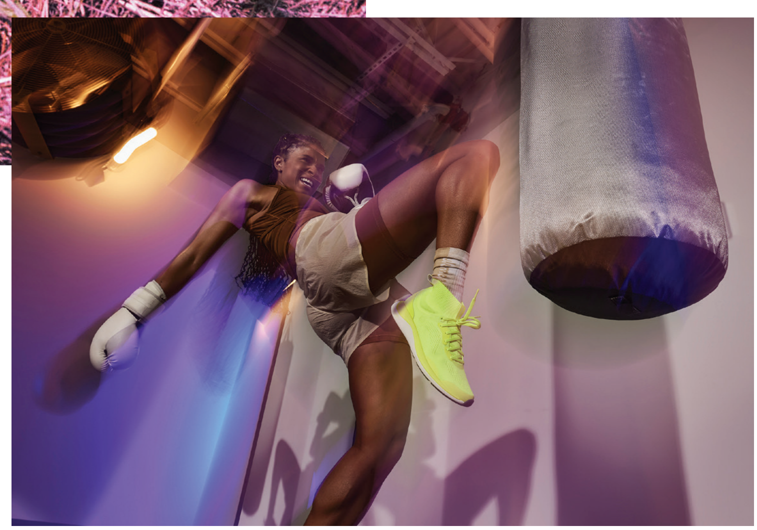

Annual Report | **2022**

To our shareholders

2022 was another year of strong performance for lululemon, as we grew our net revenue by 30% to over $8 billion and delivered balanced results across our channels, geographies, and categories, despite ongoing challenges in the macro environment.

Our continued momentum and success were driven by our incredible teams around the world and guided by our new five-year growth plan – the Power of Three ×2 – which we unveiled at our Analyst Day in April 2022.

Our Power of Three ×2 strategy leverages our proven Power of Three formula that has fueled our success over the past five years – Product Innovation, Guest Experience, and Market Expansion – and includes goals to once again double our men's business, double our digital business, and quadruple our international business, while growing total revenue from $6.25 billion in 2021 to $12.5 billion by 2026.

Underpinning this strategy are our Impact Agenda priorities, with our Be Human, Be Well, and Be Planet pillars reflecting our commitment to drive positive change and lead with innovative and socially responsible practices at every step in our journey.

I am proud of our strong start to our Power of Three ×2 growth plan and look forward to building on our strength in 2023.

Our Differentiators

lululemon continues to benefit from consumer behaviors and trends that align with our business, including living an active and healthy lifestyle, seeking quality and versatile apparel, and connecting with inclusive communities of people focused on physical, mental, and social wellbeing.

The strength of our culture and brand is derived from our guest loyalty, which we believe is one of our most meaningful competitive advantages. As a purpose-driven organization with a vision to create transformative products and experiences that build meaningful connections, unlocking greater possibility and wellbeing for all, our guests share our values and connect with lululemon on a deeper level.

Our category has momentum, our product innovation sets us apart, and our vertical omni operating model strengthens our guest relationship and engagement with every interaction.

Our Growth Pillars

Product Innovation is the foundation of our guest relationships, grounded in our Science of Feel innovation philosophy that guides our product design and enables us to solve for unmet needs and deliver more for our guests.

In 2022, we continued to take a performance-first approach to bring new technical innovations into our merchandise assortment. We expanded our core running category with the launch of SenseKnit, a proprietary fabric technology offering zoned compression. We believe raw materials are a true differentiator for us in the market, and play an integral role in how the Science of Feel comes to life across all our activities.

We also entered new categories, including Play activities with capsule collections for golf, tennis, and hiking. The versatility of our products allows us to broaden our reach and demonstrates the effectiveness and efficiency of our business model.

We also launched our inaugural footwear collection made for women first, applying over 20 years of our product innovation and insights. Our first four styles across a variety of activities – blissfeel for running, strongfeel for training, chargefeel for hybrid workouts, and a dual-gender slide – are the beginning of an exciting test-and-learn opportunity to build into the potential of this category.

Guest Experience comes to life through our powerful omni operating model, which allows us to serve our guests both in store and online. We saw strength across both channels in 2022, with store revenue increasing 29% and e-commerce revenue growing 33%, and our biggest-ever day of traffic and revenue on Black Friday.

One of lululemon's core strengths is harnessing the power of our guest relationships through our educators, ambassadors, and activations to build stronger connections and cultivate community across both physical and digital. In 2022, we created world-class experiences in our markets around the world, from 10K runs in Atlanta and Houston, to the Summer Sweat Games in China.

