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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended January 29, 2023**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number 001-33608**

# lululemon athletica inc.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **20-3842867** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification Number)** |

**1818 Cornwall Avenue, Vancouver, British Columbia V6J 1C7**

*(Address of principal executive offices)*

**Registrant's telephone number, including area code: (604) 732-6124**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.005 per share | LULU | Nasdaq Global Select Market |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☑ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the voting stock held by non-affiliates of the registrant on July 29, 2022 was approximately $33,762,000,000. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the Nasdaq Global Select Market on July 29, 2022. For purposes of determining this amount only, the registrant has defined affiliates as including the executive officers, directors, and owners of 10% or more of the outstanding voting stock of the registrant on July 29, 2022.

*Common Stock:* At March 22, 2023 there were 122,048,680 shares of the registrant's common stock, par value $0.005 per share, outstanding.

*Exchangeable and Special Voting Shares:* At March 22, 2023, there were outstanding 5,115,961 exchangeable shares of Lulu Canadian Holding, Inc., a wholly-owned subsidiary of the registrant. Exchangeable shares are exchangeable for an equal number of shares of the registrant's common stock.

In addition, at March 22, 2023, the registrant had outstanding 5,115,961 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant's common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2023 Annual Meeting of Stockholders have been incorporated by reference into Part III of this Annual Report on Form 10-K.

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# PART I

## Special Note Regarding Forward-Looking Statements

This report and some documents incorporated herein by reference include estimates, projections, statements relating to our business plans, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We use words such as "anticipates," "believes," "estimates," "may," "intends," "expects," and similar expressions to identify forward-looking statements. Discussions containing forward-looking statements may be found in the material set forth under "Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations", and in other sections of the report. All forward-looking statements are inherently uncertain as they are based on our expectations and assumptions concerning future events. Any or all of our forward-looking statements in this report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, and financial needs. They may be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including the risks, uncertainties and assumptions described in the section entitled "Item 1A. Risk Factors" and elsewhere in this report. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur as contemplated, and our actual results could differ materially from those anticipated or implied by the forward-looking statements. All forward-looking statements in this report are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

This annual report includes website addresses and references to additional materials found on those websites. These websites and materials are not incorporated by reference herein.

## *ITEM 1. BUSINESS*

### General

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."

In this Annual Report on Form 10-K for the fiscal year ended January 29, 2023, lululemon athletica inc. (together with its subsidiaries) is referred to as "lululemon," "the Company," "we," "us," or "our." We refer to the fiscal year ended January 29, 2023 as "2022" and the fiscal year ended January 30, 2022 as "2021." Our next fiscal year ends on January 28, 2024 and is referred to as "2023."

Components of this discussion of our business include:



### Our Products

We offer a comprehensive line of performance apparel, footwear, and accessories marketed under the lululemon brand. Our apparel assortment includes items such as pants, shorts, tops, and jackets designed for a healthy lifestyle including athletic activities such as yoga, running, training, and most other activities. We also offer apparel designed for being on the move and fitness-inspired accessories. We expect to continue to broaden our merchandise offerings through expansion across these product areas.

Our design and development team continues to source technically advanced fabrics, with new feel and fit, and craft innovative functional features for our products. Through our vertical retail strategy and direct connection with our customers, whom we refer to as guests, we are able to collect feedback and incorporate unique performance and fashion needs into our design process. In this way, we believe we are better positioned to address the needs of our guests, helping us advance our product lines and differentiate us from the competition.

To help build our community of guests, and as part of our membership program, we offer in-home connected fitness and associated content subscriptions through lululemon Studio.

**Our Market**

Our guests seek a combination of performance, style, and sensation in their athletic apparel, choosing products that allow them to feel great however they exercise. Since consumer purchase decisions are driven by both an actual need for functional products and a desire to live a particular lifestyle, we believe the credibility of our brand and the authentic community experiences we offer expand our potential market beyond just athletes to those who pursue an active, mindful, and balanced life.

Although our largest customer group is made up of guests who shop our women's range, representing 65% of our 2022 net revenue, we also design a comprehensive men's line and have a targeted strategy in place. Revenue from our men's range is growing as more guests discover the technical rigor and premium quality of our men's products, and are attracted by our distinctive brand.

North America is our largest market by geographical split, representing 84% of our 2022 net revenue. We are expanding internationally across the People's Republic of China ("PRC"), the rest of Asia Pacific, and Europe. We are expanding in these regions via a decentralized model, allowing for local community insight and consumer preference to inform our strategic expansion.

**Our Segments**

We primarily conduct our business through two channels: company-operated stores and direct to consumer.

We also operate outlets, serve certain wholesale accounts, have license and supply arrangements, sell repurchased product through our "Like New" recommerce program, have temporary locations, and sell connected hardware and associated subscriptions through lululemon Studio. The financial results of these operations are disclosed in Other.

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***Company-Operated Stores***

At the end of 2022, we operated 655 stores in 18 countries across the globe. In addition to being a venue to sell our products, our stores give us a direct connection to our guest, which we view as a valuable tool in helping us build our brand and product line. Our retail stores are located primarily on street locations, in lifestyle centers, and in malls.

| Number of company-operated stores by country (market) | January 29, 2023 | January 30, 2022 |
|---|---|---|
| United States | 350 | 324 |
| People's Republic of China[1] | 117 | 86 |
| Canada | 69 | 63 |
| Australia | 32 | 31 |
| United Kingdom | 20 | 17 |
| South Korea | 16 | 12 |
| Germany | 10 | 9 |
| New Zealand | 8 | 7 |
| Singapore | 8 | 6 |
| Japan | 7 | 6 |
| France | 4 | 3 |
| Ireland | 4 | 3 |
| Spain | 3 | — |
| Malaysia | 2 | 2 |
| Sweden | 2 | 2 |
| Netherlands | 1 | 1 |
| Norway | 1 | 1 |
| Switzerland | 1 | 1 |
| Total company-operated stores | 655 | 574 |

[1] PRC included 99 stores in China Mainland, nine stores in Hong Kong Special Administrative Region, seven stores in Taiwan, and two stores in Macao Special Administration Region, as of January 29, 2023. As of January 30, 2022, there were 70 stores in China Mainland, nine stores in Hong Kong Special Administrative Region, five stores in Taiwan, and two stores in Macao Special Administration Region.

Retail locations operated by third parties under license and supply arrangements are not included in the above table. As of January 29, 2023, there were 26 licensed locations, including 12 in Mexico, seven in the United Arab Emirates, three in Qatar, three in Saudi Arabia, and one in Kuwait.

We opened 81 net new company-operated stores in 2022, including 49 net new stores outside of North America.

We perform ongoing evaluations of our portfolio of company-operated store locations. During 2022, we closed six of our lululemon branded company-operated stores. As we continue our evaluations we may, in the future, close or relocate additional company-operated stores.

In 2023, we believe our new store growth will come primarily from company-operated store openings in the United States and the PRC. We expect our real estate strategy over the next several years to not only consist of opening new company-operated stores, but also to include overall square footage growth through store expansions and relocations.

We believe that our innovative retail concept and guest experience contribute to the success of our stores. 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. Our sales per square foot was $1,580 and $1,443 for 2022 and 2021, respectively.

Sales per square foot is calculated using total net revenue from all company-operated stores divided by the average square footage of the stores 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, storage areas, and administrative space used by the store employees. It excludes any space used for non-retail related activities. The sales per square foot metric we report may not be equivalent to similarly titled metrics reported by other companies.

***Direct to Consumer***

We believe e-commerce is convenient for our core guest and enhances the image of our brand. Our direct to consumer channel also allows us to reach and serve guests in markets beyond where our physical retail locations are based. We believe this channel is effective in building brand awareness, especially in new markets.

We serve our guests via our e-commerce website www.lululemon.com, other country and region-specific websites, and mobile apps, including mobile apps on in-store devices that allow demand to be fulfilled via our distribution centers or other retail locations.

We continue to evolve and integrate our digital and physical channels in order to enrich our interactions with our guests, and to provide an enhanced omni-channel experience.

***Other***

Our other operations primarily include:

- *Outlets* - We utilize outlets to sell slow moving inventory and inventory from prior seasons at discounted prices. As of January 29, 2023, we operated 39 outlets, with the majority in North America.
- *Wholesale* - We sell to premium wholesale locations that offer an alternative distribution channel that is convenient for our core guest and enhances the image of our brand, including yoga and fitness studios, university campus retailers, and other select partners. We do not intend wholesale to be a significant contributor to overall sales. Instead, we use the channel to build brand awareness, including outside of North America.
- *License and supply arrangements* - We enter into license and supply arrangements from time to time when we believe it will be to our advantage to partner with companies and individuals with significant experience and proven success in certain target markets.

  We have license and supply arrangements with partners in the Middle East and Mexico which grant them the right to operate lululemon branded retail locations in the United Arab Emirates, Kuwait, Qatar, Oman, Bahrain, Saudi Arabia and Mexico. Under these arrangements we supply the partners with lululemon products, training and other support. An extension to the initial term of the agreement for the Middle East was signed in 2020 and it extends the arrangement to December 2024. The initial term of the agreement for Mexico expires in November 2026. As of January 29, 2023, there was also an e-commerce website operated through the license and supply arrangements.
- *Recommerce* - Our recommerce is the sale of repurchased product via our "Like New" program. This program allows guests to exchange their gently used lululemon products for credit, and then those products are verified and quality checked before being resold online at likenew.lululemon.com. We believe this program is a step towards a circular eco-system and achieving our Impact Agenda goals to reduce our environmental footprint.
- *Temporary locations* - Our temporary locations, including pop ups, are typically opened for a short period of time. We believe these retail locations enable us to serve guests during peak shopping periods in markets where we do not ordinarily have a physical location, or enable us to better serve our guest in markets where we see high demand at our existing locations.
- *lululemon Studio* - We offer in-home fitness through an interactive workout platform that allows our guests to subscribe for live and on-demand classes.

**Integrated Marketing**

We have a multi-faceted strategy to build brand awareness, affinity and guest loyalty. This strategy leverages owned and paid channels, our ambassador network, brand partners, events, and content – to drive awareness, consideration, engagement, conversion, and ultimately loyalty and engagement at the global, regional, and local levels.

**Product Design and Development**

Our product design and development efforts are led by a team of researchers, scientists, engineers, and designers. Our team is comprised of athletes and users of our products who embody our design philosophy and dedication to premium quality. Our design and development team identifies trends based on market intelligence and research, proactively seeks the input of our guests and our ambassadors, and broadly seeks inspiration consistent with our goals of function, style, and technical superiority.

As we strive to continue to provide our guests with technically advanced fabrics, our team works closely with our suppliers to incorporate the latest in technical innovation, bringing particular specifications to our products. We partner with independent inspection, verification, and testing companies, who conduct a variety of tests on our fabrics, testing performance characteristics including pilling, shrinkage, abrasion resistance, and colorfastness. We develop proprietary fabrics and collaborate with leading fabric and trims suppliers to manufacture fabrics and trims that we generally seek to protect through agreements, trademarks, and as trade-secrets.

**Sourcing and Manufacturing**

We do not own or operate any manufacturing facilities. We rely on a limited number of suppliers to provide fabrics for, and to produce, our products. The following statistics are based on cost.

We work with a group of approximately 45 vendors that manufacture our products, five of which produced 56% of our products in 2022, with the largest manufacturer producing 15%. During 2022, 39% of our products were manufactured in Vietnam, 14% in Cambodia, 12% in Sri Lanka, 8% in Bangladesh, and 7% in Indonesia, and the remainder in other regions.

We work with a group of approximately 60 suppliers to provide the fabrics for our products. In 2022, 56% of our fabrics were produced by our top five fabric suppliers, with the largest manufacturer producing 21%. During 2022, 43% of our fabrics originated from Taiwan, 19% from China Mainland, 16% from Sri Lanka, and the remainder from other regions.

We also source other raw materials which are used in our products, including items such as content labels, elastics, buttons, clasps, and drawcords from suppliers located predominantly in the Asia Pacific region.

We have developed long-standing relationships with a number of our vendors and take great care to ensure that they share our commitment to quality and ethics. We do not, however, have any long-term contracts with the majority of our suppliers or manufacturing sources for the production and supply of our fabrics and garments, and we compete with other companies for fabrics, raw materials, and production. We require that all of our manufacturers adhere to our Vendor Code of Ethics regarding social and environmental sustainability practices. Our product quality and sustainability teams closely assess and monitor each supplier's compliance with applicable laws and our Vendor Code of Ethics, including by partnering with leading inspection and verification firms.

**Distribution Facilities**

We operate and distribute finished products from our distribution facilities in the United States, Canada, and Australia. We own our distribution center in Columbus, Ohio, and lease our other distribution facilities. We also utilize third-party logistics providers to warehouse and distribute finished products from their warehouse locations in the United States, the PRC, and the Netherlands. We regularly evaluate our distribution infrastructure and consolidate or expand our distribution capacity as we believe appropriate for our operations and to meet anticipated needs.

**Competition**

Competition in the athletic apparel industry is based principally on brand image and recognition as well as product quality, innovation, style, distribution, and price. We believe we successfully compete on the basis of our premium brand image and our technical product innovation. We also believe our ability to introduce new product innovations, combine function and fashion, and connect through in-store, online, and community experiences sets us apart from our competition. In addition, we believe our vertical retail distribution strategy and community-based marketing differentiates us further, allowing us to more effectively control our brand image and connect with our guest.

The market for athletic apparel is highly competitive. It includes increasing competition from established companies that are expanding their production and marketing of performance products, as well as from frequent new entrants to the market. We are in direct competition with wholesalers and direct sellers of athletic apparel and footwear, such as Nike, Inc., adidas AG, PUMA, Under Armour, Inc, and Columbia Sportswear Company. We also compete with retailers who have expanded to include women's athletic apparel including The Gap, Inc. (including the Athleta brand), Victoria's Secret with its sport and lounge offering, and Urban Outfitters, Inc.

**Seasonality**

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. As a result, a substantial portion of our operating profits are typically generated in the fourth quarter of our fiscal year. For example, we generated approximately 44% of our full year operating profit during the fourth quarter of 2021. Our operating profits in 2022 were not weighted towards our fourth quarter primarily due to the impairment of goodwill and other assets recognized in relation to our lululemon Studio business unit during that quarter. We generated approximately 24% of our full year operating profit during the fourth quarter of 2022. Excluding the impairment of goodwill and other assets recognized in relation to lululemon Studio (formerly MIRROR), we generated approximately 44% of our full year operating profit during the fourth quarter of fiscal 2022.

**Human Capital**

Our Impact Agenda sets out our social and environmental goals, commitments, and strategy across three pillars - Be Well, Be Planet, and Be Human. Details of our Impact Agenda and corresponding Impact Report can be found on our website (https://corporate.lululemon.com/our-impact).

The Be Human pillar of our Impact Agenda sets out our focus areas with respect to our human capital, including our employees and broader community:

- advancing a culture of Inclusion, Diversity, Equity, and Action (“IDEA”);
- empowering our employees through whole-person opportunities; and
- supporting the well-being of the people who make our products in our supply chain.

***Advancing a culture of Inclusion, Diversity, Equity and Action***

We continually endeavor to create an environment that is equitable, inclusive, and fosters personal growth.

Diversity and inclusion are key components of our culture and are fundamental to achieving our strategic priorities and future vision. The diversity of our teams and working in an inclusive culture enables increased employee engagement, better decision making, greater adaptability, creativity, and a deeper understanding of the communities we serve. We are proud that as of January 29, 2023, approximately 55% of our board of directors, 65% of our senior executive leadership team, and 45% of our vice presidents and above are women, while approximately 75% of our overall workforce are women.[1]

We measure the current state of diverse representation and organizational inclusion health through an annual voluntary survey.[2] In 2022, the participation rate was approximately 70%. Our overall goal is to reflect the racial diversity[3] of the communities we serve and operate in.

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[1] While we track male and female genders, we acknowledge this is not fully encompassing of all gender identities.

[2] The voluntary demographic survey results presented above relate to all of our employees in North America, Europe, Australia, and New Zealand.

[3] "Racial diversity" is used to measure the non-white population.

We seek to maintain 100% gender pay equity within our entire global employee population, meaning equal pay for equal work across genders, by geography. We have achieved full pay equity, including gender and race, in the United States. We follow local laws and regulations and where we are able to collect the data necessary to confirm complete pay equity, we do so.

We offer all employees IDEA education, training, and guided conversations on a variety of topics, including anti-racism, anti-discrimination, and inclusive leadership behaviors. We have established People Networks, which are employee resource groups that represent employees who have marginalized and historically underrepresented identities. We see significant engagement in IDEA education and training across our global employee base. We aim to foster a culture of inclusion by making IDEA part of our everyday conversation, and frequently review our policies, programs, and practices to identify ways to be more inclusive and equitable.

Inclusive in our Impact Agenda is a goal to invest a total of $75.0 million to advance equity in well-being by 2025. As of January 29, 2023, we have invested a total of $29.4 million[4] towards this goal.

***Empowering our employees through whole-person opportunities***

We believe each of our approximately 34,000 people is key to the success of our business. We strive to foster a distinctive culture rooted in our core values that attracts and retains passionate and motivated employees who are driven to achieve personal and professional goals. We believe our people succeed because we create an environment that fosters growth and is diverse and equitable.

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We assess our performance and identify opportunities for improvement through an annual employee engagement survey. In 2022, the participation rate was approximately 83% and our employee engagement score exceeded the retail industry average.[5] Our engagement score suggests our people are proud to work for lululemon, they are motivated to contribute to work that aligns with their purpose, and they recommend lululemon as a great place to work.

We understand that health and wealth programs need to offer choice at all stages of life. Our current offerings support our goal of becoming the number one place where people come to develop and grow as inclusive leaders. These offerings include, among other things:

- Competitive compensation which rewards exceptional performance;
- A Fund your Future program for eligible employees which offers partial contribution matches to a pension plan and employee share purchase plan;
- An annual paid VALUES (Volunteer, Awareness, Life, Unity, Empowerment, Support) Day, competitive paid time off, and sick leave;

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[4] We have contributed $29.4 million to lululemon's Centre for Social Impact, $21.2 million of which has been contributed directly to social impact organizations. The remaining $8.2 million includes $6.0 million toward a Donor-Advised-Fund to be advised for future grantmaking as well as operational costs.

[5] Based on an industry benchmark provided by the third party that administers this survey to our employees.

- An employee discount program, which includes a lifetime discount to celebrate the contribution of our long-tenured employees to keep them within our collective, even when they have moved on to pursue goals outside of lululemon;
- Reimbursement programs which reward physical activity;
- A parenthood program which is a gender-neutral benefit that provides all eligible employees up to six months of paid leave;
- An employee assistance program which provides free confidential support to all our employees and their families in a variety of areas from mental well-being to financial services to advice for new parents; and
- Training and development of all of our employees including, but not limited to, mentorship programs, IDEA internships, leadership development, vision and goals, and coaching.

***Supporting the well-being of the people who make our products in our supply chain***

We work with suppliers who share our values and collaborate as partners to uphold robust standards, address systemic challenges, and improve the well-being of people who make our products.

Our Vendor Code of Ethics outlines our commitment to respect human and labor rights, and to promote safe and fair working conditions for people in our supply chain. The code is based on international standards for workers' rights with regard to their employment, wages and working hours, occupational health and safety, access to confidential grievance mechanisms without retaliation, and environmental protection. Our finished goods and mill suppliers are assessed against the Vendor Code of Ethics prior to forming a business relationship, and regularly thereafter; we work with factories that can uphold our strict requirements.

Our Foreign Migrant Worker Standard outlines our expectations with respect to foreign migrant workers. This program helps to raise standards and build shared approaches that benefit garment workers.

**Intellectual Property**

We have trademark rights on many of our products and believe having distinctive marks that are readily identifiable is an important factor in building our brand image and in distinguishing our products from the products of others. We consider our lululemon and wave design trademarks to be among our most valuable assets. In addition, we own many other trademarks for the names of several of our brands, slogans, fabrics and products. We own registered and pending U.S. and foreign utility and design patents, industrial designs in Canada, and registered community designs in Europe that protect our product innovations, distinctive apparel, and accessory designs.

**Securities and Exchange Commission Filings**

Our website address is www.lululemon.com. We provide free access to various reports that we file with, or furnish to, the United States Securities and Exchange Commission, or the SEC, through our website, as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports. Our SEC reports can also be accessed through the SEC's website at www.sec.gov. Also available on our website are printable versions of our Global Code of Business Conduct and Ethics and charters of the standing committees of our board of directors. Information on our website does not constitute part of this annual report on Form 10-K or any other report we file or furnish with the SEC.

***ITEM 1A. RISK FACTORS***

*In addition to the other information contained in this Form 10-K, the following risk factors should be considered in evaluating our business. Our business, financial condition, or results of operations could be materially adversely affected as a result of any of these risks.*

**Risks related to our business and industry**

***Our success depends on our ability to maintain the value and reputation of our brand.***

The lululemon name is integral to our business as well as to the implementation of our expansion strategies. Maintaining, promoting, and positioning our brand will depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high quality product, and guest experience. We rely on social media, as one of our marketing strategies, to have a positive impact on both our brand value and reputation. Our brand and reputation could be adversely affected if we fail to achieve these objectives, if our public image was to be tarnished by negative publicity, which could be amplified by social media, if we fail to deliver innovative and high quality products acceptable to our guests, or if we face or mishandle a product recall. Our reputation could also be impacted by adverse publicity, whether or not valid, regarding allegations that we, or persons associated with us or formerly associated with us, have violated applicable laws or regulations, including but not limited to those related to safety, employment, discrimination, harassment, whistle-blowing, privacy, corporate citizenship, improper business practices, or cybersecurity. Certain activities on the part of stakeholders, including nongovernmental organizations and governmental institutions, could cause reputational damage, distract senior management, and disrupt our business. Additionally, while we devote considerable effort and resources to protecting our intellectual property, if these efforts are not successful the value of our brand may be harmed. Any harm to our brand and reputation could have a material adverse effect on our financial condition.

***Changes in consumer shopping preferences, and shifts in distribution channels could materially impact our results of operations.***

We sell our products through a variety of channels, with a significant portion through traditional brick-and-mortar retail channels. As strong e-commerce channels emerge and develop, we are evolving towards an omni-channel approach to support the shopping behavior of our guests. This involves country and region-specific websites, social media, product notification emails, mobile apps, including mobile apps on in-store devices that allow demand to be fulfilled via our distribution centers, and online order fulfillment through stores. The diversion of sales from our company-operated stores could adversely impact our return on investment and could lead to impairment charges and store closures, including lease exit costs. We could have difficulty in recreating the in-store experience through direct channels. Our failure to successfully integrate our digital and physical channels and respond to these risks might adversely impact our business and results of operations, as well as damage our reputation and brands.

***If any of our products have manufacturing or design defects or are otherwise unacceptable to us or our guests, our business could be harmed.***

We have occasionally received, and may in the future receive, shipments of products that fail to comply with our technical specifications or that fail to conform to our quality control standards. We have also received, and may in the future receive, products that are otherwise unacceptable to us or our guests. Under these circumstances, unless we are able to obtain replacement products in a timely manner, we risk the loss of net revenue resulting from the inability to sell those products and related increased administrative and shipping costs. Additionally, if the unacceptability of our products is not discovered until after such products are sold, our guests could lose confidence in our products or we could face a product recall and our results of operations could suffer and our business, reputation, and brand could be harmed.

Our lululemon Studio subsidiary offers complex hardware and software products and services that can be affected by design and manufacturing defects. Sophisticated operating system software and applications, such as those offered by lululemon Studio, often have issues that can unexpectedly interfere with the intended operation of hardware or software products. Defects may also exist in components and products that we source from third parties. Any defects could make our products and services unsafe and create a risk of environmental or property damage or personal injury and we may become subject to the hazards and uncertainties of product liability claims and related litigation. The occurrence of real or perceived defects in any of our products, now or in the future, could result in additional negative publicity, regulatory investigations, or lawsuits filed against us, particularly if guests or others who use or purchase our lululemon Studio products are injured. Even if injuries are not the result of any defects, if they are perceived to be, we may incur expenses to defend or settle any claims and our brand and reputation may be harmed.

