

# To our shareholders



2020 was a year unlike any other—and it presented both challenges and opportunities as world events shifted around us.

I am incredibly proud of how lululemon navigated the year. Our success was grounded in putting our collective first by providing pay protection for our employees, supporting our Ambassadors, creating a hardship fund to support our people, and honouring commitments to our landlords and vendors.

How we protected our teams reflects the unique culture and values of lululemon, which separates us in our industry. Cutting costs may be easy in the short term, but investing in our teams, Ambassadors, and business partners demonstrates that our values truly matter.

This guiding principle enabled us to remain agile and innovate over the course of the year. And I believe we will look back and view 2020 as a pivotal moment for lululemon, as we accelerated innovations and initiatives that will create additional opportunities for us into the future.

This letter is an exciting opportunity to share a few highlights of the past year, as we delivered on our Power of Three growth strategy, completed the acquisition of MIRROR, and further strengthened our financial position.

More than any single accomplishment, I am proud of how the results demonstrate the strength of our product assortment and the connection to our guests, which enabled us to win and to gain market share, both before and during the pandemic.

Looking ahead, we know lululemon is uniquely positioned and differentiated in the market, given people want to live a healthy and active lifestyle, demand technical products that perform above the competition, and are attracted to a brand that authentically connects with guests, our collective, and our communities.

These consumer behaviours will fuel our momentum well into the future, and, in fact, lululemon is just getting started with our growth potential across channels, regions, genders, and activities.

In 2020, we remained focused on delivering on our Power of Three growth strategy to double our men's business, double our digital business, and quadruple our international business by year end 2023. At the same time, we recognized this was an important moment for lululemon to use our voice and brand to create positive change for our people and planet, which we reference internally as the Power of Impact.

## Consistent Performance

The numbers in our Annual Report show the level of success we achieved. Total revenue grew by 11% to \$4.4 billion—with 23% revenue growth in the second half of the year. We also more than doubled our e-commerce business, and we ended the year with \$1.2 billion in cash and no debt.

This is all the more impressive given there was no playbook to a year like 2020. When the realities of COVID-19 became clear, our global leadership team quickly established three guiding principles: support our people, make balanced decisions, and continue to invest in the future.

We invested in areas of the business where immediate opportunities existed, such as our digital and technology platforms, and leaning into innovative programs such as having our store Educators connect virtually and shop with our guests. And we looked into the future and welcomed MIRROR to the lululemon family, jumpstarting our move into at-home fitness and extending our eco-system of how we serve guests.

These guiding principles paid off, and we gained market share driven by both our men's and women's business, as indicated by our nearly one-point US retailer market share gain in fiscal year.\*

## The Power of Three

Despite all the potential distractions in 2020, I am proud of how our teams across lululemon remained continually focused on our long-term growth drivers. Established in 2019, the Power of Three guides our discussions and fuels our aspirations, and we made considerable progress this year:

- **Product innovation.** Guided by our Science of Feel innovation platform, we continued to raise the bar in our core Yoga, Run, Train, and On the Move categories, from relaunching our proprietary Everlux fabric in new styles, to expanding our Align franchise into tops, to offering some of our best performing styles in a more inclusive size range for women.

- **Omni guest experience.** Our digital comps more than doubled for the full year, enabling us to achieve our goal of doubling our e-commerce business from 2018 levels three years early. We pulled forward investments in our digital ecosystem and quickly rolled out new capabilities, including a digital educator service and online sweatlife tools. We introduced virtual waitlists, appointment shopping, and buy online pickup at door and curbside to elevate the guest experience in our stores, and continued to expand with 30 net new stores. And MIRROR joined the lululemon family, increasing our total addressable market through its strong community focus.

- **International expansion.** International revenue grew 31% in 2020, a clear demonstration of our brand's ability to translate across geographies and cultures. At 14% penetration, we are in the early days of our international growth opportunity—and remain on track to quadruple the business from 2018 levels by 2023. Looking into the not-too-distant future, I can see a time when our international revenues are on par with what we deliver in North America.

## The Power of Impact

We also saw how the stress and unknowns of COVID-19 took a toll on the wellbeing of our communities, drawing attention to the need to be physically, mentally, and socially well. We conducted our first Global Wellbeing Report and surveyed people around the world, finding that only 29% of all respondents have a strong state of wellbeing, with younger generations experiencing the lowest wellbeing of all groups. I am determined for lululemon to help advocate for and support people in their pursuit of wellbeing, with our unique experience in the Science of Feel, mindfulness, exercise and building communities each playing a role.

We also released our first Impact Agenda to detail our strategies and plans related to product sustainability and equity for our people. Our dozen goals for the future include making 100% of our products with sustainable materials and end of use solutions by 2030, using 100% renewable electricity to power our operations by 2021, and achieving a 60% intensity reduction in carbon emissions across our global supply chain by 2030 as well.

Importantly, we also accelerated programs to become a more inclusive and diverse company. Our approach is called IDEA – Inclusion, Diversity, Equity and Action – and it started with us focusing on the systemic changes we need to make within lululemon to truly reflect the diversity of the communities in which we serve. Our actions thus far include expanding our IDEA team globally, establishing voluntary employee-led resource groups, and leveraging our brand and our voice to stand against hate and discrimination around the world.

Within each of these components of the Power of Impact, we recognize and take seriously the near-term and long-term responsibilities we have to create and sustain positive change, and we know the strength of our company performance allows us to do so.

## Our Future

In closing, I would like to express my deep gratitude to our global teams, our guests and Ambassadors, our Board of Directors, and, to all of you, our shareholders.

I couldn't be more excited about the opportunities in front of us. We are in the early innings of our growth, as we continue to expand across geographies, categories, and channels. Our success over multiple years enables us to ask ourselves "how high is high" in terms of the future we will create. It will be exciting to see what our incredible team of leaders and people can accomplish.

Thank you for your support and the confidence you have in all of us at lululemon. We will continue to work tirelessly to innovate together and inspire one another to continue delivering for the many groups who form our expanding lululemon family.

Sincerely,

Calvin McDonald  
Chief Executive Officer

# 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 31, 2021

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  
(State or other jurisdiction of  
incorporation or organization)

20-3842867  
(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 or 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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.

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 31, 2020 was approximately \$36,382,000,000. 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 31, 2020. 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 31, 2020.

**Common Stock:** At March 24, 2021 there were 125,164,616 shares of the registrant's common stock, par value \$0.005 per share, outstanding.

**Exchangeable and Special Voting Shares:** At March 24, 2021, there were outstanding 5,203,012 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 24, 2021, the registrant had outstanding 5,203,012 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 2021 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.

### ITEM 1. BUSINESS

#### General

lululemon athletica inc. is principally a designer, distributor, and retailer of healthy lifestyle inspired athletic apparel and accessories. We have a vision to be the experiential brand that ignites a community of people through sweat, grow, and connect, which we call "living the sweatlife." 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, nurturing entrepreneurial spirit, acting with honesty and 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 the world by unleashing the full potential within every one of us."

In this Annual Report on Form 10-K for the fiscal year ended January 31, 2021, 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 31, 2021 as "2020" and the fiscal year ended February 2, 2020 as "2019."

Components of this discussion of our business include:

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

#### Our Products

Our healthy lifestyle inspired athletic apparel and accessories are marketed under the lululemon brand. We offer a comprehensive line of apparel and accessories. 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 sweaty pursuits. We

also offer a range of products designed for being On the Move and fitness-related 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, who 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.

During the second quarter of 2020, we acquired Curiouser Products Inc., dba MIRROR. MIRROR is an in-home fitness company with an interactive workout platform that features live and on-demand classes. The acquisition of MIRROR bolsters our digital sweatlife offerings and brings immersive and personalized in-home sweat and mindfulness content to new and existing lululemon guests.

