UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended October 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 No.)*

1818 Cornwall Avenue, Vancouver, British Columbia V6J 1C7

(Address of principal executive offices)

Registrant's telephone number, including area code:

604-732-6124

Former name, former address and former fiscal year, if changed since last report:

N/A

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 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. (Check one):

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of December 1, 2023, there were 121,074,786 shares of the registrant's common stock, par value $0.005 per share, outstanding.

Exchangeable and Special Voting Shares:

As of December 1, 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, as of December 1, 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.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

lululemon athletica inc.

CONSOLIDATED BALANCE SHEETS

(Unaudited; Amounts in thousands, except per share amounts)

	October 29, 2023	January 29, 2023
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,091,138	$ 1,154,867
Accounts receivable, net	107,004	132,906
Inventories	1,663,617	1,447,367
Prepaid and receivable income taxes	300,258	185,641
Prepaid expenses and other current assets	202,882	238,672
	3,364,899	3,159,453
Property and equipment, net	1,413,918	1,269,614
Right-of-use lease assets	1,048,607	969,419
Goodwill	23,912	24,144
Intangible assets, net	—	21,961
Deferred income tax assets	5,896	6,402
Other non-current assets	165,032	156,045
	$ 6,022,264	$ 5,607,038
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 309,324	$ 172,732
Accrued liabilities and other	392,949	399,223
Accrued compensation and related expenses	250,479	248,167
Current lease liabilities	217,138	207,972
Current income taxes payable	27,231	174,221
Unredeemed gift card liability	213,256	251,478
Other current liabilities	37,737	38,405
	1,448,114	1,492,198
Non-current lease liabilities	950,954	862,362
Non-current income taxes payable	15,864	28,555
Deferred income tax liabilities	53,833	55,084
Other non-current liabilities	27,650	20,040
	2,496,415	2,458,239
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 5,116 issued and outstanding	—	—
Special voting stock, $0.000005 par value: 60,000 shares authorized; 5,116 and 5,116 issued and outstanding	—	—
Common stock, $0.005 par value: 400,000 shares authorized; 121,122 and 122,205 issued and outstanding	606	611
Additional paid-in capital	536,390	474,645
Retained earnings	3,304,683	2,926,127
Accumulated other comprehensive loss	(315,830)	(252,584)
	3,525,849	3,148,799
	$ 6,022,264	$ 5,607,038

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited; Amounts in thousands, except per share amounts)

	Quarter Ended		Three Quarters Ended	
	October 29, 2023	October 30, 2022	October 29, 2023	October 30, 2022
Net revenue	$ 2,204,218	$ 1,856,889	$ 6,414,175	$ 5,338,680
Cost of goods sold	947,554	818,037	2,708,195	2,373,959
Gross profit	1,256,664	1,038,852	3,705,980	2,964,721
Selling, general and administrative expenses	842,795	684,236	2,407,683	1,954,340
Impairment of assets and restructuring costs	74,501	—	74,501	—
Amortization of intangible assets	1,253	2,189	5,010	6,579
Gain on disposal of assets	—	—	—	(10,180)
Income from operations	338,115	352,427	1,218,786	1,013,982
Other income (expense), net	9,842	331	25,229	454
Income before income tax expense	347,957	352,758	1,244,015	1,014,436
Income tax expense	99,243	97,288	363,293	279,447
Net income	$ 248,714	$ 255,470	$ 880,722	$ 734,989
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	$ (96,478)	$ (105,016)	$ (84,442)	$ (122,149)
Net investment hedge gains (losses)	20,490	25,492	21,196	26,259
Other comprehensive income (loss), net of tax	$ (75,988)	$ (79,524)	$ (63,246)	$ (95,890)
Comprehensive income	$ 172,726	$ 175,946	$ 817,476	$ 639,099
Basic earnings per share	$ 1.97	$ 2.00	$ 6.94	$ 5.75
Diluted earnings per share	$ 1.96	$ 2.00	$ 6.92	$ 5.74
Basic weighted-average number of shares outstanding	126,460	127,511	126,892	127,736
Diluted weighted-average number of shares outstanding	126,770	127,820	127,218	128,089

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited; Amounts in thousands)

	Quarter Ended October 29, 2023								
	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 July 30, 2023	5,116	5,116	$ —	121,613	$ 608	$ 505,127	$ 3,267,589	$ (239,842)	$ 3,533,482
Net income							248,714		248,714
Other comprehensive income (loss), net of tax								(75,988)	(75,988)
Stock-based compensation expense						24,573			24,573
Common stock issued upon settlement of stock-based compensation				67	2	8,834			8,836
Shares withheld related to net share settlement of stock-based compensation				(5)	—	(1,142)			(1,142)
Repurchase of common stock, including excise tax				(553)	(4)	(1,002)	(211,620)		(212,626)
Balance as of October 29, 2023	5,116	5,116	$ —	121,122	$ 606	$ 536,390	$ 3,304,683	$ (315,830)	$ 3,525,849

	Quarter Ended October 30, 2022								
	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 July 31, 2022	5,203	5,203	$ —	122,334	$ 612	$ 433,092	$ 2,636,377	$ (212,283)	$ 2,857,798
Net income							255,470		255,470
Other comprehensive income (loss), net of tax								(79,524)	(79,524)
Stock-based compensation expense						20,312			20,312
Common stock issued upon settlement of stock-based compensation				45	—	4,057			4,057
Shares withheld related to net share settlement of stock-based compensation				(6)	—	(1,917)			(1,917)
Repurchase of common stock				(55)	—	(100)	(16,892)		(16,992)
Balance as of October 30, 2022	5,203	5,203	$ —	122,318	$ 612	$ 455,444	$ 2,874,955	$ (291,807)	$ 3,039,204

	Three Quarters Ended October 29, 2023								
	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 January 29, 2023	5,116	5,116	$ —	122,205	$ 611	$ 474,645	$ 2,926,127	$ (252,584)	$ 3,148,799
Net income							880,722		880,722
Other comprehensive income (loss), net of tax								(63,246)	(63,246)
Stock-based compensation expense						70,157			70,157
Common stock issued upon settlement of stock-based compensation				374	2	24,935			24,937
Shares withheld related to net share settlement of stock-based compensation				(95)	—	(30,877)			(30,877)
Repurchase of common stock, including excise tax				(1,362)	(7)	(2,470)	(502,166)		(504,643)
Balance as of October 29, 2023	5,116	5,116	$ —	121,122	$ 606	$ 536,390	$ 3,304,683	$ (315,830)	$ 3,525,849

	Three Quarters Ended October 30, 2022								
	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 January 30, 2022	5,203	5,203	$ —	123,297	$ 616	$ 422,507	$ 2,512,840	$ (195,917)	$ 2,740,046
Net income							734,989		734,989
Other comprehensive income (loss), net of tax								(95,890)	(95,890)
Stock-based compensation expense						59,487			59,487
Common stock issued upon settlement of stock-based compensation				308	2	10,241			10,243
Shares withheld related to net share settlement of stock-based compensation				(104)	—	(34,695)			(34,695)
Repurchase of common stock				(1,183)	(6)	(2,096)	(372,874)		(374,976)
Balance as of October 30, 2022	5,203	5,203	$ —	122,318	$ 612	$ 455,444	$ 2,874,955	$ (291,807)	$ 3,039,204

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; Amounts in thousands)