***We operate in a highly competitive market and our competitors may compete more effectively than we can, resulting in a loss of our market share and a decrease in our net revenue and profitability.***

The market for technical athletic apparel is highly competitive. Competition may result in pricing pressures, reduced profit margins or lost market share, or a failure to grow or maintain our market share, any of which could substantially harm our business and results of operations. We compete directly against wholesalers and direct retailers of athletic apparel, including large, diversified apparel companies with substantial market share, and established companies expanding their production and marketing of technical athletic apparel, as well as against retailers specifically focused on women's athletic apparel. We also face competition from wholesalers and direct retailers of traditional commodity athletic apparel, such as cotton T-shirts and sweatshirts. Many of our competitors are large apparel and sporting goods companies with strong worldwide brand recognition. Because of the fragmented nature of the industry, we also compete with other apparel sellers, including those specializing in yoga apparel and other activewear. Many of our competitors have significant competitive advantages, including longer operating histories, larger and broader customer bases, more established relationships with a broader set of suppliers, greater brand recognition and greater financial, research and development, store development, marketing, distribution, and other resources than we do. Our competitors may be able to achieve and maintain brand awareness and market share more quickly and effectively than we can.

We may fail to acknowledge or react appropriately to the entry or growth of a viable competitor or disruptive force, and could struggle to continue to innovate, differentiate, and sustain the growth of our brand. The increasing dominance and presence of our brand may also drive guests towards alternative emerging competitors.

In addition, because we hold limited patents and exclusive intellectual property rights in the technology, fabrics or processes underlying our products, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrication techniques, and styling similar to our products.

***Our sales and profitability may decline as a result of increasing costs and decreasing selling prices.***

Our business is subject to significant pressure on costs and pricing caused by many factors, including intense competition, constrained sourcing capacity and related inflationary pressure, the availability of qualified labor and wage inflation, pressure from consumers to reduce the prices we charge for our products, and changes in consumer demand. These and other factors have, and may in the future, cause us to experience increased costs, reduce our prices to consumers or experience reduced sales in response to increased prices, any of which could cause our operating margin to decline if we are unable to offset these factors with reductions in operating costs and could have a material adverse effect on our financial condition, operating results, and cash flows.

***If we are unable to anticipate consumer preferences and successfully develop and introduce new, innovative, and differentiated products, we may not be able to maintain or increase our sales and profitability.***

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. If we are unable to introduce new products or novel technologies in a timely manner or our new products or technologies are not accepted by our guests, our competitors may introduce similar products in a more timely fashion, which could hurt our goal to be viewed as a leader in technical athletic apparel innovation. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of athletic apparel or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Our failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels. We may not have relevant data to effectively understand and react to consumer preferences and expectations. Even if we are successful in anticipating consumer preferences, our ability to adequately react to and address those preferences will in part depend upon our continued ability to develop and introduce innovative, high-quality products. Our failure to effectively introduce new products that are accepted by consumers could result in a decrease in net revenue and excess inventory levels, which could have a material adverse effect on our financial condition.

***Our results of operations could be materially harmed if we are unable to accurately forecast guest demand for our products.***

To ensure adequate inventory supply, we must forecast inventory needs and place orders with our manufacturers based on our estimates of future demand for particular products. Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in guest demand for our products or for products of our competitors, our failure to accurately forecast guest acceptance of new products, product introductions by competitors, unanticipated changes in general market conditions (for example, because of global economic concerns such as inflation, an economic downturn, or delays and disruptions resulting from local and international shipping delays and labor shortages), and weakening of economic conditions or consumer confidence in future economic conditions (for example, because of inflationary pressures, or because of sanctions, restrictions, and other responses related to geopolitical events). If we fail to accurately forecast guest demand, we may experience excess inventory levels or a shortage of products available for sale in our stores or for delivery to guests.

Inventory levels in excess of guest demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margin to suffer and could impair the strength and exclusivity of our brand. Conversely, if we underestimate guest demand for our products, our manufacturers may not be able to deliver products to meet our requirements, and this could result in damage to our reputation and guest relationships.

***Our limited operating experience and limited brand recognition in new international markets and new product categories may limit our expansion and cause our business and growth to suffer.***

Our future growth depends in part on our expansion efforts outside of North America. We have limited experience with regulatory environments and market practices internationally, and we may not be able to penetrate or successfully operate in any new market. In connection with our expansion efforts we may encounter obstacles we did not face in North America, including cultural and linguistic differences, differences in regulatory environments, labor practices and market practices, difficulties in keeping abreast of market, business and technical developments, and international guests' tastes and preferences. We may also encounter difficulty expanding into new international markets because of limited brand recognition leading to delayed acceptance of our technical athletic apparel by guests in these new international markets. Our failure to develop our business in new international markets or disappointing growth outside of existing markets could harm our business and results of operations.

In addition, our continued growth depends in part on our ability to expand our product categories and introduce new product lines. We may not be able to successfully manage integration of new product categories or the new product lines with our existing products. Selling new product categories and lines will require our management to learn different strategies in order to be successful. We may be unsuccessful in entering new product categories and developing or launching new product lines, which requires management of new suppliers, potential new customers, and new business models. Our management may not have the experience of selling in these new product categories and we may not be able to grow our business as planned. For example, in July 2020, we acquired MIRROR, an in-home fitness company with an interactive workout platform that features live and on-demand classes. If we are unable to effectively and successfully further develop these and future new product categories and lines, we may not be able to increase or maintain our sales and our operating margins may be adversely affected. This may also divert the attention of management and cause additional expenses.

We may, from time to time, evaluate and pursue other strategic investments or acquisitions. These involve various inherent risks and the benefits sought may not be realized.

***If we continue to grow at a rapid pace, we may not be able to effectively manage our growth and the increased complexity of our business and as a result our brand image and financial performance may suffer.***

If our operations continue to grow at a rapid pace, we may experience difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, as well as delays in production and shipments, as our products are subject to risks associated with overseas sourcing and manufacturing. We could be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes and technology, and to obtain more space for our expanding workforce. This expansion could increase the strain on our resources, and we could experience operating difficulties, including difficulties in hiring, training, and managing an increasing number of employees. These difficulties could result in the erosion of our brand image which could have a material adverse effect on our financial condition.

***We are subject to risks associated with leasing retail and distribution space subject to long-term and non-cancelable leases.***

We lease the majority of our stores under operating leases and our inability to secure appropriate real estate or lease terms could impact our ability to grow. 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. We generally cannot cancel these leases at our option. If an existing or new store is not profitable, and we decide to close it, as we have done in the past and may do in the future, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Similarly, we may be committed to perform our obligations under the applicable leases even if current locations of our stores become unattractive as demographic patterns change. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could require us to close stores in desirable locations.

We also lease the majority of our distribution centers and our inability to secure appropriate real estate or lease terms could impact our ability to deliver our products to the market.

***Our future success is substantially dependent on the service of our senior management and other key employees.***

The performance of our senior management team and other key employees may not meet our needs and expectations. Also, the loss of services of any of these key employees, or any negative public perception with respect to these individuals, may be disruptive to, or cause uncertainty in, our business and could have a negative impact on our ability to manage and grow our business effectively. Such disruption could have a material adverse impact on our financial performance, financial condition, and the market price of our stock.

If we are unable to successfully maintain and evolve our unique corporate culture, offer competitive compensation and benefits, and a desirable work model, we may be unable to attract and retain highly qualified individuals to support our business and continued growth. Our work model may not meet the needs and expectations of our employees and may not be perceived as favorable compared to other companies. We also face risks related to employee engagement and productivity.

***Our business is affected by seasonality, which could result in fluctuations in our operating results.***

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, while our operating expenses are more equally distributed throughout the year. This seasonality, along with other factors that are beyond our control, including weather conditions and the effects of climate change, could adversely affect our business and cause our results of operations to fluctuate.

**Risks related to our supply chain**

***Disruptions of our supply chain could have a material adverse effect on our operating and financial results.***

Disruption of our supply chain capabilities due to trade restrictions, political instability, severe weather, natural disasters, public health crises, war, terrorism, product recalls, labor supply shortages or stoppages, the financial or operational instability of key suppliers and carriers, changes in diplomatic or trade relationships (including any sanctions, restrictions, and other responses such as those related to current geopolitical events), or other reasons could impair our ability to distribute our products. To the extent we are unable to mitigate the likelihood or potential impact of such events, there could be a material adverse effect on our operating and financial results.

***We rely on international suppliers and any significant disruption to our supply chain could impair our ability to procure or distribute our products.***

We do not manufacture our products or raw materials and rely on suppliers and manufacturers located predominantly in the Asia Pacific region, including the PRC. We also source other materials used in our products, including items such as content labels, elastics, buttons, clasps, and drawcords, from suppliers located primarily in this region. Based on cost, during 2022:

- Approximately 39% of our products were manufactured in Vietnam, 14% in Cambodia, 12% in Sri Lanka, 8% in Bangladesh, and 7% in Indonesia, and the remainder in other regions.
- Approximately 43% of the fabric used in our products originated from Taiwan, 19% from China Mainland, 16% from Sri Lanka, and the remainder from other regions.

The entire apparel industry, including our company, could face supply chain challenges as a result of the impacts of global public health crises, political instability, inflationary pressures, macroeconomic conditions, and other factors, including reduced freight availability and increased costs, port disruption, manufacturing facility closures, and related labor shortages and other supply chain disruptions.

Our supply chain capabilities may be disrupted due to these or other factors, such as severe weather, natural disasters, war or other military conflicts, terrorism, labor supply shortages or stoppages, the financial or operational instability of key suppliers or the countries in which they operate, or changes in diplomatic or trade relationships (including any sanctions, restrictions, and other responses to geopolitical events). Any significant disruption in our supply chain capabilities could impair our ability to procure or distribute our products, which would adversely affect our business and results of operations.

***A relatively small number of vendors supply and manufacture a significant portion of our products, and losing one or more of these vendors could adversely affect our business and results of operations.***

Many of the specialty fabrics used in our products are technically advanced textile products developed and manufactured by third parties and may be available, in the short-term, from only one or a limited number of sources. We have no long-term contracts with any of our suppliers or manufacturers for the production and supply of our raw materials and products, and we compete with other companies for fabrics, other raw materials, and production. During 2022, we worked with approximately 45 vendors to manufacture our products and 60 suppliers to provide the fabric for our products. Based on cost, during 2022:

- Approximately 56% of our products were manufactured by our top five vendors, the largest of which produced approximately 15% of our products; and

• Approximately 56% of our fabrics were produced by our top five fabric suppliers, the largest of which produced approximately 21% of fabric used.

We have experienced, and may in the future experience, a significant disruption in the supply of fabrics or raw materials and may be unable to locate alternative suppliers of comparable quality at an acceptable price, or at all. In addition, if we experience significant increased demand, or if we need to replace an existing supplier or manufacturer, we may be unable to locate additional supplies of fabrics or raw materials or additional manufacturing capacity on terms that are acceptable to us, or at all, or we may be unable to locate any supplier or manufacturer with sufficient capacity to meet our requirements or fill our orders in a timely manner. Identifying a suitable supplier is an involved process that requires us to become satisfied with its quality control, responsiveness and service, financial stability, and labor and other ethical practices. Even if we are able to expand existing or find new manufacturing or fabric sources, we may encounter delays in production and added costs as a result of the time it takes to train our suppliers and manufacturers in our methods, products, and quality control standards.

Our supply of fabric or manufacture of our products could be disrupted or delayed by economic or political or global health conditions, and the related government and private sector responsive actions such as closures, restrictions on product shipments, and travel restrictions. Delays related to supplier changes could also arise due to an increase in shipping times if new suppliers are located farther away from our markets or from other participants in our supply chain. In addition, freight capacity issues continue to persist worldwide as there is much greater demand for shipping and reduced capacity and equipment. Any delays, interruption, or increased costs in the supply of fabric or manufacture of our products could have an adverse effect on our ability to meet guest demand for our products and result in lower net revenue and income from operations both in the short and long term.

***Our business could be harmed if our suppliers and manufacturers do not comply with our Vendor Code of Ethics or applicable laws.***

While we require our suppliers and manufacturers to comply with our Vendor Code of Ethics, which includes labor, health and safety, and environment standards, we do not control their operations. If suppliers or contractors do not comply with these standards or applicable laws or there is negative publicity regarding the production methods of any of our suppliers or manufacturers, even if unfounded or not specific to our supply chain, our reputation and sales could be adversely affected, we could be subject to legal liability, or could cause us to contract with alternative suppliers or manufacturing sources.

***The fluctuating cost of raw materials could increase our cost of goods sold.***

The fabrics used to make our products include synthetic fabrics whose raw materials include petroleum-based products. Our products also include silver and natural fibers, including cotton. Our costs for raw materials are affected by, among other things, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries, and other factors that are generally unpredictable and beyond our control. Any and all of these factors may be exacerbated by global climate change. In addition, political instability, trade relations, sanctions, inflationary pressure, or other geopolitical or economic conditions could cause raw material costs to increase and have an adverse effect on our future margins. Increases in the cost of raw materials, including petroleum or the prices we pay for silver and our cotton yarn and cotton-based textiles, could have a material adverse effect on our cost of goods sold, results of operations, financial condition, and cash flows.

***If we encounter problems with our distribution system, our ability to deliver our products to the market and to meet guest expectations could be harmed.***

We rely on our distribution facilities for substantially all of our product distribution. Our distribution facilities include computer controlled and automated equipment, which means their operations may be subject to a number of risks related to security or computer viruses, the proper operation of software and hardware, electronic or power interruptions, or other system failures. In addition, our operations could also be interrupted by labor difficulties, pandemics, the impacts of climate change, extreme or severe weather conditions or by floods, fires, or other natural disasters near our distribution centers. If we encounter problems with our distribution system, our ability to meet guest expectations, manage inventory, complete sales, and achieve objectives for operating efficiencies could be harmed.

***Increasing labor costs and other factors associated with the production of our products in South Asia and South East Asia could increase the costs to produce our products.***

A significant portion of our products are produced in South Asia and South East Asia and increases in the costs of labor and other costs of doing business in the countries in this area could significantly increase our costs to produce our products and could have a negative impact on our operations and earnings. Factors that could negatively affect our business include labor shortages and increases in labor costs, labor disputes, pandemics, the impacts of climate change, difficulties and additional costs in transporting products manufactured from these countries to our distribution centers and significant revaluation of the currencies used in these countries, which may result in an increase in the cost of producing products. Also, the imposition of trade sanctions or other regulations against products imported by us from, or the loss of "normal trade relations" status with any country in which our products are manufactured, could significantly increase our cost of products and harm our business.

**Risks related to information security and technology**

***We may be unable to safeguard against security breaches which could damage our customer relationships and result in significant legal and financial exposure.***

As part of our normal operations, we receive confidential, proprietary, and personally identifiable information, including credit card information, and information about our customers, our employees, job applicants, and other third parties. Our business employs systems and websites that allow for the storage and transmission of this information. However, despite our safeguards and security processes and protections, security breaches could expose us to a risk of theft or misuse of this information, and could result in litigation and potential liability.

The retail industry, in particular, has been the target of many recent cyber-attacks. We may not have the resources or technical sophistication to be able to anticipate or prevent rapidly evolving types of cyber-attacks. Attacks may be targeted at us, our vendors or customers, or others who have entrusted us with information. In addition, despite taking measures to safeguard our information security and privacy environment from security breaches, our customers and our business could still be exposed to risk. Actual or anticipated attacks may cause us to incur increasing costs including costs to deploy additional personnel and protection technologies, train employees and engage third party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. Measures we implement to protect against cyber-attacks may also have the potential to impact our customers' shopping experience or decrease activity on our websites by making them more difficult to use.

Data and security breaches can also occur as a result of non-technical issues including intentional or inadvertent breach by employees or persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, and damage to our brand and reputation or other harm to our business.

In addition, the increased use of employee-owned devices for communications as well as work-from-home arrangements present additional operational risks to our technology systems, including increased risks of cyber-attacks. Further, like other companies in the retail industry, we have in the past experienced, and we expect to continue to experience, cyber-attacks, including phishing, and other attempts to breach, or gain unauthorized access to, our systems. To date, these attacks have not had a material impact on our operations, but they may have a material impact in the future.

***Privacy and data protection laws increase our compliance burden.***

We are subject to a variety of privacy and data protection laws and regulations that change frequently and have requirements that vary from jurisdiction to jurisdiction. For example, we are subject to significant compliance obligations under privacy laws such as the General Data Privacy Regulation ("GDPR") in the European Union, the Personal Information Protection and Electronic Documents Act (“PIPEDA”) in Canada, the California Consumer Privacy Act ("CCPA") modified by the California Privacy Rights Act (“CPRA”), and the Personal Information Protection Law (“PIPL”) in the PRC. Some privacy laws prohibit the transfer of personal information to certain other jurisdictions. We are subject to privacy and data protection audits or investigations by various government agencies. Our failure to comply with these laws subjects us to potential regulatory enforcement activity, fines, private litigation including class actions, and other costs. Our efforts to comply with privacy laws may complicate our operations and add to our compliance costs. A significant privacy breach or failure or perceived failure by us or our third-party service providers to comply with privacy or data protection laws, regulations, policies or regulatory guidance might have a materially adverse impact on our reputation, business operations and our financial condition or results of operations.

***Disruption of our technology systems or unexpected network interruption could disrupt our business.***

We are increasingly dependent on technology systems and third-parties to operate our e-commerce websites, process transactions, respond to guest inquiries, manage inventory, purchase, sell and ship goods on a timely basis, and maintain cost-efficient operations. The failure of our technology systems to operate properly or effectively, problems with transitioning to upgraded or replacement systems, or difficulty in integrating new systems, could adversely affect our business. In addition, we have e-commerce websites in the United States, Canada, and internationally. Our technology systems, websites, and operations of third parties on whom we rely, may encounter damage or disruption or slowdown caused by a failure to successfully upgrade systems, system failures, viruses, computer "hackers", natural disasters, or other causes. These could cause information, including data related to guest orders, to be lost or delayed which could, especially if the disruption or slowdown occurred during the holiday season, result in delays in the delivery of products to our stores and guests or lost sales, which could reduce demand for our products and cause our sales to decline. The concentration of our primary offices, two of our distribution centers, and a number of our stores along the west coast of North America could amplify the impact of a natural disaster occurring in that area to our business, including to our technology systems. In addition, if changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose guests. We have limited back-up systems and redundancies, and our technology systems and websites have experienced system failures and electrical outages in the past which have disrupted our operations. Any significant disruption in our technology systems or websites could harm our reputation and credibility, and could have a material adverse effect on our business, financial condition, and results of operations.

***Our technology-based systems that give our customers the ability to shop with us online may not function effectively.***

Many of our customers shop with us through our e-commerce websites and mobile apps. Increasingly, customers are using tablets and smart phones to shop online with us and with our competitors and to do comparison shopping. We are increasingly using social media and proprietary mobile apps to interact with our customers and as a means to enhance their shopping experience. Any failure on our part to provide attractive, effective, reliable, user-friendly e-commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers could place us at a competitive disadvantage, result in the loss of e-commerce and other sales, harm our reputation with customers, have a material adverse impact on the growth of our e-commerce business globally and could have a material adverse impact on our business and results of operations.

**Risks related to environmental, social, and governance issues**

***Climate change, and related legislative and regulatory responses to climate change, may adversely impact our business.***

There is increasing concern that a gradual rise in global average temperatures due to increased concentration of carbon dioxide and other greenhouse gases in the atmosphere will cause significant changes in weather patterns around the globe, an increase in the frequency, severity, and duration of extreme weather conditions and natural disasters, and water scarcity and poor water quality. These events could adversely impact the cultivation of cotton, which is a key resource in the production of our products, disrupt the operation of our supply chain and the productivity of our contract manufacturers, increase our production costs, impose capacity restraints and impact the types of apparel products that consumers purchase. These events could also compound adverse economic conditions and impact consumer confidence and discretionary spending. As a result, the effects of climate change could have a long-term adverse impact on our business and results of operations. In many countries, governmental bodies are enacting new or additional legislation and regulations to reduce or mitigate the potential impacts of climate change. If we, our suppliers, or our contract manufacturers are required to comply with these laws and regulations, or if we choose to take voluntary steps to reduce or mitigate our impact on climate change, we may experience increased costs for energy, production, transportation, and raw materials, increased capital expenditures, or increased insurance premiums and deductibles, which could adversely impact our operations. Inconsistency of legislation and regulations among jurisdictions may also affect the costs of compliance with such laws and regulations. Any assessment of the potential impact of future climate change legislation, regulations or industry standards, as well as any international treaties and accords, is uncertain given the wide scope of potential regulatory change in the countries in which we operate.

***Increased scrutiny from investors and others regarding our environmental, social, governance, or sustainability, responsibilities could result in additional costs or risks and adversely impact our reputation, employee retention, and willingness of customers and suppliers to do business with us.***

Investor advocacy groups, certain institutional investors, investment funds, other market participants, stockholders, and customers have focused increasingly on the environmental, social and governance ("ESG") or “sustainability” practices of companies, including those associated with climate change. These parties have placed increased importance on the implications of the social cost of their investments. If our ESG practices do not meet investor or other industry stakeholder expectations and standards, which continue to evolve, our brand, reputation and employee retention may be negatively impacted based on an assessment of our ESG practices. Any sustainability report that we publish or other sustainability disclosures we make may include our policies and practices on a variety of social and ethical matters, including corporate governance, environmental compliance, employee health and safety practices, human capital management, product quality, supply chain management, and workforce inclusion and diversity. It is possible that stakeholders may not be satisfied with our ESG practices or the speed of their adoption. We could also incur additional costs and require additional resources to monitor, report, and comply with various ESG practices. Also, our failure, or perceived failure, to meet the standards included in any sustainability disclosure could negatively impact our reputation, employee retention, and the willingness of our customers and suppliers to do business with us.

**Risks related to global economic, political, and regulatory conditions**

***An economic recession, depression, downturn, periods of inflation, or economic uncertainty in our key markets may adversely affect consumer discretionary spending and demand for our products.***

Many of our products may be considered discretionary items for consumers. Some of the factors that may influence consumer spending on discretionary items include general economic conditions, high levels of unemployment, pandemics, higher consumer debt levels, reductions in net worth based on market declines and uncertainty, home foreclosures and reductions in home values, fluctuating interest and foreign currency exchange rates and credit availability, government austerity measures, fluctuating fuel and other energy costs, fluctuating commodity prices, inflationary pressure, tax rates and general uncertainty regarding the overall future economic environment. Global economic conditions are uncertain and volatile, due in part to the potential impacts of increasing inflation, the potential impacts of geopolitical uncertainties, and any potential sanctions, restrictions or responses to those conditions. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions due to credit constraints and uncertainties about the future. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products. Consumer demand for our products may not reach our targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition.

***Our financial condition could be adversely affected by global or regional health events such as the COVID-19 pandemic and related government, private sector, and individual consumer responsive actions.***

The recent COVID-19 pandemic negatively impacted the global economy, disrupted consumer spending and global supply chains, and created significant volatility and disruption of financial markets. The COVID-19 pandemic and related government, private sector, and individual consumer responsive actions negatively impacted our business operations, store traffic, employee availability, supply chain, financial condition, liquidity, and cash flows.

The occurrence or resurgence of global or regional health events such as the COVID-19 pandemic, and the related governmental, private sector and individual consumer responses, could contribute to a recession, depression, or global economic downturn, reduce store traffic and consumer spending, result in temporary or permanent closures of retail locations, offices, and factories, and could negatively impact the flow of goods. Such events could cause health officials to impose restrictions and recommend precautions to mitigate the health crisis such as the temporary closure of our stores, limitations on the number of guests allowed in our stores at any single time, minimum physical distancing requirements, and limited operating hours. A health event such as the COVID-19 pandemic could also negatively impact our employees, guests, and brand by reducing consumer willingness to visit stores, malls, and lifestyle centers, and employee willingness to staff our stores. A global or regional health event may also cause long-term changes to consumer shopping behavior, preferences and demand for our products that may have a material adverse effect on our business.

A global or regional health event such as the COVID-19 pandemic could significantly and adversely impact our supply chain if the factories that manufacture our products, the distribution centers where we manage our inventory, or the operations of our logistics and other service providers are disrupted, temporarily closed, or experience worker shortages.

***Global economic and political conditions could adversely impact our results of operations.***

Uncertain or challenging global economic and political conditions could impact our performance, including our ability to successfully expand internationally. Global economic conditions could impact levels of consumer spending in the markets in which we operate, which could impact our sales and profitability. Political unrest, such as the turmoil related to current geopolitical events and the related sanctions, restrictions, or other responses, could negatively impact our guests and employees, reduce consumer spending, and adversely impact our business and results of operations.

***We may be unable to source and sell our merchandise profitably or at all if new trade restrictions are imposed or existing restrictions become more burdensome.***

The United States and the countries in which our products are produced or sold have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty, or tariff levels. The results of any audits or related disputes regarding these restrictions or regulations could have an adverse effect on our financial statements for the period or periods for which the applicable final determinations are made. Countries impose, modify, and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards, and customs restrictions, could increase the cost or reduce the supply of products available to us, could increase shipping times, or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition, and results of operations.