**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 69% of our 2020 net revenue, we also design a comprehensive men's line and have a targeted strategy in place. Our business is growing as more guests discover the technical rigor and premium quality of our men's products, and are attracted by our distinctive brand.

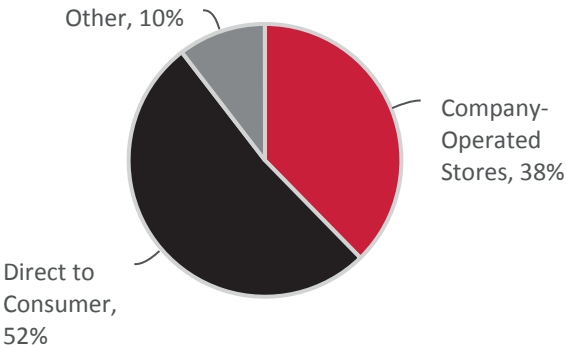
North America is our largest market by geographical split, representing 86% of our 2020 net revenue. We are expanding internationally across Europe, the People's Republic of China ("PRC"), and the rest of Asia Pacific. We are expanding in these regions via a decentralized model, allowing for local community insight and consumer preference to inform our strategic expansion.

**Our Segments**

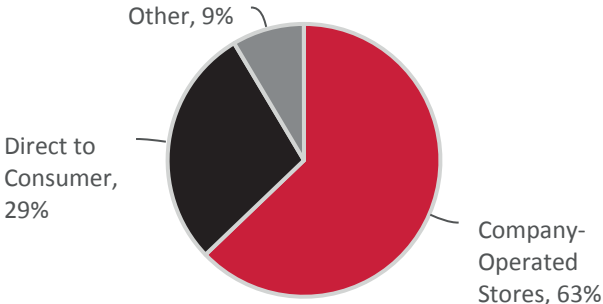
We primarily conduct our business through two channels: company-operated stores and direct to consumer.

We also conduct business through MIRROR, operate outlets and temporary locations, serve certain wholesale accounts, have license and supply arrangements, and hold warehouse sales from time to time. The financial results of these operations are disclosed in Other.

2020 Net Revenue by Segment



2019 Net Revenue by Segment



## Company-Operated Stores

At the end of 2020, we operated 521 stores in 17 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	January 31, 2021	February 02, 2020
United States	315	305
Canada	62	63
People's Republic of China <sup>(1)</sup>	55	38
Australia	31	31
United Kingdom	16	14
Germany	7	6
New Zealand	7	7
South Korea	7	5
Japan	6	7
Singapore	4	4
France	3	3
Malaysia	2	2
Sweden	2	2
Ireland	1	1
Netherlands	1	1
Norway	1	1
Switzerland	1	1
Total company-operated stores	521	491

<sup>(1)</sup> PRC included seven stores in Hong Kong, Special Administrative Region, two stores in Macao, Special Administration Region, and two stores in Taiwan, as of January 31, 2021. As of February 2, 2020, there were six stores in Hong Kong, Special Administrative Region, two stores in Macao, Special Administration Region, and one store in Taiwan.

We opened 30 net new company-operated stores in 2020, including 21 net new stores outside of North America.

We perform ongoing evaluations of our portfolio of company-operated store locations. During 2020, we closed 10 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 fiscal 2021, our new store growth will come primarily from company-operated store openings in Asia and in the United States. Our real estate strategy over the next several years will not only consist of opening new company-operated stores, but also in 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 typically use sales per square foot to assess the performance of our company-operated stores. As a significant number of our stores were temporarily closed due to COVID-19 during the first two quarters of 2020, we do not believe sales per square foot is currently useful to investors in understanding performance, therefore we have not included this metric.

## Direct to Consumer

We believe that 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](http://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 include:

- *MIRROR* - we offer in-home fitness through an interactive workout platform that allows our guests to subscribe for live and on-demand classes
- *Outlets and warehouse sales* - We utilize outlets as well as physical warehouse sales, which are held from time to time, to sell slow moving inventory and inventory from prior seasons at discounted prices. As of January 31, 2020, we operated 38 outlets, with the majority in North America.
- *Temporary locations* - Our temporary locations, including seasonal stores, 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.
- *Wholesale* - Our wholesale accounts include premium yoga studios, health clubs, and fitness centers. We believe these premium wholesale locations offer an alternative distribution channel that is convenient for our core guest and enhances the image of our brand. 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 that 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, and Mexico. We retain the rights to sell lululemon products through our e-commerce websites in these countries. 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 31, 2021, there were four licensed retail locations in Mexico, three in the United Arab Emirates, and one in Qatar, which are not included in the above company-operated stores table.

### **Community-Based Marketing**

We utilize a community-based approach to build brand awareness and guest loyalty. We pursue a multi-faceted strategy which leverages our local teams and ambassadors, digital marketing and social media, in-store community boards, and a variety of grassroots initiatives. We also plan to complement and amplify our community-based initiatives with global brand-building activity.

### **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 ultimately protect through agreements, trademarks, and 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 40 vendors that manufacture our products, five of which produced 59% of our products in 2020, with the largest manufacturer producing 17%. During 2020, 33% of our products were manufactured in Vietnam, 20% in Cambodia, 12% in Sri Lanka, and 9% in the PRC, including 2% in Taiwan.

We work with a group of approximately 65 suppliers to provide the fabrics for our products. In 2020, 65% of our fabrics were produced by our top five fabric suppliers, with the largest manufacturer producing 29%. During 2020, 45% of our fabrics originated from Taiwan, 18% from Mainland China, 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 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 partner with leading inspection and verification firms to closely monitor each supplier's compliance with applicable laws and our vendor code of ethics.

## **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 that 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, such as Nike, Inc., adidas AG, 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 generated in the fourth quarter of our fiscal year. For example, we generated approximately 56% and 47% of our full year operating profit during the fourth quarters of 2020 and 2019, respectively. Due to a significant number of our company-operated stores being temporarily closed due to COVID-19 during the first two quarters of 2020, we earned a higher proportion of our operating profit during the last two quarters of 2020 compared to prior years.

## Human Capital

Our Impact Agenda sets out our social and environmental commitments and strategy — across three interconnected pillars, Be Human, Be Well, and Be Planet. The Be Human pillar of our Impact Agenda sets out our focus areas with respect to our employees and broader community:

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

In 2020, as a response to the COVID-19 pandemic, we also implemented a range of measures to provide financial support to our employees and community and to ensure the safety for our people and guests.

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

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

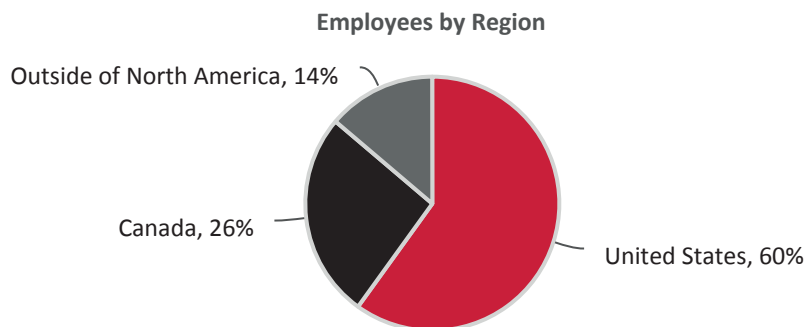
Diversity and inclusion are key components of our culture and are fundamental to achieving our strategic priorities and future vision. The diversity of our teams and working in an inclusive culture enables increased employee engagement, better decision making, greater adaptability, creativity, and a deeper understanding of the communities we serve. We are proud that as of January 31, 2021, approximately 55% of our board of directors, 65% of our senior executive leadership team, and 50% of all vice presidents and above are women, while approximately 75% of our overall workforce are women.<sup>(1)</sup>

We maintain 100% gender pay equity within our entire global employee population, meaning equal pay for equal work across genders. We have achieved pay equity across all areas of diversity in the United States and are seeking, to the extent permitted under local law and regulation, to collect the data necessary to confirm complete pay equity globally.