	Three Quarters Ended	
	October 29, 2023	October 30, 2022
Cash flows from operating activities		
Net income	$ 880,722	$ 734,989
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	276,094	211,629
lululemon Studio obsolescence provision	23,709	—
Impairment of assets and restructuring costs	74,501	—
Gain on disposal of assets	—	(10,180)
Stock-based compensation expense	70,157	59,487
Settlement of derivatives not designated in a hedging relationship	29,499	(19,202)
Changes in operating assets and liabilities:		
Inventories	(301,801)	(832,024)
Prepaid and receivable income taxes	(114,616)	(77,458)
Prepaid expenses and other current assets	41,202	(90,512)
Other non-current assets	(30,513)	(25,725)
Accounts payable	141,685	26,537
Accrued liabilities and other	(16,238)	31,767
Accrued compensation and related expenses	(1,496)	(13,694)
Current and non-current income taxes payable	(153,539)	(54,354)
Unredeemed gift card liability	(35,927)	(33,481)
Right-of-use lease assets and current and non-current lease liabilities	19,898	15,285
Other current and non-current liabilities	8,729	(2,865)
Net cash provided by (used in) operating activities	912,066	(79,801)
Cash flows from investing activities		
Purchase of property and equipment	(445,353)	(431,677)
Settlement of net investment hedges	686	29,158
Other investing activities	(658)	15,657
Net cash used in investing activities	(445,325)	(386,862)
Cash flows from financing activities		
Proceeds from settlement of stock-based compensation	24,937	10,243
Shares withheld related to net share settlement of stock-based compensation	(30,877)	(34,695)
Repurchase of common stock	(504,643)	(374,976)
Net cash used in financing activities	(510,583)	(399,428)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(19,887)	(41,156)
Increase (decrease) in cash and cash equivalents	(63,729)	(907,247)
Cash and cash equivalents, beginning of period	$ 1,154,867	$ 1,259,871
Cash and cash equivalents, end of period	$ 1,091,138	$ 352,624

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.
INDEX FOR NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

lululemon athletica inc.
NOTES TO THE UNAUDITED INTERIM 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. 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, Switzerland, and Thailand. There were 686 and 655 company-operated stores as of October 29, 2023 and January 29, 2023, respectively.

Basis of presentation

The unaudited interim consolidated financial statements, including the financial position as of October 29, 2023 and the results of operations and cash flows for the periods disclosed, are presented in U.S. dollars and have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial information is presented in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and, accordingly, does not include all of the information and footnotes required by GAAP for complete financial statements. The financial information as of January 29, 2023 is derived from the Company's audited consolidated financial statements and related notes for the fiscal year ended January 29, 2023, which are included in Item 8 in the Company's fiscal 2022 Annual Report on Form 10-K filed with the SEC on March 28, 2023. These unaudited interim consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes included in Item 8 in the Company's fiscal 2022 Annual Report on Form 10-K. Note 2. Recent Accounting Pronouncements sets out the impact of recent accounting pronouncements.

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 2023 will end on January 28, 2024 and will be a 52-week year. Fiscal 2022 was a 52-week year and ended on January 29, 2023. Fiscal 2023 and fiscal 2022 are referred to as "2023," and "2022," respectively. The first three quarters of 2023 and 2022 ended on October 29, 2023 and October 30, 2022, 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.

Certain comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

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.

Note 2. Recent Accounting Pronouncements

Recently adopted accounting pronouncements

The Company considers the applicability and impact of all Accounting Standard Updates ("ASUs"). ASUs adopted by the Company during the first three quarters of 2023 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 Company adopted this update during the first quarter of 2023 and the related disclosures are included in Note 5. Revolving Credit Facilities and Supply Chain Financing Program.

Recently issued accounting pronouncements

ASUs recently issued 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.

Note 3. Impairment of Assets and Restructuring Costs

During the third quarter of 2023, the Company contracted with Peloton Interactive, Inc. to be the exclusive digital fitness content provider for the lululemon Studio Mirror and decided it would no longer produce its own digital fitness content. While the Company will continue to provide services and support to existing lululemon Studio subscribers, it also decided that it would cease selling the Mirror hardware and end its digital app-only subscription. The Company ceased selling the Mirror in December 2023.

During the third quarter of 2023, the Company recognized certain inventory provisions, asset impairments, and restructuring costs related to lululemon Studio. The following table summarizes the amounts recognized:

		2023
		(In thousands)
Costs recorded in cost of goods sold:		
lululemon Studio obsolescence provision	$	23,709
Costs recorded in operating expenses:		
Impairment of assets:		
Impairment of intangible assets	$	16,951
Impairment of cloud computing arrangement implementation costs		16,074
Impairment of property and equipment		11,161
	$	44,186
Restructuring costs		30,315
Impairment of assets and restructuring costs	$	74,501
Total pre-tax charges	$	98,210
Income tax effects of charges	$	(26,085)
Total after-tax charges	$	72,125

lululemon Studio obsolescence provision

As a result of the decision to cease selling the lululemon Studio Mirror, the Company recognized an inventory provision of $23.7 million during the third quarter of 2023.

Impairment of assets

As a result of the Company's decisions to no longer produce digital fitness content and to cease the sale of the lululemon Studio Mirror, the Company identified an impairment trigger for the lululemon Studio asset group and conducted an impairment test as of October 29, 2023. The undiscounted cash flows of the lululemon Studio asset group 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. As a result of the impairment test, the Company recognized asset impairments totaling $44.2 million during the third quarter of 2023. The fair value of long-lived assets was based on a discounted cash flow model, and is a Level 3 non-recurring fair value measurement. The key assumptions used to estimate the fair value were subscriber churn rates and operating costs. lululemon Studio is included within Other in the Company's segment disclosures.

Restructuring costs

The Company recorded restructuring costs of $30.3 million primarily related to contract termination costs, employee severance costs, and professional fees. The accrued costs are expected to be settled within one year.

Note 4. 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 5. Revolving Credit Facilities and Supply Chain Financing Program

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 October 29, 2023, aside from letters of credit and guarantee of $6.6 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 October 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 ($17.8 million) revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan ($31.4 million) during 2020. It is comprised of a revolving loan of up to 200.0 million Chinese Yuan ($27.3 million) and a financial guarantee facility of up to 30.0 million Chinese Yuan ($4.1 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 October 29, 2023, the Company was in compliance with the covenants and, aside from letters of credit and guarantee of 29.9 million Chinese Yuan ($4.1 million), there were no other borrowings or guarantees outstanding under this credit facility.

Supply Chain Financing Program

The Company facilitates a voluntary supply chain financing ("SCF") program that allows its suppliers to elect to sell the receivables owed to them by the Company to a third party financial institution. Participating suppliers negotiate arrangements directly with the financial institution. If a supplier chooses to participate in the SCF program it may request an invoice be paid earlier than it would by the Company, and the financial institution at its sole and absolute discretion, may elect to make an early payment to the supplier at a discount. The Company’s obligations to its suppliers, including amounts due and scheduled payment terms, are not impacted by a supplier's participation in the arrangement and the Company provides no guarantees to any third parties under the SCF program.

As of October 29, 2023 and January 29, 2023, $29.0 million and $17.6 million, respectively, were outstanding under the SCF program and presented within accounts payable.

Note 6. 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.

Stock-based compensation expense charged to income for the plans was $69.5 million and $58.8 million for the first three quarters of 2023 and 2022, respectively. Total unrecognized compensation cost for all stock-based compensation plans was $156.9 million as of October 29, 2023, which is expected to be recognized over a weighted-average period of 2.2 years.