We also launched our two-tier membership program in the fall, which includes an Essentials free tier and our lululemon Studio premium tier. In the first five months of the program, we enrolled over nine million Essentials members. This summer, we will be expanding the lululemon Studio tier of the program by enabling guests to also access our digital fitness content via a new app for a lower monthly fee. We are excited about this evolved approach and the role membership will continue to play in building our community, strengthening our guest relationships, and driving long-term value.

Market Expansion remains a significant opportunity. We saw strong performance in 2022, with North America revenue growth of 29% and international revenue growth of 35%. We opened 81 net new company-operated stores during the year, ending 2022 with over 650 total stores globally. And while we continue to see growth and momentum in every market that we are in, international remains a relatively small part of the business.

Our brand continues to resonate across geographies and cultures, and we remain focused on building global brand awareness while ensuring local relevance. We continued to invest in our partnerships with elite athletes and creators who powerfully represent our brand and values, both in their communities and on the world stage. It was incredible to see our partnership with the Canadian Olympic Committee and Canadian Paralympic Committee come to life in Beijing for our first year as the Official Outfitter of Team Canada, and we look forward to our next collaboration in Paris in 2024.

Our Impact

As we continue to grow our business, we remain focused on our Impact Agenda priorities and making year-over-year progress. We believe in doing business responsibly and sustainably, and we have been successful with our three-pillar model encompassing people, communities, and planet as more consumers share our values and goals to have a positive impact in the world.

Through our **Be Human** pillar, we continued to deliver on our Inclusion, Diversity, Equity, and Action (IDEA) commitments, achieving our goal to increase the representation of racially diverse employees in our stores a year early[1]. We also broadened our inclusive design and IDEA programs, expanded our mental health first aid training to all people leaders globally, and maintained 100% gender pay equity within our entire global employee population. We have achieved full pay equity, including gender and race, in the United States. We follow local laws and regulations and where we are able to collect the data necessary to confirm complete pay equity, we do so.

Through our **Be Well** pillar, we celebrated one year since the launch of our lululemon Centre for Social Impact. We have invested a total of $29.4 million[2] to support the wellbeing of our local and global communities, those who make our products, and humanitarian and frontline workers, positively impacting millions of people globally.

Through our **Be Planet** pillar, we continued our journey to be part of a circular ecosystem and minimize environmental harm. We expanded our lululemon Like New resale program to all stores within the United States to keep our products in use longer, and we were proud to be one of the lead funders in the creation of the Apparel Impact Institute's Fashion Climate Fund, a $250 million fund to decarbonize the fashion value chain.

We recognize that lululemon has a unique opportunity, responsibility, and platform to become a more sustainable and equitable business, and we look forward to continuing to progress our Impact work in the years ahead.

In Closing

I would like to thank our lululemon teams around the world and our global collective, without whom our success would not be possible. We are proud of all that we are building together, as we continue to innovate and live into our brand purpose – to elevate human potential by helping people feel their best.

To our shareholders, we are grateful for your ongoing support and confidence in lululemon. As we continue to monitor the macro environment, we have shown our ability to deliver on our goals and drive guest loyalty through our innovative products, powerful experiences, and strategic market expansion.

We are entering 2023, which marks lululemon's 25th anniversary, from a position of strength and we remain in the early innings of our growth. I am proud of all that we have accomplished this year and excited for the opportunities that lie ahead in 2023 and beyond.

Calvin McDonald
Chief Executive Officer

[1] Our goal was to increase representation of racially diverse backgrounds to at least 40% of all employees in our stores by 2023. We measure the current state of diverse representation and organizational inclusion health through an annual voluntary demographic survey, and the results relate to all of our employees in North America, Europe, Australia, and New Zealand. "Racially diverse" is used to measure the non-white population.

[2] As of January 29, 2023, we have contributed $29.4 million to lululemon's Centre for Social Impact, $21.2 million of which has been contributed directly to social impact organizations. The remaining $8.2 million includes $6.0 million toward a Donor-Advised-Fund to be advised for future grantmaking as well as operational costs.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended January 29, 2023

OR

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

For the transition period from to

Commission file number 001-33608

lululemon athletica inc.