We are dependent on international trade agreements and regulations. The countries in which we produce and sell our products could impose or increase tariffs, duties, or other similar charges that could negatively affect our results of operations, financial position, or cash flows.

Adverse changes in, or withdrawal from, trade agreements or political relationships between the United States and the PRC, Canada, or other countries where we sell or source our products, could negatively impact our results of operations or cash flows. Any tariffs imposed between the United States and the PRC could increase the costs of our products. General geopolitical instability and the responses to it, such as the possibility of sanctions, trade restrictions, and changes in tariffs, including recent sanctions against the PRC, tariffs imposed by the United States and the PRC, and the possibility of additional tariffs or other trade restrictions between the United States and Mexico, could adversely impact our business. It is possible that further tariffs may be introduced, or increased. Such changes could adversely impact our business and could increase the costs of sourcing our products from the PRC, or could require us to source more of our products from other countries. The Uyghur Forced Labor Prevention Act and other similar legislation may lead to greater supply chain compliance costs and delays to us and to our vendors.

There could be changes in economic conditions in the United Kingdom ("UK") or European Union ("EU"), including due to the UK's withdrawal from the EU, foreign currency exchange rates, and consumer markets. Our business could be adversely affected by these changes, including by additional duties on the importation of our products into the UK from the EU and as a result of shipping delays or congestion.

***Changes in tax laws or unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.***

We are subject to the income tax laws of the United States, Canada, and several other international jurisdictions. Our effective income tax rates could be unfavorably impacted by a number of factors, including changes in the mix of earnings amongst countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, new tax interpretations and guidance, the outcome of income tax audits in various jurisdictions around the world, and any repatriation of unremitted earnings for which we have not previously accrued applicable U.S. income taxes and international withholding taxes.

Repatriations from our Canadian subsidiaries are not subject to Canadian withholding taxes if such distributions are made as a return of capital. The extent to which the accumulated earnings of our Canadian subsidiaries can be repatriated as a return of capital is dependent on, among other things, the amount of paid-up-capital in our Canadian subsidiaries and transactions undertaken by our exchangeable shareholders. Generally, exchange transactions by our exchangeable shareholders result in an increase in the amount of paid-up-capital in our Canadian subsidiaries and so increase the amount which can be repatriated free of Canadian withholding taxes.

Prior to 2022, we had not accrued for Canadian withholding taxes because the accumulated earnings of, or 'net investment' in, our Canadian subsidiaries was either indefinitely reinvested or could be repatriated as a return of capital without payment of withholding tax.

During 2022, the net investment in our Canadian subsidiaries, which was not indefinitely reinvested, exceeded the paid-up capital and therefore we have accrued for Canadian withholding taxes on the portion of our net investment which we expect to be unable to repatriate free of withholding tax.

Absent any transactions by our exchangeable shareholders or any changes to the permanently reinvested amounts, and if our Canadian subsidiaries continues to accumulate profits, we will record additional deferred tax liabilities for Canadian withholding taxes on the amount in excess of the paid-up capital balance, and our effective tax rate will increase. As a result, we expect the effective tax rate to increase in 2023.

We engage in a number of intercompany transactions across multiple tax jurisdictions. Although we believe that these transactions reflect the accurate economic allocation of profit and that proper transfer pricing documentation is in place, the profit allocation and transfer pricing terms and conditions may be scrutinized by local tax authorities during an audit and any resulting changes may impact our mix of earnings in countries with differing statutory tax rates. At the end of 2020, our Advance Pricing Arrangement ("APA") with the Internal Revenue Service and the Canada Revenue Agency expired. This APA stipulated the allocation of certain profits between the U.S. and Canada. We are currently in the process of negotiating the renewal of this arrangement and the final agreed upon terms and conditions thereof could impact our effective tax rate.

Current economic and political conditions make tax rules in any jurisdiction, including the United States and Canada, subject to significant change. Changes in applicable U.S., Canadian, or other international tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our income tax expense and profitability, as they did in fiscal 2017 and fiscal 2018 upon passage of the U.S. Tax Cuts and Jobs Act, and in 2020 with the passage of the Coronavirus Aid, Relief, and Economic Security Act. Certain provisions of the recently enacted Inflation Reduction Act, including a 15% corporate alternative minimum tax, as well as the similar 15% global minimum tax under the Organization for Economic Cooperation and Development's Pillar Two Global Anti-Base Erosion Rules, may impact our income tax expense, profitability, and capital allocation decisions.

***Our failure to comply with trade and other regulations could lead to investigations or actions by government regulators and negative publicity.***

The labeling, distribution, importation, marketing, and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, Consumer Product Safety Commission and state attorneys general in the United States, the Competition Bureau and Health Canada in Canada, the State Administration for Market Regulation of the PRC, General Administration of Customs of the PRC, as well as by various other federal, state, provincial, local, and international regulatory authorities in the countries in which our products are distributed or sold. If we fail to comply with any of these regulations, we could become subject to enforcement actions or the imposition of significant penalties or claims, which could harm our results of operations or our ability to conduct our business. In addition, any audits and inspections by governmental agencies related to these matters could result in significant settlement amounts, damages, fines, or other penalties, divert financial and management resources, and result in significant legal fees. An unfavorable outcome of any particular proceeding could have an adverse impact on our business, financial condition, and results of operations. In addition, the adoption of new regulations or changes in the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and could impair the marketing of our products, resulting in significant loss of net revenue.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-bribery laws applicable to our operations. In many countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other U.S. and international laws and regulations applicable to us. Although we have implemented procedures designed to ensure compliance with the FCPA and similar laws, some of our employees, agents, or other partners, as well as those companies to which we outsource certain of our business operations, could take actions in violation of our policies. Any such violation could have a material and adverse effect on our business.

***Because a significant portion of our net revenue and expenses are generated in countries other than the United States, fluctuations in foreign currency exchange rates have affected our results of operations and may continue to do so in the future.***

The functional currency of our international subsidiaries is generally the applicable local currency. Our consolidated financial statements are presented in U.S. dollars. Therefore, the net revenue, expenses, assets, and liabilities of our international subsidiaries are translated from their functional currencies into U.S. dollars. Fluctuations in the value of the U.S. dollar affect the reported amounts of net revenue, expenses, assets, and liabilities. Foreign currency exchange differences which arise on translation of our international subsidiaries' balance sheets into U.S. dollars are recorded as other comprehensive income (loss), net of tax in accumulated other comprehensive income or loss within stockholders' equity.

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

Although we use financial instruments to hedge certain foreign currency risks, these measures may not succeed in fully offsetting the negative impact of foreign currency rate movements.

We are exposed to credit-related losses in the event of nonperformance by the counterparties to forward currency contracts used in our hedging strategies.

**Risks related to intellectual property**

***Our fabrics and manufacturing technology generally are not patented and can be imitated by our competitors. If our competitors sell products similar to ours at lower prices, our net revenue and profitability could suffer.***

The intellectual property rights in the technology, fabrics, and processes used to manufacture our products generally are owned or controlled by our suppliers and are generally not unique to us. Our ability to obtain intellectual property protection for our products is therefore limited. We hold limited patents and exclusive intellectual property rights in the technology, fabrics or processes underlying our products. As a result, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrics and styling similar to our products. Because many of our competitors have significantly greater financial, distribution, marketing, and other resources than we do, they may be able to manufacture and sell products based on our fabrics and manufacturing technology at lower prices than we can. If our competitors sell products similar to ours at lower prices, our net revenue and profitability could suffer.

***Our failure or inability to protect our intellectual property rights could diminish the value of our brand and weaken our competitive position.***

We currently rely on a combination of patent, copyright, trademark, trade dress, trade secret, and unfair competition laws, as well as confidentiality procedures and licensing arrangements, to establish and protect our intellectual property rights. The steps we take to protect our intellectual property rights may not be adequate to prevent infringement of these rights by others, including imitation of our products and misappropriation of our brand. In addition, any of our intellectual property rights may be challenged, which could result in them being narrowed in scope or declared invalid or unenforceable, or our intellectual property protection may be unavailable or limited in some international countries where laws or law enforcement practices may not protect our intellectual property rights as fully as in the United States or Canada, and it may be more difficult for us to successfully challenge the use of our intellectual property rights by other parties in these countries. If we fail to protect and maintain our intellectual property rights, the value of our brand could be diminished, and our competitive position may suffer.

***Our trademarks, patents, and other proprietary rights could potentially conflict with the rights of others and we may be prevented from selling some of our products.***

Our success depends in large part on our brand image. We believe that our trademarks, patents, and other proprietary rights have significant value and are important to identifying and differentiating our products from those of our competitors and creating and sustaining demand for our products. We have applied for and obtained some United States, Canada, and international trademark registrations and patents, and will continue to evaluate additional trademarks and patents as appropriate. However, some or all of these pending trademark or patent applications may not be approved by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these applications or registrations. Additionally, we may face obstacles as we expand our product line and the geographic scope of our sales and marketing. Third parties may assert intellectual property claims against us, particularly as we expand our business and the number of products we offer. Our defense of any claim, regardless of its merit, could be expensive and time consuming and could divert management resources. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. In addition, resolution of claims may require us to redesign our products, license rights from third parties, or cease using those rights altogether. Any of these events could harm our business and cause our results of operations, liquidity, and financial condition to suffer.

***We have been, and in the future may be, sued by third parties for alleged infringement of their proprietary rights.***

There is considerable patent and other intellectual property development activity in our market, and litigation, based on allegations of infringement or other violations of intellectual property, is frequent in the fitness and technology industries. Furthermore, it is common for individuals and groups to purchase patents and other intellectual property assets for the purpose of making claims of infringement to extract settlements from companies like ours. Our use of third-party content, including music content, software, and other intellectual property rights may be subject to claims of infringement or misappropriation. We cannot guarantee that our internally developed or acquired technologies and content do not or will not infringe the intellectual property rights of others. From time to time, our competitors or other third parties may claim that we are infringing upon or misappropriating their intellectual property rights, and we may be found to be infringing upon such rights. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our platform or services or using certain technologies, force us to implement expensive work-arounds, or impose other unfavorable terms. We expect that the occurrence of infringement claims is likely to grow as the market for fitness products and services grows and as we introduce new and updated products and offerings. Accordingly, our exposure to damages resulting from infringement claims could increase and this could further exhaust our financial and management resources. Any of the foregoing could prevent us from competing effectively and could have an adverse effect on our business, financial condition, and operating results.

**Risks related to legal and governance matters**

***We are subject to periodic claims and litigation that could result in unexpected expenses and could ultimately be resolved against us.***

From time to time, we are involved in litigation and other proceedings, including matters related to product liability claims, stockholder class action and derivative claims, commercial disputes and intellectual property, as well as trade, regulatory, employment, and other claims related to our business. Any of these proceedings could result in significant settlement amounts, damages, fines, or other penalties, divert financial and management resources, and result in significant legal fees. An unfavorable outcome of any particular proceeding could exceed the limits of our insurance policies or the carriers may decline to fund such final settlements and/or judgments and could have an adverse impact on our business, financial condition, and results of operations. In addition, any proceeding could negatively impact our reputation among our guests and our brand image.

***Our business could be negatively affected as a result of actions of activist stockholders or others.***

We may be subject to actions or proposals from stockholders or others that may not align with our business strategies or the interests of our other stockholders. Responding to such actions can be costly and time-consuming, disrupt our business and operations, and divert the attention of our board of directors, management, and employees from the pursuit of our business strategies. Such activities could interfere with our ability to execute our strategic plan. Activist stockholders or others may create perceived uncertainties as to the future direction of our business or strategy which may be exploited by our competitors and may make it more difficult to attract and retain qualified personnel and potential guests, and may affect our relationships with current guests, vendors, investors, and other third parties. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our board of directors. The perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

***Anti-takeover provisions of Delaware law and our certificate of incorporation and bylaws could delay and discourage takeover attempts that stockholders may consider to be favorable.***

Certain provisions of our certificate of incorporation and bylaws and applicable provisions of the Delaware General Corporation Law may make it more difficult or impossible for a third-party to acquire control of us or effect a change in our board of directors and management. These provisions include:

- the classification of our board of directors into three classes, with one class elected each year;
- prohibiting cumulative voting in the election of directors;
- the ability of our board of directors to issue preferred stock without stockholder approval;
- the ability to remove a director only for cause and only with the vote of the holders of at least 66 2/3% of our voting stock;
- a special meeting of stockholders may only be called by our chairman or Chief Executive Officer, or upon a resolution adopted by an affirmative vote of a majority of the board of directors, and not by our stockholders;
- prohibiting stockholder action by written consent; and
- our stockholders must comply with advance notice procedures in order to nominate candidates for election to our board of directors or to place stockholder proposals on the agenda for consideration at any meeting of our stockholders.

In addition, we are governed by Section 203 of the Delaware General Corporation Law which, subject to some specified exceptions, prohibits "business combinations" between a Delaware corporation and an "interested stockholder," which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock, for a three-year period following the date that the stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring, or preventing a change in control that our stockholders might consider to be in their best interests.

***ITEM 2. PROPERTIES***

Our principal executive and administrative offices are located at 1818 Cornwall Avenue, Vancouver, British Columbia, Canada, V6J 1C7.

The general location, use and approximate size of our principal owned properties as of January 29, 2023, are set forth below:

| Location | Use | Approximate Square Feet |
|---|---|---|
| Groveport, OH, United States | Distribution Center | 310,000 |
| Vancouver, BC, Canada | Executive and Administrative Offices | 140,000 |

We lease non-retail properties in a number of locations globally. The general location, use, approximate size and lease renewal date of our principal non-retail leased properties as of January 29, 2023, are set forth below:

| Location | Use | Approximate Square Feet | Lease Renewal Date |
|---|---|---|---|
| Delta, BC, Canada | Distribution Center | 375,000 | December 2037 |
| Milton, ON, Canada | Distribution Center | 255,000 | May 2031 |
| Mississauga, ON, Canada | Distribution Center | 250,000 | September 2033 |
| Delta, BC, Canada | Distribution Center | 155,000 | January 2031 |
| Sumner, WA, United States | Distribution Center | 150,000 | July 2025 |
| Vancouver, BC, Canada | Executive and Administrative Offices | 120,000 | October 2032 |
| Derrimut, VIC, Australia | Distribution Center | 50,000 | October 2024 |

During 2021, we entered into a new lease for a U.S. distribution center in Ontario, California of approximately 1,250,000 square feet which is due to expire in 2038. We expect this distribution center to be operational in early fiscal 2024.

During 2022, we entered into a new lease for an Australian distribution center in Ravenhall, Victoria of approximately 250,000 square feet which is due to expire in 2033. We expect this distribution center to be operational in 2023.

During 2022, we entered into a new lease for a Canadian distribution center in Brampton, Ontario of approximately 980,000 square feet which is due to expire in 2039. We expect this distribution center to be operational in fiscal 2024.

***ITEM 3. LEGAL PROCEEDINGS***

Please see the legal proceedings described in Note 20. Commitments and Contingencies included in Item 8 of Part II of this report.

***ITEM 4. MINE SAFETY DISCLOSURES***

Not applicable.

**PART II**

***ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

**Market Information and Dividends**

Our common stock is quoted on the Nasdaq Global Select Market under the symbol "LULU."

As of March 22, 2023, there were approximately 1,300 holders of record of our common stock. This does not include persons whose stock is in nominee or "street name" accounts through brokers.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future determination as to the payment of cash dividends will be at the discretion of our board of directors and will depend on our financial condition, operating results, current and anticipated cash needs, plans for expansion, and other factors that our board of directors considers to be relevant. In addition, financial and other covenants in any instruments or agreements that we enter into in the future may restrict our ability to pay cash dividends on our common stock.

**Stock Performance Graph**

The graph set forth below compares the cumulative total stockholder return on our common stock between January 28, 2018 (the date of our fiscal year end five years ago) and January 29, 2023, with the cumulative total return of (i) the S&P 500 Index and (ii) S&P 500 Apparel, Accessories & Luxury Goods Index, over the same period. This graph assumes the investment of $100 on January 28, 2018 at the closing sale price of our common stock, the S&P 500 Index and the S&P Apparel, Accessories & Luxury Goods Index and assumes the reinvestment of dividends, if any.

The comparisons shown in the graph below are based on historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from Bloomberg, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

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| | 28-Jan-18 | 03-Feb-19 | 02-Feb-20 | 31-Jan-21 | 30-Jan-22 | 29-Jan-23 |
|---|---|---|---|---|---|---|
| lululemon athletica inc. | $ 100.00 | $ 184.77 | $ 302.72 | $ 415.63 | $ 399.48 | $ 393.08 |
| S&P 500 Index | $ 100.00 | $ 94.21 | $ 112.28 | $ 129.29 | $ 154.27 | $ 141.69 |
| S&P 500 Apparel, Accessories & Luxury Goods Index | $ 100.00 | $ 88.10 | $ 79.56 | $ 76.22 | $ 73.82 | $ 52.03 |

**Issuer Purchase of Equity Securities**

The following table provides information regarding our purchases of shares of our common stock during the fourth quarter of 2022 related to our stock repurchase program:

| Period[(1)] | Total Number of Shares Purchased[(2)] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(2)] | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[(2)] |
|---|---|---|---|---|
| October 31, 2022 - November 27, 2022 | — | $ — | — | $ 812,489,434 |
| November 28, 2022 - January 1, 2023 | 101,551 | 333.22 | 101,551 | 778,650,256 |
| January 2, 2023 - January 29, 2023 | 110,980 | 313.92 | 110,980 | 743,811,785 |
| Total | 212,531 | | 212,531 | |

(1) Monthly information is presented by reference to our fiscal periods during our fourth quarter of 2022.

(2) On March 23, 2022, our board of directors approved a stock repurchase program for up to $1.0 billion of our common shares on the open market or in privately negotiated transactions. The repurchase plan has no time limit and does not require the repurchase of a minimum number of shares. Common shares repurchased on the open market are 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. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors. The authorized value of shares available to be repurchased under this program excludes the cost of commissions and excise taxes.

The following table summarizes purchases of shares of our common stock during the fourth quarter of 2022 related to our Employee Share Purchase Plan (ESPP):

| Period[(1)] | Total Number of Shares Purchased[(2)] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(2)] | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[(2)] |
|---|---|---|---|---|
| October 31, 2022 - November 27, 2022 | 6,369 | $ 355.47 | 6,369 | 4,514,959 |
| November 28, 2022 - January 1, 2023 | 8,039 | 339.63 | 8,039 | 4,506,920 |
| January 2, 2023 - January 29, 2023 | 7,141 | 319.15 | 7,141 | 4,499,779 |
| Total | 21,549 | | 21,549 | |

(1) Monthly information is presented by reference to our fiscal periods during our fourth quarter of 2022.

(2) The ESPP was approved by our board of directors and stockholders in September 2007. All shares purchased under the ESPP are purchased on the Nasdaq Global Select Market (or such other stock exchange as we may designate). Unless our board terminates the ESPP earlier, it will continue until all shares authorized for purchase have been purchased. The maximum number of shares authorized to be purchased under the ESPP was 6,000,000.

Excluded from this disclosure are shares repurchased to settle statutory employee tax withholding related to the vesting of stock-based compensation awards.

***ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA***

Not applicable.

*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:



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 2022 and 2021 were each 52-week years.

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

**Overview**

In 2019 we announced our Power of Three growth plan which established our goal to double our total net revenue by 2023 and outlined our plans to double men's revenue, double digital net revenue, and to quadruple international net revenue. We achieved our goal to double our total net revenue ahead of schedule, and in 2022 we launched our new 5-year growth plan, the Power of Three ×2.

Our Power of Three ×2 plan leverages the success of our prior growth strategy, and is comprised of three key pillars – Product Innovation, Guest Experience, and Market Expansion. We continue to see opportunity to grow our men's, direct to consumer, and international net revenue, while continuing to grow our core businesses.

2022 was the inaugural year of our new plan and we successfully executed against our goals by delivering 30% net revenue growth. Our strength was balanced across channel, region, and merchandise category; and was achieved in a challenging macroeconomic backdrop with ongoing supply chain disruptions. The underlying trends that have fueled our business continue to do so, and include a desire for guests to live an active and healthy lifestyle, the desire for apparel that offers versatility, the desire to be part of a diverse and inclusive community, and the desire to achieve wellness, both physically and mentally.

***Product Innovation***

We continue to solve for the unmet needs of our guest by bringing new technical innovations into our merchandise assortment. In 2022, we expanded our core running category with the launch of Senseknit, a proprietary fabric technology offering zoned compression. We entered new activities with our capsule collections for golf, tennis, and hiking. And we launched footwear, enabling us to provide a head-to-toe solution to our guests. The footwear collection currently includes three technical styles – Blissfeel, Chargefeel, and Strongfeel – all designed specifically for women. In addition, we launched a dual gender slide for pre- and post-workouts.

***Guest Experience and Membership***

Our omni operating model allows us to efficiently and effectively serve our guests in the ways most convenient to them – either in store or online. We saw strength across both channels in 2022 as net revenue in our company-operated store channel increased 29% and our direct to consumer net revenue increased 33%.

Community is at the core of our brand. In 2022, we continued to engage with guests via in-store events, 10K runs in Atlanta and Houston, ambassador-led activations, and our Summer Sweat Games in China Mainland, among other in-person events. In addition, we connect with our community of guests through our connected fitness content provided by lululemon Studio.

In October 2022, we launched our new two-tier membership program. The Essential membership tier is free and provides access to select content, as well as certain benefits in-store and online. We rebranded MIRROR to become lululemon Studio, the premium paid tier of the program which offers members a connected fitness experience via in-home hardware. As part of our membership launch, we also enhanced the lululemon Studio offering to include access to exclusive content provided by outside studio partners, as well as a discount on lululemon product purchases.

As concerns with the COVID-19 pandemic have subsided the connected fitness industry has experienced challenging market conditions, and as a result we have seen weakening demand for our in-home fitness hardware. Hardware unit sales did not meet our expectations during the peak holiday selling period and the reduction in customer acquisition costs was less than anticipated. As a result, in the fourth quarter, we reviewed our strategy and we plan to evolve lululemon Studio to focus on digital app-based services. Building on the two-tier membership program, we will be expanding the lululemon Studio premium tier by enabling guests to access digital fitness content via a new app, launching in summer 2023, for a lower monthly fee. We believe this strategy will enable more guests to experience our digital fitness content, while also building a larger community of guests with a deeper connection to lululemon.

In 2022 we recognized post-tax charges totaling $442.7 million related to lululemon Studio, including the impairment of goodwill, intangible assets, and property and equipment, and provisions against hardware inventory. See the section "Critical Accounting Policies and Estimates", Goodwill Impairment Assessment below and Note 8. Impairment of Goodwill and Other Assets included in Item 8 of Part II of this report for further information.

***Market Expansion***

We continued to expand our presence both in North America and in our international markets. During 2022, we opened 81 net new company-operated stores, including 31 stores in the PRC, nine stores in the rest of Asia Pacific, 32 stores in North America, and nine stores in Europe, including our first locations in Spain.

In 2022, our net revenue in North America increased 29%. In our international markets, despite certain COVID-19 closures in the PRC, we saw net revenue growth of 35%.

**Financial Highlights**

The summary below compares 2022 to 2021 and provides both GAAP and non-GAAP financial measures. The adjusted financial measures for 2022 exclude $442.7 million of post-tax impairment and other charges recognized in relation to our lululemon Studio business unit (formerly MIRROR) and the post-tax net gain on the sale of an administrative building of $8.5 million. The adjusted financial measures for 2021 exclude acquisition-related expenses, and their related tax effects.

- Net revenue increased 30% to $8.1 billion. On a constant dollar basis, net revenue increased 32%.
- Total comparable sales increased 25%, or 28% on a constant dollar basis.
  - Comparable store sales increased 16%, or 19% on a constant dollar basis.
  - Direct to consumer net revenue increased 33%, or 35% on a constant dollar basis.
- Gross profit increased 24% to $4.5 billion. Adjusted gross profit increased 26% to $4.6 billion.
- Gross margin decreased 230 basis points to 55.4%. Adjusted gross margin decreased 150 basis points to 56.2%.
- Income from operations was consistent at $1.3 billion. Adjusted income from operations increased 30% to $1.8 billion.

- Operating margin decreased 490 basis points to 16.4%. Adjusted operating margin increased 10 basis points to 22.1%.
- Income tax expense increased 33% to $477.8 million. Our effective tax rate for 2022 was 35.9% compared to 26.9% for 2021. The adjusted effective tax rate was 28.1% and 26.2% for 2022 and 2021, respectively.
- Diluted earnings per share were $6.68 for 2022 compared to $7.49 in 2021. Adjusted diluted earnings per share were $10.07 for 2022 compared to $7.79 in 2021.