We are investing \$5 million to fund to our global IDEA activities. These funds can further support the career progress of our diverse talent and increase access to internal opportunities and professional development. 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 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.

### ***Supporting our employees through whole-person opportunities***

We believe that each of our approximately 25,000 people are 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.



We assess our performance and identify opportunities for improvement through an annual employee engagement survey. In 2020, the participation rate was in excess of 90% and our employee engagement score was in the top 10% of retailers.<sup>(2)</sup> Our engagement score tells us whether our employees believe lululemon is a great place to work, whether they believe they are able to use their strengths at work, if they are motivated, and whether they would recommend lululemon as a great place to work.

<sup>(1)</sup> While we track male and female genders, we acknowledge this is not fully encompassing of all gender identities.

<sup>(2)</sup> Based on an industry benchmark provided by the third party that administers this survey to our employees.

We understand that health and wealth programs need to offer choice at all stages of life. Our current offerings to support whole-person opportunities include, among other things:

- Competitive compensation which rewards exceptional performance;
- 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;
- Personal resilience tools to employees, ambassadors, and suppliers;
- Reimbursement programs which reward physical activity; and
- A Fund your Future program for eligible employees which offers partial contribution matches to a pension plan and employee share purchase plan.

### ***Supporting the wellbeing of the people who make our products in our supply chain***

We partner with our suppliers to work towards creating safe, healthy, and equitable environments that support the wellbeing of all the people who make our products. Our Vendor Code of Ethics is the foundation of our supplier partnerships. It adheres to international standards for working conditions, workers' rights, and environmental protection, and its implementation focuses on prevention, monitoring, and improvement. Beyond labor compliance, we are committed to supporting worker wellbeing, building on years of partnerships with our suppliers around workplace practices and community support initiatives.

We recently developed and implemented our Foreign Migrant Worker Standard, which outlines our expectations with respect to foreign migrant workers. This program, which has been successfully executed in Taiwan, has benefited approximately 2,700 migrant workers by virtually eliminating worker-paid fees. Based on lessons learned from this program, we are now expanding beyond Taiwan so that we can further support foreign migrant workers globally.

### ***Our COVID-19 response***

We closely monitor the changing landscape of COVID-19 so that we can make appropriate decisions to support and keep our people safe. We acted swiftly during the year in response to the crisis by temporarily closing our stores, committing to pay protection for employees, launching our We Stand Together Fund, and launching our Ambassador Relief Fund.

When our stores temporarily closed, we guaranteed pay to our North American employees through the entire closure period. As stores re-opened, we kept a pay guarantee in place, should a store need to close again for any reason, including if weather-related or related to civil unrest. We now have a minimum pay guarantee policy by role.

We created a wide range of resiliency and connection sessions and tools to support our people during the pandemic and we made these resources available to our guests and the broader community.

Our We Stand Together Fund was established to support employees facing significant financial hardship with relief grants for basic and critical needs. To establish this fund, for three months the senior leadership team contributed 20% of their salary and our board of directors contributed 100% of their cash retainer, and employees donated as well. We plan to fund this program on an ongoing basis to aid affected employees. Separately, we contributed \$4.5 million to our Ambassador Relief Fund to assist ambassador-run fitness studios with basic operating costs.

As we continue to navigate the COVID-19 pandemic, we continue to prioritize the safety of our people and our guests. We are closely monitoring the situation in every market and community which we serve. We will temporarily close stores and restrict operations as necessary, based upon information from government and health officials.

### **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 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](http://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](http://www.sec.gov). Also available on our website are printable versions of our 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, as well as additional factors not presently known to us or that we currently deem to be immaterial, 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. 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.

***The current COVID-19 coronavirus pandemic and related government, private sector, and individual consumer responsive actions have and will continue to adversely affect our business operations, store traffic, employee availability, financial condition, liquidity, and cash flow.***

The outbreak of COVID-19 has spread across the United States, Canada, and most other countries globally. Related government and private sector responsive actions have significantly affected our business operations and will likely continue to do so for the foreseeable future.

The spread of COVID-19 has caused health officials to impose restrictions and recommend precautions to mitigate the spread of the virus, especially when congregating in heavily populated areas, such as malls and lifestyle centers. Our stores have experienced temporary closures, and we have implemented precautionary measures in line with guidance from local authorities in the stores that are open. These measures include restrictions such as limitations on the number of guests allowed in our stores at any single time, minimum physical distancing requirements, and limited operating hours. We do not know how the measures recommended by local authorities or implemented by us may change over time or what the duration of these restrictions will be.

Further resurgences in COVID-19 cases, including from variants, could cause additional restrictions, including temporarily closing all or some of our stores again. An outbreak at one of our locations, even if we follow appropriate precautionary measures, could negatively impact our employees, guests, and brand. There is uncertainty over the impact of COVID-19 on the U.S., Canadian, and global economies, consumer willingness to visit stores, malls, and lifestyle centers, and employee willingness to staff our stores as the pandemic continues and if there are future resurgences. There is also uncertainty regarding potential long-term changes to consumer shopping behavior and preferences and whether consumer demand will recover when restrictions are lifted.

We may be impacted by other business disruptions related to COVID-19, including disruptions to our sourcing and manufacturing or to our distribution facilities. Both of our distribution centers in the United States have experienced temporary closures due to COVID-19.

The temporary closure of the majority of our retail locations during the first two quarters of 2020, subsequent temporary re-closures of certain retail locations, as well as other impacts of COVID-19, have negatively impacted our cash flows from operations and our liquidity. The length and severity of the pandemic, as well as the pace of recovery, could negatively impact our future cash flows.

The COVID-19 situation is changing rapidly and the extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and its variants and the actions taken to contain it or treat its impact, including vaccinations.

***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. The COVID-19 pandemic has shifted guest shopping preferences away from brick-and-mortar and towards digital platforms. 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 are 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.

***We operate in a highly competitive market and the size and resources of some of our competitors may allow them to 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. In contrast to our grassroots community-based marketing approach, many of our competitors promote their brands through traditional forms of advertising, such as print media and television commercials, and through celebrity endorsements, and have substantial resources to devote to such efforts. Our competitors may also create and maintain brand awareness using traditional forms of advertising more quickly than we can. Our competitors may also be able to increase sales in their new and existing markets faster than we do by emphasizing different distribution channels than we do, such as catalog sales or an extensive franchise network.

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 product 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, pressure from consumers to reduce the prices we charge for our products, and changes in consumer demand. These factors may 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. 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 unexpected effects on inventory supply and consumer demand caused by the current COVID-19 coronavirus pandemic), and weakening of economic conditions or consumer confidence in future economic conditions. 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 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 foreign 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, 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. The acquisition of MIRROR or other strategic investments or acquisitions may not create value and may harm our brand and adversely affect our business, financial condition, and results of operations.

***We may not realize the potential benefits and synergies sought with the acquisition of MIRROR.***

During 2020, we acquired MIRROR as part of our growth plan, which includes driving business through omni-guest experiences. The potential benefits of enhancing our digital and interactive capabilities and deepening our roots in the sweatlife might not be realized fully, if at all. Further, the expected synergies between lululemon and MIRROR, such as those related to our connections with our guests and communities as well as our store and direct to consumer infrastructure, may not materialize. A significant portion of the purchase price was allocated to goodwill and if our acquisition does not yield expected returns, we may be required to record impairment charges, which would adversely affect our results of operations.