(Exact name of registrant as specified in its charter)

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

1818 Cornwall Avenue, Vancouver, British Columbia V6J 1C7

(Address of principal executive offices)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

Special Note Regarding Forward-Looking Statements

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

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

ITEM 1. BUSINESS

General

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

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

Components of this discussion of our business include:

- Our Products
- Our Market
- Our Segments
- Integrated Marketing
- Product Design and Development
- Sourcing and Manufacturing
- Distribution Facilities
- Competition
- Seasonality
- Human Capital
- Intellectual Property
- Securities and Exchange Commission Filings

Our Products

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

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

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

Our Market

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

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

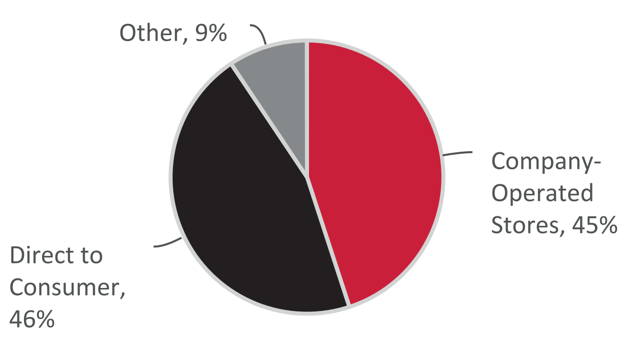
North America is our largest market by geographical split, representing 84% of our 2022 net revenue. We are expanding internationally across the People's Republic of China ("PRC"), the rest of Asia Pacific, and Europe. We are expanding in these regions via a decentralized model, allowing for local community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

Our Segments

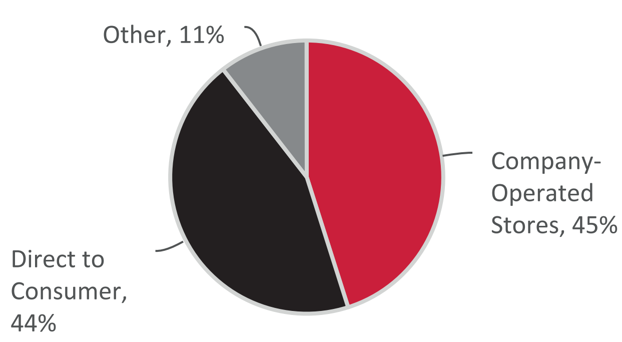
We primarily conduct our business through two channels: company-operated stores and direct to consumer.

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

2022 Net Revenue by Segment



2021 Net Revenue by Segment



Company-Operated Stores

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

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

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

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

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

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

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

We believe that our innovative retail concept and guest experience contribute to the success of our stores. We use sales per square foot to assess the performance of our company-operated stores relative to their square footage. We believe that sales per square foot is useful in evaluating the performance of our company-operated stores. Our sales per square foot was $1,580 and $1,443 for 2022 and 2021, respectively.

Sales per square foot is calculated using total net revenue from all company-operated stores divided by the average square footage of the stores during the year. In fiscal years with 53 weeks, the 53rd week of net revenue is excluded from the calculation of sales per square foot. The square footage of our company-operated stores includes all retail related space, storage areas, and administrative space used by the store employees. It excludes any space used for non-retail related activities. The sales per square foot metric we report may not be equivalent to similarly titled metrics reported by other companies.

Direct to Consumer

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

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

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

Other

Our other operations primarily include:

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

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

Integrated Marketing

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

Product Design and Development

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

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

Sourcing and Manufacturing

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

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

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

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

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

Distribution Facilities

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

Competition

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

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

Seasonality

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

Human Capital

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

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

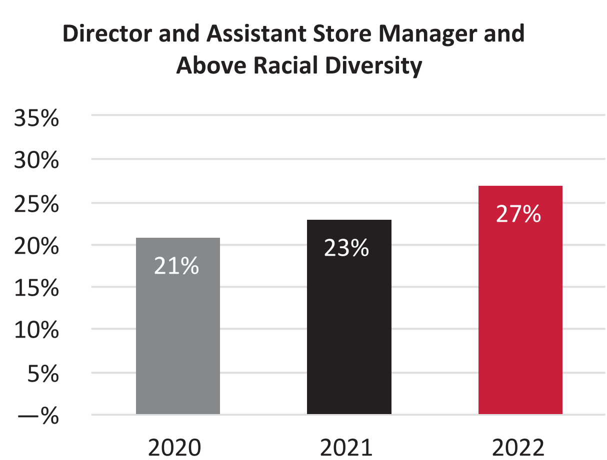
- advancing a culture of Inclusion, Diversity, Equity, and Action ("IDEA");
- empowering our employees through whole-person opportunities; and
- supporting the well-being of the people who make our products in our supply chain.