Refer to the non-GAAP reconciliation tables contained in the Non-GAAP Financial Measures section of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for reconciliations between the above adjusted non-GAAP financial measures and the most directly comparable measures calculated in accordance with GAAP.

**Market Conditions and Trends**

Macroeconomic conditions, the recent COVID-19 pandemic, and supply chain disruption impacted our business and operating costs in 2022 and 2021. Certain trends are expected to continue into 2023, with the impact varying by market.

***Macroeconomic Conditions***

Macroeconomic conditions, including foreign currency fluctuations, inflationary pressures, and labor shortages have impacted our financial results. This includes higher air freight costs during the first half of 2022 and increased wage rates during 2022 compared to 2021. We have not increased the retail prices on the significant proportion of our products. Inflation, an anticipated economic downturn, and other macroeconomic factors could also impact consumer purchasing behaviors and sustained increases in costs may have an adverse effect on our operating margins.

***COVID-19 Pandemic***

Most of our retail locations were open throughout 2022 and 2021, with certain locations temporarily closed due to COVID-19 resurgences, including certain closures during 2022 in the PRC.

***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. The supply chain disruption we have experienced has contributed to the 50% increase in our inventory balance as of January 29, 2023 compared to January 30, 2022. We expect that while the growth rate in our inventories will exceed net revenue growth in the first half of 2023, the growth rate will be relatively in line with net revenue growth in the second half of 2023.

The use of air freight reduced our gross margin during the first half of 2022, however, we began seeing an improvement in the supply chain issues and experienced lower inbound freight costs in the second half of 2022, and this resulted in an overall improvement to our gross margin from air freight costs for 2022 compared to 2021. We expect that we will similarly see improvements in our gross margin from air freight costs in the first half of 2023 compared to the prior year when there was the supply chain disruption.

**Results of Operations**

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

| | 2022 | 2021 | 2022 | 2021 |
|---|---|---|---|---|
| | (In thousands) | | (Percentage of revenue) | |
| Net revenue | $ 8,110,518 | $ 6,256,617 | 100.0 % | 100.0 % |
| Cost of goods sold | 3,618,178 | 2,648,052 | 44.6 | 42.3 |
| Gross profit | 4,492,340 | 3,608,565 | 55.4 | 57.7 |
| Selling, general and administrative expenses | 2,757,447 | 2,225,034 | 34.0 | 35.6 |
| Amortization of intangible assets | 8,752 | 8,782 | 0.1 | 0.1 |
| Impairment of goodwill and other assets | 407,913 | — | 5.0 | — |
| Acquisition-related expenses | — | 41,394 | — | 0.7 |
| Gain on disposal of assets | (10,180) | — | (0.1) | — |
| Income from operations | 1,328,408 | 1,333,355 | 16.4 | 21.3 |
| Other income (expense), net | 4,163 | 514 | 0.1 | — |
| Income before income tax expense | 1,332,571 | 1,333,869 | 16.4 | 21.3 |
| Income tax expense | 477,771 | 358,547 | 5.9 | 5.7 |
| Net income | $ 854,800 | $ 975,322 | 10.5 % | 15.6 % |

**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, assuming the average foreign currency exchange rates in 2022 remained constant with the average foreign currency exchange rates in 2021, net revenue increased $2.0 billion, or 32%.

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

Total comparable sales, which includes comparable store sales and direct to consumer, increased 25% in fiscal 2022 compared to fiscal 2021. Total comparable sales increased 28% on a constant dollar basis.

Net revenue for 2022 and 2021 is summarized below.

| | 2022 | 2021 | 2022 | 2021 | Year over year change | |
|---|---|---|---|---|---|---|
| | (In thousands) | | (Percentage of revenue) | | (In thousands) | (Percentage) |
| Company-operated stores | $ 3,648,127 | $ 2,821,497 | 45.0 % | 45.1 % | $ 826,630 | 29.3 % |
| Direct to consumer | 3,699,791 | 2,777,944 | 45.6 | 44.4 | 921,847 | 33.2 |
| Other | 762,600 | 657,176 | 9.4 | 10.5 | 105,424 | 16.0 |
| Net revenue | $ 8,110,518 | $ 6,256,617 | 100.0 % | 100.0 % | $ 1,853,901 | 29.6 % |

*Company-Operated Stores.* The increase in net revenue from our company-operated stores was driven by net revenue from company-operated stores that were opened or significantly expanded since 2021 which contributed $435.9 million to the increase. During 2022, we opened 81 net new company-operated stores, including 40 stores in Asia Pacific, 32 stores in North America, and nine stores in Europe. The increase in net revenue from our company-operated stores was also driven by increased comparable store sales. Comparable store sales increased 16%, or 19% on a constant dollar basis. The increase in comparable store sales was primarily a result of increased store traffic, partially offset by a decrease in conversion rates. Dollar value per transaction was consistent year over year.

*Direct to Consumer.* Direct to consumer net revenue increased 33%, or 35% on a constant dollar basis. The increase in net revenue from our direct to consumer segment was primarily a result of increased traffic, partially offset by a decrease in conversion rates and a lower dollar value per transaction.

*Other.* The increase in other net revenue was primarily due to increased outlet sales, sales to wholesale accounts, license and supply arrangement revenue, recommerce revenue, and revenue from our pop up locations. The increase in net revenue was partially offset by a decrease in net revenue from lululemon Studio.

***Gross Profit***

| | 2022 | 2021 | Year over year change | |
|---|---|---|---|---|
| | *(In thousands)* | | *(In thousands)* | *(Percentage)* |
| Gross profit | $ 4,492,340 | $ 3,608,565 | $ 883,775 | 24.5 % |
| Gross margin | 55.4 % | 57.7 % | (230) basis points | |

Our updated lululemon Studio strategy will focus on digital app based services and means we no longer expect 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 the fourth quarter of 2022. This reduced 2022 gross margin by 80 basis points. Please refer to Note 8. Impairment of Goodwill and Other Assets 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 | |
|---|---|---|---|---|
| | *(In thousands)* | | *(In thousands)* | *(Percentage)* |
| 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 direct to consumer 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 direct to consumer channel, partially offset by a decrease in marketing expenses related to lululemon Studio.

The increase in selling, general and administrative expenses was partially offset by a decrease in net foreign exchange and derivative revaluation losses of $0.8 million.

***Amortization of Intangible Assets***

| | 2022 | 2021 | Year over year change | |
|---|---|---|---|---|
| | *(In thousands)* | | *(In thousands)* | *(Percentage)* |
| 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.

***Impairment of Goodwill and Other Assets***

| | 2022 | 2021 | Year over year change | |
|---|---|---|---|---|
| | *(In thousands)* | | *(In thousands)* | *(Percentage)* |
| Impairment of goodwill and other assets | $ 407,913 | $ — | $ 407,913 | n/a |

During the fourth quarter of 2022, we recognized an impairment of goodwill and other long-lived assets in relation to our lululemon Studio business unit (formerly MIRROR). Please refer to the Critical Accounting Policies and Estimates section of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as Note 8. Impairment of Goodwill and Other Assets included in Item 8 of Part II of this report for further information.

***Acquisition-Related Expenses***

| | 2022 | 2021 | Year over year change | |
|---|---|---|---|---|
| | *(In thousands)* | | *(In thousands)* | *(Percentage)* |
| 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 | |
|---|---|---|---|---|
| | *(In thousands)* | | *(In thousands)* | *(Percentage)* |
| 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.

| | 2022 | 2021 | 2022 | 2021 | Year over year change | |
|---|---|---|---|---|---|---|
| | *(In thousands)* | | *(Percentage of net revenue of respective operating segment)* | | *(In thousands)* | *(Percentage)* |
| Segmented income from operations: | | | | | | |
| Company-operated stores | $ 991,067 | $ 727,735 | 27.2 % | 25.8 % | $ 263,332 | 36.2 % |
| Direct to consumer | 1,562,538 | 1,216,496 | 42.2 | 43.8 | 346,042 | 28.4 |
| Other | 107,083 | 77,283 | 14.0 | 11.8 | 29,800 | 38.6 |
| | $ 2,660,688 | $ 2,021,514 | | | $ 639,174 | 31.6 % |
| General corporate expenses | 862,867 | 637,983 | | | 224,884 | 35.2 |
| lululemon Studio obsolescence provision | 62,928 | — | | | 62,928 | n/a |
| Amortization of intangible assets | 8,752 | 8,782 | | | (30) | (0.3) |
| Impairment of goodwill and other assets | 407,913 | — | | | 407,913 | n/a |
| 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 | |

*Company-Operated Stores.* The increase in income from operations from company-operated stores was primarily the result of increased gross profit of $413.7 million, driven by increased net revenue. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher salaries and wages expense and higher incentive compensation as a result of the growth in our business and increased wage rates. Store operating costs increased, primarily due to increases in credit card fees and distribution costs as a result of higher net revenue, as well as increased repairs and maintenance. Income from operations as a percentage of company-operated stores net revenue increased due to leverage on selling, general and administrative expenses.

*Direct to Consumer.* The increase in income from operations from our direct to consumer segment was primarily the result of increased gross profit of $527.9 million, driven by increased net revenue, partially offset by lower gross margin. The decrease in gross margin was primarily due to higher markdowns, sales mix, deleverage on distribution center and product team costs, and unfavorable foreign exchange, partially offset by lower air freight costs. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses primarily due to higher distribution costs and credit card fees as a result of higher net revenue, as well as higher digital marketing expenses, depreciation, employee costs, and technology costs. Income from operations as a percentage of direct to consumer net revenue decreased primarily due to a decrease in gross margin, partially offset by leverage on selling, general and administrative expenses.

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

*General Corporate Expenses.* The increase in general corporate expenses was primarily due to increased employee costs, primarily from headcount growth and increased wage rates, as well as increased depreciation, technology costs including cloud computing amortization, brand and community costs, and professional fees. The increase in general corporate expenses was partially offset by a decrease in net foreign exchange and derivative losses of $0.8 million. We expect general corporate expenses to continue to increase in future years as we grow our overall business and require increased efforts at our head office to support our operations.

***Other Income (Expense), Net***

| | 2022 | 2021 | Year over year change | |
|---|---|---|---|---|
| | *(In thousands)* | | *(In thousands)* | *(Percentage)* |
| 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 | |
|---|---|---|---|---|
| | *(In thousands)* | | *(In thousands)* | *(Percentage)* |
| 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 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 | |
|---|---|---|---|---|
| | *(In thousands)* | | *(In thousands)* | *(Percentage)* |
| 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 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 Store Sales and Total Comparable Sales**

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

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

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

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

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

**Non-GAAP Financial Measures**

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

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

Adjusted gross profit, gross margin, income from operations, operating margin, income tax expense, effective tax rates, net income, and diluted earnings per share exclude the impairment of goodwill and other assets recognized in relation to our lululemon Studio business unit (formerly MIRROR), 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 operate the 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.

***Constant Dollar Changes in Net Revenue***

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

| | 2022 | | |
|---|---|---|---|
| | Net Revenue | | Direct to Consumer Net Revenue |
| | *(In thousands)* | *(Percentages)* | *(Percentages)* |
| Change | $ 1,853,901 | 30 % | 33 % |
| Adjustments due to foreign currency exchange rate changes | 147,728 | 2 | 2 |
| Change in constant dollars | $ 2,001,629 | 32 % | 35 % |

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

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

| | 2022 | | |
|---|---|---|---|
| | Total Comparable Sales[1,2] | Comparable Store Sales[2] | Direct to Consumer Net Revenue |
| Change | 25 % | 16 % | 33 % |
| Adjustments due to foreign currency exchange rate changes | 3 % | 3 | 2 |
| Change in constant dollars | 28 % | 19 % | 35 % |

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

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

***Adjusted financial measures***

The following tables reconcile adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The 2022 adjustments relate to the impairment of goodwill and other assets in relation to our lululemon Studio business unit (formerly MIRROR) and 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, 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.

| | 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross Profit | Gross Margin | Income from Operations | Operating Margin | Income Tax Expense | Effective Tax Rate | Net Income | Diluted Earnings Per Share |
| | (In thousands, except per share amounts) | | | | | | | |
| GAAP results | $ 4,492,340 | 55.4 % | $ 1,328,408 | 16.4 % | $ 477,771 | 35.9 % | $ 854,800 | $ 6.68 |
| lululemon Studio charges: | | | | | | | | |
| Obsolescence provision | 62,928 | 0.8 | 62,928 | 0.8 | | | 62,928 | 0.49 |
| Impairment of goodwill | | | 362,492 | 4.4 | | | 362,492 | 2.83 |
| Impairment of intangible assets | | | 40,585 | 0.5 | | | 40,585 | 0.32 |
| Impairment of property and equipment | | | 4,836 | 0.1 | | | 4,836 | 0.04 |
| Gain on disposal of assets | | | (10,180) | (0.1) | | | (10,180) | (0.08) |
| Tax effect of the above | | | | | 26,510 | (7.8) | (26,510) | (0.21) |
| Adjusted results (non-GAAP) | $ 4,555,268 | 56.2 % | $ 1,789,069 | 22.1 % | $ 504,281 | 28.1 % | $ 1,288,951 | $ 10.07 |

| | Fourth Quarter 2022 |
|---|---|
| | (In thousands) |
| Income from operations | $ 314,426 |
| lululemon Studio related charges: | |
| Obsolescence provision | 62,928 |
| Impairment of goodwill | 362,492 |
| Impairment of intangible assets | 40,585 |
| Impairment of property and equipment | 4,836 |
| Adjusted income from operations (non-GAAP) | $ 785,267 |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Income from Operations | Operating Margin | Income Tax Expense | Effective Tax Rate | Net Income | Diluted Earnings Per Share |
| | (In thousands, except per share amounts) | | | | | |
| 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. Our primary cash needs are capital expenditures for opening new stores and remodeling or relocating existing stores, investing in technology and making system enhancements, funding working capital requirements, and making other strategic capital investments both in North America and internationally. We may also use cash to repurchase shares of our common stock. Cash and cash equivalents in excess of our needs are held in interest bearing accounts with financial institutions, as well as in money market funds and term deposits.

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

| | 2022 | 2021 | Year over year change |
|---|---|---|---|
| | | (In thousands) | |
| Total cash provided by (used in): | | | |
| Operating activities | $ 966,463 | $ 1,389,108 | $ (422,645) |
| Investing activities | (569,937) | (427,891) | (142,046) |
| Financing activities | (467,487) | (844,987) | 377,500 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | (34,043) | (6,876) | (27,167) |
| Increase (decrease) in cash and cash equivalents | $ (105,004) | $ 109,354 | $ (214,358) |

***Operating Activities***

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 $726.1 million. This decrease was primarily driven by changes in accounts payable, inventories, and income taxes. The decrease in cash provided by operating activities was also due to lower cash inflows related to derivatives not designated in a hedging relationship.

The decrease in cash provided by operating activities was partially offset by an increase in depreciation and stock-based compensation expense.

***Investing Activities***

The increase in cash used in investing activities was primarily due to increased capital expenditures, partially offset by the settlement of net investment hedges and other investing activities. The increase in capital expenditures was primarily due to corporate expenditures and from our company-operated stores segment.

Capital expenditures for our company-operated stores segment were $303.7 million and $189.6 million in 2022 and 2021, respectively. The capital expenditures for our company-operated stores segment in each period were primarily for opening new company-operated stores, for the remodeling or relocation of certain stores, ongoing store refurbishment, and increased investment in our new and existing distribution facilities. The capital expenditures for our company-operated stores segment also included $78.9 million to open 87 company-operated stores and $47.1 million to open 56 company-operated stores, in 2022 and 2021 respectively. We expect to open 45 to 50 new company-operated stores in 2023.

Capital expenditures for our direct to consumer segment were $57.1 million and $81.7 million in 2022 and 2021, respectively. Capital expenditures in 2022 were primarily related to our distribution centers as well as other technology infrastructure and system initiatives.

Capital expenditures related to corporate activities and other were $277.9 million and $123.2 million in 2022 and 2021, respectively. The increase in capital expenditures in each fiscal year was primarily due to investments in technology and business systems, and for increased capital expenditures on corporate office renovations. The proceeds of the sale of an administrative office building during the second quarter of 2022 are included in other investing activities.

***Financing Activities***

The decrease in cash used in financing activities was primarily the result of a decrease in our stock repurchases. During 2022, 1.4 million shares were repurchased at a total cost including commissions and excise taxes of $444.0 million. During 2021, 2.2 million shares were repurchased at a total cost including commissions of $812.6 million. The common stock was repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors.

**Liquidity Outlook**

We believe 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 29, 2023 |
|---|---|---|
| | | *(In thousands)* |
| Cash and cash equivalents | $ | 1,154,867 |
| Working capital excluding cash and cash equivalents[(1)] | | 512,388 |
| Capacity under committed revolving credit facility | | 393,480 |

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(1) Working capital is calculated as current assets of $3.2 billion less current liabilities of $1.5 billion.

Capital expenditures are expected to range between $660.0 million and $680.0 million in 2023.

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 29, 2023 was $1.4 billion, an increase of 50% from January 30, 2022. Increased air freight usage and cost have contributed to the increase in inventory. On a number of units basis, our inventory increased 58% compared to January 30, 2022. We expect that while the growth rate in our inventories will exceed net revenue growth in the first half of 2023, the growth rate will be relatively in line with net revenue growth in the second half of 2023.

Our existing North America credit facility provides for $400.0 million in commitments under an unsecured five-year revolving credit facility. The credit facility has a maturity date of December 14, 2026, subject to extension under certain circumstances. As of January 29, 2023, aside from letters of credit of $6.5 million, we had no other borrowings outstanding under this credit facility. Further information regarding our credit facilities and associated covenants is outlined in Note 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 29, 2023.

*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 29, 2023, and the timing and effect that such commitments are expected to have on our liquidity and cash flows in future periods:

| | Total | 2023 | 2024 | 2025 | 2026 | 2027 | Thereafter |
|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | |
| Operating leases (minimum rent) | $ 1,174,024 | $ 238,343 | $ 265,787 | $ 197,934 | $ 143,603 | $ 117,639 | $ 210,718 |
| Purchase obligations | 884,382 | 841,341 | 15,843 | 3,430 | 5,184 | 2,930 | 15,654 |
| One-time transition tax payable | 38,073 | 9,518 | 12,691 | 15,864 | — | — | — |

As of January 29, 2023, our operating lease commitments for distribution center operating leases which have been committed to, but not yet commenced, was $632.0 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 29, 2023, letters of credit and letters of guarantee totaling $8.6 million had been issued, including $6.5 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:

***Goodwill impairment assessment***

Goodwill is tested annually for impairment on the first day of the fourth quarter, or more frequently if events or circumstances indicate it is more likely than not that an impairment may have occurred.

We acquired Curiouser Products Inc., dba "MIRROR" in 2020, subsequently re-branded "lululemon Studio," and $362.5 million of goodwill was allocated to the lululemon Studio reporting unit.

We performed a quantitative impairment analysis on October 31, 2022 for the lululemon Studio reporting unit. The result of this annual test concluded that the fair value of the lululemon Studio reporting unit exceeded its carrying value. We used a discounted cash flow model to estimate the fair value, supplemented by market analysis, which indicated the fair value of lululemon Studio was approximately 4% higher than its carrying value. The key assumptions of the fair value of the lululemon Studio reporting unit as of October 31, 2022 were the revenue growth rates, operating profit margins, and the discount rate. The test indicated that failure to increase the growth rate of new subscribers in the near term, or failure to reduce customer acquisition costs, or other internal or external factors could cause a material impairment of goodwill.

Sales of hardware units did not meet our fourth quarter expectations and the reduction in customer acquisition costs was less than anticipated, and therefore our short and long term forecasts for lululemon Studio were revised downwards with an adverse impact on future expected cash flows. As a result, we reviewed our strategy and we plan to evolve lululemon Studio to focus on digital app-based services.

We determined the lower than forecasted subscriber growth, and the shift in strategy, were triggering events which indicated we should conduct an impairment test as of January 29, 2023. We used a discounted cash flow model to estimate the fair value of the lululemon Studio reporting unit based on our updated strategic plans, supplemented by market comparable analysis. This led to the recognition of an impairment of goodwill of $362.5 million. The key assumptions in estimating the fair value of the lululemon Studio reporting unit were the revenue growth rates, operating profit margins, and the discount rate. The fair value of the lululemon Studio reporting unit is a Level 3 fair value measurement.

***Finite-lived intangible asset impairment assessment***

As of January 29, 2023, the performance of lululemon Studio in the fourth quarter of 2022 and our change in strategy were also triggering events which indicated we should test the related intangible assets for impairment. The undiscounted cash flows of the asset group to which the intangible assets belong were less than their carrying value, and therefore we calculated the fair value of the asset group, which was also less than its carrying value. This resulted in an impairment of $40.6

million, relating to the MIRROR brand, which is associated with in-home hardware and to the customer relationship intangible assets that were recognized as part of the acquisition. The carrying value of individual long-lived assets was not reduced to lower than their fair value. The fair values of the brand and the customer relationships were based on a relief from royalty method and a discounted cash flow model respectively, and are Level 3 fair value measurements.

The relief from royalty method is dependent on certain key estimates, including forecast hardware and hardware subscriber revenues, the royalty rate, and the discount rate.

***Inventory provisions***

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 29, 2023 the net carrying value of our inventories was $1.4 billion, which included provisions for obsolete and damaged inventory of $123.2 million. The provision is determined based upon assumptions about product quality, damages, future demand, selling prices, and market conditions, and includes a provision of $62.9 million against lululemon Studio hardware inventory.

Our change in strategy related to lululemon Studio means we no longer expect to be able to sell all of the hardware inventory above cost. The net realizable value of the lululemon Studio inventory was determined based on hardware sales forecasts and assumptions regarding liquidation value. If we do not achieve our sales forecasts, have to sell the hardware at prices lower than our forecasts, or are unable to liquidate excess inventory and the prices we anticipate, this could reduce the net realizable value of this inventory below our estimate and we would increase our provision in the period in which we made such a determination.

***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 29, 2023, the net investment in our Canadian subsidiaries was $2.4 billion, of which $1.3 billion was determined to be indefinitely reinvested. The paid-up-capital balance of the Canadian subsidiaries was $740.6 million.

We have recognized a deferred tax liability of $20.2 million as of January 29, 2023 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, and our effective tax rate will increase. Absent any changes to the permanently reinvested amounts, or the paid-up-capital of our Canadian subsidiaries, we expect the effective tax rate to increase in 2023, where we will accrue Canadian withholding taxes and U.S. state income taxes for profits generated in our Canadian subsidiaries.

***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*. The functional currency of our international subsidiaries is generally the applicable local currency. Our consolidated financial statements are presented in U.S. dollars. Therefore, the net revenue, expenses, assets, and liabilities of our international subsidiaries are translated from their functional currencies into U.S. dollars. Fluctuations in the value of the U.S. dollar affect the reported amounts of net revenue, expenses, assets, and liabilities. Foreign currency exchange differences which arise on translation of our international subsidiaries' balance sheets into U.S. dollars are recorded as other comprehensive income (loss), net of tax in accumulated other comprehensive income or loss within stockholders' equity.

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

As of January 29, 2023, we had certain forward currency contracts outstanding in order to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. We also had certain forward currency contracts outstanding in an effort to reduce our exposure to the foreign currency exchange revaluation gains and losses that are recognized by our Canadian and Chinese subsidiaries on U.S. dollar denominated monetary assets and liabilities. Please refer to Note 16. Derivative Financial Instruments included in Item 8 of Part II of this report for further information, including details of the notional amounts outstanding.

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

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

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

During 2022, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a $54.5 million increase in accumulated other comprehensive loss within stockholders' equity. During 2021, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a $3.4 million increase in accumulated other comprehensive loss within stockholders' equity.

A 10% appreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the foreign currency exchange rates in effect for 2022 would have resulted in lower income from operations of approximately $30.9 million in 2022. This assumes a consistent 10% appreciation in the U.S. dollar against the Canadian dollar over the fiscal year. The timing of changes in the relative value of the U.S. dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign currency exchange rates have on our income from operations.