Our management team has limited experience in addressing the challenges of integrating management teams, strategies, cultures, and organizations of two companies. This integration may divert the attention of management and cause additional expenses. Management also has limited experience outside of the retail industry, including with the specialized hardware and software sold and licensed by MIRROR. If MIRROR has inadequate or ineffective controls and procedures, our internal control over financial reporting could be adversely impacted. The acquisition may not be well received by the customers or employees of either company, and this could hurt our brand and result in the loss of key employees. If we are unable to successfully integrate MIRROR, including its people and technologies, we may not be able to manage operations efficiently, which could adversely affect our results of operations. The acquisition of MIRROR may also divert management time and other resources away from our existing business.

***We may not be able to grow the MIRROR business and have it achieve profitability.***

We may be unable to attract and retain subscribers to MIRROR. If we do not provide the delivery and installation service that our guests expect, offer engaging and innovative classes, and support and continue to improve the technology used, we may not be able to maintain and grow the number of subscribers. This could adversely impact our results of operations.

We are dependent on information technology systems to provide live and recorded classes to our customers with MIRROR subscriptions, to maintain its software, and to manage subscriptions. If we experience issues such as cybersecurity threats or actions, or interruptions or delays in our information technology systems, the data privacy and overall experience of subscribers could be negatively impacted and could therefore damage our brand and adversely affect our results of operations.

Competition, including from other in-home fitness providers as well as in-person fitness studios, and trends of consumer preferences, could also impact the level of subscriptions and therefore our results of operations.

***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.***

We have expanded our operations rapidly since our inception in 1998 and our net revenue has increased from \$40.7 million in fiscal 2004 to \$4.4 billion in 2020. 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 five and 15 years, and generally can be extended in five-year increments 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.

***We may not be able to successfully open new store locations in a timely manner, if at all, which could harm our results of operations.***

Our growth will largely depend on our ability to successfully open and operate new stores, which depends on many factors, including, among others, our ability to:

- identify suitable store locations, the availability of which is outside of our control;
- gain brand recognition and acceptance, particularly in markets that are new to us;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- hire, train and retain store personnel and field management;
- immerse new store personnel and field management into our corporate culture;
- source sufficient inventory levels; and
- successfully integrate new stores into our existing operations and information technology systems.

We may be unsuccessful in identifying new markets where our technical athletic apparel and other products and brand image will be accepted. In addition, we may not be able to open or profitably operate new stores in existing, adjacent, or new markets due to the impact of COVID-19, which could have a material adverse effect on us.

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

In the last few years, we have had changes to our senior management team including new hires, departures, and role and responsibility changes. 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.

***Our business is affected by seasonality.***

Our business is affected by the general seasonal trends common to the retail apparel industry. This seasonality may adversely affect our business and cause our results of operations to fluctuate.

#### **Risks related to our supply chain**

***Our reliance on suppliers to provide fabrics for and to produce our products could cause problems if we experience a supply chain disruption and we are unable to secure additional suppliers of fabrics or other raw materials, or manufacturers of our end products.***

We do not manufacture our products or the raw materials for them and rely instead on suppliers. 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. The following statistics are based on cost.

We work with a group of approximately 40 vendors that manufacture our products, five of which produced 59% of our products in 2020. During 2020, the largest single manufacturer produced approximately 17% of our products. During 2020, approximately 33% of our products were manufactured in Vietnam, 20% in Cambodia, 12% in Sri Lanka, and 9% in the PRC, including 2% in Taiwan.

We work with a group of approximately 65 suppliers to provide the fabrics for our products. In 2020, 65% of our fabrics were produced by our top five fabric suppliers, and the largest single manufacturer produced approximately 29% of fabric used. During 2020, approximately 45% of our fabrics originated from Taiwan, 18% from Mainland China, 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 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 the impact of health pandemics, including the current COVID-19 pandemic, and the related government and private sector responsive actions such as border 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. 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.

***The operations of many of our suppliers are subject to additional risks that are beyond our control.***

Almost all of our suppliers are located outside of North America, and as a result, we are subject to risks associated with doing business abroad, including:

- the impact of health conditions, including COVID-19, and related government and private sector responsive actions, and other changes in local economic conditions in countries where our suppliers or manufacturers are located;
- political unrest, terrorism, labor disputes, and economic instability resulting in the disruption of trade from foreign countries in which our products are manufactured;
- fluctuations in foreign currency exchange rates;
- the imposition of new laws and regulations, including those relating to labor conditions, quality and safety standards, imports, duties, taxes and other charges on imports, as well as trade restrictions and restrictions on currency exchange or the transfer of funds;
- reduced protection for intellectual property rights, including trademark protection, in some countries, particularly in the PRC; and
- disruptions or delays in shipments whether due to port congestion, labor disputes, product regulations and/or inspections or other factors, natural disasters or health pandemics, or other transportation disruptions.

These and other factors beyond our control could interrupt our suppliers' production in offshore facilities, influence the ability of our suppliers to export our products cost-effectively or at all and inhibit our suppliers' ability to procure certain materials, any of which could harm our business, financial condition, and results of operations.

***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 practices. 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 material to our supply chain, our reputation and sales could be adversely affected, we could be subject to legal liability, or we could be forced to locate 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. 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, 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, 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 or comply with data privacy laws 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.

Additionally, we are subject to laws and regulations such as the European Union's General Data Privacy Regulation ("GDPR") and the California Consumer Privacy Act ("CCPA"). These regulations require companies to satisfy new requirements regarding the handling of personal and sensitive data, including its use, protection, and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to comply with GDPR requirements could result in penalties of up to four percent of worldwide revenue. The GDPR, CCPA, and other similar laws and regulations, as well as any associated inquiries or investigations or any other government actions, may be costly to comply with, increase our operating costs, require significant management time and attention, and subject us to remedies that may harm our business, including fines, negative publicity, or demands or orders that we modify or cease existing business practices.

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

We are increasingly dependent on information 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 information 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 information 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 information 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 information technology systems and websites have experienced system failures and electrical outages in the past which have disrupted our operations. Any significant disruption in our information 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 increases in energy, production, transportation, and raw material costs, capital expenditures, or 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. 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 otherwise sustainability disclosure 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 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 (particularly those in North America), high levels of unemployment, health pandemics (such as the impact of the current COVID-19 coronavirus pandemic, including reduced store traffic and widespread temporary closures of retail locations), 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 rates and credit availability, government austerity measures, fluctuating fuel and other energy costs, fluctuating commodity prices, tax rates and general uncertainty regarding the overall future economic environment. To date, COVID-19 and related restrictions and mitigation measures have negatively impacted the global economy and created significant volatility and disruption of financial markets. While the duration and severity of the economic impact of COVID-19 is unknown, any recession, depression or general downturn in the global economy will negatively affect consumer confidence and discretionary spending. 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, particularly in North America. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition.

#### ***Global economic and political conditions and global events such as health pandemics 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 could negatively impact our guests and employees, reduce consumer spending, and adversely impact our business and results of operations. Health pandemics, such as the current COVID-19 coronavirus 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.

#### ***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.

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 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 foreign 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 foreign withholding taxes. We may face unanticipated tax liabilities in connection with our acquisition of MIRROR.

Repatriations from our Canadian subsidiaries are not subject to Canadian withholding taxes if such distributions are made as a return of capital. We have not accrued for any Canadian withholding taxes that could be payable on future repatriations from our Canadian subsidiaries because we believe the current net investment in our Canadian subsidiaries can either be repatriated free of withholding tax or is expected to be indefinitely reinvested. The extent to which future increases in the net assets of our Canadian subsidiaries can be repatriated free of withholding tax is dependent on, among other things, the amount of paid-up-capital in our Canadian subsidiaries and transactions undertaken by our exchangeable shareholders. We are unable to determine the timing and extent to which such transactions may occur. Accordingly, increases in our Canadian net assets may result in an increase to our effective tax rate.

We and our subsidiaries 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.

Current economic and political conditions make tax rules in any jurisdiction, including the United States and Canada, subject to significant change. Changes in applicable U.S., Canadian, or other foreign tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our income tax expense and profitability, as they did in fiscal 2017 and fiscal 2018 upon passage of the U.S. Tax Cuts and Jobs Act.