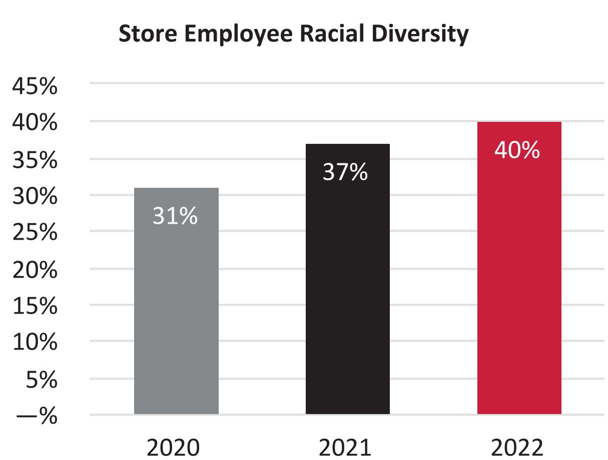
Advancing a culture of Inclusion, Diversity, Equity and Action

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

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

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





(1) While we track male and female genders, we acknowledge this is not fully encompassing of all gender identities.
(2) The voluntary demographic survey results presented above relate to all of our employees in North America, Europe, Australia, and New Zealand.
(3) "Racial diversity" is used to measure the non-white population.

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

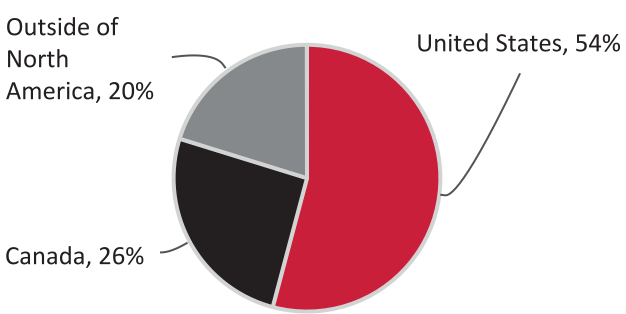
We offer all employees IDEA education, training, and guided conversations on a variety of topics, including anti-racism, anti-discrimination, and inclusive leadership behaviors. We have established People Networks, which are employee resource groups that represent employees who have marginalized and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

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

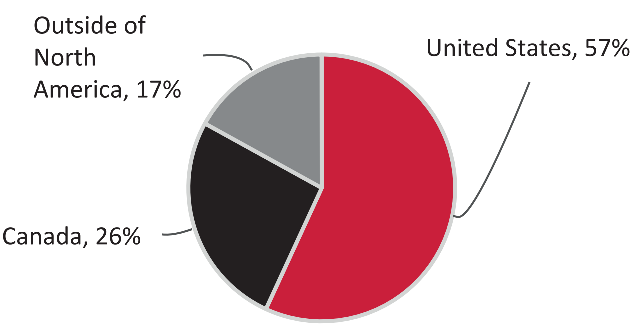
Empowering our employees through whole-person opportunities

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

2022 Employees by Region



2021 Employees by Region



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

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

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

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

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

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

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

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

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

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

Intellectual Property

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

Securities and Exchange Commission Filings

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

ITEM 1A. RISK FACTORS

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

Risks related to our business and industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We lease the majority of our stores under operating leases and our inability to secure appropriate real estate or lease terms could impact our ability to grow. Our leases generally have initial terms of between two and 15 years, and generally can be extended in increments between two and five years, if at all. We generally cannot cancel these leases at our option. If an existing or new store is not profitable, and we decide to close it, as we have done in the past and may do in the future, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Similarly, we may be committed to perform our obligations under the applicable leases even if current locations of our stores become unattractive as demographic patterns change. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could require us to close stores in desirable locations.

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

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

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

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

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

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is typically weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. This seasonality, along with other factors that are beyond our control, including weather conditions and the effects of climate change, could adversely affect our business and cause our results of operations to fluctuate.

Risks related to our supply chain

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks related to information security and technology

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

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

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

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

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

Privacy and data protection laws increase our compliance burden.

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

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

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

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

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

Risks related to environmental, social, and governance issues

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

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

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

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

Risks related to global economic, political, and regulatory conditions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We engage in a number of intercompany transactions across multiple tax jurisdictions. Although we believe that these transactions reflect the accurate economic allocation of profit and that proper transfer pricing documentation is in place, the profit allocation and transfer pricing terms and conditions may be scrutinized by local tax authorities during an audit and any resulting changes may impact our mix of earnings in countries with differing statutory tax rates. At the end of 2020, our Advance Pricing Arrangement ("APA") with the Internal Revenue Service and the Canada Revenue Agency expired. This APA