*Interest Rate Risk*. Our committed revolving credit facility provides us with available borrowings in an amount up to $400.0 million. Because our revolving credit facilities bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of January 29, 2023, aside from letters of credit of $6.5 million, there were no borrowings outstanding under these credit facilities. We currently do not engage in any interest rate hedging activity and currently have no intention to do so. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

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

*Credit Risk*. We have cash on deposit with various large, reputable financial institutions and have invested in AAA-rated money market funds. 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 2021 and the first half of 2022, our operating margin was impacted by higher air freight costs compared to fiscal 2021 and 2020 as a result of global supply chain disruption, as well as increased wage rates. Sustained increases in transportation costs, wages, and raw material costs, or other inflationary pressures in the future may have an adverse effect on our ability to maintain current levels of operating margin if the selling prices of our products do not increase with these increased costs, or we cannot identify cost efficiencies.

***ITEM 8. FINANCIAL STATEMENTS***

**lululemon athletica inc.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of lululemon athletica inc.

**Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheets of lululemon athletica inc. and its subsidiaries (together, the Company) as of January 29, 2023 and January 30, 2022, and the related consolidated statements of operations and comprehensive income, of stockholders' equity and of cash flows for each of the 52-week years ended January 29, 2023, January 30, 2022, and January 31, 2021, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company’s internal control over financial reporting as of January 29, 2023, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 29, 2023 and January 30, 2022, and the results of its operations and its cash flows for each of the 52-week years ended January 29, 2023, January 30, 2022, and January 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 29, 2023, based on criteria established in Internal Control – Integrated Framework (2013) issued by the COSO.

**Basis for Opinions**

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A of the Company’s 2022 Annual Report on Form 10-K. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

**Definition and Limitations of Internal Control over Financial Reporting**

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

*Inventory Provision*

As described in Notes 2 and 3 to the consolidated financial statements, inventories are valued at the lower of cost and net realizable value, and management records a provision as necessary to appropriately value inventories that are obsolete, have quality issues, or are damaged. Provision expense is recorded in cost of goods sold. As of January 29, 2023, the Company's consolidated net inventories balance was $1,447.4 million inclusive of the inventory provision of $124.6 million. The amount of the inventory provision is equal to the difference between the cost of the inventory and its estimated net realizable value based on assumptions about product quality, damages, future demand, selling prices, and market conditions.

The principal considerations for our determination that performing procedures relating to the inventory provision is a critical audit matter are the significant judgment by management in determining the estimated net realizable value of inventories that are obsolete, have quality issues, or are damaged, which in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence relating to the inventory provision.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the review of the inventory provision including the assumptions used. These procedures also included, among others, (i) observing the physical condition of inventories during inventory counts; (ii) evaluating the appropriateness of management's process for developing the estimates of net realizable value; (iii) testing the reliability of reports used by management by agreeing to underlying records; (iv) testing the reasonableness of the assumptions about quality, damages, future demand, selling prices and market conditions by considering historical trends and consistency with evidence obtained in other areas of the audit; and (v) corroborating the assumptions with individuals within the product team.

*Goodwill Impairment Assessment – lululemon Studio (formerly known as MIRROR) Reporting Unit*

As described in Notes 6 and 8 to the consolidated financial statements, the Company recorded a goodwill impairment in the amount of $362.5 million during the year ended January 29, 2023. Goodwill is tested annually for impairment on the first day of the fourth quarter, or more frequently when an event or circumstance indicates that goodwill might be impaired. Management determined that there were indicators of impairment and therefore conducted an impairment test as of January 29, 2023. The fair value of the lululemon Studio reporting unit was estimated by management by using a discounted cash flow model, which resulted in the recognition of a goodwill impairment charge of $362.5 million. The key assumptions used in the discounted cash flow model were the revenue growth rates, operating profit margins, and the discount rate.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the lululemon Studio reporting unit is a critical audit matter are (i) the significant judgment by management when developing the fair value of the reporting unit; (ii) the high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's discounted cash flow model including the key assumptions related to the revenue growth rates, operating profit margins, and the discount rate; and (iii) the audit effort, which involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the fair value estimate of the lululemon Studio reporting unit. These procedures also included, among others, (i) testing management's process for developing the fair value estimate; (ii) testing the completeness and accuracy of the underlying data used in the model; and (iii) evaluating the reasonableness of the key assumptions used by management related to the revenue growth rates, operating profit margins, and the discount rate. Evaluating the reasonableness of the revenue growth rates and operating profit margins involved considering (i) the current and past performance of the reporting unit; (ii) the performance of peer companies; (iii) the consistency with economic and industry forecasts; and (iv) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the Company’s discounted cash flow model and the reasonableness of the discount rate assumption.

/s/ PricewaterhouseCoopers LLP
Chartered Professional Accountants
Vancouver, Canada
March 28, 2023

We have served as the Company's auditor since 2006.

**lululemon athletica inc.**

**CONSOLIDATED BALANCE SHEETS**

*(Amounts in thousands, except per share amounts)*

| | January 29, 2023 | January 30, 2022 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,154,867 | $ 1,259,871 |
| Accounts receivable, net | 132,906 | 77,001 |
| Inventories | 1,447,367 | 966,481 |
| Prepaid and receivable income taxes | 185,641 | 118,928 |
| Prepaid expenses and other current assets | 238,672 | 192,572 |
| | 3,159,453 | 2,614,853 |
| Property and equipment, net | 1,269,614 | 927,710 |
| Right-of-use lease assets | 969,419 | 803,543 |
| Goodwill | 24,144 | 386,880 |
| Intangible assets, net | 21,961 | 71,299 |
| Deferred income tax assets | 6,402 | 6,091 |
| Other non-current assets | 156,045 | 132,102 |
| | $ 5,607,038 | $ 4,942,478 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Accounts payable | $ 172,732 | $ 289,728 |
| Accrued liabilities and other | 399,223 | 330,800 |
| Accrued compensation and related expenses | 248,167 | 204,921 |
| Current lease liabilities | 207,972 | 188,996 |
| Current income taxes payable | 174,221 | 133,852 |
| Unredeemed gift card liability | 251,478 | 208,195 |
| Other current liabilities | 38,405 | 48,842 |
| | 1,492,198 | 1,405,334 |
| Non-current lease liabilities | 862,362 | 692,056 |
| Non-current income taxes payable | 28,555 | 38,074 |
| Deferred income tax liabilities | 55,084 | 53,352 |
| Other non-current liabilities | 20,040 | 13,616 |
| | 2,458,239 | 2,202,432 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Undesignated preferred stock, $0.01 par value: 5,000 shares authorized; none issued and outstanding | — | — |
| Exchangeable stock, no par value: 60,000 shares authorized; 5,116 and 5,203 issued and outstanding | — | — |
| Special voting stock, $0.000005 par value: 60,000 shares authorized; 5,116 and 5,203 issued and outstanding | — | — |
| Common stock, $0.005 par value: 400,000 shares authorized; 122,205 and 123,297 issued and outstanding | 611 | 616 |
| Additional paid-in capital | 474,645 | 422,507 |
| Retained earnings | 2,926,127 | 2,512,840 |
| Accumulated other comprehensive loss | (252,584) | (195,917) |
| | 3,148,799 | 2,740,046 |
| | $ 5,607,038 | $ 4,942,478 |

See accompanying notes to the consolidated financial statements

**lululemon athletica inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

*(Amounts in thousands, except per share amounts)*

| | Fiscal Year Ended | | |
|---|---|---|---|
| | January 29, 2023 | January 30, 2022 | January 31, 2021 |
| Net revenue | $ 8,110,518 | $ 6,256,617 | $ 4,401,879 |
| Cost of goods sold | 3,618,178 | 2,648,052 | 1,937,888 |
| Gross profit | 4,492,340 | 3,608,565 | 2,463,991 |
| Selling, general and administrative expenses | 2,757,447 | 2,225,034 | 1,609,003 |
| Amortization of intangible assets | 8,752 | 8,782 | 5,160 |
| Impairment of goodwill and other assets | 407,913 | — | — |
| Acquisition-related expenses | — | 41,394 | 29,842 |
| Gain on disposal of assets | (10,180) | — | — |
| Income from operations | 1,328,408 | 1,333,355 | 819,986 |
| Other income (expense), net | 4,163 | 514 | (636) |
| Income before income tax expense | 1,332,571 | 1,333,869 | 819,350 |
| Income tax expense | 477,771 | 358,547 | 230,437 |
| Net income | $ 854,800 | $ 975,322 | $ 588,913 |
| | | | |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustment | $ (65,571) | $ (28,494) | $ 72,731 |
| Net investment hedge gains (losses) | 8,904 | 9,732 | (25,305) |
| Other comprehensive income (loss), net of tax | (56,667) | (18,762) | 47,426 |
| Comprehensive income | $ 798,133 | $ 956,560 | $ 636,339 |
| | | | |
| Basic earnings per share | $ 6.70 | $ 7.52 | $ 4.52 |
| Diluted earnings per share | $ 6.68 | $ 7.49 | $ 4.50 |
| Basic weighted-average number of shares outstanding | 127,666 | 129,768 | 130,289 |
| Diluted weighted-average number of shares outstanding | 128,017 | 130,295 | 130,871 |

See accompanying notes to the consolidated financial statements

**lululemon athletica inc.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
*(Amounts in thousands)*

| | Exchangeable Stock | Special Voting Stock | | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Shares | Par Value | Shares | Par Value | | | | |
| Balance as of February 2, 2020 | 6,227 | 6,227 | $ — | 124,122 | $ 621 | $ 355,541 | $ 1,820,637 | $ (224,581) | $ 1,952,218 |
| Net income | | | | | | | 588,913 | | 588,913 |
| Other comprehensive income (loss), net of tax | | | | | | | | 47,426 | 47,426 |
| Common stock issued upon exchange of exchangeable shares | (1,024) | (1,024) | — | 1,024 | 5 | (5) | | | — |
| Stock-based compensation expense | | | | | | 50,797 | | | 50,797 |
| Common stock issued upon settlement of stock-based compensation | | | | 532 | 3 | 15,260 | | | 15,263 |
| Shares withheld related to net share settlement of stock-based compensation | | | | (159) | (1) | (32,387) | | | (32,388) |
| Repurchase of common stock | | | | (369) | (2) | (539) | (63,122) | | (63,663) |
| Balance as of January 31, 2021 | 5,203 | 5,203 | $ — | 125,150 | $ 626 | $ 388,667 | $ 2,346,428 | $ (177,155) | $ 2,558,566 |
| Net income | | | | | | | 975,322 | | 975,322 |
| Other comprehensive income (loss), net of tax | | | | | | | | (18,762) | (18,762) |
| Stock-based compensation expense | | | | | | 69,137 | | | 69,137 |
| Common stock issued upon settlement of stock-based compensation | | | | 502 | 2 | 18,192 | | | 18,194 |
| Shares withheld related to net share settlement of stock-based compensation | | | | (153) | (1) | (49,808) | | | (49,809) |
| Repurchase of common stock | | | | (2,202) | (11) | (3,681) | (808,910) | | (812,602) |
| Balance as of January 30, 2022 | 5,203 | 5,203 | $ — | 123,297 | $ 616 | $ 422,507 | $ 2,512,840 | $ (195,917) | $ 2,740,046 |

| | Exchangeable Stock | Special Voting Stock | | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Shares | Par Value | Shares | Par Value | | | | |
| Net income | | | | | | | 854,800 | | 854,800 |
| Other comprehensive income (loss), net of tax | | | | | | | | (56,667) | (56,667) |
| Common stock issued upon exchange of exchangeable shares | (87) | (87) | — | 87 | — | — | | | — |
| Stock-based compensation expense | | | | | | 78,075 | | | 78,075 |
| Common stock issued upon settlement of stock-based compensation | | | | 322 | 2 | 11,702 | | | 11,704 |
| Shares withheld related to net share settlement of stock-based compensation | | | | (105) | — | (35,158) | | | (35,158) |
| Repurchase of common stock, including excise tax | | | | (1,396) | (7) | (2,481) | (441,513) | | (444,001) |
| Balance as of January 29, 2023 | 5,116 | 5,116 | $ — | 122,205 | $ 611 | $ 474,645 | $ 2,926,127 | $ (252,584) | $ 3,148,799 |

See accompanying notes to the consolidated financial statements

**lululemon athletica inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Amounts in thousands)*

| | Fiscal Year Ended | | |
|---|---|---|---|
| | January 29, 2023 | January 30, 2022 | January 31, 2021 |
| Cash flows from operating activities | | | |
| Net income | $ 854,800 | $ 975,322 | $ 588,913 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 291,791 | 224,206 | 185,478 |
| Impairment of goodwill and other assets | 407,913 | — | — |
| Gain on disposal of assets | (10,180) | — | — |
| Stock-based compensation expense | 78,075 | 69,137 | 50,797 |
| Derecognition of unredeemed gift card liability | (23,337) | (18,699) | (13,696) |
| Settlement of derivatives not designated in a hedging relationship | (38,649) | 15,191 | 4,485 |
| Deferred income taxes | 3,042 | (5,180) | 34,908 |
| Changes in operating assets and liabilities: | | | |
| Inventories | (510,510) | (323,609) | (96,548) |
| Prepaid and receivable income taxes | (66,714) | 20,108 | (53,966) |
| Prepaid expenses and other current assets | (113,820) | (82,404) | (70,999) |
| Other non-current assets | (36,518) | (17,556) | (49,056) |
| Accounts payable | (107,280) | 117,655 | 82,663 |
| Accrued liabilities and other | 65,364 | 103,878 | 99,161 |
| Accrued compensation and related expenses | 47,254 | 75,273 | (6,692) |
| Current and non-current income taxes payable | 35,986 | 120,778 | (24,125) |
| Unredeemed gift card liability | 68,266 | 71,441 | 47,962 |
| Right-of-use lease assets and current and non-current lease liabilities | 23,905 | 13,494 | 13,267 |
| Other current and non-current liabilities | (2,925) | 30,073 | 10,784 |
| Net cash provided by operating activities | 966,463 | 1,389,108 | 803,336 |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | (638,657) | (394,502) | (229,226) |
| Settlement of net investment hedges | 47,804 | (23,389) | (14,607) |
| Acquisition, net of cash acquired | — | — | (452,581) |
| Other investing activities | 20,916 | (10,000) | 882 |
| Net cash used in investing activities | (569,937) | (427,891) | (695,532) |
| Cash flows from financing activities | | | |
| Proceeds from settlement of stock-based compensation | 11,704 | 18,194 | 15,263 |
| Shares withheld related to net share settlement of stock-based compensation | (35,158) | (49,809) | (32,388) |
| Repurchase of common stock | (444,001) | (812,602) | (63,663) |
| Other financing activities | (32) | (770) | — |
| Net cash used in financing activities | (467,487) | (844,987) | (80,788) |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | (34,043) | (6,876) | 29,996 |
| Increase (decrease) in cash and cash equivalents | (105,004) | 109,354 | 57,012 |
| Cash and cash equivalents, beginning of period | $ 1,259,871 | $ 1,150,517 | $ 1,093,505 |
| Cash and cash equivalents, end of period | $ 1,154,867 | $ 1,259,871 | $ 1,150,517 |

See accompanying notes to the consolidated financial statements

**lululemon athletica inc.**

**INDEX FOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**lululemon athletica inc.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Nature of Operations and Basis of Presentation**

***Nature of operations***

lululemon athletica inc., a Delaware corporation, ("lululemon" and, together with its subsidiaries unless the context otherwise requires, the "Company") is engaged in the design, distribution, and retail of technical athletic apparel, footwear, and accessories, which are sold through company-operated stores, direct to consumer through e-commerce, outlets, sales to wholesale accounts, license and supply arrangements, recommerce, and sales from temporary locations. Recommerce is the sale of repurchased product via the Company's "Like New" program. The Company operates stores in the United States, the People's Republic of China ("PRC"), Canada, Australia, the United Kingdom, South Korea, Germany, New Zealand, Singapore, Japan, France, Ireland, Spain, Malaysia, Sweden, the Netherlands, Norway, and Switzerland. There were 655, 574, and 521 company-operated stores in operation as of January 29, 2023, January 30, 2022, and January 31, 2021, respectively. The Company also engages in the design and retail of in-home connected fitness equipment and associated content subscriptions through lululemon Studio, which was rebranded from the Company's former MIRROR brand during fiscal 2022.

***COVID-19 Pandemic***

The outbreak of a novel strain of coronavirus ("COVID-19") caused governments and public health officials to impose restrictions and recommend precautions to mitigate the spread of the virus.

The Company temporarily closed almost all of its retail locations for a significant portion of the first half of fiscal 2020. While most of the Company's retail locations have been open since then, certain locations were temporarily closed based on government and health authority guidance, including certain closures during 2022 in the PRC.

In response to the COVID-19 pandemic, various government programs were announced which provide financial relief for affected businesses. The most significant relief measures which the Company qualified for are the Employee Retention Credit under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in the United States, and the Canada Emergency Wage Subsidy ("CEWS") under the COVID-19 Economic Response Plan in Canada. During fiscal 2020 the Company recognized payroll subsidies totaling $37.1 million under these wage subsidy programs and similar plans in other jurisdictions. The Company utilized the grant accounting model and these subsidies were recorded as a reduction in the associated wage costs which the Company incurred, and were recognized in selling, general and administrative expenses. These subsidies partially offset the wages paid to employees while its retail locations were temporarily closed due to COVID-19. The Company did not recognize any payroll subsidies in fiscal 2022 and fiscal 2021.

The COVID-19 pandemic materially impacted the Company's operations. The extent to which COVID-19 continues to impact the Company's operations, and in turn, its operating results and financial position will depend on future developments, which are highly uncertain and cannot be predicted.

***Basis of presentation***

The consolidated financial statements have been presented in U.S. dollars and are prepared in accordance with United States generally accepted accounting principles ("GAAP").

The Company's 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 2022, fiscal 2021, and fiscal 2020 were each 52-week years. Fiscal 2022, 2021, and 2020 ended on January 29, 2023, January 30, 2022, and January 31, 2021, respectively, and are referred to as "2022," "2021," and "2020," respectively.

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses. Historically, the Company has recognized a significant portion of its operating profit in the fourth fiscal quarter of each year as a result of increased net revenue during the holiday season.

**Note 2. Summary of Significant Accounting Policies**

***Principles of consolidation***

The consolidated financial statements include the accounts of lululemon athletica inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand, bank balances, and short-term deposits with original maturities of three months or less. The Company has not experienced any losses related to these balances, and management believes the Company's credit risk to be minimal.

***Accounts receivable***

Accounts receivable primarily arise out of duty receivables, sales to wholesale accounts, and license and supply arrangements. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable. Receivables are written off against the allowance when management believes that the amount receivable will not be recovered. As of January 29, 2023, January 30, 2022, and January 31, 2021, the Company recorded an insignificant allowance for doubtful accounts.

***Inventories***

Inventories, consisting of finished goods, inventories in transit, and raw materials, are stated at the lower of cost and net realizable value. Cost is determined using weighted-average costs, and includes all costs incurred to deliver inventory to the Company's distribution centers including freight, non-refundable taxes, duty, and other landing costs.

The Company periodically reviews its inventories and makes a provision as necessary to appropriately value goods that are obsolete, have quality issues, or are damaged. The amount of the provision is equal to the difference between the cost of the inventory and its net realizable value based upon assumptions about product quality, damages, future demand, selling prices, and market conditions. If changes in market conditions result in reductions in the estimated net realizable value of its inventory below its previous estimate, the Company would increase its reserve in the period in which it made such a determination.

In addition, the Company provides for inventory shrinkage based on historical trends from actual physical inventory counts. Inventory shrinkage estimates are made to reduce the inventory value for lost or stolen items. The Company performs physical inventory counts and cycle counts throughout the year and adjusts the shrink reserve accordingly.

***Business combinations***

The purchase price of an acquisition is measured as the aggregate of the fair value of the consideration transferred including the acquisition-date fair value of the Company's previously held equity interests. The purchase price is allocated to the fair values of the tangible and intangible assets acquired and liabilities assumed, with any excess recorded as goodwill. These fair value determinations require judgment and may involve the use of significant estimates and assumptions. The purchase price allocation may be provisional during a measurement period of up to one year to provide reasonable time to obtain the information necessary to identify and measure the assets acquired and liabilities assumed. Any such measurement period adjustments are recognized in the period in which the adjustment amount is determined. Transaction costs associated with the acquisition are expensed as incurred.

***Goodwill***

Goodwill represents the excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree, and the acquisition-date fair value of the Company's previously held equity interest over the net assets acquired and liabilities assumed. Goodwill is allocated to the reporting unit which is expected to receive the benefit from the synergies of the combination.

Goodwill is tested annually for impairment or more frequently when an event or circumstance indicates that goodwill might be impaired. Generally, the Company first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If factors indicate that this is the case, the Company then estimates the fair value of the related reporting unit. If the fair value is less than the carrying value, the goodwill of the reporting unit is determined to be impaired and the Company will record an impairment equal to the excess of the carrying value over its fair value.

***Intangible assets***

Acquired finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, and are reviewed for impairment when events or circumstances indicate that the asset group to which the intangible assets belong might be impaired. The Company revises the estimated remaining useful life of these assets when events or changes in circumstances warrant a revision. If the Company revises the useful life, the unamortized balance is amortized over the remaining useful life on a prospective basis.

***Property and equipment***

Property and equipment are recorded at cost less accumulated depreciation. Direct internal and external costs related to software used for internal purposes which are incurred during the application development stage or for upgrades that add functionality are capitalized. All other costs related to internal use software are expensed as incurred. Property and equipment carrying values are reviewed for impairment when events or circumstances indicate that the asset group to which the property and equipment belong might be impaired.

Depreciation commences when an asset is ready for its intended use. Buildings are depreciated on a straight-line basis over the expected useful life of the asset, which is individually assessed, and estimated to be up to 40 years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the expected lease term and the estimated useful life of the improvement, to a maximum of 10 years for stores and 15 years for corporate offices and distribution centers. All other property and equipment are depreciated using the declining balance method as follows:

| | |
|---|---|
| Furniture and fixtures | 20% |
| Computer hardware and software | 20% - 50% |
| Equipment and vehicles | 20% - 30% |

***Cloud Computing Arrangements***

The Company incurs costs to implement cloud computing arrangements hosted by third party vendors. Costs incurred to implement cloud computing service arrangements are capitalized when incurred during the application development phase, and recognized as other non-current assets. Implementation costs are subsequently amortized over the expected term of the related cloud service. The carrying value of cloud computing implementation costs are tested for impairment when an event or circumstance indicates that the asset might be impaired. Changes in cloud computing arrangement implementation costs are classified within operating activities in the consolidated statements of cash flows.

***Impairment of long-lived assets***

Long-lived assets, including intangible assets with finite lives, held for use are evaluated for impairment when the occurrence of events or a change in circumstances indicates that the carrying value of the assets may not be recoverable as measured by comparing their carrying value to the estimated undiscounted future cash flows generated by their use and eventual disposition. Impaired assets are recorded at fair value, determined principally by discounting the future cash flows expected from their use and eventual disposition. Reductions in asset values resulting from impairment valuations are recognized in income in the period that the impairment is determined.

***Leased property and equipment***

At lease commencement, which is generally when the Company takes possession of the asset, the Company records a lease liability and corresponding right-of-use asset. Lease liabilities represent the present value of minimum lease payments over the expected lease term, which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. The present value of the lease liability is determined using the Company's incremental collateralized borrowing rate at the lease commencement.

Minimum lease payments include base rent, fixed escalation of rental payments, and rental payments that are adjusted periodically depending on a rate or index. In determining minimum lease payments, the Company does not separate non-lease components for real estate leases. Non-lease components are generally services that the lessor performs for the Company associated with the leased asset, such as common area maintenance.

Right-of-use assets represent the right to control the use of the leased asset during the lease and are initially recognized in an amount equal to the lease liability. In addition, prepaid rent, initial direct costs, and adjustments for lease incentives are components of the right-of-use asset. Over the lease term the lease expense is amortized on a straight-line basis beginning on the lease commencement date. Right-of-use assets are assessed for impairment as part of the impairment of long-lived assets, which is performed whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable.

Variable lease payments, including contingent rental payments based on sales volume, are recognized when the achievement of the specific target is probable. A right-of-use asset and lease liability are not recognized for leases with an initial term of 12 months or less, and the lease expense is recognized on a straight-line basis over the lease term.

The Company recognizes a liability for the fair value of asset retirement obligations ("AROs") when such obligations are incurred. The Company's AROs are primarily associated with leasehold improvements which, at the end of a lease, the Company is contractually obligated to remove in order to comply with the lease agreement. At the inception of a lease with such conditions, the Company records an ARO liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation. The liability is estimated based on a number of assumptions requiring management's judgment, including store closing costs, cost inflation rates and discount rates, and is accreted to its projected future value over time. The capitalized asset is depreciated using the convention for depreciation of leasehold improvement assets. Upon satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement costs incurred is recognized as an operating gain or loss in the consolidated statements of operations.