A summary of the balances of the Company's stock-based compensation plans as of October 29, 2023, and changes during the first three quarters then ended, is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units	
	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
	(In thousands, except per share amounts)							
Balance as of January 29, 2023	866	$ 230.78	166	$ 295.93	5	$ 308.66	221	$ 323.89
Granted	212	358.97	121	296.14	4	368.36	127	359.69
Exercised/released	166	150.49	104	201.56	5	308.66	99	291.10
Forfeited/expired	28	332.37	8	350.89	1	368.36	19	348.82
Balance as of October 29, 2023	884	$ 273.39	175	$ 349.78	3	$ 368.36	230	$ 355.73
Exercisable as of October 29, 2023	423	$ 203.17						

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.

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 during the first three quarters of 2023:

	First Three Quarters 2023
Expected term	3.75 years
Expected volatility	42.35 %
Risk-free interest rate	3.49 %
Dividend yield	— %

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 the third quarter of 2023, there were 25.7 thousand 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 $14.6 million and $10.1 million in the first three quarters of 2023 and 2022, respectively.

Note 7. Fair Value Measurement

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.

Assets and liabilities measured at fair value on a recurring basis

The fair value measurement is categorized in its entirety by reference to its lowest level of significant input. As of October 29, 2023 and January 29, 2023, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

	October 29, 2023	Level 1	Level 2	Level 3	Balance Sheet Classification
		(In thousands)			
Money market funds	$ 316,770	$ 316,770	$ —	$ —	Cash and cash equivalents
Term deposits	47	—	47	—	Cash and cash equivalents
Forward currency contract assets	15,854	—	15,854	—	Prepaid expenses and other current assets
Forward currency contract liabilities	11,497	—	11,497	—	Other current liabilities

	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

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.

The Company has short-term, highly liquid investments classified as cash equivalents, which are invested in AAA-rated money market funds, which include investments in government bonds, 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.

Note 8. Derivative Financial Instruments

Foreign currency exchange risk

The Company is exposed to risks associated with changes in foreign currency exchange rates and uses derivative financial instruments to manage its exposure to certain of these foreign currency exchange rate risks. The Company does not enter into derivative contracts for speculative or trading purposes.

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 the first three quarters of 2023.

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 is exposed to gains and losses arising from changes in foreign currency exchange rates associated with transactions which are undertaken by its subsidiaries in currencies other than their functional currency. Such transactions include intercompany transactions and inventory purchases. These transactions result in the recognition of certain foreign currency denominated monetary assets and liabilities which are remeasured to the quarter-end or settlement date foreign currency exchange rate. The resulting foreign currency gains and losses are recorded in selling, general and administrative expenses.

During the first three quarters of 2023, 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.

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.

Quantitative disclosures about derivative financial instruments

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. As of October 29, 2023, there were derivative assets of $15.9 million and derivative liabilities of $11.5 million subject to enforceable netting arrangements.

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

	October 29, 2023			January 29, 2023		
	Gross Notional	Assets	Liabilities	Gross Notional	Assets	Liabilities
			(In thousands)			
Derivatives designated as net investment hedges:						
Forward currency contracts	$ 617,500	$ 10,961	$ —	$ 1,070,000	$ —	$ 17,211
Derivatives not designated in a hedging relationship:						
Forward currency contracts	991,145	4,893	11,497	1,605,284	16,707	8,414
Net derivatives recognized on consolidated balance sheets:						
Forward currency contracts		$ 15,854	$ 11,497		$ 16,707	$ 25,625

The forward currency contracts designated as net investment hedges outstanding as of October 29, 2023 mature on different dates between November 2023 and March 2024.

The forward currency contracts not designated in a hedging relationship outstanding as of October 29, 2023 mature on different dates between November 2023 and May 2024.

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

	Third Quarter		First Three Quarters	
	2023	2022	2023	2022
	(In thousands)			
Gains (losses) recognized in net investment hedge gains (losses):				
Derivatives designated as net investment hedges	$ 27,898	$ 34,519	$ 28,859	$ 35,558

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:

	Third Quarter		First Three Quarters	
	2023	2022	2023	2022
	(In thousands)			
Gains (losses) recognized in selling, general and administrative expenses:				
Foreign currency exchange gains (losses)	$ 18,154	$ 4,845	$ (11,944)	$ (11,395)
Derivatives not designated in a hedging relationship	(17,962)	(11,033)	15,060	(3,325)
Net foreign currency exchange and derivative gains (losses)	$ 192	$ (6,188)	$ 3,116	$ (14,720)

Credit risk

The Company is 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's forward currency contracts are generally entered into with what the Company believes are investment grade credit worthy and reputable financial institutions that are monitored by the Company for counterparty risk.

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 revolving credit facility, the Company may be required to make immediate payment for outstanding liabilities under its derivative contracts.

Note 9. Earnings Per Share

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

	Third Quarter		First Three Quarters	
	2023	2022	2023	2022
	(In thousands, except per share amounts)			
Net income	$ 248,714	$ 255,470	$ 880,722	$ 734,989
Basic weighted-average number of shares outstanding	126,460	127,511	126,892	127,736
Assumed conversion of dilutive stock options and awards	310	309	326	353
Diluted weighted-average number of shares outstanding	126,770	127,820	127,218	128,089
Basic earnings per share	$ 1.97	$ 2.00	$ 6.94	$ 5.75
Diluted earnings per share	$ 1.96	$ 2.00	$ 6.92	$ 5.74

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 the first three quarters of 2023 and 2022, 0.1 million and 0.1 million 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 October 29, 2023, the remaining authorized value was $243.2 million.

During the first three quarters of 2023, 1.4 million shares were repurchased at a total cost including commissions and excise taxes of $504.6 million. During the first three quarters of 2022, 1.2 million shares were repurchased at a total cost including commissions of $375.0 million.

Subsequent to October 29, 2023, and up to December 1, 2023, 0.1 million shares were repurchased at a total cost including commissions and excise taxes of $20.4 million.

Note 10. Supplementary Financial Information

A summary of certain consolidated balance sheet accounts is as follows:

	October 29, 2023	January 29, 2023
	(In thousands)	
Inventories:		
Inventories, at cost	$ 1,852,525	$ 1,571,981
Provision to reduce inventories to net realizable value	(188,908)	(124,614)
	$ 1,663,617	$ 1,447,367
Prepaid expenses and other current assets:		
Prepaid expenses	$ 136,501	$ 142,003
Forward currency contract assets	15,854	16,707
Other current assets	50,527	79,962
	$ 202,882	$ 238,672
Property and equipment, net:		
Land	$ 77,173	$ 80,692
Buildings	28,479	28,850
Leasehold improvements	921,629	818,071
Furniture and fixtures	145,813	144,572
Computer hardware	161,029	166,768
Computer software	947,878	742,295
Equipment and vehicles	31,766	30,766
Work in progress	224,258	244,898
Property and equipment, gross	2,538,025	2,256,912
Accumulated depreciation	(1,124,107)	(987,298)
	$ 1,413,918	$ 1,269,614
Other non-current assets:		
Cloud computing arrangement implementation costs	$ 121,276	$ 114,700
Security deposits	29,839	28,447
Other	13,917	12,898
	$ 165,032	$ 156,045

	October 29, 2023	January 29, 2023
	(In thousands)	
Accrued liabilities and other:		
Accrued operating expenses	$ 172,962	$ 169,429
Accrued freight	47,235	57,692
Sales return allowances	52,692	55,528
Forward currency contract liabilities	11,497	25,625
Accrued duty	29,177	21,046
Sales tax collected	23,349	20,183
Accrued capital expenditures	21,386	19,365
Accrued rent	13,735	12,223
Accrued inventory liabilities	6,330	4,345
Other	14,586	13,787
	$ 392,949	$ 399,223

Note 11. 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.

