selling, general and administrative expenses as a % of net revenue	26.7 %	26.4 %	30 basis points	
Segmented income from operations as a % of net revenue	35.2 %	34.8 %	40 basis points	

The increase in Americas net revenue was primarily due to a $57.1 million increase from new or expanded company-operated stores and our other channels. We added 22 net new company-operated stores in the Americas since the first quarter of 2024, 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 and a decrease in store traffic, partially offset by a higher dollar value per transaction and an increase in e-commerce traffic.

The increase in gross margin was primarily due to higher product margin partially offset by deleverage on occupancy and depreciation costs.

The increase in selling, general and administrative expenses was primarily due to higher employee costs, increased digital marketing expenses, and higher depreciation, partially offset by decreased distribution cost rates.

China Mainland

	First Quarter			
	2025	2024	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Net revenue	$ 368,101	$ 303,786	$ 64,315	21.2 %
Product costs	81,815	68,675	13,140	19.1
Other cost of sales	50,273	47,508	2,765	5.8
Gross profit	236,013	187,603	48,410	25.8
Selling, general and administrative expenses	82,378	67,825	14,553	21.5
Segmented income from operations	$ 153,635	$ 119,778	$ 33,857	28.3 %
Product margin	77.8 %	77.4 %	40 basis points	
Gross margin	64.1 %	61.8 %	230 basis points	
Selling, general and administrative expenses as a % of net revenue	22.4 %	22.3 %	10 basis points	
Segmented income from operations as a % of net revenue	41.7 %	39.4 %	230 basis points	

The increase in China Mainland net revenue was primarily due to a $38.3 million increase in net revenue from new or expanded company-operated stores and our other channels. We have opened 27 net new company-operated stores in China Mainland since the first quarter of 2024. The increase in China Mainland net revenue was also driven by an increase in comparable sales, which increased 7%, or 8% 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 gross margin was primarily due to leverage on occupancy costs and depreciation as well as higher product margin.

The increase in selling, general and administrative expenses was primarily due to higher employee costs and increased digital marketing expenses, as well as increased distribution costs and packaging costs driven by higher net revenue.

Rest of World

	First Quarter			
	2025	2024	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Net revenue	$ 328,001	$ 282,841	$ 45,160	16.0 %
Product costs	90,264	80,074	10,190	12.7
Other cost of sales	58,471	47,742	10,729	22.5
Gross profit	179,266	155,025	24,241	15.6
Selling, general and administrative expenses	106,410	88,344	18,066	20.4
Segmented income from operations	$ 72,856	$ 66,681	$ 6,175	9.3 %
Product margin	72.5 %	71.7 %	80 basis points	
Gross margin	54.7 %	54.8 %	(10) basis points	
Selling, general and administrative expenses as a % of net revenue	32.4 %	31.2 %	120 basis points	
Segmented income from operations as a % of net revenue	22.2 %	23.6 %	(140) basis points	

The increase in Rest of World net revenue was primarily due to a $25.5 million increase in net revenue from new or expanded company-operated stores and our other channels. We have opened 10 net new company-operated stores in Rest of World since the first quarter of 2024. The increase in Rest of World net revenue was also driven by an increase in comparable sales, which increased 6%, or 7% on a constant dollar basis. The increase in comparable sales was primarily a result of increased traffic.

The decrease in gross margin was primarily due to higher product margin, partially offset by deleverage on distribution center costs and depreciation costs.

The increase in selling, general and administrative expenses was 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.

Corporate

Corporate expenses increased $58.5 million to $377.2 million in the first quarter of 2025 compared to the first quarter of 2024. The net increase was primarily due to higher technology costs, employee costs, professional fees, and depreciation. Corporate expenses also increased due to an increase in net foreign currency exchange and derivative losses of $10.8 million.

Other Income (Expense), Net

	First Quarter			
	2025	2024	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Other income (expense), net	$ 11,786	$ 23,283	$ (11,497)	(49.4)%

The decrease in other income, net was primarily due to a decrease in interest income as a result of lower average cash balances and lower interest rates.

Income Tax Expense

	First Quarter			
	2025	2024	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Income tax expense	$ 135,839	$ 134,504	$ 1,335	1.0 %
Effective tax rate	30.2 %	29.5 %	70 basis points	

The increase in the effective tax rate was primarily due to a decrease in tax benefits related to stock-based compensation and an increase in non-deductible expenses in international jurisdictions.

Net Income

	First Quarter			
	2025	2024	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Net income	$ 314,572	$ 321,421	$ (6,849)	(2.1)%

The decrease in net income was primarily due to an increase in selling, general and administrative expenses of $100.4 million, a decrease in other income (expense), net of $11.5 million, and an increase in income tax expense of $1.3 million, partially offset by an increase in gross profit of $108.1 million.

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 October 2025 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

We report certain financial metrics on a constant dollar basis, which is a non-GAAP financial measure.

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 use constant dollar metrics to facilitate comparison of underlying performance excluding the impact of changes in foreign currency exchange rates. Management uses these constant currency metrics internally when reviewing and assessing financial performance.