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

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

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

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

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

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

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

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

### **Risks related to intellectual property**

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

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

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

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

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

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

from selling some of our products. In addition, resolution of claims may require us to redesign our products, license rights from third parties, or cease using those rights altogether. Any of these events could harm our business and cause our results of operations, liquidity, and financial condition to suffer.

### **Risks related to legal and governance matters**

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

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

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

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

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

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

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

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

**ITEM 2. PROPERTIES**

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

The general location, use and approximate size of our principal owned properties as of January 31, 2021, are set forth below:

Location	Use	Approximate Square Feet
Columbus, OH	Distribution Center	310,000
Vancouver, BC	Executive and Administrative Offices	140,000

The general location, use, approximate size and lease renewal date of our principal non-retail leased properties as of January 31, 2021, are set forth below:

Location	Use	Approximate Square Feet	Lease Renewal Date
Toronto, ON	Distribution Center	250,000	September 2033
Sumner, WA	Distribution Center	150,000	July 2025
Delta, BC	Distribution Center	155,000	January 2031

During 2020, we entered into a new lease for a second distribution center in Toronto of approximately 255,000 square feet which is due to expire in May 2031. We expect this distribution center to be operational in fiscal 2021. It will replace a temporary distribution center in Toronto of approximately 90,000 square feet that we began leasing during 2020.

**ITEM 3. LEGAL PROCEEDINGS**

Please see the legal proceedings described in Note 19. Commitments and Contingencies included in Item 8 of Part II of this report.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



PART II

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

**Market Information and Dividends**

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

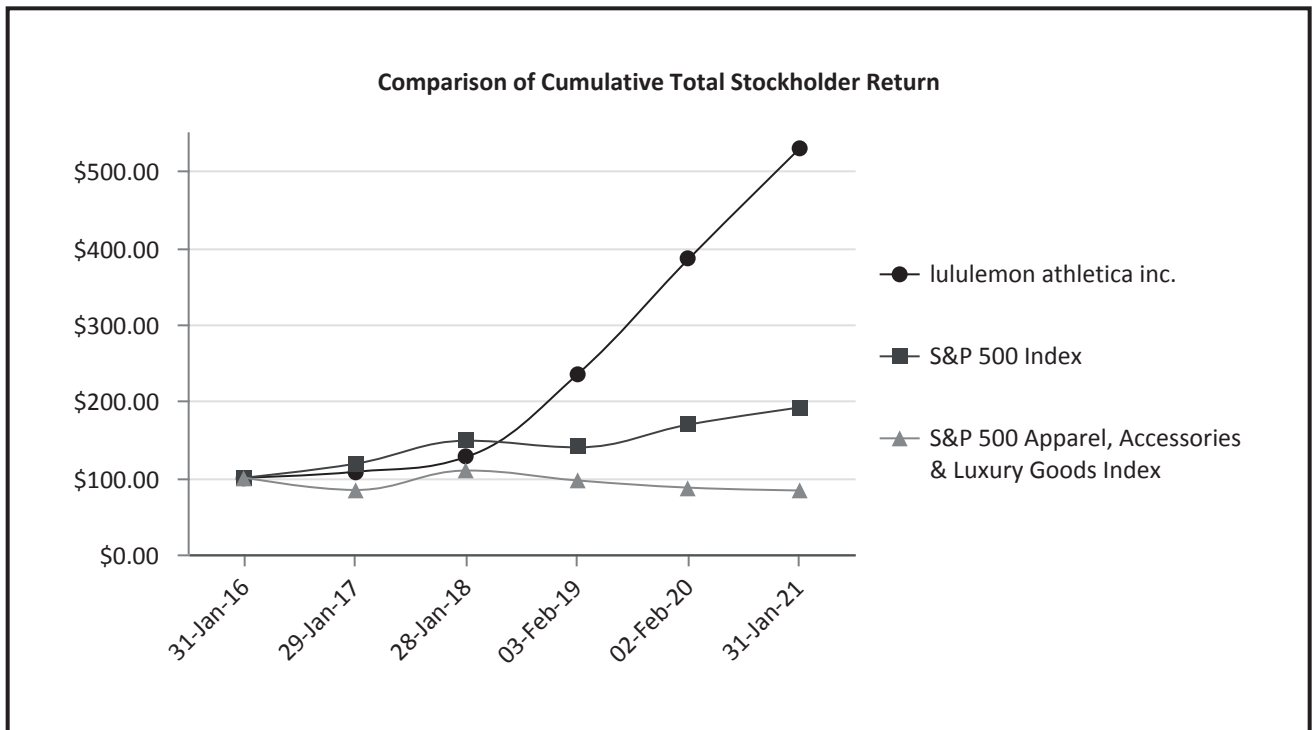
As of March 24, 2021, there were approximately 1,000 holders of record of our common stock. This does not include persons whose stock is in nominee or "street name" accounts through brokers.

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

**Stock Performance Graph**

The graph set forth below compares the cumulative total stockholder return on our common stock between January 31, 2016 (the date of our fiscal year end five years ago) and January 31, 2021, with the cumulative total return of (i) the S&P 500 Index and (ii) S&P 500 Apparel, Accessories & Luxury Goods Index, over the same period. This graph assumes the investment of \$100 on January 31, 2016 at the closing sale price our common stock, the S&P 500 Index and the S&P Apparel, Accessories & Luxury Goods Index and assumes the reinvestment of dividends, if any.

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



	31-Jan-16	29-Jan-17	28-Jan-18	03-Feb-19	02-Feb-20	31-Jan-21
lululemon athletica inc.	\$ 100.00	\$ 107.65	\$ 127.40	\$ 235.41	\$ 385.68	\$ 529.53
S&P 500 Index	\$ 100.00	\$ 118.27	\$ 148.07	\$ 139.49	\$ 169.24	\$ 191.43
S&P 500 Apparel, Accessories & Luxury Goods Index	\$ 100.00	\$ 83.89	\$ 109.20	\$ 96.21	\$ 86.88	\$ 83.24

### Issuer Purchase of Equity Securities

The following table provides information regarding our purchases of shares of our common stock during the thirteen weeks ended January 31, 2021 related to our stock repurchase program:

Period <sup>(1)</sup>	Total Number of Shares Purchased <sup>(2)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
November 2, 2020 - November 29, 2020	—	\$ —	—	\$ 263,646,016
November 30, 2020 - January 3, 2021	—	—	—	500,000,000
January 4, 2021 - January 31, 2021	—	—	—	500,000,000
Total	—	—	—	—

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our fourth quarter of 2020.

<sup>(2)</sup> On January 31, 2019, our board of directors approved a stock repurchase program of up to \$500 million of our common shares on the open market or in privately negotiated transactions. On December 1, 2020, our board of directors approved an increase in the remaining authorization of our existing stock repurchase program from \$264 million to \$500 million. The repurchase plan has no time limit. Common shares repurchased on the open market are at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors.

The following table summarizes purchases of shares of our common stock during the thirteen weeks ended January 31, 2021 related to our Employee Share Purchase Plan (ESPP):

Period <sup>(1)</sup>	Total Number of Shares Purchased <sup>(2)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
November 2, 2020 - November 29, 2020	4,348	\$ 347.01	4,348	4,669,317
November 30, 2020 - January 3, 2021	5,071	352.51	5,071	4,664,246
January 4, 2021 - January 31, 2021	4,834	352.43	4,834	4,659,412
Total	14,253	—	14,253	—

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our fourth quarter of 2020.

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

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

### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Not applicable.