	Third Quarter		First Three Quarters	
	2023	2022	2023	2022
	(In thousands)			
Net revenue:				
Company-operated stores	$ 1,073,973	$ 903,060	$ 3,128,999	$ 2,537,741
Direct to consumer	908,127	767,351	2,636,742	2,264,029
Other	222,118	186,478	648,434	536,910
	$ 2,204,218	$ 1,856,889	$ 6,414,175	$ 5,338,680
Segmented income from operations:				
Company-operated stores	$ 310,510	$ 242,733	$ 910,021	$ 660,246
Direct to consumer	384,393	321,742	1,137,716	933,272
Other	53,527	24,911	146,293	74,064
	748,430	589,386	2,194,030	1,667,582
General corporate expense	310,852	234,770	872,024	657,201
lululemon Studio obsolescence provision	23,709	—	23,709	—
Impairment of assets and restructuring costs	74,501	—	74,501	—
Amortization of intangible assets	1,253	2,189	5,010	6,579
Gain on disposal of assets	—	—	—	(10,180)
Income from operations	338,115	352,427	1,218,786	1,013,982
Other income (expense), net	9,842	331	25,229	454
Income before income tax expense	$ 347,957	$ 352,758	$ 1,244,015	$ 1,014,436
Capital expenditures:				
Company-operated stores	$ 73,329	$ 96,509	$ 168,511	$ 182,360
Direct to consumer	29,295	29,933	83,674	72,024
Corporate and other	60,276	49,165	193,168	177,293
	$ 162,900	$ 175,607	$ 445,353	$ 431,677
Depreciation and amortization:				
Company-operated stores	$ 39,283	$ 33,482	$ 113,983	$ 96,807
Direct to consumer	17,001	9,805	42,562	27,281
Corporate and other	41,685	35,901	119,549	87,541
	$ 97,969	$ 79,188	$ 276,094	$ 211,629

Note 12. Net Revenue by Geography and Category

In addition to the disaggregation of net revenue by reportable segment in Note 11. Segmented Information, the following table disaggregates the Company's net revenue by geographic area.

	Third Quarter		First Three Quarters	
	2023	2022	2023	2022
	(In thousands)			
United States	$ 1,423,574	$ 1,268,512	$ 4,162,891	$ 3,645,202
Canada	308,824	271,823	857,018	785,389
People's Republic of China	266,891	174,152	794,076	485,599
Rest of world	204,929	142,402	600,190	422,490
	$ 2,204,218	$ 1,856,889	$ 6,414,175	$ 5,338,680

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

	Third Quarter		First Three Quarters	
	2023	2022	2023	2022
	(In thousands)			
Women's product	$ 1,433,927	$ 1,204,835	$ 4,139,082	$ 3,484,395
Men's product	504,828	440,564	1,473,716	1,276,872
Other categories	265,463	211,490	801,377	577,413
	$ 2,204,218	$ 1,856,889	$ 6,414,175	$ 5,338,680

Note 13. Legal Proceedings and Other Contingencies

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, employment claims, product liability claims, personal injury 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.

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

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

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

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

This information should be read in conjunction with the unaudited interim consolidated financial statements and the notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our fiscal 2022 Annual Report on Form 10-K filed with the SEC on March 28, 2023. Fiscal 2023 and fiscal 2022 are referred to as "2023," and "2022," respectively. The first three quarters of 2023 and 2022 ended on October 29, 2023 and October 30, 2022, respectively. Components of management's discussion and analysis of financial condition and results of operations include:

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

Overview

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

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

Financial Highlights

The summary below compares the third quarter of 2023 to the third quarter of 2022, and provides both GAAP and non-GAAP financial measures. The adjusted financial measures for 2023 exclude $72.1 million of post-tax asset impairment and other charges recognized in relation to lululemon Studio.

- Net revenue increased 19% to $2.2 billion.
- Total comparable sales increased 13%, or 14% on a constant dollar basis.
  - Comparable store sales increased 9%.
  - Direct to consumer net revenue increased 18%, or 19% on a constant dollar basis.
- Gross profit increased 21% to $1.3 billion. Adjusted gross profit increased 23% to $1.3 billion.
- Gross margin increased 110 basis points to 57.0%. Adjusted gross margin increased 220 basis points to 58.1%.

- Income from operations decreased 4% to $338.1 million. Adjusted income from operations increased 24% to $436.3 million.
- Operating margin decreased 370 basis points to 15.3%. Adjusted operating margin increased 80 basis points to 19.8%.
- Income tax expense increased 2% to $99.2 million. Our effective tax rate for the third quarter of 2023 was 28.5% compared to 27.6% for the third quarter of 2022. The adjusted effective tax rate was 28.1% for the third quarter of 2023.
- We have contracted with Peloton Interactive, Inc. to be the exclusive digital fitness content provider for the lululemon Studio Mirror and will no longer produce our own digital fitness content. While we will continue to provide services and support to existing lululemon Studio subscribers, we have ceased selling the Mirror hardware. We recognized post-tax inventory provisions, asset impairments, and restructuring costs related to lululemon Studio totaling $72.1 million during the third quarter of 2023.
- Diluted earnings per share were $1.96 compared to $2.00 in the third quarter of 2022. Adjusted diluted earnings per share were $2.53 in the third quarter of 2023.

Refer to the non-GAAP reconciliation tables contained in the "Non-GAAP Financial Measures" section of this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" for reconciliations between the above adjusted non-GAAP financial measures and the most directly comparable measures calculated in accordance with GAAP.

Market Conditions and Trends

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

Macroeconomic Conditions

Macroeconomic conditions, including foreign currency fluctuations, have impacted our financial results. Foreign currency fluctuations reduced the growth of our net revenue by $82.2 million when comparing the first three quarters of 2023 to the first three quarters of 2022, primarily due to the overall appreciation of the US dollar. We expect that future exchange rate volatility will impact our results. We have also experienced increased wage rates when comparing the first three quarters of 2023 to the first three quarters of 2022.

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

Supply chain disruption

In 2021 and 2022 we experienced supply chain disruption, including delays in inbound delivery of our products as well as in manufacturing. This supply chain disruption caused us to use higher cost modes of transport, including increasing our use of air freight. We saw an improvement in the supply chain disruption during the second half of 2022 and during the first three quarters of 2023, including reductions in freight costs and reductions in our levels of air freight usage.

During the first three quarters of 2023 compared to the first three quarters of 2022, our product margin increased by 320 basis points excluding the impact of the lululemon Studio inventory provision, primarily due to lower freight costs from rate reductions and reduced air freight usage. We expect that the reduction in freight costs for the fourth quarter of 2023 will be less significant than in the first three quarters of 2023.

COVID-19 Pandemic

Most of our retail locations were open throughout the first three quarters of 2023 and 2022, with certain locations temporarily closed due to COVID-19 resurgences during the first quarter of 2022, including certain company-operated stores and our third party distribution center in the People's Republic of China ("PRC"). Net revenue from the PRC increased 64% in the first three quarters of 2023 compared to the first three quarters of 2022, with improvements in COVID-19 trading conditions contributing to this increase.

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

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

	Third Quarter			
	2023	2022	2023	2022
	(In thousands)		*(Percentage of net revenue)*	
Net revenue	$ 2,204,218	$ 1,856,889	100.0 %	100.0 %
Cost of goods sold	947,554	818,037	43.0	44.1
Gross profit	1,256,664	1,038,852	57.0	55.9
Selling, general and administrative expenses	842,795	684,236	38.2	36.8
Impairment of assets and restructuring costs	74,501	—	3.4	—
Amortization of intangible assets	1,253	2,189	0.1	0.1
Income from operations	338,115	352,427	15.3	19.0
Other income (expense), net	9,842	331	0.4	—
Income before income tax expense	347,957	352,758	15.8	19.0
Income tax expense	99,243	97,288	4.5	5.2
Net income	$ 248,714	$ 255,470	11.3 %	13.8 %

Net Revenue

Net revenue increased $347.3 million, or 19%, to $2.2 billion for the third quarter of 2023 from $1.9 billion for the third quarter of 2022. On a constant dollar basis, assuming the average foreign currency exchange rates for the third quarter of 2023 remained constant with the average foreign currency exchange rates for the third quarter of 2022, net revenue increased $358.4 million, or 19%.