The Company recognizes a liability for a cost associated with a lease exit or disposal activity when such obligation is incurred. A lease exit or disposal liability is measured initially at its fair value in the period in which the liability is incurred. The Company estimates fair value at the cease-use date of its operating leases as the remaining lease rentals, reduced by estimated sublease rentals that could be reasonably obtained for the property, even where the Company does not intend to enter into a sublease. Estimating the cost of certain lease exit costs involves subjective assumptions, including the time it would take to sublease the leased location and the related potential sublease income. The estimated accruals for these costs could be significantly affected if future experience differs from the assumptions used in the initial estimate.

***Revenue recognition***

Net revenue is comprised of company-operated store net revenue, direct to consumer net revenue through websites and mobile apps, including mobile apps on in-store devices that allow demand to be fulfilled via the Company's distribution centers, and other net revenue, which includes revenue from outlets, sales to wholesale accounts, license and supply arrangement net revenue, which consists of royalties as well as sales of the Company's products to licensees, recommerce revenue, revenue from temporary locations, and lululemon Studio revenue. All revenue is reported net of markdowns, discounts, sales taxes collected from customers on behalf of taxing authorities, and returns.

lululemon Studio generates net revenue from the sale of in-home fitness equipment and associated content subscriptions. Certain in-home fitness contracts contain multiple performance obligations, including hardware and a subscription service commitment. For customer contracts that contain multiple performance obligations the Company accounts for individual performance obligations if they are distinct. The transaction price, net of discounts, is allocated to each performance obligation based on its standalone selling price.

Revenue is recognized when performance obligations are satisfied through the transfer of control of promised goods or services to the Company's customers. Control transfers once a customer has the ability to direct the use of, and obtain substantially all of the benefits from, the product. This includes the transfer of legal title, physical possession, the risks and rewards of ownership, and customer acceptance. Revenue from company-operated stores and other retail locations is recognized at the point of sale. Direct to consumer revenue, sales to wholesale accounts and in-home fitness hardware sales are recognized upon receipt by the customer. In certain arrangements the Company receives payment before the customer receives the promised good. These payments are initially recorded as deferred revenue, and recognized as revenue in the period when control is transferred to the customer.

Revenue is presented net of an allowance for estimated returns. The Company's liability for sales return refunds is recognized within accrued liabilities and other, and an asset for the value of inventory which is expected to be returned is recognized within other prepaid expenses and other current assets on the consolidated balance sheets. As of January 29, 2023 and January 30, 2022, the sales return allowance was $55.5 million and $41.7 million, respectively.

Shipping fees billed to customers are recorded as revenue, and shipping costs are recognized within selling, general and administrative expenses in the same period the related revenue is recognized.

Proceeds from the sale of gift cards are initially deferred and recognized within unredeemed gift card liability on the consolidated balance sheets, and are recognized as revenue when tendered for payment. While the Company will continue to honor all gift cards presented for payment, to the extent management determines there is no requirement to remit unused card balances to government agencies under unclaimed property laws, the portion of card balances not expected to be redeemed are recognized in net revenue in proportion to the gift cards which have been redeemed, under the redemption recognition method. For 2022, 2021, and 2020, net revenue recognized on unredeemed gift card balances was $23.3 million, $18.7 million, and $13.7 million, respectively.

***Cost of goods sold***

Cost of goods sold includes:

- the cost of purchased merchandise, which includes acquisition and production costs including raw material and labor, as applicable;
- the cost incurred to deliver inventory to the Company's distribution centers including freight, non-refundable taxes, duty, and other landing costs;
- the cost of the Company's distribution centers, such as labor, rent, utilities, and depreciation;
- the cost of the Company's production, design, research and development, distribution, and merchandising departments including salaries, stock-based compensation and benefits, and other expenses;
- occupancy costs such as minimum rent, contingent rent where applicable, property taxes, utilities, and depreciation expense for the Company's company-operated store locations;
- hemming costs;
- shrink and inventory provision expense; and
- the cost of digital content subscription services, including the costs of content creation, studio overhead, and related production departments.

***Selling, general and administrative expenses***

Selling, general and administrative expenses consist of all operating costs not otherwise included in cost of goods sold, intangible asset amortization, or acquisition-related expenses. The Company's selling, general and administrative expenses include the costs of corporate and retail employee wages and benefits, costs to transport the Company's products from the distribution facilities to the Company's retail locations and e-commerce guests, professional fees, marketing, technology, human resources, accounting, legal, corporate facility and occupancy costs, and depreciation and amortization expense other than in cost of goods sold.

For 2022, 2021, and 2020, the Company incurred costs to transport its products from its distribution facilities to its retail locations and e-commerce guests of $353.7 million, $270.8 million, and $232.4 million, respectively.

***Advertising and Marketing Costs***

Advertising costs, including the costs to produce advertising, are expensed as incurred. Advertising expenses were $328.6 million, $297.5 million, and $216.0 million for 2022, 2021, and 2020, respectively, and are included within selling, general and administrative expenses.

***Store pre-opening costs***

Operating costs incurred prior to the opening of new stores are expensed as incurred as selling, general and administrative expenses.

***Income taxes***

The Company follows the liability method with respect to accounting for income taxes. Deferred income tax assets and liabilities are determined based on the temporary differences between the carrying amounts and the tax basis of assets and liabilities, and for tax losses, tax credit carryforwards, and other tax attributes. Deferred income tax assets and liabilities are measured using enacted tax rates, for the appropriate tax jurisdiction, that are expected to be in effect when these differences are anticipated to reverse.

The Company has not recognized U.S. state income taxes and foreign withholding taxes on undistributed earnings of foreign subsidiaries which the Company has determined to be indefinitely reinvested.

Deferred income tax assets are reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The evaluation as to the likelihood of realizing the benefit of a deferred income tax asset is based on the timing of scheduled reversals of deferred tax liabilities, taxable income forecasts, and tax-planning strategies. The recognition of a deferred income tax asset is based upon several assumptions and forecasts, including current and anticipated taxable income, the utilization of previously unrealized non-operating loss carryforwards, and regulatory reviews of tax filings.

The Company evaluates its tax filing positions and recognizes the largest amount of tax benefit that is considered more likely than not to be sustained upon examination by the relevant taxing authorities based on the technical merits of the position. This determination requires the use of significant judgment. Income tax expense is adjusted in the period in which an uncertain tax position is effectively settled, the statute of limitations expires, facts or circumstances change, tax laws change, or new information becomes available. The Company's policy is to recognize interest expense and penalties related to income tax matters as part of other income (expense), net. Accrued interest and penalties are included within the related tax liability on the Company's consolidated balance sheets.

The Company treats the global intangible low-taxed income ("GILTI") tax as a current period expense.

***Fair value of financial instruments***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are made using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

- Level 1 - defined as observable inputs such as quoted prices in active markets;
- Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value measurement is categorized in its entirety by reference to its lowest level of significant input.

The Company records cash, accounts receivable, accounts payable, and accrued liabilities at cost. The carrying values of these instruments approximate their fair value due to their short-term maturities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

The Company holds certain assets and liabilities that are required to be measured at fair value on a recurring basis, and performs certain valuations on a non-recurring basis, which are outlined in Note 15. Fair Value Measurement.

***Foreign currency***

The functional currency for each entity included in these consolidated financial statements that is domiciled outside of the United States is generally the applicable local currency. Assets and liabilities of each foreign entity are translated into U.S. dollars at the exchange rate in effect on the balance sheet date. Net revenue and expenses are translated at the average rate in effect during the period. Unrealized translation gains and losses are recorded as a foreign currency translation adjustment, which is included in other comprehensive income (loss), net of tax, which is a component of accumulated other comprehensive income or loss included in stockholders' equity.

Foreign currency transactions denominated in a currency other than an entity's functional currency are remeasured into the functional currency with any resulting gains and losses recognized in selling, general and administrative expenses, except for gains and losses arising on intercompany foreign currency transactions that are of a long-term investment nature, which are recorded as a net investment hedge gains (losses) in other comprehensive income (loss), net of tax.

***Derivative financial instruments***

The Company uses derivative financial instruments to manage its exposure to certain foreign currency exchange rate risks.

*Net investment hedges*. The Company enters into certain forward currency contracts that are designated as net investment hedges. The effective portions of the hedges are reported in accumulated other comprehensive income or loss, net of tax, and will subsequently be reclassified to net earnings in the period in which the hedged investment is either sold or substantially liquidated. Hedge effectiveness is measured using a method based on changes in forward exchange rates. The Company classifies the cash flows at settlement of its net investment hedges within investing activities in the consolidated statements of cash flows.

*Derivatives not designated as hedging instruments*. The Company also enters into certain forward currency contracts that are not designated as net investment hedges. They are designed to economically hedge the foreign exchange revaluation gains and losses of certain monetary assets and liabilities. The Company has not applied hedge accounting to these instruments and the change in fair value of these derivatives is recorded within selling, general and administrative expenses. The Company classifies the cash flows at settlement of its forward currency contracts which are not designated in hedging relationships within operating activities in the consolidated statements of cash flows.

The Company presents its derivative assets and derivative liabilities at their gross fair values within prepaid expenses and other current assets and other current liabilities on the consolidated balance sheets. However, the Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions.

The Company does not enter into derivative contracts for speculative or trading purposes. Additional information on the Company's derivative financial instruments is included in Note 15. Fair Value Measurement and Note 16. Derivative Financial Instruments.

***Concentration of credit risk***

Accounts receivable are primarily from inventory duty receivables, wholesale accounts, and from license and supply arrangements. The Company generally does not require collateral to support the accounts receivable; however, in certain circumstances, the Company may require parties to provide payment for goods prior to delivery of the goods or to provide letters of credit. The accounts receivable are net of an allowance for doubtful accounts, which is established based on management's assessment of the credit risk of the underlying accounts.

Cash and cash equivalents are held with high quality financial institutions. The amount of cash and cash equivalents held with certain financial institutions exceeds government-insured limits. The Company is also exposed to credit-related losses in the event of nonperformance by the counterparties to the forward currency contracts. The credit risk amount is the Company's unrealized gains on its derivative instruments, based on foreign currency rates at the time of nonperformance. The Company has not experienced any losses related to these items, and it believes credit risk to be minimal. The Company seeks to minimize its 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 it transacts. It seeks to limit the amount of exposure with any one counterparty.

The Company's derivative contracts contain certain credit risk-related contingent features. Under certain circumstances, including an event of default, bankruptcy, termination, and cross default under the Company's North American revolving credit facility, the Company may be required to make immediate payment for outstanding liabilities under its derivative contracts.

***Stock-based compensation***

The Company accounts for stock-based compensation using the fair value method. The fair value of awards granted is estimated at the date of grant. Awards settled in cash or common stock at the election of the employee are remeasured to fair value at the end of each reporting period until settlement. The employee compensation expense is recognized on a straight-line basis over the requisite service period with the offsetting credit to additional paid-in capital for awards that are settled in common shares, and with the offsetting credit to accrued compensation and related expenses for awards that are settled in cash or common stock at the election of the employee.

For awards with service and/or performance conditions, the amount of compensation expense recognized is based on the number of awards expected to vest, reflecting estimated expected forfeitures, and is adjusted to reflect those awards that do ultimately vest. The forfeiture rate is based on management's best estimate of expected forfeitures, taking into consideration historical trends and expected future behavior. For awards with performance conditions, the Company recognizes the compensation expense if and when the Company concludes that it is probable that the performance condition will be achieved. The Company reassesses the probability of achieving the performance condition at each reporting date.

The grant date fair value of each stock option granted is estimated on the grant date using the Black-Scholes model, and the grant date fair value of restricted shares, performance-based restricted stock units, and restricted stock units is based on the closing price of the Company's common stock on the grant date. Restricted stock units that are settled in cash or common stock at the election of the employee are remeasured to fair value at the end of each reporting period until settlement. This fair value is based on the closing price of the Company's common stock on the last business day before each period end.

***Earnings per share***

Earnings per share is calculated using the weighted-average number of common and exchangeable shares outstanding during the period. Exchangeable shares are the equivalent of common shares in all material respects. All classes of stock have in effect the same rights and share equally in undistributed net income. Diluted earnings per share is calculated by dividing net income available to stockholders for the period by the diluted weighted-average number of shares outstanding during the period. Diluted earnings per share reflects the potential dilution from common shares issuable through stock options, performance-based restricted stock units that have satisfied their performance factor, restricted shares, and restricted stock units using the treasury stock method.

***Contingencies***

In the ordinary course of business, the Company is involved in legal proceedings regarding contractual and employment relationships and a variety of other matters. The Company records contingent liabilities resulting from claims against us, when a loss is assessed to be probable and the amount of the loss is reasonably estimable.

***Use of estimates***

The preparation of financial statements in conformity with GAAP in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of net revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Recently adopted accounting pronouncements***

The Company considers the applicability and impact of all Accounting Standard Updates ("ASUs"). ASUs adopted during 2022 not listed below were assessed, and determined to be either not applicable or are expected to have minimal impact on its consolidated financial position or results of operations.

In November 2021, the FASB issued ASC 832, Government Assistance to require annual disclosures about the nature of certain government assistance received, the accounting policy used to account for the transactions, the location in the financial statements where such transactions were recorded and significant terms and conditions associated with such transactions. The Company adopted this update prospectively during the first quarter of 2022 and it did not have a material impact on the Company's consolidated financial statements.

***Recently issued accounting pronouncements***

ASUs recently issued not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on its consolidated financial position or results of operations.

In September 2022, the FASB issued ASC 405-50, Liabilities - Supplier Finance Programs, to require annual and interim disclosures about the key terms of supplier finance programs used in connection with the purchase of goods and services along with information about the obligations under these programs, including the amount outstanding at the end of each reporting period and a rollforward of those obligations. The guidance is effective for fiscal years beginning after December 15, 2022, including interim periods in those fiscal years, with early adoption permitted. The Company is currently evaluating the impact that this new guidance may have on its consolidated financial statements.

**Note 3. Inventories**

| | January 29, 2023 | January 30, 2022 |
|---|---|---|
| | *(In thousands)* | |
| Inventories, at cost | $ 1,571,981 | $ 1,004,526 |
| Provision to reduce inventories to net realizable value: | | |
| Obsolescence provision | (84,231) | (11,325) |
| Damages provision | (38,996) | (24,404) |
| Shrink provision | (1,387) | (2,316) |
| | (124,614) | (38,045) |
| Inventories | $ 1,447,367 | $ 966,481 |

The obsolescence provision as of January 29, 2023 included $62.9 million related to lululemon Studio hardware recognized during the fourth quarter of 2022. Please refer to Note 8. Impairment of Goodwill and Other Assets for further details.

**Note 4. Prepaid Expenses and Other Current Assets**

| | January 29, 2023 | January 30, 2022 |
|---|---|---|
| | *(In thousands)* | |
| Prepaid inventories | $ 1,082 | $ 42,691 |
| Other prepaid expenses | 140,921 | 98,254 |
| Forward currency contract assets | 16,707 | 19,077 |
| Other current assets | 79,962 | 32,550 |
| Prepaid expenses and other current assets | $ 238,672 | $ 192,572 |

**Note 5. Property and Equipment**

| | January 29, 2023 | January 30, 2022 |
|---|---|---|
| | *(In thousands)* | |
| Land | $ 80,692 | $ 74,297 |
| Buildings | 28,850 | 30,880 |
| Leasehold improvements | 818,071 | 676,762 |
| Furniture and fixtures | 144,572 | 125,213 |
| Computer hardware | 166,768 | 130,393 |
| Computer software | 742,295 | 532,819 |
| Equipment and vehicles | 30,766 | 23,060 |
| Work in progress | 244,898 | 163,420 |
| Property and equipment, gross | 2,256,912 | 1,756,844 |
| Accumulated depreciation | (987,298) | (829,134) |
| Property and equipment, net | $ 1,269,614 | $ 927,710 |

There were capitalized computer software costs of $67.9 million, $35.8 million, and $23.5 million in 2022, 2021, and 2020, respectively, associated with internally developed software.

Depreciation expense related to property and equipment was $282.7 million, $215.3 million, and $180.1 million for 2022, 2021, and 2020, respectively.

***Gain on Disposal of Assets***

During the second quarter of 2022, the Company completed the sale of an administrative office building, which resulted in a pre-tax gain of $10.2 million. The income tax effect of the gain on disposal of assets was an expense of $1.7 million.

**Note 6. Goodwill**

The changes in the carrying amounts of goodwill were as follows:

| | | Goodwill |
|---|---|---|
| | | *(In thousands)* |
| Balance as of January 31, 2021 | $ | 386,877 |
| Effect of foreign currency translation | | 3 |
| Balance as of January 30, 2022 | $ | 386,880 |
| Impairment of goodwill | | (362,492) |
| Effect of foreign currency translation | | (244) |
| Balance as of January 29, 2023 | $ | 24,144 |

The Company recognized an impairment of $362.5 million related to the lululemon Studio reporting unit as of January 29, 2023 on the goodwill that arose from the acquisition of MIRROR. lululemon Studio is included within Other in the Company's segment disclosures. Please refer to Note 8. Impairment of Goodwill and Other Assets for further information.

All of the Company's $24.1 million of goodwill as of January 29, 2023 relates to the company-operated stores segment.

**Note 7. Intangible Assets**

A summary of the balances of the Company's intangible assets as of January 29, 2023, January 30, 2022, is presented below:

| | January 29, 2023 | | | | | January 30, 2022 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Impairment | Net Carrying Amount | Remaining Useful Life (Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Remaining Useful Life (Years) |
| | *(In thousands, except in years)* | | | | | | | | |
| MIRROR brand | $ 26,500 | $ (3,423) | $ (20,077) | $ 3,000 | 3.0 | $ 26,500 | $ (2,098) | $ 24,402 | 18.4 |
| Customer relationships | 28,000 | (7,492) | (20,508) | — | n/a | 28,000 | (4,592) | 23,408 | 8.4 |
| Technology | 25,500 | (8,956) | — | 16,544 | 3.0 | 25,500 | (5,489) | 20,011 | 5.9 |
| Content | 5,000 | (2,583) | — | 2,417 | 2.4 | 5,000 | (1,583) | 3,417 | 3.4 |
| Other | 270 | (270) | — | — | n/a | 270 | (209) | 61 | 0.7 |
| Intangible assets | $ 85,270 | $ (22,724) | $ (40,585) | $ 21,961 | 2.9 | $ 85,270 | $ (13,971) | $ 71,299 | 10.9 |

Amortization of intangible assets was $8.8 million, $8.8 million, and $5.2 million in 2022, 2021, and 2020, respectively. As of January 29, 2023, the Company recorded an impairment charge of $40.6 million related to the intangible assets in the lululemon Studio reporting unit. Please refer to Note 8. Impairment of Goodwill and Other Assets for further information. There were no impairment charges in 2021 and 2020.

The following table presents the future expected amortization expense as of January 29, 2023:

| | | January 29, 2023 |
|---|---|---|
| | | *(In thousands)* |
| 2023 | $ | 7,515 |
| 2024 | | 7,515 |
| 2025 | | 6,931 |
| Total estimated future amortization expense | $ | 21,961 |

**Note 8. Impairment of Goodwill and Other Assets**

Events as of January 29, 2023 indicated the Company should conduct an impairment test for the goodwill, intangible assets, and property and equipment related to lululemon Studio (formerly MIRROR). Sales of hardware units did not meet the

Company's fourth quarter expectations and the Company revised its short and long term forecasts for lululemon Studio, with an adverse impact on expected cash flows. As a result, the Company updated its strategy for the lululemon Studio reporting unit.

During the fourth quarter of 2022, the Company recorded impairment of goodwill and other assets related to the lululemon Studio business unit. The following table summarizes the amounts recognized:

| | | 2022 |
|---|---|---|
| | | *(In thousands)* |
| Costs recorded in cost of goods sold: | | |
| Obsolescence provision | $ | 62,928 |
| | | |
| Costs recorded in operating expenses: | | |
| Impairment of goodwill | $ | 362,492 |
| Impairment of intangible assets | | 40,585 |
| Impairment of property and equipment | | 4,836 |
| Impairment of goodwill and other assets | | 407,913 |
| | | |
| Total pre-tax charges | $ | 470,841 |
| | | |
| Income tax effects of charges | $ | (28,171) |
| Total after-tax charges | $ | 442,670 |

***Goodwill***

To perform the goodwill impairment test on January 29, 2023, the Company used a discounted cash flow model to estimate the fair value of the lululemon Studio reporting unit based on the updated strategic plans, supplemented by market comparable analysis, which indicated the fair value of lululemon Studio was lower than its carrying value, and led to a recognition of an impairment of goodwill of $362.5 million. The key assumptions used to estimate the fair value of the lululemon Studio reporting unit were the revenue growth rates, operating profit margins, and the discount rate. The fair value of the lululemon Studio reporting unit is a Level 3 fair value measurement.

***Intangible assets***

Undiscounted cash flows of the lululemon Studio asset group to which the intangible assets belong were less than their carrying value, and therefore the Company calculated the fair value of the asset group, which was also less than its carrying value. This resulted in impairments of $40.6 million relating to the MIRROR brand, which is associated with in-home hardware, and to the customer relationship intangible assets that were recognized as part of the acquisition. The carrying value of individual long-lived assets was not reduced to lower than their fair value. The fair values of the brand and the customer relationships were based on a relief from royalty method and a discounted cash flow model respectively, and are Level 3 fair value measurements.

***Inventories***

The change in strategy related to lululemon Studio to focus on digital app-based services means the Company no longer expects to be able to sell all of the lululemon Studio hardware inventory above cost and it recognized an obsolescence provision of $62.9 million as of January 29, 2023. The net realizable value was determined based on hardware sales forecasts and assumptions regarding liquidation value. If the Company does not achieve its hardware sales forecasts, has to sell the hardware at prices lower than forecast, or is unable to liquidate excess inventory this could result in additional expense in the period in which such a determination is made.

**Note 9. Acquisition-Related Expenses**

In connection with the acquisition of MIRROR, the Company recognized certain expenses which were recognized within acquisition-related expenses in the consolidated statements of operations. These amounts included acquisition-related compensation, transaction and integration costs, and a gain on the Company's existing investment in MIRROR. The amounts recognized were $41.4 million and $29.8 million in 2021 and 2020, respectively. There were no acquisition-related expenses recognized in 2022.

**Note 10. Other Non-Current Assets**

| | January 29, 2023 | January 30, 2022 |
|---|---|---|
| | *(In thousands)* | |
| Cloud computing arrangement implementation costs | $ 114,700 | $ 89,334 |
| Security deposits | 28,447 | 24,083 |
| Other | 12,898 | 18,685 |
| Other non-current assets | $ 156,045 | $ 132,102 |

As of January 29, 2023 and January 30, 2022, cloud computing arrangement implementation costs consisted of deferred costs of $212.4 million and $138.4 million, respectively, and associated accumulated amortization of $97.7 million and $49.0 million, respectively.

**Note 11. Accrued Liabilities and Other**

| | January 29, 2023 | January 30, 2022 |
|---|---|---|
| | *(In thousands)* | |
| Accrued operating expenses | $ 169,429 | $ 116,822 |
| Accrued freight | 57,692 | 71,390 |
| Sales return allowances | 55,528 | 41,690 |
| Forward currency contract liabilities | 25,625 | 18,985 |
| Accrued duty | 21,046 | 27,182 |
| Sales tax collected | 20,183 | 13,540 |
| Accrued capital expenditures | 19,365 | 9,616 |
| Accrued rent | 12,223 | 11,254 |
| Accrued inventory liabilities | 4,345 | 4,005 |
| Other | 13,787 | 16,316 |
| Accrued liabilities and other | $ 399,223 | $ 330,800 |

**Note 12. Revolving Credit Facilities**

***North America revolving credit facility***

On December 14, 2021, the Company entered into an amended and restated credit agreement extending its existing credit facility, which 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. Borrowings under the credit facility may be prepaid and commitments may be reduced or terminated without premium or penalty (other than customary breakage costs).

As of January 29, 2023, aside from letters of credit of $6.5 million, the Company had no other borrowings outstanding under this credit facility.

Borrowings made under the credit facility bear interest at a rate per annum equal to, at the Company's option, either (a) a rate based on the Secured Overnight Financing Rate as administered by the Federal Reserve Bank of New York ("SOFR"), or (b) an alternate base rate, plus, in each case, an applicable margin. The applicable margin is determined by reference to a pricing grid, based on the ratio of indebtedness to earnings before interest, tax, depreciation, amortization, and rent ("EBITDAR") and ranges between 1.000%-1.375% for SOFR loans and 0.000%-0.375% for alternate base rate or Canadian prime rate loans. Additionally, a commitment fee of between 0.100%-0.200%, also determined by reference to the pricing grid, is payable on the average daily unused amounts under the credit facility.