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

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

- Overview
- Financial Highlights
- Results of Operations
- Comparison of 2020 to 2019
- Comparable Store Sales and Total Comparable Sales
- Non-GAAP Financial Measures
- Liquidity and Capital Resources
- Revolving Credit Facilities
- Contractual Obligations and Commitments
- Off-Balance Sheet Arrangements
- Critical Accounting Policies and Estimates

Our fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. Fiscal 2020 and 2019 were each 52-week years.

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

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

### **Overview**

Fiscal 2020 was a year in which we had to adapt our priorities, and evolve our strategies, to navigate the challenges of the COVID-19 pandemic and begin to more impactfully address systemic inequities in our society.

We put three foundational principles in place to help guide us through the pandemic. These principles are: 1) protect our people to ensure their health, safety, and well-being, 2) make balanced decisions including investing in our digital and omni capabilities while tightly managing discretionary expenses, and 3) continue to invest in our future.

We completed our first acquisition in 2020, with our purchase of MIRROR. MIRROR bolsters our digital sweatlife offerings and brings immersive and personalized at-home sweat and mindfulness solutions to new and existing lululemon guests.

In addition, we established IDEA – our commitment to Inclusion, Diversity, Equity, and Action – to help drive lasting change both within our company and the communities in which we operate. In October 2020, we released our Impact Agenda detailing our strategies to become a more sustainable and equitable business, to minimize our environmental impact, and to accelerate positive change both internally and externally.

### ***The Power of Three***

Despite the global pandemic, we remain committed to our Power of Three growth plan and the targets contemplated by this plan which include a doubling of our men's business, a doubling of our e-commerce business, and a quadrupling of our international business by 2023 from levels realized in 2018. Due to a shift towards online shopping as a result of COVID-19, we exceeded our e-commerce goal this year.

In addition to the growth targets, the three strategic pillars of the plan also remain unchanged and include: product innovation, omni-guest experience, and market expansion.

## *Product Innovation*

We continued to leverage our Science of Feel development platform and brought innovations to our guests including a relaunch of our Everlux fabric and an expansion of our Align franchise into tops. We also brought newness into our bra offering and expanded our On the Move assortment. We introduced more inclusive sizing into our core women's styles in 2020 with additional styles to be added in 2021. In men's, our guests responded well to shorts, sweats, hoodies, and joggers as they adapted their wardrobes to working and sweating from home.

## *Omni-Guest Experience*

The COVID-19 pandemic impacted the way guests interacted with our brand in 2020. Temporary store closures, social distancing requirements, and other actions taken within our stores to keep our guests and employees safe, contributed to a decline in store traffic relative to 2019. Revenue in stores decreased 34%. However, this was offset by significant strength in our e-commerce business. We invested in IT infrastructure, fulfillment capacity, and increased the number of educators assisting guests in our Guest Education Center, including an online digital educator experience to provide a more personalized shopping experience. In addition, we used our social channels to engage with our guests by offering ambassador-led digital sweat sessions, meditation classes, and other recovery and well-being tools. Revenue in our e-commerce channel increased 101% in 2020.

In 2020, as it was safe to welcome guests back into our stores, we launched several initiatives to enhance the in-store experience. We adapted our Buy Online Pick-up In-store capability to allow guests to pick-up their purchases at the door of the store or at curbside, we implemented virtual waitlist capabilities so that guests did not have to physically wait in line to enter stores operating under strict capacity constraints, and we offered appointment shopping in-store.

## *Market Expansion*

We continued to expand our presence both in North America and in our international markets. During the year, we opened 30 net new company-operated stores, including 18 stores in Asia Pacific, nine stores in North America, and three stores in Europe.

We also expanded our seasonal store strategy in 2020 with over 100 seasonal stores in operation for some period of time during the year. These stores allowed us to better cater to our guests in select markets, while also helping introduce new guests to our brand. In addition, in the fourth quarter, we opened 11 of these stores in close proximity to permanent lululemon stores. Having two stores in select locations, where locally mandated capacity constraints were contributing to long wait times, allowed guests quicker and easier access to our in-store shopping experience.

For 2020, our business in North America increased 8%, while total growth in our international markets was 31%.

## **COVID-19 Pandemic**

The outbreak of the COVID-19 coronavirus was declared a pandemic by the World Health Organization in March 2020 and it has caused governments and public health officials to impose restrictions and to recommend precautions to mitigate the spread of the virus.

Throughout the pandemic we have prioritized the safety of our employees and guests.

In February and March, we temporarily closed all of our retail locations in Mainland China, North America, Europe, and certain countries in Asia Pacific. Our retail locations in Mainland China reopened during the first quarter of 2020, and our retail locations in other markets began reopening during the second quarter of 2020. Almost all locations were open during the third quarter of 2020, and while most of our retail locations have remained open since then, certain locations have temporarily closed based on government and health authority guidance in those markets.

Our distribution centers and most of our open retail locations are operating with restrictive and precautionary measures in place such as reduced operating hours, physical distancing, enhanced cleaning and sanitation, and limited occupancy levels.

Prior to the COVID-19 pandemic, guest shopping preferences were shifting towards digital platforms and we had been investing in our websites, mobile apps, and omni-channel capabilities. We believe that the COVID-19 pandemic further shifted guest shopping behaviour and we saw significant increases in traffic to our websites and digital apps. This increased traffic contributed to the significant growth in our direct to consumer net revenue in 2020. While we expect our direct to consumer business to grow, we expect the year over year growth rate in direct to consumer net revenue to moderate in 2021.

The COVID-19 pandemic had a material adverse impact on our results of operations for 2020 and there remains significant uncertainty regarding the extent and duration of the impact that the COVID-19 pandemic will have on our operations. Continued proliferation of the virus, resurgence, or the emergence of new variants may result in further or prolonged closures of our retail locations and distribution centers, reduce operating hours, interrupt our supply chain, cause changes in guest behavior, and reduce discretionary spending. Such factors are beyond our control and could elicit further actions and recommendations from governments and public health authorities.

We remain confident in the long-term growth opportunities and our Power of Three growth plan and believe that we have sufficient cash and cash equivalents, and available capacity under our committed revolving credit facility, to meet our liquidity needs. As of January 31, 2021, we had cash and cash equivalents of \$1.2 billion and the capacity under our committed revolving credit facility was \$397.6 million.

## Financial Highlights

The summary below compares 2020 to 2019:

- Net revenue increased 11% to \$4.4 billion. On a constant dollar basis, net revenue increased 10%.
- Company-operated stores net revenue decreased 34% to \$1.7 billion.
- Direct to consumer net revenue increased 101% to \$2.3 billion, or increased 101% on a constant dollar basis.
- Gross profit increased 11% to \$2.5 billion.
- Gross margin increased 10 basis points to 56.0%.
- Acquisition-related expenses of \$29.8 million were recognized.
- Income from operations decreased 8% to \$820.0 million.
- Operating margin decreased 370 basis points to 18.6%.
- Income tax expense decreased 8% to \$230.4 million. Our effective tax rate was 28.1% for each of 2020 and 2019.
- Diluted earnings per share were \$4.50 for 2020 compared to \$4.93 in 2019. This includes \$26.7 million of after-tax costs related to the MIRROR acquisition, which reduced diluted earnings per share by \$0.20 in 2020.

Refer to the non-GAAP reconciliation tables contained in the "Non-GAAP Financial Measures" section of this "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for reconciliations between constant dollar changes in net revenue and direct to consumer net revenue, and the most directly comparable measures calculated in accordance with GAAP.