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

Total comparable sales, which includes comparable store sales and direct to consumer net revenue, increased 13% for the third quarter of 2023 compared to the third quarter of 2022. Total comparable sales increased 14% on a constant dollar basis.

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

	Third Quarter					
	2023	2022	2023	2022	Year over year change	
	(In thousands)		*(Percentage of net revenue)*		*(In thousands)*	*(Percentage)*
Company-operated stores	$ 1,073,973	$ 903,060	48.7 %	48.6 %	$ 170,913	18.9 %
Direct to consumer	908,127	767,351	41.2	41.3	140,776	18.3
Other	222,118	186,478	10.1	10.0	35,640	19.1
Net revenue	$ 2,204,218	$ 1,856,889	100.0 %	100.0 %	$ 347,329	18.7 %

Company-Operated Stores. The increase in net revenue from our company-operated stores was driven by net revenue from company-operated stores that we opened or significantly expanded since the third quarter of 2022 which contributed $108.2 million to the increase. We have opened 63 net new company-operated stores since the third quarter of 2022, including 32 stores in Asia Pacific, 28 stores in North America, and three 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 9%, or 9% 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 and a lower dollar value per transaction.

Direct to Consumer. Direct to consumer net revenue increased 18%, or 19% on a constant dollar basis. The increase in net revenue from our direct to consumer segment was primarily a result of increased traffic and a higher dollar value per transaction, partially offset by a decrease in conversion rates.

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

Gross Profit

	Third Quarter			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Gross profit	$ 1,256,664	$ 1,038,852	$ 217,812	21.0 %
Gross margin	57.0 %	55.9 %	110 basis points	

As a result of our decision to cease selling the lululemon Studio Mirror, we recognized an inventory obsolescence provision of $23.7 million during the third quarter of 2023. This reduced gross margin by 110 basis points. Please refer to Note 3. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report.

Gross margin increased 110 basis points, or increased 220 basis points on an adjusted basis. The 220 basis point increase in adjusted gross margin was primarily the result of:

- a net increase in product margin of 250 basis points, primarily due to lower freight costs from rate reductions and reduced air freight usage as well as lower duty costs, modestly offset by higher inventory provisions, shrink, and damages in the current year.

The increase in adjusted gross margin was partially offset by an increase in occupancy costs as a percentage of net revenue of 20 basis points and an unfavorable impact of foreign currency exchange rates of 10 basis points.

Selling, General and Administrative Expenses

	Third Quarter			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Selling, general and administrative expenses	$ 842,795	$ 684,236	$ 158,559	23.2 %
Selling, general and administrative expenses as a percentage of net revenue	38.2 %	36.8 %	140 basis points	

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

- an increase in head office costs of $89.4 million, comprised of:
    - an increase in brand and community costs of $36.3 million primarily due to increased marketing expenses;
    - an increase in employee costs of $26.9 million primarily due to increased salaries and wages expense as well as increased benefits costs, stock-based compensation, and incentive compensation, primarily as a result of headcount growth and increased wage rates;
    - an increase in other head office costs of $11.2 million, primarily due to increased professional fees;
    - an increase in technology costs, including cloud computing amortization, of $8.2 million; and
    - an increase in depreciation of $6.8 million.
- an increase in costs related to our operating channels of $75.6 million, comprised of:
    - an increase in employee costs of $34.2 million primarily due to increased salaries and wages expense, benefit costs, and incentive compensation in our company-operated stores channel, primarily from the growth in our business and increased wage rates;
    - an increase in other operating costs of $18.8 million primarily due to increased depreciation, repairs and maintenance costs, and technology costs;

- an increase in variable costs of $15.2 million primarily due to increased credit card fees, distribution costs, and packaging costs primarily as a result of increased net revenue; and
- an increase in brand and community costs of $7.4 million primarily due to increased digital marketing expenses related to our direct to consumer channel.

The increase in selling, general and administrative expenses was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of $6.4 million.

Impairment of Assets and Restructuring Costs

	Third Quarter			
	2023	2022	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Impairment of assets and restructuring costs	$ 74,501	$ —	$ 74,501	n/a

During the third quarter of 2023, we recognized certain asset impairments and restructuring costs related to lululemon Studio. Please refer to Note 3. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report for further information.

Amortization of Intangible Assets

	Third Quarter			
	2023	2022	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Amortization of intangible assets	$ 1,253	$ 2,189	$ (936)	(42.8) %

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

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.

	Third Quarter					
	2023	2022	2023	2022	Year over year change	
	(In thousands)		(Percentage of net revenue of respective operating segment)		(In thousands)	(Percentage)
Segmented income from operations:						
Company-operated stores	$ 310,510	$ 242,733	28.9 %	26.9 %	$ 67,777	27.9 %
Direct to consumer	384,393	321,742	42.3	41.9	62,651	19.5
Other	53,527	24,911	24.1	13.4	28,616	114.9
	$ 748,430	$ 589,386			$ 159,044	27.0 %
General corporate expense	310,852	234,770			76,082	32.4
lululemon Studio obsolescence provision	23,709	—			23,709	n/a
Impairment of assets and restructuring costs	74,501	—			74,501	n/a
Amortization of intangible assets	1,253	2,189			(936)	(42.8)
Income from operations	$ 338,115	$ 352,427			$ (14,312)	(4.1) %
Operating margin	15.3 %	19.0 %			(370) basis points	

Company-Operated Stores. The increase in income from operations from our company-operated stores was primarily the result of increased gross profit of $114.5 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower freight costs and lower markdowns, partially offset by higher inventory provisions, shrink, and damages. The increase in gross margin was partially offset by an unfavorable impact of foreign currency exchange rates, deleverage in occupancy costs, and deleverage in costs from our product teams. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher employee and operating costs. Employee costs increased primarily due to higher salaries and wages expense, benefit costs, and 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 packaging costs, as a result of higher net revenue, as well as increased repairs and maintenance. Income from operations as a percentage of company-operated store net revenue increased due to higher gross margin, partially offset by deleverage 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 $105.5 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower freight costs, partially offset by higher markdowns and inventory provisions. The increase in gross margin was partially offset by an unfavorable impact of foreign currency exchange rates and deleverage in costs from our product teams and distribution centers. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher digital marketing expenses, higher variable operating costs including distribution costs, credit card fees, and packaging costs as a result of higher net revenue, as well as higher depreciation costs and technology costs. Income from operations as a percentage of direct to consumer net revenue increased primarily due to higher gross margin, partially offset by deleverage on selling, general and administrative expenses.

Other. The increase in income from operations from our other channels was primarily the result of increased gross profit of $21.6 million, driven by increased net revenue and higher gross margin. The increase in income from operations from our other channels was partially offset by an increase in selling, general and administrative expenses primarily due to increased salaries and wages expense and increased repairs and maintenance, partially offset by reduced lululemon Studio marketing expenses. Income from operations as a percentage of other net revenue increased primarily due to leverage on selling, general and administrative expenses and higher gross margin.

General Corporate Expense. The increase in general corporate expense was primarily due to increased brand and community costs, as well as increased employee costs, primarily from headcount growth and increased wage rates, professional fees, technology costs, and depreciation. The increase in general corporate expense was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of $6.4 million.