These non-GAAP financial measures are provided in addition to, and not a substitute for, or with greater prominence than, the corresponding financial measures calculated 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 show the change compared to the corresponding period in the prior year. Due to the 53rd week in 2024, the below changes in comparable sales are calculated on a one week shifted basis such that the 13 weeks ended May 4, 2025 is compared to the 13 weeks ended May 5, 2024 rather than April 28, 2024.

	First Quarter 2025		
	Change	Foreign exchange changes	Change in constant dollars
Net Revenue			
Americas	3 %	1 %	4 %
China Mainland	21	1	22
Rest of World	16	1	17
Total net revenue	7 %	1 %	8 %
Comparable sales[1]			
Americas	(2)%	1 %	(1)%
China Mainland	7	1	8
Rest of World	6	1	7
Total comparable sales	1 %	— %	1 %

[1] Comparable sales includes comparable company-operated store and e-commerce net revenue.

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 42% of our full year operating profit during the fourth quarter of 2024.

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 Quarter		
	2025	2024	Year over year change
		(In thousands)	
Total cash provided by (used in):			
Operating activities	$ (118,954)	$ 127,524	$ (246,478)
Investing activities	(106,842)	(131,537)	24,695
Financing activities	(467,974)	(328,628)	(139,346)
Effect of foreign currency exchange rate changes on cash and cash equivalents	34,706	(10,658)	45,364
Decrease in cash and cash equivalents	$ (659,064)	$ (343,299)	$ (315,765)

Operating Activities

Net income decreased $6.8 million. The decrease in cash provided by operating activities was primarily as a result of a decrease in cash flows from changes in operating assets and liabilities of $208.5 million, primarily driven by changes in income taxes, inventories, and accrued liabilities, partially offset by changes in accrued compensation, accounts payable, and other assets. The decrease in cash provided by operating activities was also a result of lower cash inflows related to derivatives, partially offset by increased depreciation.

Investing Activities

The decrease in cash used in investing activities was primarily due to the settlement of net investment hedges, partially offset by increased capital expenditures, and an increase in other investing activities. The increase in capital expenditures was primarily due to an increase in supply chain infrastructure, company-operated stores expenditures in North America and e-commerce-related technology systems, partially offset by a decrease in corporate 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 quarter of 2025, we repurchased 1.4 million shares at a total cost including commissions and excise taxes of $434.4 million. During the first quarter of 2024, we repurchased 0.8 million shares at a total cost including commissions and excise taxes of $299.5 million. The common stock was repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors.

Liquidity Outlook

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

The following table includes certain measures of our liquidity:

	May 4, 2025
	(In thousands)
Cash and cash equivalents	$ 1,325,272
Working capital[(1)] excluding cash and cash equivalents	684,860
Capacity under committed revolving credit facility	393,416

(1) Working capital is calculated as current assets of $3.6 billion less current liabilities of $1.6 billion.

We enter into standby letters of credit and guarantee to secure certain of our obligations, including leases, taxes, and duties. As of May 4, 2025, letters of credit and guarantee totaling $13.5 million had been issued, including $6.6 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. As of May 4, 2025, no borrowings were outstanding under this facility other than letters of credit and guarantee of $6.6 million. Further information regarding our credit facilities and associated covenants is outlined in Note 3. 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 May 4, 2025 was $1.7 billion, an increase of 23% from April 28, 2024.

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 2024 Annual Report on Form 10-K filed with the SEC on March 27, 2025.

Operating Locations

Our company-operated stores by market as of May 4, 2025 and February 2, 2025 are summarized in the table below.

Number of company-operated stores by market	May 4, 2025	February 2, 2025
United States	373	374
Canada	71	71
Mexico	18	17
Americas	462	462
China Mainland	154	151
Australia	33	33
South Korea	20	20
Hong Kong SAR	10	10
Japan	10	10
New Zealand	8	8
Taiwan	8	8
Singapore	7	7
Malaysia	5	5
Thailand	4	4
Macau SAR	2	2
APAC	107	107
United Kingdom	19	19
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	47
Total company-operated stores	770	767

Retail locations operated by third parties by market as of May 4, 2025 and February 2, 2025 are summarized in the table below.

Number of retail locations operated by third parties by market	May 4, 2025	February 2, 2025
United Arab Emirates	10	10
Saudi Arabia	9	8
Israel	8	7
Kuwait	4	4
Qatar	4	4
Bahrain	1	1
Denmark	1	—
Total locations operated by third parties under license and supply arrangements	37	34

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 $21.3 million lower in the first quarter of 2025 in comparison to the first quarter of 2024.

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. During the first quarter of 2025, the impact to other comprehensive loss of translation of our Canadian subsidiaries was a reduction in the loss of $52.9 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 May 4, 2025, 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 May 4, 2025 was a liability of $1.1 million. As of May 4, 2025, 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 $21.9 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 7. 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 May 4, 2025, there were no borrowings outstanding under this facility other than letters of credit and guarantee of $6.6 million. 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 May 4, 2025, we held cash and cash equivalents of $1.3 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 pressures, such as rising product, transportation, labor and raw material costs, may adversely affect our operating results, particularly if we are unable to increase selling prices or offset higher costs through efficiencies. Inflation could also reduce consumer discretionary spending and negatively impact demand for our products.

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 May 4, 2025. Based on that evaluation, our principal executive officer and principal financial and accounting officer concluded that, as of May 4, 2025, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended May 4, 2025 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.