## Results of Operations

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

	2020	2019	2020	2019
	<i>(In thousands)</i>		<i>(Percentage of revenue)</i>	
Net revenue	\$ 4,401,879	\$ 3,979,296	100.0 %	100.0 %
Cost of goods sold	1,937,888	1,755,910	44.0	44.1
Gross profit	2,463,991	2,223,386	56.0	55.9
Selling, general and administrative expenses	1,609,003	1,334,247	36.6	33.5
Amortization of intangible assets	5,160	29	0.1	—
Acquisition-related expenses	29,842	—	0.7	—
Income from operations	819,986	889,110	18.6	22.3
Other income (expense), net	(636)	8,283	—	0.2
Income before income tax expense	819,350	897,393	18.6	22.6
Income tax expense	230,437	251,797	5.2	6.3
Net income	\$ 588,913	\$ 645,596	13.4 %	16.2 %

## Comparison of 2020 to 2019

### Net Revenue

Net revenue increased \$422.6 million, or 11%, to \$4.4 billion in 2020 from \$4.0 billion in 2019. On a constant dollar basis, assuming the average exchange rates in 2020 remained constant with the average exchange rates in 2019, net revenue increased \$412.7 million, or 10%.

The increase in net revenue was primarily due to an increase in direct to consumer net revenue, partially due to a shift in the way guests are shopping due to COVID-19, as well as net revenue from MIRROR. This was partially offset by a decrease in company-operated store net revenue, as well as a decrease in net revenue from our other retail locations driven by temporary closures as a result of COVID-19 as well as reduced operating hours and restricted guest occupancy levels.

Net revenue for 2020 and 2019 is summarized below.

	2020		2019		Year over year change	
	<i>(In thousands)</i>		<i>(Percentage of revenue)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Company-operated stores	\$ 1,658,807	\$ 2,501,067	37.7 %	62.9 %	\$ (842,260)	(33.7)%
Direct to consumer	2,284,068	1,137,822	51.9	28.6	1,146,246	100.7
Other	459,004	340,407	10.4	8.6	118,597	34.8
Net revenue	\$ 4,401,879	\$ 3,979,296	100.0 %	100.0 %	\$ 422,583	10.6 %

*Company-Operated Stores.* The decrease in net revenue from our company-operated stores segment was primarily due to the impact of COVID-19. All of our stores in North America, Europe, and certain countries in Asia Pacific were temporarily closed for a significant portion of the first two quarters of 2020. Certain stores experienced temporary re-closures during the last two quarters of 2020. COVID-19 restrictions, including reduced operating hours and occupancy limits, reduced net revenue from company-operated stores that have reopened.

During 2020, we opened 30 net new company-operated stores, including 18 stores in Asia Pacific, nine stores in North America, and three stores in Europe.

*Direct to Consumer.* Direct to consumer net revenue increased 101%, and increased 101% on a constant dollar basis. The increase in net revenue from our direct to consumer segment was primarily the result of increased traffic, and improved conversion rates, partially offset by a decrease in dollar value per transaction. The increase in traffic was partially due to COVID-19, with more guests shopping online instead of in-stores. During the second quarter of 2020, we held an online warehouse sale in the United States and Canada which generated net revenue of \$43.3 million. We did not hold any warehouse sales during 2019.

*Other.* The increase in net revenue from our other operations was primarily the result of net revenue from MIRROR as well as an increased number of temporary locations, including seasonal stores, that were open during 2020 compared to 2019. The increase was partially offset by a decrease in outlet sales primarily due to the impact of COVID-19.

### Gross Profit

	2020	2019	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Gross profit	\$ 2,463,991	\$ 2,223,386	\$ 240,605	10.8 %
Gross margin	56.0 %	55.9 %	10 basis points	

The increase in gross margin was primarily the result of:

- a decrease in occupancy and depreciation costs as a percentage of net revenue of 60 basis points, driven primarily by the increase in net revenue;
- a decrease in costs related to our product departments as a percentage of revenue of 50 basis points, driven by lower incentive compensation and travel costs, as well as the increase in net revenue; and
- a favorable impact of foreign exchange rates of 10 basis points.

The increase in gross margin was partially offset by an increase in costs as a percentage of net revenue related to our distribution centers of 80 basis points. This was primarily due to an increase in costs related to COVID-19 safety precautions, higher people costs related to the growth in our direct to consumer business, and increased usage of third-party warehouse and logistics providers. There was also a decrease in product margin of 30 basis points, which was primarily due to higher markdowns and air freight costs, partially offset by a favorable mix of higher margin product.

### **Selling, General and Administrative Expenses**

	2020	2019	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Selling, general and administrative expenses	\$ 1,609,003	\$ 1,334,247	\$ 274,756	20.6 %

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

- an increase in costs related to our operating channels of \$253.2 million, comprised of:
  - an increase in variable costs of \$144.1 million primarily due to an increase in distribution costs related to the growth in our direct to consumer net revenue, and an increase in credit card fees as a result of increased net revenue;
  - an increase in brand and community costs of \$116.4 million primarily due to an increase in digital marketing expenses;
  - an increase in other costs of \$14.2 million primarily due to increases in information technology costs; and
  - a decrease in employee costs of \$21.5 million primarily due to lower incentive compensation expenses in our company-operated stores and other channels. This was partially offset by an increase in salaries and wages as a result of increased headcount and labor hours in our direct to consumer and other operations;
- an increase in head office costs of \$56.5 million, comprised of:
  - an increase of \$63.0 million primarily due to increases in information technology costs, professional fees, depreciation, community giving, and other head office costs; and
  - a decrease in employee costs of \$6.5 million primarily due to lower incentive compensation and travel expenses, partially offset by increased salaries and wages expense as a result of headcount growth, and higher stock-based compensation expense; and
- an increase in net foreign exchange and derivative revaluation losses of \$1.6 million.

The increase in selling, general and administrative expenses was partially offset by \$36.5 million of government payroll subsidies. These payroll subsidies partially offset the wages paid to employees while our retail locations were temporarily closed due to the COVID-19 pandemic.

### **Amortization of Intangible Assets**

	2020	2019	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Amortization of intangible assets	\$ 5,160	\$ 29	\$ 5,131	n/a

The increase in the amortization of intangible assets was the result of the intangible assets recognized upon the acquisition of MIRROR during the second quarter of 2020.

## Acquisition-Related Expenses

	2020	2019	Year over year change	
	(In thousands)		(In thousands)	(Percentage)
Acquisition-related expenses	\$ 29,842	\$ —	\$ 29,842	n/a

As a result of our acquisition of MIRROR in the second quarter of 2020, we recognized acquisition-related compensation of \$20.1 million for deferred consideration for certain continuing MIRROR employees. We also recognized transaction and integration related costs of \$10.5 million for advisory and professional services, and integration costs subsequent to the acquisition. Acquisition-related expenses were partially offset by a \$0.8 million gain recognized on our existing investment. We did not have acquisition-related expenses in 2019. Please refer to Note 6. Acquisition included in Item 8 of Part II of this report for further information.

## Income from Operations

On a segment basis, we determine income from operations without taking into account our general corporate expenses. During the first quarter of 2020, we reviewed our segment and general corporate expenses and determined certain costs that are more appropriately classified in different categories. Accordingly, comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

Segmented income from operations before general corporate expenses is summarized below.

Income from operations	2020	2019	2020	2019	Year over year change	
	(In thousands)		(Percentage of net revenue of respective operating segment)		(In thousands)	(Percentage)
Segment income from operations:						
Company-operated stores	\$ 212,592	\$ 689,339	12.8 %	27.6 %	\$ (476,747)	(69.2)%
Direct to consumer	1,029,102	484,146	45.1	42.6	544,956	112.6 %
Other	10,502	72,013	2.3	21.2	(61,511)	(85.4)%
	\$ 1,252,196	\$ 1,245,498			\$ 6,698	0.5 %
General corporate expenses	397,208	356,359			40,849	11.5 %
Amortization of intangibles	5,160	29			5,131	n/a
Acquisition-related expenses	29,842	—			29,842	n/a
Income from operations	\$ 819,986	\$ 889,110			\$ (69,124)	(7.8)%
Operating margin	18.6 %	22.3 %			(370) basis points	

**Company-Operated Stores.** The decrease in income from operations from company-operated stores was primarily the result of decreased gross profit of \$591.8 million which was primarily due to lower net revenue as well as lower gross margin. The decrease in gross margin was primarily due to deleverage on occupancy and depreciation costs as a result of lower net revenue. The decrease in gross profit was partially offset by a decrease in selling, general and administrative expenses, primarily due to lower people costs and lower operating costs. People costs decreased primarily due to lower incentive compensation. Store operating costs decreased primarily due to lower credit card fees, packaging and supplies, and distribution costs as a result of lower net revenue, as well as lower community, security, and repairs and maintenance costs. The recognition of certain government payroll subsidies also reduced selling, general, and administrative expenses. Income from operations as a percentage of company-operated stores net revenue decreased primarily due to lower gross margin and deleverage on selling, general and administrative expenses.