Other Income (Expense), Net

	Third Quarter			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Other income (expense), net	$ 9,842	$ 331	$ 9,511	n/a

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

Income Tax Expense

	Third Quarter			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Income tax expense	$ 99,243	$ 97,288	$ 1,955	2.0 %
Effective tax rate	28.5 %	27.6 %	90 basis points	

The increase in the effective tax rate was primarily due to the accrual of withholding taxes on unremitted foreign earnings and a lower tax rate on certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio which increased the effective tax rate in the third quarter of 2023 by 40 basis points. This was partially offset by a reduction in non-deductible expenses in international jurisdictions and an increase in tax benefits related to stock-based compensation.

Excluding certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio in 2023, and their tax effects, our adjusted effective tax rate was 28.1% for the third quarter of 2023.

Net Income

	Third Quarter			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Net income	$ 248,714	$ 255,470	$ (6,756)	(2.6) %

The decrease in net income was primarily due to an increase in selling, general and administrative expenses of $158.6 million, asset impairment and restructuring costs recognized in relation to lululemon Studio in the third quarter of 2023 of $74.5 million, and an increase in income tax expense of $2.0 million, partially offset by an increase in gross profit of $217.8 million and an increase in other income (expense), net of $9.5 million. Excluding certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio in 2023, and their tax effects, adjusted net income increased $65.4 million or 26%.

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

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

	First Three Quarters			
	2023	2022	2023	2022
	(In thousands)		*(Percentage of net revenue)*	
Net revenue	$ 6,414,175	$ 5,338,680	100.0 %	100.0 %
Cost of goods sold	2,708,195	2,373,959	42.2	44.5
Gross profit	3,705,980	2,964,721	57.8	55.5
Selling, general and administrative expenses	2,407,683	1,954,340	37.5	36.6
Impairment of assets and restructuring costs	74,501	—	1.2	—
Amortization of intangible assets	5,010	6,579	0.1	0.1
Gain on disposal of assets	—	(10,180)	—	(0.2)
Income from operations	1,218,786	1,013,982	19.0	19.0
Other income (expense), net	25,229	454	0.4	—
Income before income tax expense	1,244,015	1,014,436	19.4	19.0
Income tax expense	363,293	279,447	5.7	5.2
Net income	$ 880,722	$ 734,989	13.7 %	13.8 %

Net Revenue

Net revenue increased $1.1 billion, or 20%, to $6.4 billion for the first three quarters of 2023 from $5.3 billion for the first three quarters of 2022. On a constant dollar basis, assuming the average foreign currency exchange rates for the first three quarters of 2023 remained constant with the average foreign currency exchange rates for the first three quarters of 2022, net revenue increased $1.2 billion, or 22%.

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

Total comparable sales, which includes comparable store sales and direct to consumer net revenue, increased 13% for the first three quarters of 2023 compared to the first three quarters of 2022. Total comparable sales increased 14% on a constant dollar basis.

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

	First Three Quarters					
	2023	2022	2023	2022	Year over year change	
	(In thousands)		(Percentage of net revenue)		(In thousands)	(Percentage)
Company-operated stores	$ 3,128,999	$ 2,537,741	48.8 %	47.5 %	$ 591,258	23.3 %
Direct to consumer	2,636,742	2,264,029	41.1	42.4	372,713	16.5
Other	648,434	536,910	10.1	10.1	111,524	20.8
Net revenue	$ 6,414,175	$ 5,338,680	100.0 %	100.0 %	$ 1,075,495	20.1 %

Company-Operated Stores. The increase in net revenue from our company-operated stores was driven by net revenue from company-operated stores that we opened or significantly expanded since the third quarter of 2022 which contributed $387.1 million to the increase. We have opened 63 net new company-operated stores since the third quarter of 2022, including 32 stores in Asia Pacific, 28 stores in North America, and three 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 10%, or 11% 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 and a lower dollar value per transaction.

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

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

Gross Profit

	First Three Quarters			
	2023	2022	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Gross profit	$ 3,705,980	$ 2,964,721	$ 741,259	25.0 %
Gross margin	57.8 %	55.5 %	230 basis points	

As a result of our decision to cease selling the lululemon Studio Mirror, we recognized an inventory obsolescence provision of $23.7 million during the third quarter of 2023. This reduced gross margin by 30 basis points. Please refer to Note 3. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report.

Gross margin increased 230 basis points, or increased 260 basis points on an adjusted basis. The 260 basis point increase in adjusted gross margin was primarily the result of:

- a net increase in product margin of 320 basis points, primarily due to lower freight costs from rate reductions and reduced air freight usage as well as lower duty costs, modestly offset by higher inventory provisions and damages in the current year.

The increase in adjusted gross margin was partially offset by:

- an unfavorable impact of foreign currency exchange rates of 30 basis points;
- an increase in costs related to our distribution centers and product departments as a percentage of net revenue of 20 basis points; and
- an increase in occupancy costs as a percentage of net revenue of 10 basis points.

Selling, General and Administrative Expenses

	First Three Quarters			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Selling, general and administrative expenses	$ 2,407,683	$ 1,954,340	$ 453,343	23.2 %
Selling, general and administrative expenses as a percentage of net revenue	37.5 %	36.6 %	90 basis points	

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

- an increase in head office costs of $258.0 million, comprised of:
  - an increase in employee costs of $90.1 million primarily due to increased salaries and wages expense as well as increased incentive compensation, benefit costs, and stock-based compensation; primarily as a result of headcount growth and increased wage rates;
  - an increase in brand and community costs of $73.2 million primarily due to increased marketing expenses as well as increased charitable donations;
  - an increase in depreciation of $34.1 million;
  - an increase in technology costs, including cloud computing amortization, of $32.1 million; and
  - an increase in other head office costs of $28.5 million, primarily due to increased professional fees.
- an increase in costs related to our operating channels of $213.1 million, comprised of:
  - an increase in employee costs of $109.7 million primarily due to increased salaries and wages expense, incentive compensation, and benefit costs in our company-operated stores channel, primarily from the growth in our business and increased wage rates;
  - an increase in other operating costs of $45.3 million primarily due to increased depreciation costs, technology costs, and repairs and maintenance costs;
  - an increase in variable costs of $39.5 million primarily due to increased credit card fees, distribution costs, and packaging costs, primarily as a result of increased net revenue; and
  - an increase in brand and community costs of $18.6 million primarily due to increased digital marketing expenses related to our direct to consumer channel.

The increase in selling, general and administrative expenses was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of $17.8 million.

Impairment of Assets and Restructuring Costs

	First Three Quarters			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Impairment of assets and restructuring costs	$ 74,501	$ —	$ 74,501	n/a

During the third quarter of 2023, we recognized certain asset impairments and restructuring costs related to lululemon Studio. Please refer to Note 3. Impairment of Assets and Restructuring Costs included in Item 1 of Part I of this report for further information.