The applicable interest rates and commitment fees are subject to adjustment based on certain sustainability key performance indicators ("KPIs"). The two KPIs are based on greenhouse gas emissions intensity reduction and gender pay equity, and the Company's performance against certain targets measured on an annual basis could result in positive or negative sustainability rate adjustments of 2.50 basis points to its drawn pricing and positive or negative sustainability fee adjustments of 0.50 basis points to its undrawn pricing.

The credit agreement contains negative covenants that, among other things and subject to certain exceptions, limit the ability of the Company's subsidiaries to incur indebtedness, incur liens, undergo fundamental changes, make dispositions of all or substantially all of their assets, alter their businesses and enter into agreements limiting subsidiary dividends and distributions.

The Company's financial covenants include maintaining an operating lease adjusted leverage ratio of not greater than 3.25:1.00 and the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) of not less than 2.00:1.00. The credit agreement also contains certain customary representations, warranties, affirmative covenants, and events of default (including, among others, an event of default upon the occurrence of a change of control). If an event of default occurs, the credit agreement may be terminated, and the maturity of any outstanding amounts may be accelerated. As of January 29, 2023, the Company was in compliance with the covenants of the credit facility.

***China Mainland revolving credit facility***

In December 2019, the Company entered into an uncommitted and unsecured 130.0 million Chinese Yuan ($19.2 million) revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan ($33.9 million) during 2020. It is comprised of a revolving loan of up to 200.0 million Chinese Yuan ($29.5 million) and a financial guarantee facility of up to 30.0 million Chinese Yuan ($4.4 million), or its equivalent in another currency. Loans are available for a period not to exceed 12 months, at an interest rate equal to the loan prime rate plus a spread of 0.5175%. The Company is required to follow certain covenants. As of January 29, 2023, the Company was in compliance with the covenants and, aside from letters of credit of 14.3 million Chinese Yuan ($2.1 million), there were no other borrowings or guarantees outstanding under this credit facility.

***364-Day revolving credit facility***

In June 2020, the Company obtained a 364-day $300.0 million committed and unsecured revolving credit facility. In December 2020, the Company elected to terminate this credit facility.

**Note 13. Stockholders' Equity**

***Special voting stock and exchangeable shares***

The holders of the special voting stock are entitled to one vote for each share held. The special voting shares are not entitled to receive dividends or distributions or receive any consideration in the event of a liquidation, dissolution, or wind-up. To the extent that exchangeable shares as described below are exchanged for common stock, a corresponding number of special voting shares will be cancelled without consideration.

The holders of the exchangeable shares have dividend and liquidation rights equivalent to those of holders of the common shares of the Company. The exchangeable shares can be converted on a one for one basis by the holder at any time into common shares of the Company plus a cash payment for any accrued and unpaid dividends. Holders of exchangeable shares are entitled to the same or economically equivalent dividend as declared on the common stock of the Company. The exchangeable shares are non-voting. The Company has the right to convert the exchangeable shares into common shares of the Company at any time after the earliest of July 26, 2047, the date on which fewer than 4.2 million exchangeable shares are outstanding, or in the event of certain events such as a change in control.

**Note 14. Stock-Based Compensation and Benefit Plans**

***Stock-based compensation plans***

The Company's eligible employees participate in various stock-based compensation plans, provided directly by the Company.

In June 2014, the Company's stockholders approved the adoption of the lululemon athletica inc. 2014 Equity Incentive Plan ("2014 Plan"). The 2014 Plan provides for awards in the form of stock options, stock appreciation rights, restricted stock purchase rights, restricted share bonuses, restricted stock units, performance shares, performance-based restricted stock units, cash-based awards, other stock-based awards, and deferred compensation awards to employees (including officers and directors who are also employees), consultants, and directors of the Company.

The Company has granted stock options, performance-based restricted stock units, restricted stock units, and restricted shares. Stock options granted to date generally have a four-year vesting period and vest at a rate of 25% each year on the anniversary date of the grant. Stock options generally expire on the earlier of seven years from the date of grant, or a specified period of time following termination. Performance-based restricted stock units issued generally vest three years from the grant date and restricted shares generally vest one year from the grant date. Restricted stock units granted generally have a three-year vesting period and vest at a certain percentage each year on the anniversary date of the grant.

The Company issues previously unissued shares upon the exercise of Company options, vesting of performance-based restricted stock units or restricted stock units that are settled in common stock, and granting of restricted shares.

Stock-based compensation expense charged to income for the plans was $77.2 million, $66.4 million, and $56.6 million for 2022, 2021, and 2020, respectively.

Total unrecognized compensation cost for all stock-based compensation plans was $118.0 million as of January 29, 2023, which is expected to be recognized over a weighted-average period of 2.1 years, and was $96.7 million as of January 30, 2022 over a weighted-average period of 2.0 years.

A summary of the balances of the Company's stock-based compensation plans as of January 29, 2023, January 30, 2022, and January 31, 2021, and changes during the fiscal years then ended is presented below:

| | Stock Options | | Performance-Based Restricted Stock Units | | Restricted Shares | | Restricted Stock Units | | Restricted Stock Units (Liability Accounting) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | Weighted-Average Exercise Price | Number | Weighted-Average Grant Date Fair Value | Number | Weighted-Average Grant Date Fair Value | Number | Weighted-Average Grant Date Fair Value | Number | Weighted-Average Fair Value |
| | | | | | *(In thousands, except per share amounts)* | | | | | |
| Balance as of February 2, 2020 | 776 | $ 113.41 | 238 | $ 103.52 | 7 | $ 175.82 | 333 | $ 108.44 | 29 | $ 239.39 |
| Granted | 241 | 182.78 | 140 | 122.21 | 4 | 299.09 | 130 | 208.35 | — | — |
| Exercised/vested | 182 | 83.89 | 171 | 63.03 | 7 | 175.82 | 175 | 87.31 | 14 | 366.42 |
| Forfeited/expired | 31 | 155.33 | 8 | 155.08 | — | — | 13 | 162.60 | — | — |
| Balance as of January 31, 2021 | 804 | $ 139.27 | 199 | $ 149.20 | 4 | $ 299.09 | 275 | $ 166.50 | 15 | $ 328.68 |
| Granted | 194 | 310.29 | 139 | 185.37 | 4 | 326.70 | 129 | 331.42 | — | — |
| Exercised/vested | 174 | 104.85 | 165 | 100.89 | 4 | 299.09 | 144 | 139.33 | 15 | 397.83 |
| Forfeited/expired | 35 | 199.76 | 6 | 216.62 | — | — | 22 | 235.23 | — | — |
| Balance as of January 30, 2022 | 789 | $ 186.10 | 167 | $ 225.27 | 4 | $ 326.70 | 238 | $ 265.90 | — | $ — |
| Granted | 192 | 371.04 | 117 | 274.90 | 5 | 308.66 | 120 | 364.51 | — | — |
| Exercised/vested | 93 | 127.68 | 114 | 170.04 | 4 | 326.70 | 111 | 241.02 | — | — |
| Forfeited/expired | 22 | 286.56 | 4 | 307.76 | — | — | 26 | 334.39 | — | — |
| Balance as of January 29, 2023 | 866 | $ 230.78 | 166 | $ 295.93 | 5 | $ 308.66 | 221 | $ 323.89 | — | $ — |

A total of 12.3 million shares of the Company's common stock have been authorized for future issuance under the Company's 2014 Equity Incentive Plan.

The Company's performance-based restricted stock units are awarded to eligible employees and entitle the grantee to receive a maximum of two shares of common stock per performance-based restricted stock unit if the Company achieves specified performance goals and the grantee remains employed during the vesting period. The fair value of performance-based restricted stock units is based on the closing price of the Company's common stock on the grant date. Expense for performance-based restricted stock units is recognized when it is probable that the performance goal will be achieved.

The grant date fair value of the restricted shares and restricted stock units is based on the closing price of the Company's common stock on the grant date. Restricted stock units that are settled in cash or common stock at the election of the employee are remeasured to fair value at the end of each reporting period until settlement. This fair value is based on the closing price of the Company's common stock on the last business day before each period end.

The grant date fair value of each stock option granted is estimated on the date of grant using the Black-Scholes model. The closing price of the Company's common stock on the grant date is used in the model. The assumptions used to calculate the fair value of the options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon the historical experience of similar awards, giving consideration to expectations of future employee exercise behavior. Expected volatility is based upon the historical volatility of the Company's common stock for the period corresponding with the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve for the period corresponding with the expected term of the options. The following are weighted averages of the assumptions that were used in calculating the fair value of stock options granted in 2022, 2021, and 2020:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Expected term | 3.75 years | 3.75 years | 3.61 years |
| Expected volatility | 40.00 % | 39.32 % | 40.01 % |
| Risk-free interest rate | 2.51 % | 0.50 % | 0.32 % |
| Dividend yield | — % | — % | — % |

The following table summarizes information about stock options outstanding and exercisable as of January 29, 2023:

| | Outstanding | | | Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Life (Years) | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Life (Years) |
| | *(In thousands, except per share amounts and years)* | | | | | |
| $2.78-$155.97 | 173 | $ 98.43 | 2.1 | 173 | $ 98.43 | 2.1 |
| $167.54-$174.52 | 170 | 167.78 | 3.2 | 111 | 167.76 | 3.2 |
| $188.84-$296.36 | 161 | 189.55 | 4.2 | 69 | 189.61 | 4.2 |
| $306.71-$326.39 | 179 | 307.53 | 5.3 | 38 | 307.48 | 5.1 |
| $327.22-$426.44 | 183 | 375.52 | 6.1 | 4 | 362.50 | 5.3 |
| | 866 | $ 230.78 | 4.2 | 395 | $ 156.64 | 3.1 |
| Intrinsic value | $ 81,280 | | | $ 61,050 | | |

As of January 29, 2023, the unrecognized compensation cost related to these options was $29.7 million, which is expected to be recognized over a weighted-average period of 2.6 years. The weighted-average grant date fair value of options granted during 2022, 2021, and 2020 was $124.17, $94.09, and $74.91, respectively.

The following table summarizes the intrinsic value of options exercised and awards that vested during 2022, 2021, and 2020:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | *(In thousands)* | |
| Stock options | $ 19,906 | $ 46,761 | $ 37,022 |
| Performance-based restricted stock units | 37,672 | 52,495 | 32,384 |
| Restricted shares | 1,152 | 1,364 | 2,115 |
| Restricted stock units | 37,275 | 47,042 | 37,791 |
| Restricted stock units (liability accounting) | — | 5,938 | 5,309 |
| | $ 96,005 | $ 153,600 | $ 114,621 |

***Employee share purchase plan***

The Company's board of directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. Contributions are made by eligible employees, subject to certain limits defined in the ESPP, and the Company matches one-third of the contribution. The maximum number of shares authorized to be purchased under the ESPP is 6.0 million shares. All shares purchased under the ESPP are purchased in the open market. During 2022, there were 0.1 million shares purchased.

***Defined contribution pension plans***

The Company offers defined contribution pension plans to its eligible employees. Participating employees may elect to defer and contribute a portion of their eligible compensation to a plan up to limits stated in the plan documents, not to exceed the dollar amounts set by applicable laws. The Company matches 50% to 75% of the contribution depending on the participant's length of service, and the contribution is subject to a two year vesting period. The Company's net expense for the defined contribution plans was $14.0 million, $11.8 million, and $9.2 million during 2022, 2021, and 2020, respectively.

**Note 15. Fair Value Measurement**

***Assets and liabilities measured at fair value on a recurring basis***

As of January 29, 2023 and January 30, 2022, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

| | January 29, 2023 | Level 1 | Level 2 | Level 3 | Balance Sheet Classification |
|---|---|---|---|---|---|
| | | *(In thousands)* | | | |
| Money market funds | $ 568,000 | $ 568,000 | $ — | $ — | Cash and cash equivalents |
| Term deposits | 8 | — | 8 | — | Cash and cash equivalents |
| Forward currency contract assets | 16,707 | — | 16,707 | — | Prepaid expenses and other current assets |
| Forward currency contract liabilities | 25,625 | — | 25,625 | — | Other current liabilities |

| | January 30, 2022 | Level 1 | Level 2 | Level 3 | Balance Sheet Classification |
|---|---|---|---|---|---|
| | | *(In thousands)* | | | |
| Money market funds | $ 38,475 | $ 38,475 | $ — | $ — | Cash and cash equivalents |
| Term deposits | 318,698 | — | 318,698 | — | Cash and cash equivalents |
| Forward currency contract assets | 19,077 | — | 19,077 | — | Prepaid expenses and other current assets |
| Forward currency contract liabilities | 18,985 | — | 18,985 | — | Other current liabilities |

The Company has short-term, highly liquid investments classified as cash equivalents, which are invested in money market funds and term deposits. The Company records cash equivalents at their original purchase prices plus interest that has accrued at the stated rate.

The fair values of the forward currency contract assets and liabilities are determined using observable Level 2 inputs, including foreign currency spot exchange rates, forward pricing curves, and interest rates. The fair values consider the credit risk of the Company and its counterparties. The Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions. However, the Company records all derivatives on its consolidated balance sheets at fair value and does not offset derivative assets and liabilities.

***Assets and liabilities measured at fair value on a non-recurring basis***

The Company has also recorded lease termination liabilities at fair value on a non-recurring basis, determined using Level 3 inputs based on remaining lease rentals and reduced by estimated sublease income.

As of January 29, 2023, the Company recorded impairment charges for goodwill, intangible assets, and property and equipment, as disclosed in Note 8. Impairment of Goodwill and Other Assets. That note includes details on the discounted cash flow model used to estimate fair value, which is a Level 3 valuation technique.

**Note 16. Derivative Financial Instruments**

The Company currently hedges against changes in the Canadian dollar and Chinese Yuan to the U.S. dollar exchange rate and changes in the Euro and Australian dollar to the Canadian dollar exchange rate using forward currency contracts.

***Net investment hedges***

The Company is exposed to foreign currency exchange gains and losses which arise on translation of its international subsidiaries' balance sheets into U.S. dollars. These gains and losses are recorded as other comprehensive income (loss), net of tax in accumulated other comprehensive income or loss within stockholders' equity.

The Company holds a significant portion of its assets in Canada and enters into forward currency contracts designed to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. These forward currency contracts are designated as net investment hedges. The Company assesses hedge effectiveness based on changes in forward rates. The Company recorded no ineffectiveness from net investment hedges during 2022.

***Derivatives not designated as hedging instruments***

During 2022, the Company entered into certain forward currency contracts designed to economically hedge the foreign currency exchange revaluation gains and losses that are recognized by its Canadian and Chinese subsidiaries on specific monetary assets and liabilities denominated in currencies other than the functional currency of the entity. The Company has not applied hedge accounting to these instruments and the change in fair value of these derivatives is recorded within selling, general and administrative expenses.

***Quantitative disclosures about derivative financial instruments***

The notional amounts and fair values of forward currency contracts were as follows:

| | January 29, 2023 | | | January 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Gross Notional | Assets | Liabilities | Gross Notional | Assets | Liabilities |
| | | | *(In thousands)* | | | |
| Derivatives designated as net investment hedges: | | | | | | |
| Forward currency contracts | $ 1,070,000 | $ — | $ 17,211 | $ 1,502,000 | $ 18,468 | $ — |
| Derivatives not designated in a hedging relationship: | | | | | | |
| Forward currency contracts | 1,605,284 | 16,707 | 8,414 | 1,597,878 | 609 | 18,985 |
| Net derivatives recognized on consolidated balance sheets: | | | | | | |
| Forward currency contracts | | $ 16,707 | $ 25,625 | | $ 19,077 | $ 18,985 |

As of January 29, 2023, there were derivative assets of $16.7 million and derivative liabilities of $25.6 million subject to enforceable netting arrangements.

The forward currency contracts designated as net investment hedges outstanding as of January 29, 2023 mature on different dates between February 2023 and August 2023.

The forward currency contracts not designated in a hedging relationship outstanding as of January 29, 2023 mature on different dates between February 2023 and August 2023.

The pre-tax gains and losses on foreign currency exchange forward contracts recorded in accumulated other comprehensive income or loss were as follows:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | *(In thousands)* | |
| Gains (losses) recognized in net investment hedge gains (losses): | | | |
| Derivatives designated as net investment hedges | $ 12,125 | $ 13,177 | $ (34,289) |

No gains or losses have been reclassified from accumulated other comprehensive income or loss into net income for derivative financial instruments in a net investment hedging relationship, as the Company has not sold or liquidated (or substantially liquidated) its hedged subsidiary.

The pre-tax net foreign currency exchange and derivative gains and losses recorded in the consolidated statement of operations were as follows:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | *(In thousands)* | |
| Gains (losses) recognized in selling, general and administrative expenses: | | | |
| Foreign exchange gains (losses) | $ 4,410 | $ 11,511 | $ (26,053) |
| Derivatives not designated in a hedging relationship | (11,945) | (19,874) | 22,949 |
| Net foreign exchange and derivative losses | $ (7,535) | $ (8,363) | $ (3,104) |

**Note 17. Leases**

The Company has obligations under operating leases for its store and other retail locations, distribution centers, offices, and equipment. As of January 29, 2023, the initial lease terms of the various leases generally range from two to 15 years. The majority of the Company's leases include renewal options at the sole discretion of the Company. The lease term includes options to extend or terminate the lease when it is reasonably certain those options will be exercised.

The following table details the Company's net lease expense. Certain of the Company's leases include rent escalation clauses, rent holidays, and leasehold rental incentives. The majority of the Company's leases for store premises also include contingent rental payments based on sales volume. The variable lease expenses disclosed below include contingent rent payments and other non-fixed lease related costs, including common area maintenance, property taxes, and landlord's insurance.

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | *(In thousands)* | |
| Net lease expense: | | | |
| Operating lease expense | $ 245,767 | $ 215,549 | $ 193,498 |
| Short-term lease expense | 16,790 | 12,366 | 11,721 |
| Variable lease expense | 114,441 | 90,852 | 60,991 |
| | $ 376,998 | $ 318,767 | $ 266,210 |

The following table presents future minimum lease payments by fiscal year and the impact of discounting.

| | January 29, 2023 |
|---|---|
| | *(In thousands)* |
| 2023 | $ 238,343 |
| 2024 | 265,787 |
| 2025 | 197,934 |
| 2026 | 143,603 |
| 2027 | 117,639 |
| Thereafter | 210,718 |
| Future minimum lease payments | $ 1,174,024 |
| Impact of discounting | (103,690) |
| Present value of lease liabilities | $ 1,070,334 |
| | |
| Balance sheet classification: | |
| Current lease liabilities | $ 207,972 |
| Non-current lease liabilities | 862,362 |
| | $ 1,070,334 |

As of January 29, 2023, the Company's minimum lease commitment for distribution center operating leases which have been committed to, but not yet commenced, was $632.0 million, which is not reflected in the table above.

The weighted-average remaining lease term and weighted-average discount rate were as follows:

| | January 29, 2023 |
|---|---|
| Weighted-average remaining lease term | 5.64 years |
| Weighted-average discount rate | 3.1 % |

**Note 18. Income Taxes**

The Company's domestic and foreign income before income tax expense and current and deferred income taxes from federal, state, and foreign sources are as follows:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | *(In thousands)* | |
| Income (loss) before income tax expense | | | |
| Domestic | $ (98,764) | $ 204,350 | $ 122,573 |
| Foreign | 1,431,335 | 1,129,519 | 696,777 |
| | $ 1,332,571 | $ 1,333,869 | $ 819,350 |
| Current income tax expense | | | |
| Federal | $ 34,752 | $ 25,701 | $ 70 |
| State | 33,369 | 17,608 | 10,439 |
| Foreign | 400,250 | 322,105 | 185,803 |
| | $ 468,371 | $ 365,414 | $ 196,312 |
| Deferred income tax expense (recovery) | | | |
| Federal | $ 8,932 | $ 5,858 | $ 19,754 |
| State | 2,363 | 1,045 | 5,923 |
| Foreign | (1,895) | (13,770) | 8,448 |
| | $ 9,400 | $ (6,867) | $ 34,125 |
| Income tax expense | $ 477,771 | $ 358,547 | $ 230,437 |

The Company's income tax expense for 2022, 2021, and 2020 include certain discrete tax amounts, as follows:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | *(In thousands)* | |
| Impairment of goodwill and other assets | $ (28,171) | $ — | $ — |
| Gain on disposal of assets | 1,661 | — | — |
| Acquisition-related expenses | — | (1,417) | (3,133) |
| Total tax adjustments | $ (26,510) | $ (1,417) | $ (3,133) |

Please refer to Note 5. Property and Equipment, Note 8. Impairment of Goodwill and Other Assets, and Note 9. Acquisition-Related Expenses for further information.

The U.S. tax reforms enacted in December 2017 required the Company to pay U.S. income taxes on accumulated foreign subsidiary earnings not previously subject to U.S. income tax at a rate of 15.5% on cash and cash equivalents and 8% on the remaining earnings, net of foreign tax credits. The one-time transition tax is payable over eight years.

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 (“IRA”) into law. The IRA contains a number of revisions to the Internal Revenue Code, including a 15% corporate minimum income tax for tax years beginning after December 31, 2022. It also assesses a 1% excise tax on repurchases of corporate stock. While this is not expected to have a material adverse effect on the Company's results of operations going forward, the Company will continue to evaluate its impact as further information becomes available.

As of January 29, 2023, the Company's net investment in its Canadian subsidiaries was $2.4 billion, of which $1.3 billion was determined to be indefinitely reinvested. A deferred income tax liability of $20.2 million has been recognized in relation to the portion of the Company's net investment in its Canadian subsidiaries that is not indefinitely reinvested, representing the Canadian withholding taxes and U.S. state income taxes which would be due upon repatriation. This deferred tax liability has been recorded on the basis that the Company 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 structured as a return of capital, and therefore not subject to Canadian withholding tax. The unrecognized deferred tax liability on the indefinitely reinvested amount is approximately $72.2 million. No deferred income tax liabilities have been recognized on any of the undistributed earnings of the Company's other foreign subsidiaries as these earnings are permanently reinvested outside of the United States. Excluding its Canadian subsidiaries, cumulative undistributed earnings of the Company's foreign subsidiaries as of January 29, 2023 were $323.0 million.

As of January 29, 2023, the Company had cash and cash equivalents of $470.6 million outside of the United States.

A summary reconciliation of the effective tax rate is as follows:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | *(Percentages)* | |
| Federal income tax at statutory rate | 21.0 % | 21.0 % | 21.0 % |
| Foreign tax rate differentials | 6.8 | 5.0 | 4.6 |
| U.S. state taxes | (0.4) | 0.8 | 0.8 |
| Non-deductible compensation expense | 0.7 | 0.7 | 2.1 |
| Excess tax benefits from stock-based compensation | (0.5) | (0.9) | (0.8) |
| Impairment of goodwill and other assets and gain on disposal of assets | 7.8 | — | — |
| Permanent and other | 0.5 | 0.3 | 0.4 |
| Effective tax rate | 35.9 % | 26.9 % | 28.1 % |

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities as of January 29, 2023 and January 30, 2022 are presented below:

| | January 29, 2023 | January 30, 2022 |
|---|---|---|
| | (In thousands) | |
| Deferred income tax assets: | | |
| Net operating loss carryforwards | $ 2,312 | $ 6,686 |
| Inventories | 43,471 | 16,326 |
| Intangible assets, net | 778 | 873 |
| Non-current lease liabilities | 216,495 | 173,700 |
| Stock-based compensation | 16,093 | 10,739 |
| Accrued bonuses | 13,647 | 7,830 |
| Unredeemed gift card liability | 12,877 | 9,804 |
| Foreign tax credits | 1,909 | 2,003 |
| Other | 6,958 | 10,116 |
| Deferred income tax assets | $ 314,540 | 238,077 |
| Valuation allowance | (743) | (2,804) |
| Deferred income tax assets, net of valuation allowance | $ 313,797 | $ 235,273 |
| Deferred income tax liabilities: | | |
| Property and equipment, net | $ (142,516) | $ (104,498) |
| Intangible assets, net | (5,224) | (17,669) |
| Right-of-use lease assets | (192,221) | (154,634) |
| Other | (22,518) | (5,733) |
| Deferred income tax liabilities | (362,479) | (282,534) |
| Net deferred income tax liabilities | $ (48,682) | $ (47,261) |
| | | |
| Balance sheet classification: | | |
| Deferred income tax assets | $ 6,402 | $ 6,091 |
| Deferred income tax liabilities | (55,084) | (53,352) |
| Net deferred income tax liabilities | $ (48,682) | $ (47,261) |

As of January 29, 2023, the Company had net operating loss carryforwards of $8.2 million. The majority of the net operating loss carryforwards expire, if unused, between fiscal 2030 and fiscal 2040.