Amortization of Intangible Assets

	First Three Quarters			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Amortization of intangible assets	$ 5,010	$ 6,579	$ (1,569)	(23.8) %

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

Gain on Disposal of Assets

	First Three Quarters			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Gain on disposal of assets	$ —	$ (10,180)	$ 10,180	(100.0) %

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

Income from Operations

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

	First Three Quarters					
	2023	2022	2023	2022	Year over year change	
	(In thousands)		*(Percentage of net revenue of respective operating segment)*		*(In thousands)*	*(Percentage)*
Segmented income from operations:						
Company-operated stores	$ 910,021	$ 660,246	29.1 %	26.0 %	$ 249,775	37.8 %
Direct to consumer	1,137,716	933,272	43.1	41.2	204,444	21.9
Other	146,293	74,064	22.6	13.8	72,229	97.5
	$ 2,194,030	$ 1,667,582			$ 526,448	31.6 %
General corporate expense	872,024	657,201			214,823	32.7
lululemon Studio obsolescence provision	23,709	—			23,709	n/a
Impairment of assets and restructuring costs	74,501	—			74,501	n/a
Amortization of intangible assets	5,010	6,579			(1,569)	(23.8)
Gain on disposal of assets	—	(10,180)			10,180	(100.0)
Income from operations	$ 1,218,786	$ 1,013,982			$ 204,804	20.2 %
Operating margin	19.0 %	19.0 %			0 basis points	

Company-Operated Stores. The increase in income from operations from our company-operated stores was primarily the result of increased gross profit of $396.0 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower freight costs and lower markdowns, partially offset by higher inventory provisions, shrink, and damages. The increase in gross margin was also due to leverage on depreciation costs, partially offset by an unfavorable impact of foreign currency exchange rates and deleverage in costs from our product teams. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to higher employee and operating costs. Employee costs increased primarily due to higher salaries and wages expense, incentive compensation, and benefit costs 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 packaging costs as a result of higher net revenue, as well as increased repairs and maintenance. Income from operations as a percentage of company-operated store net revenue increased due to higher gross margin, partially offset by deleverage 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 $311.3 million, driven by increased net revenue and higher gross margin. The increase in gross margin was primarily due to higher product margin driven by lower freight costs, partially offset by higher markdowns and higher inventory provisions and damages. The increase in gross margin was partially offset by an unfavorable impact of foreign currency exchange rates and deleverage in costs from our product teams and distribution centers. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses primarily due to higher digital marketing expenses, higher variable operating costs including distribution costs, credit card fees, and packaging costs as a result of higher net revenue, as well as higher depreciation costs and higher technology costs. Income from operations as a percentage of direct to consumer net revenue increased primarily due to higher gross margin, partially offset by deleverage on selling, general and administrative expenses.

Other. The increase in income from operations from our other channels was primarily the result of increased gross profit of $57.7 million, driven by increased net revenue and higher gross margin. The increase in income from operations from our other channels was partially offset by an increase in selling, general and administrative expenses driven by higher salaries and wages expense, higher repairs and maintenance, and professional fees, partially offset by reduced lululemon Studio marketing expenses. Income from operations as a percentage of other net revenue increased primarily due to leverage on selling, general and administrative expenses and higher gross margin.

General Corporate Expense. The increase in general corporate expense was primarily due to increased employee costs, primarily from headcount growth and increased wage rates, as well as increased brand and community costs, depreciation, technology costs, and professional fees. The increase in general corporate expense was partially offset by a decrease in net foreign currency exchange and derivative revaluation losses of $17.8 million.

Other Income (Expense), Net

	First Three Quarters			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Other income (expense), net	$ 25,229	$ 454	$ 24,775	n/a

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

Income Tax Expense

	First Three Quarters			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Income tax expense	$ 363,293	$ 279,447	$ 83,846	30.0 %
Effective tax rate	29.2 %	27.5 %	170 basis points	

The increase in the effective tax rate was primarily due to the accrual of withholding taxes on unremitted foreign earnings, adjustments upon the filing of income tax returns, and a lower tax rate on certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio which increased the effective tax rate in the first three quarters of 2023 by 20 basis points. A lower tax rate on the capital gain on the sale of an administrative building reduced our effective tax rate in the first three quarters of 2022 by 20 basis points. The increase in the effective tax rate was partially offset by a reduction in non-deductible expenses in international jurisdictions.

Excluding certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio in 2023, and the gain on sale of an administrative building in 2022, and their tax effects, our adjusted effective tax rates were 29.0% and 27.7% for the first three quarters of 2023 and 2022, respectively.

Net Income

	First Three Quarters			
	2023	2022	Year over year change	
	(In thousands)		*(In thousands)*	*(Percentage)*
Net income	$ 880,722	$ 734,989	$ 145,733	19.8 %

The increase in net income was primarily due to an increase in gross profit of $741.3 million and an increase in other income (expense), net of $24.8 million, partially offset by an increase in selling, general and administrative expenses of $453.3 million, an increase in income tax expense of $83.8 million, asset impairment and restructuring costs recognized in relation to lululemon Studio in 2023 of $74.5 million, and a gain on disposal of assets of $10.2 million in the prior year. Excluding certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio in 2023, and the gain on sale of an administrative building in 2022, and their tax effects, adjusted net income increased $226.4 million or 31%.

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 certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio, the gain on disposal of assets for the sale of an administrative office building, and the related income tax effects of these items. We believe these adjusted financial measures are useful to investors as they provide supplemental information that enable evaluation of the underlying trend in our operating performance, and enable a comparison to our historical financial information. Further, due to the finite and discrete nature of these items, we do not consider them to be normal operating expenses that are necessary to run our business, or impairments or disposal gains that are expected to arise in the normal course of our operations.

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

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

Constant Dollar Changes in Net Revenue

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

	Third Quarter 2023		First Three Quarters 2023	
	Net Revenue		Net Revenue	
	(In thousands)	*(Percentage)*	*(In thousands)*	*(Percentage)*
Change	$ 347,329	19 %	$ 1,075,495	20 %
Adjustments due to foreign currency exchange rate changes	11,098	—	82,201	2 %
Change in constant dollars	$ 358,427	19 %	$ 1,157,696	22 %

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.

	Third Quarter 2023			First Three Quarters 2023		
	Total Comparable Sales[(1),(2)]	Comparable Store Sales[(2)]	Direct to Consumer Net Revenue	Total Comparable Sales[(1),(2)]	Comparable Store Sales[(2)]	Direct to Consumer Net Revenue
Change	13 %	9 %	18 %	13 %	10 %	16 %
Adjustments due to foreign currency exchange rate changes	1	—	1	1	1	2
Change in constant dollars	14 %	9 %	19 %	14 %	11 %	18 %

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

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

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Adjusted financial measures

The following tables reconcile adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The 2023 adjustments relate to certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio and their related tax effects. The 2022 adjustments relate to the gain on sale of an administrative office building and its related tax effects. Please refer to Note 3. Impairment of Assets and Restructuring Costs and Note 4. Gain on Disposal of Assets included in Item 1 of Part I of this report for further information on the nature of these amounts.

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

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

	First Three Quarters 2022					
	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	$ 1,013,982	19.0 %	$ 279,447	27.5 %	$ 734,989	$ 5.74
Gain on disposal of assets	(10,180)	(0.2)			(10,180)	(0.08)
Tax effect of the above			(1,661)	0.2	1,661	0.01
Adjusted results (non-GAAP)	$ 1,003,802	18.8 %	$ 277,786	27.7 %	$ 726,470	$ 5.67

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 lululemon Studio during that quarter.

Liquidity and Capital Resources

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

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

	First Three Quarters		
	2023	2022	Year over year change
	(In thousands)		
Total cash provided by (used in):			
Operating activities	$ 912,066	$ (79,801)	$ 991,867
Investing activities	(445,325)	(386,862)	(58,463)
Financing activities	(510,583)	(399,428)	(111,155)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(19,887)	(41,156)	21,269
Increase (decrease) in cash and cash equivalents	$ (63,729)	$ (907,247)	$ 843,518

Operating Activities

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

- an increase in cash flows from the changes in operating assets and liabilities of $613.9 million, primarily driven by changes in inventories, prepaid expenses and other current assets, and accounts payable, partially offset by changes in income taxes;
- changes in adjusting items of $232.2 million, primarily driven by certain inventory provisions, asset impairments, and restructuring costs recognized in relation to lululemon Studio, as well as increased depreciation and higher cash inflows related to derivatives; and
- increased net income of $145.7 million.