There was a $2.1 million net decrease in the valuation allowance in 2022, compared to a $3.7 million net decrease in 2021, and a $0.8 million net increase in 2020.

The Company files income tax returns in the U.S., Canada, and various foreign, state, and provincial jurisdictions. The 2017 to 2020 tax years remain subject to examination by the U.S. federal and state tax authorities. The 2013 tax year is still open for certain state tax authorities. The 2016 to 2021 tax years remain subject to examination by Canadian tax authorities. The 2016 to 2021 tax years remain subject to examination by tax authorities in certain foreign jurisdictions. The Company does not have any significant unrecognized tax benefits arising from uncertain tax positions taken, or expected to be taken, in the Company's tax returns.

**Note 19. Earnings Per Share**

The details of the computation of basic and diluted earnings per share are as follows:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | (In thousands, except per share amounts) | | |
| Net income | $ 854,800 | $ 975,322 | $ 588,913 |
| Basic weighted-average number of shares outstanding | 127,666 | 129,768 | 130,289 |
| Assumed conversion of dilutive stock options and awards | 351 | 527 | 582 |
| Diluted weighted-average number of shares outstanding | 128,017 | 130,295 | 130,871 |
| Basic earnings per share | $ 6.70 | $ 7.52 | $ 4.52 |
| Diluted earnings per share | $ 6.68 | $ 7.49 | $ 4.50 |

The Company's calculation of weighted-average shares includes the common stock of the Company as well as the exchangeable shares. Exchangeable shares are the equivalent of common shares in all material respects. All classes of stock have in effect the same rights and share equally in undistributed net income. For 2022, 2021, and 2020, 43.5 thousand, 36.0 thousand, and 30.8 thousand stock options and awards, respectively, were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

On January 31, 2019, the Company's board of directors approved a stock repurchase program for up to $500.0 million of the Company's common shares. On December 1, 2020, it approved an increase in the remaining authorization from $263.6 million to $500.0 million, and on October 1, 2021, it approved an increase in the remaining authorization from $141.2 million to $641.2 million. During the first quarter of 2022, the Company completed the remaining stock repurchases under this program.

On March 23, 2022, the Company's board of directors approved a stock repurchase program for up to $1.0 billion of the Company's common shares on the open market or in privately negotiated transactions. The repurchase plan has no time limit and does not require the repurchase of a minimum number of shares. Common shares repurchased on the open market are 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. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors, in accordance with Securities and Exchange Commission requirements. The authorized value of shares available to be repurchased under this program excludes the cost of commissions and excise taxes and as of January 29, 2023, the remaining authorized value was $743.8 million.

During 2022, 2021, and 2020, 1.4 million, 2.2 million, and 0.4 million shares, respectively, were repurchased under the programs at a total cost including commissions and excise taxes of $444.0 million, $812.6 million, and $63.7 million, respectively.

Subsequent to January 29, 2023, and up to March 22, 2023, 0.2 million shares were repurchased at a total cost including commissions and excise taxes of $49.6 million.

**Note 20. Commitments and Contingencies**

***Commitments***

*Leases*. The Company has obligations under operating leases for its store and other retail locations, distribution centers, offices, and equipment. Please refer to Note 17. Leases for further details regarding lease commitments and the timing of future minimum lease payments.

*License and supply arrangements*. The Company has entered into license and supply arrangements with partners in the Middle East and Mexico which grant them the right to operate lululemon branded retail locations in the United Arab Emirates, Kuwait, Qatar, Oman, Bahrain, Saudi Arabia, and Mexico. Under these arrangements, the Company supplies the partners with lululemon products, training, and other support. An extension to the initial term of the agreement for the Middle East was signed in 2020 and it extends the arrangement to December 2024. The initial term of the agreement for Mexico expires in November 2026. As of January 29, 2023, there were 26 licensed locations, including 12 in Mexico, seven in the United Arab Emirates, three in Qatar, three in Saudi Arabia, and one in Kuwait. There was also an e-commerce website operated through the license and supply arrangements.

The following table summarizes the Company's contractual arrangements as of January 29, 2023, and the timing and effect that such commitments are expected to have on its liquidity and cash flows in future periods:

| | Payments Due by Fiscal Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2023 | 2024 | 2025 | 2026 | 2027 | Thereafter |
| | | | | (In thousands) | | | |
| One-time transition tax payable | $ 38,073 | $ 9,518 | $ 12,691 | $ 15,864 | $ — | $ — | $ — |

*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 above outlines the expected payments due by fiscal year.

***Contingencies***

*Legal proceedings*. In addition to the legal proceedings described below, the Company is, from time to time, involved in routine legal matters, and audits and inspections by governmental agencies and other third parties which are incidental to the conduct of its business. This includes legal matters such as initiation and defense of proceedings to protect intellectual property rights, personal injury claims, product liability claims, employment claims, and similar matters. The Company believes the ultimate resolution of any such legal proceedings, audits, and inspections will not have a material adverse effect on its consolidated balance sheets, results of operations or cash flows. The Company has recognized immaterial provisions related to the expected outcome of legal proceedings.

In April 2021, DISH Technologies L.L.C., and Sling TV L.L.C. (DISH) filed a complaint in the United States District Court for the District of Delaware and, along with DISH DBS Corporation, also with the United States International Trade Commission (ITC) under Section 337 of the Tariff Act of 1930 against the Company and its Curiouser Products subsidiary (MIRROR), along with ICON Health & Fitness, Inc., FreeMotion Fitness, Inc., NordicTrack, Inc., and Peloton Interactive, Inc., alleging infringement of various patents related to fitness devices containing internet-streaming enabled video displays. In the ITC complaint, DISH seeks an exclusion order barring the importation of MIRROR fitness devices, streaming components and systems containing components that infringe one or more of the asserted patents as well as a cease and desist order preventing the Company from carrying out commercial activities within the United States related to those products. In the District of Delaware complaint, DISH is seeking an order permanently enjoining the Company from infringing the asserted patents, an award of damages for the infringement of the asserted patents, and an award of damages for lost sales. In the ITC investigation, an Administrative Law Judge issued an Initial Determination recommending an Exclusion Order and Cease and Desist Order be entered against the Company. In February 2023, the parties finalized the details of a settlement agreement resolving all litigation between DISH and the Company for an immaterial amount.

**Note 21. Supplemental Cash Flow Information**

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | (In thousands) | |
| Cash paid for income taxes | $ 502,136 | $ 245,213 | $ 260,886 |
| Cash paid for amounts included in the measurement of lease liabilities | 242,758 | 215,157 | 180,536 |
| Leased assets obtained in exchange for new operating lease liabilities | 450,787 | 287,008 | 178,504 |
| Interest paid | 116 | 12 | 110 |

**Note 22. Segmented Information**

The Company's segments are based on the financial information it uses in managing its business and comprise two reportable segments: (i) company-operated stores and (ii) direct to consumer. The remainder of its operations which includes outlets, sales to wholesale accounts, license and supply arrangements, recommerce, temporary locations, and lululemon Studio, are included within Other.

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | *(In thousands)* | |
| Net revenue: | | | |
| Company-operated stores | $ 3,648,127 | $ 2,821,497 | $ 1,658,807 |
| Direct to consumer | 3,699,791 | 2,777,944 | 2,284,068 |
| Other | 762,600 | 657,176 | 459,004 |
| | $ 8,110,518 | $ 6,256,617 | $ 4,401,879 |
| Segmented income from operations: | | | |
| Company-operated stores | $ 991,067 | $ 727,735 | $ 212,592 |
| Direct to consumer | 1,562,538 | 1,216,496 | 1,029,102 |
| Other | 107,083 | 77,283 | 10,502 |
| | 2,660,688 | 2,021,514 | 1,252,196 |
| General corporate expenses | 862,867 | 637,983 | 397,208 |
| lululemon Studio obsolescence provision | 62,928 | — | — |
| Amortization of intangible assets | 8,752 | 8,782 | 5,160 |
| Impairment of goodwill and other assets | 407,913 | — | — |
| Acquisition-related expenses | — | 41,394 | 29,842 |
| Gain on disposal of assets | (10,180) | — | — |
| Income from operations | 1,328,408 | 1,333,355 | 819,986 |
| Other income (expense), net | 4,163 | 514 | (636) |
| Income before income tax expense | $ 1,332,571 | $ 1,333,869 | $ 819,350 |
| | | | |
| Capital expenditures: | | | |
| Company-operated stores | $ 303,697 | $ 189,629 | $ 134,203 |
| Direct to consumer | 57,086 | 81,679 | 37,245 |
| Corporate and other | 277,874 | 123,194 | 57,778 |
| | $ 638,657 | $ 394,502 | $ 229,226 |
| Depreciation and amortization: | | | |
| Company-operated stores | $ 132,715 | $ 116,107 | $ 100,776 |
| Direct to consumer | 36,128 | 29,877 | 14,847 |
| Corporate and other | 122,948 | 78,222 | 69,855 |
| | $ 291,791 | $ 224,206 | $ 185,478 |

Intercompany amounts are excluded from the above table as they are not included in the materials reviewed by the chief operating decision maker. The amortization of intangible assets in the above table includes \$8.7 million, \$8.7 million, and \$5.2 million related to lululemon Studio for 2022, 2021, and 2020, respectively. lululemon Studio is included within Other in the Company's segment disclosures.

Property and equipment, net by geographic area as of January 29, 2023 and January 30, 2022 were as follows:

| | January 29, 2023 | January 30, 2022 |
|---|---|---|
| | (In thousands) | |
| United States | $ 671,212 | $ 418,317 |
| Canada | 431,349 | 392,192 |
| Outside of North America | 167,053 | 117,201 |
| | $ 1,269,614 | $ 927,710 |

**Note 23. Net Revenue by Category and Geography**

In addition to the disaggregation of net revenue by reportable segment in Note 22. Segmented Information, the following table disaggregates the Company's net revenue by geographic area.

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | (In thousands) | |
| United States | $ 5,654,343 | $ 4,345,687 | $ 3,105,133 |
| Canada | 1,163,111 | 954,219 | 672,607 |
| People's Republic of China | 681,633 | 520,372 | 297,690 |
| Rest of world | 611,431 | 436,339 | 326,449 |
| | $ 8,110,518 | $ 6,256,617 | $ 4,401,879 |

The following table disaggregates the Company's net revenue by category. Other categories is primarily composed of accessories, lululemon Studio, and footwear.

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| | | (In thousands) | |
| Women's product | $ 5,259,803 | $ 4,171,762 | $ 3,049,906 |
| Men's product | 1,956,602 | 1,535,850 | 953,183 |
| Other categories | 894,113 | 549,005 | 398,790 |
| | $ 8,110,518 | $ 6,256,617 | $ 4,401,879 |

***ITEM 9A. CONTROLS AND PROCEDURES***

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this report, or the Evaluation Date. Based upon the evaluation, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of the Evaluation Date. Disclosure controls and procedures are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to reasonably ensure that such information is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, as appropriate to allow timely decisions regarding required disclosure.

**Inherent Limitations over Internal Controls**

Our internal control over financial reporting is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements. Management, including our principal executive officer and principal financial and accounting officer, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource limitations on all control systems; no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies and procedures may deteriorate.

**Management's Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this evaluation, management concluded that we maintained effective internal control over financial reporting as of January 29, 2023.

The effectiveness of our internal control over financial reporting as of January 29, 2023 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report, which appears in Item 8 of Part II of this Form 10-K.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the fourth quarter of 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***ITEM 9B. OTHER INFORMATION***

On March 22, 2023, our board of directors approved and adopted amended and restated bylaws of lululemon athletica inc., effective immediately. The amendments include changes to update and enhance the procedures and disclosure requirements for stockholder nominations for the election of directors and proposals for new business to be taken up at annual meetings of stockholders, including (1) to require certain additional information with respect to stockholders and beneficial holders making a nomination or proposal and their proposed nominees; (2) to address matters relating to the universal proxy rules recently adopted by the Securities and Exchange Commission, including Rule 14a-19 under the Securities Exchange Act of 1934; (3) to require any proposed nominee to provide certain representations regarding intention to serve as a director if elected, the absence of certain voting commitments, disclosure of compensation for service as a director, and compliance with our majority voting provisions; (4) to clarify that a stockholder nomination will be disregarded if the nominating stockholder does not comply with the procedures and requirements stated in the bylaws, does not comply with Rule 14a-19, or does not attend the meeting to present the nomination; and (5) to address the color of proxy cards reserved for use by lululemon.

The amendments also include changes modifying the provisions related to adjournment and postponement procedures for stockholder meetings and the availability of lists of stockholders entitled to vote at stockholder meetings in connection with recent amendments to the Delaware General Corporation Law, as well as other ministerial and conforming changes.
The foregoing summary does not purport to be a complete description of the amended and restated bylaws and is qualified in its entirety by reference to the full text of the amended and restated bylaws, a copy of which is attached as Exhibit 3.5 and incorporated by reference herein.

***ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS***

Not applicable.

# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning our directors, director nominees and Section 16 beneficial ownership reporting compliance is incorporated by reference to our definitive Proxy Statement for our 2023 Annual Meeting of Stockholders under the captions "Election of Directors," "Executive Officers," and "Corporate Governance," and, to the extent necessary, under the caption "Delinquent Section 16(a) Reports."

We have adopted a written code of business conduct and ethics, which applies to all of our directors, officers, and employees, including our principal executive officer and our principal financial and accounting officer. Our Global Code of Business Conduct and Ethics is available on our website, www.lululemon.com, and can be obtained by writing to Investor Relations, lululemon athletica inc., 1818 Cornwall Avenue, Vancouver, British Columbia, Canada V6J 1C7 or by sending an email to investors@lululemon.com. The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K. Any amendments, other than technical, administrative, or other non-substantive amendments, to our Global Code of Business Conduct and Ethics or waivers from the provisions of the Global Code of Business Conduct and Ethics for our principal executive officer and our principal financial and accounting officer will be promptly disclosed on our website following the effective date of such amendment or waiver.

## ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our 2023 Proxy Statement under the captions "Executive Compensation" and "Executive Compensation Tables."

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to our 2023 Proxy Statement under the caption "Principal Shareholders and Share Ownership by Management."

**Equity Compensation Plan Information (as of January 29, 2023)**

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights[(1)] (A) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights[(2)] (B) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A))[(3)] (C) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 1,253,404 | $ 230.78 | 16,784,492 |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | 1,253,404 | $ 230.78 | 16,784,492 |

(1) This amount represents the following: (a) 865,832 shares subject to outstanding options, (b) 166,489 shares subject to outstanding performance-based restricted stock units, and (c) 221,083 shares subject to outstanding restricted stock units. The options, performance-based restricted stock units, and restricted stock units are all under our 2014 Equity Incentive Plan. Restricted shares outstanding under our 2014 Equity Incentive Plan have already been reflected in our total outstanding common stock balance.

(2) The weighted-average exercise price is calculated solely on the exercise prices of the outstanding options and does not reflect the shares that will be issued upon the vesting of outstanding awards of performance-based restricted stock units and restricted stock units, which have no exercise price.

(3) This includes (a) 12,284,713 shares of our common stock available for future issuance under our 2014 Equity Incentive Plan and (b) 4,499,779 shares of our common stock available for future issuance under our Employee Share Purchase Plan. The number of shares remaining available for future issuance under our 2014 Equity Incentive Plan is reduced by 1.7 shares for each award other than stock options granted and by one share for each stock option award granted. Outstanding awards that expire or are canceled without having been exercised or settled in full are available for issuance again under our 2014 Equity Incentive Plan and shares that are withheld in satisfaction of tax withholding obligations for full value awards are also again available for issuance. No further awards may be issued under the predecessor plan, our 2007 Equity Incentive Plan.

### *ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

The information required by this item is incorporated by reference to our 2023 Proxy Statement under the captions "Certain Relationships and Related Party Transactions" and "Corporate Governance."

### *ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES*

The information required by this item is incorporated by reference to our 2023 Proxy Statement under the caption "Fees for Professional Services."

## PART IV

### *ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE*

(a) Documents filed as part of this report:

1. *Financial Statements.* The financial statements as set forth under Item 8 of this Annual Report on Form 10-K are incorporated herein.

2. *Financial Statement Schedule.* Separate financial statement schedules have been omitted either because they are not applicable or because the required information is included in the consolidated financial statements or notes described in Item 15(a)(1) above.

3. *Exhibits*

**Exhibit Index**

| Exhibit No. | Exhibit Title | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | Form | Exhibit No. | File No. | Filing Date |
| 3.1 | Amended and Restated Certificate of Incorporation of lululemon athletica inc. | | 8-K | 3.1 | 001-33608 | 8/8/2007 |
| 3.2 | Certificate of Amendment to Amended and Restated Certificate of Incorporation of lululemon athletica inc. | | 8-K | 3.1 | 001-33608 | 7/1/2011 |
| 3.3 | Certificate of Amendment to Certificate of Incorporation filed July 20, 2017 | | 10-Q | 3.1 | 001-33608 | 8/30/2018 |
| 3.4 | Certificate of Amendment to Certificate of Incorporation filed June 12, 2018 | | 10-Q | 3.1 | 001-33608 | 8/30/2018 |
| 3.5 | Bylaws of lululemon athletica inc. | X | | | | |
| 4.1 | Form of Specimen Stock Certificate of lululemon athletica inc. | | S-3 | 4.1 | 333-185899 | 1/7/2013 |
| 4.2 | Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934 | | 10-K | 4.2 | 001-33608 | 3/26/2020 |
| 10.1* | lululemon athletica inc. 2014 Equity Incentive Plan | | 8-K | 10.1 | 001-33608 | 6/13/2014 |
| 10.2* | Form of Non-Qualified Stock Option Agreement (for outside directors) | | 10-Q | 10.2 | 001-33608 | 12/6/2012 |
| 10.3* | Form of Non-Qualified Stock Option Agreement (with clawback provision) | | 10-Q | 10.1 | 001-33608 | 6/1/2017 |
| 10.4* | Form of Notice of Grant of Performance Shares and Performance Shares Agreement (with clawback provision) | | 10-Q | 10.2 | 001-33608 | 6/1/2017 |
| 10.5* | Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (with clawback provision) | | 10-Q | 10.1 | 001-33608 | 12/8/2022 |
| 10.6* | Form of Restricted Stock Award Agreement | | 10-Q | 10.12 | 001-33608 | 12/11/2014 |
| 10.7* | Amended and Restated LIPO Investments (USA), Inc. Option Plan and form of Award Agreement | | S-1 | 10.3 | 333-142477 | 5/1/2007 |
| 10.8 | Exchange Trust Agreement dated July 26, 2007 between lululemon athletica inc., Lulu Canadian Holding, Inc. and Computershare Trust Company of Canada | | 10-Q | 10.5 | 001-33608 | 9/10/2007 |
| 10.9 | Exchangeable Share Support Agreement dated July 26, 2007 between lululemon athletica inc., Lululemon Callco ULC and Lulu Canadian Holding, Inc. | | 10-Q | 10.6 | 001-33608 | 9/10/2007 |
| 10.10 | Amended and Restated Declaration of Trust for Forfeitable Exchangeable Shares dated July 26, 2007, by and among the parties named therein | | 10-Q | 10.7 | 001-33608 | 9/10/2007 |
| 10.11 | Amended and Restated Arrangement Agreement dated as of June 18, 2007, by and among the parties named therein (including Plan of Arrangement and Exchangeable Share Provisions) | | S-1/A | 10.14 | 333-142477 | 7/9/2007 |
| 10.12 | Form of Indemnification Agreement between lululemon athletica inc. and its directors and certain officers | | S-1/A | 10.16 | 333-142477 | 7/9/2007 |
| 10.13* | Outside Director Compensation Plan | X | | | | |
| 10.14* | Executive Bonus Plan | | 8-K | 10.1 | 001-33608 | 3/29/2022 |
| 10.15* | lululemon athletica inc. Employee Share Purchase Plan | | 10-Q | 10.3 | 001-33608 | 11/29/2007 |

| Exhibit No. | Exhibit Title | Filed Herewith | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| | | | Form | Exhibit No. | File No. | Filing Date |
| 10.16* | Executive Employment Agreement, effective as of December 5, 2016, between lululemon athletica canada inc. and Celeste Burgoyne | | 10-K | 10.23 | 001-33608 | 3/29/2017 |
| 10.17* | Amendment to Executive Employment Agreement, effective October 27, 2020, between lululemon athletica canada inc. and Celeste Burgoyne | | 10-Q | 10.1 | 001-33608 | 12/10/2020 |
| 10.18* | Executive Employment Agreement, effective as of August 20, 2018, between lululemon athletica canada inc. and Calvin McDonald | | 8-K | 10.1 | 001-33608 | 7/24/2018 |
| 10.19* | Executive Employment Agreement, effective as of November 23, 2020, between lululemon athletica inc. and Meghan Frank | | 10-Q | 10.2 | 001-33608 | 12/10/2020 |
| 10.20* | Executive Employment Agreement, effective as of September 20, 2018, between lululemon athletica inc. and Michelle Choe | | 10-Q | 10.1 | 001-33608 | 12/06/2018 |
| 10.21* | Executive Employment Agreement, effective September 20, 2021, between lululemon athletica inc. and Nicole Neuburger | | 10-Q | 10.1 | 001-33608 | 12/09/2021 |
| 10.22* | Executive Employment Agreement, effective as of January 4, 2021, between lululemon athletica UK ltd. and Andre Maestrini | | 10-K | 10.22 | 001-33608 | 3/30/2021 |
| 10.23 | Credit Agreement, dated December 14, 2021, among lululemon athletica inc., lululemon athletica canada inc., Lulu Canadian Holding, Inc. and lululemon usa inc., as borrowers, Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, HSBC Bank Canada, as syndication agent and letter of credit issuer, BOFA Securities, Inc., as sustainability coordinator, and the other lenders party thereto. | | 8-K | 10.1 | 001-33608 | 12/17/2021 |
| 21.1 | Significant subsidiaries of lululemon athletica inc. | X | | | | |
| 23.1 | Consent of PricewaterhouseCoopers LLP | X | | | | |
| 31.1 | Certification of principal executive officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 31.2 | Certification of principal financial and accounting officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 32.1** | Certification of principal executive officer and principal financial and accounting officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 101 | The following financial statements from the Company's 10-K for the fiscal year ended January 29, 2023, formatted in iXBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Consolidated Financial Statements | X | | | | |
| 104 | Cover Page Interactive Data File (formatted in iXBRL and contained in Exhibit 101) | X | | | | |

* Denotes a compensatory plan, contract or arrangement, in which our directors or executive officers may participate.

** Furnished herewith.

### *ITEM 16. FORM 10-K SUMMARY*

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| LULULEMON ATHLETICA INC. | |
| By: | /s/ CALVIN MCDONALD |
| | Calvin McDonald |
| | Chief Executive Officer |
| | (principal executive officer) |
| Date: | March 28, 2023 |

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Calvin McDonald and Meghan Frank and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file, any and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their and his or her substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|---|---|
| /s/ CALVIN MCDONALD<br>**Calvin McDonald** | Chief Executive Officer and Director<br>(principal executive officer) | March 28, 2023 |
| /s/ MEGHAN FRANK<br>**Meghan Frank** | Chief Financial Officer<br>(principal financial and accounting officer) | March 28, 2023 |
| /s/ MARTHA A.M. MORFITT<br>**Martha A.M. Morfitt** | Director, Board Chair | March 28, 2023 |
| /s/ MICHAEL CASEY<br>**Michael Casey** | Director | March 28, 2023 |
| /s/ ISABEL MAHE<br>**Isabel Mahe** | Director | March 28, 2023 |
| /s/ KOURTNEY GIBSON<br>**Kourtney Gibson** | Director | March 28, 2023 |
| /s/ KATHRYN HENRY<br>**Kathryn Henry** | Director | March 28, 2023 |
| /s/ ALISON LOEHNIS<br>**Alison Loehnis** | Director | March 28, 2023 |
| /s/ JON MCNEILL<br>**Jon McNeill** | Director | March 28, 2023 |
| /s/ GLENN MURPHY<br>**Glenn Murphy** | Director | March 28, 2023 |
| /s/ DAVID M. MUSSAFER<br>**David M. Mussafer** | Director | March 28, 2023 |
| /s/ EMILY WHITE<br>**Emily White** | Director | March 28, 2023 |