Investing Activities

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

Financing Activities

The increase in cash used in financing activities was primarily the result of an increase in our stock repurchases. During the first three quarters of 2023, 1.4 million shares were repurchased at a total cost including commissions and excise taxes of $504.6 million. During the first three quarters of 2022, 1.2 million shares were repurchased at a total cost including commissions of $375.0 million. The common stock was repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors.

Liquidity Outlook

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

The following table includes certain measures of our liquidity:

		October 29, 2023
		(In thousands)
Cash and cash equivalents	$	1,091,138
Working capital excluding cash and cash equivalents[(1)]		825,647
Capacity under committed revolving credit facility		393,361

(1) Working capital is calculated as current assets of $3.4 billion less current liabilities of $1.4 billion.

We enter into standby letters of credit and guarantee to secure certain of our obligations, including leases, taxes, and duties. As of October 29, 2023, letters of credit and guarantee totaling $10.0 million had been issued, including $6.6 million under our committed revolving credit facility.

Our committed North America credit facility provides for $400.0 million in commitments under an unsecured five-year revolving credit facility. The credit facility has a maturity date of December 14, 2026, subject to extension under certain circumstances. As of October 29, 2023, aside from letters of credit and guarantee of $6.6 million, we had no other borrowings outstanding under this credit facility. Further information regarding our credit facilities and associated covenants is outlined in Note 5. Revolving Credit Facilities and Supply Chain Financing Program included in Item 1 of Part I of this report.

The timing and cost of our inventory purchases will vary depending on a variety of factors such as revenue growth, assortment and purchasing decisions, product costs including freight and duty, and the availability of production capacity and speed. Our inventory balance as of October 29, 2023 was $1.7 billion, a decrease of 4% from October 30, 2022.

Critical Accounting Policies and Estimates

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

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

Operating Locations

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

Number of company-operated stores by country (market)	October 29, 2023	January 29, 2023
United States	361	350
People's Republic of China [1]	133	117
Canada	70	69
Australia	32	32
United Kingdom	20	20
South Korea	18	16
Germany	9	10
New Zealand	8	8
Singapore	7	8
Japan	7	7
France	5	4
Ireland	4	4
Spain	3	3
Malaysia	2	2
Sweden	2	2
Netherlands	2	1
Norway	1	1
Switzerland	1	1
Thailand	1	—
Total company-operated stores	686	655

(1) PRC included 114 stores in China Mainland, nine stores in Hong Kong Special Administrative Region, eight stores in Taiwan, and two stores in Macao Special Administration Region, as of October 29, 2023. As of January 29, 2023, there were 99 stores in China Mainland, nine stores in Hong Kong Special Administrative Region, seven stores in Taiwan, and two stores in Macao Special Administration Region.

Retail locations operated by third parties under license and supply arrangements are not included in the above table. As of October 29, 2023, there were 38 licensed locations, including 18 in Mexico, six in the United Arab Emirates, six in Saudi Arabia, three in Qatar, three in Kuwait, and two in Israel.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

As of October 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 8. Derivative Financial Instruments included in Item 1 of Part I of this report for further information, including details of the notional amounts outstanding.

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

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

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

During the first three quarters of 2023, 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 the first three quarters of 2022, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a $83.0 million increase in accumulated other comprehensive loss within stockholders' equity.

A 10% appreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the foreign currency exchange rates in effect for the first three quarters of 2023 would have resulted in lower income from operations of approximately $46.0 million. This assumes a consistent 10% appreciation in the U.S. dollar against the Canadian dollar over the first three quarters of 2023. The timing of changes in the relative value of the U.S. dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign currency exchange rates have on our income from operations.

Interest Rate Risk. Our committed revolving credit facility provides us with available borrowings in an amount up to $400.0 million. Because our revolving credit facilities bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of October 29, 2023, aside from letters of credit and guarantee of $6.6 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 interest rate risk currently poses a material exposure to our business and results of operations.

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

Inflation

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

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

ITEM 4. CONTROLS AND PROCEDURES

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

Our management, including our principal executive officer and principal financial and accounting officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of October 29, 2023. Based on that evaluation, our principal executive officer and principal financial and accounting officer concluded that, as of October 29, 2023, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended October 29, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In addition to the legal matters described in Note 13. Legal Proceedings and Other Contingencies included in Item 1 of Part I of this report and in our 2022 Annual Report on Form 10-K, we are, from time to time, involved in routine legal matters incidental to the conduct of our business, including legal matters such as initiation and defense of proceedings to protect intellectual property rights, employment claims, product liability claims, personal injury claims, and similar matters. We believe the ultimate resolution of any such current proceeding will not have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q and in our 2022 Annual Report on 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 test and develop 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, several 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 and political advocacy groups, certain institutional investors, investment funds, other market participants, stockholders, and customers have focused increasingly on the environmental, social and governance ("ESG") practices of companies, including those associated with climate change and social responsibility. These parties have placed increased importance on the implications of the social cost of their investments. If our ESG practices do not meet customer, investor, employee, or other stakeholder expectations or do not align with their opinions or values, our brand, reputation, employee retention, and business may be negatively impacted. Any sustainability report that we publish or other ESG 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 policies or practices, and this could reduce demand for our products. 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 also 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 accrued for Canadian withholding taxes on the portion of our net investment which we expect to be unable to repatriate free of withholding tax.

For 2023, assuming there are no exchange transactions by our exchangeable shareholders, we will continue to accrue for Canadian withholding taxes on the accumulated earnings of our Canadian subsidiaries which are not indefinitely reinvested.

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. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information regarding our purchases of shares of our common stock during the third quarter of 2023 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]
July 31, 2023 - August 27, 2023	187,708	$ 380.24	187,708	$ 382,579,838
August 28, 2023 - October 1, 2023	203,197	383.50	203,197	304,653,432
October 2, 2023 - October 29, 2023	162,446	378.34	162,446	243,193,954
Total	553,351		553,351	

(1) Monthly information is presented by reference to our fiscal periods during our third quarter of 2023.

(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 provides information regarding our purchases of shares of our common stock during the third quarter of 2023 related to our Employee Share Purchase Plan:

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]
July 31, 2023 - August 27, 2023	6,943	$ 377.42	6,943	4,442,080
August 28, 2023 - October 1, 2023	11,648	392.20	11,648	4,430,432
October 2, 2023 - October 29, 2023	7,082	382.56	7,082	4,423,350
Total	25,673		25,673	

(1) Monthly information is presented by reference to our fiscal periods during our third quarter of 2023.

(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 withheld to settle statutory employee tax withholding related to the vesting of stock-based compensation awards.

ITEM 5. OTHER INFORMATION

Trading Arrangements

During the third quarter of 2023, no director or officer of lululemon (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (in each case, as defined in Item 408(a) of Regulation S-K).

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ITEM 6. EXHIBITS

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
31.1	Certification of principal executive officer Pursuant to Exchange Act Rule 13a-14(a)	X				
31.2	Certification of principal financial and accounting officer Pursuant to Exchange Act Rule 13a-14(a)	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					
101	The following unaudited interim consolidated financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 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 Unaudited Interim Consolidated Financial Statements	X				
104	Cover Page Interactive Data File (formatted in iXBRL and contained in Exhibit 101)	X				

* Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

lululemon athletica inc.

By: /s/ MEGHAN FRANK

Meghan Frank
Chief Financial Officer
(principal financial and accounting officer)

Dated: December 7, 2023