**Direct to Consumer.** The increase in income from operations from our direct to consumer segment was primarily the result of increased gross profit of \$773.7 million which was primarily due to increased net revenue and due to higher gross margin. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses primarily due to higher variable costs including distribution costs, credit card fees, and packaging and supplies costs as a result of higher net revenue, as well as higher digital marketing expenses, employee costs and information technology costs. Income from operations as a percentage of direct to consumer net revenue has increased primarily due to leverage on selling, general and administrative expenses and an increase in gross margin.

**Other.** The decrease in income from operations was primarily the result of increased selling, general and administrative expenses, driven primarily by MIRROR digital marketing expenses, as well as increased distribution costs and credit card fees



as a result of revenue generated by MIRROR. The increase in selling, general and administrative expenses was partially offset by an increase in gross profit related to MIRROR, driven by increased net revenue. Income from operations as a percentage of other net revenue decreased primarily due to deleverage on selling, general and administrative expenses.

*General Corporate Expenses.* The increase in general corporate expenses was primarily the result of increases in information technology costs, salaries and wages as a result of headcount growth, professional fees, depreciation, community giving, and an increase in net foreign exchange and derivative losses of \$1.6 million. The increase in general corporate expense was partially offset by a decrease in travel and incentive compensation costs, as well as the recognition of certain government payroll subsidies. We expect general corporate expenses to continue to increase in future years as we grow our overall business and require increased efforts at our head office to support our operations.

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

	2020	2019	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Other income (expense), net	\$ (636)	\$ 8,283	\$ (8,919)	(107.7)%

The decrease in other income, net was primarily due to a decrease in net interest income as a result of lower cash balances and lower interest rates during the majority of 2020 compared to 2019. We did not have any borrowings on our revolving credit facilities during 2020 or 2019.

#### **Income Tax Expense**

	2020	2019	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Income tax expense	\$ 230,437	\$ 251,797	\$ (21,360)	(8.4)%
Effective tax rate	28.1 %	28.1 %	— basis points	

Our effective tax rate for 2020 was consistent with 2019. This included an increase in the effective tax rate due to certain non-deductible expenses related to the MIRROR acquisition which increased the effective tax rate by 60 basis points. This was offset by adjustments upon filing of certain income tax returns and an increase in tax deductions related to stock-based compensation.

#### **Net Income**

	2020	2019	Year over year change	
	<i>(In thousands)</i>		<i>(In thousands)</i>	<i>(Percentage)</i>
Net income	\$ 588,913	\$ 645,596	\$ (56,683)	(8.8)%

The decrease in net income in 2020 was primarily due to an increase in selling, general and administrative expenses of \$274.8 million, the recognition of acquisition-related expenses of \$29.8 million, an increase in amortization of intangible assets of \$5.1 million, and a decrease in other income (expense), net of \$8.9 million. This was partially offset by an increase in gross profit of \$240.6 million, and a decrease in income tax expense of \$21.4 million.

#### **Comparable Store Sales and Total Comparable Sales**

We use comparable store sales to assess the performance of our existing stores as it allows us to monitor the performance of our business without the impact of recently opened or expanded stores. We use total comparable sales to evaluate the performance of our business from an omni-channel perspective. We therefore believe that investors would similarly find these metrics useful in assessing the performance of our business. However, as the temporary store closures from COVID-19 resulted in a significant number of stores being removed from our comparable store calculations during the first two quarters of 2020, we believe total comparable sales and comparable store sales on a full year basis are not currently representative of the underlying trends of our business. We do not believe these full year metrics are currently useful to investors in understanding performance, therefore we have not included these metrics in our discussion and analysis of results of operations. We did not provide comparable sales metrics that included the first two quarters during 2020, and expect to do the same for 2021.

Comparable store sales reflect net revenue from company-operated stores that have been open, or open after being significantly expanded, for at least 12 full fiscal months. Net revenue from a store is included in comparable store sales

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

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

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

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

### Non-GAAP Financial Measures

Constant dollar changes in net revenue and direct to consumer net revenue are non-GAAP financial measures.

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

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

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

	2020		
	Net Revenue	Direct to Consumer Net Revenue	
	<i>(In thousands)</i>	<i>(Percentages)</i>	<i>(Percentages)</i>
Change	\$ 422,583	11 %	101 %
Adjustments due to foreign exchange rate changes	(9,898)	(1)	—
Change in constant dollars	\$ 412,685	10 %	101 %

### Liquidity and Capital Resources

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

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

Capital expenditures are expected to range between \$335.0 million and \$345.0 million in fiscal 2021.

As of January 31, 2021, our working capital (excluding cash and cash equivalents) was \$90.7 million, our cash and cash equivalents were \$1.2 billion and our capacity under our committed revolving credit facility was \$397.6 million.

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

	2020	2019
	<i>(In thousands)</i>	
Total cash provided by (used in):		
Operating activities	\$ 803,336	\$ 669,316
Investing activities	(695,532)	(278,408)
Financing activities	(80,788)	(177,173)
Effect of exchange rate changes on cash	29,996	(1,550)
Increase in cash and cash equivalents	\$ 57,012	\$ 212,185

### **Operating Activities**

Net cash provided by operating activities increased \$134.0 million to \$803.3 million in 2020 from \$669.3 million in 2019, primarily as a result of the following:

- an increase from changes in operating assets and liabilities of \$146.5 million, primarily due to the following:
  - \$97.5 million related to accounts payable, partially due to a change in payment terms with our non-product vendors;
  - \$76.8 million related to other accrued liabilities, primarily due to increases in accrued duty, freight, and other operating expenses as well as an increase in the sales return allowance as a result of COVID-19 reducing in-period returns;
  - \$38.7 million related to inventories; and
  - \$12.1 million related to other current and non-current liabilities.

The increase from changes in operating assets and liabilities was partially offset by the following:

- \$38.4 million related to prepaid expenses and other current and non-current assets, including increases in cloud computing implementation costs;
- \$32.0 million related to accrued compensation and related expenses due to lower accrued incentive compensation, partially offset by acquisition-related compensation accruals; and
- \$8.2 million related to income taxes.
- an increase of \$44.2 million in adjustments to reconcile net income to net cash provided by operating activities other than changes in operating assets and liabilities, primarily related to an increase in depreciation and amortization, deferred income taxes, the settlement of derivatives not designated in a hedging relationship, and stock-based compensation.

The increase in cash provided by operating activities was partially offset by a decrease of \$56.7 million in net income.

### **Investing Activities**

Cash used in investing activities increased \$417.1 million, to \$695.5 million in 2020 from \$278.4 million in 2019. The increase was primarily due to the acquisition of MIRROR, net of cash acquired for \$452.6 million during 2020. This was partially offset by a decrease in capital expenditures.

Capital expenditures for our company-operated stores segment were \$134.2 million and \$171.5 million in 2020 and 2019, respectively. The capital expenditures for our company-operated stores segment in each period were primarily for the remodeling or relocation of certain stores, for opening new company-operated stores, and ongoing store refurbishment. The decrease in capital expenditures for our company-operated stores segment was primarily due to fewer store renovations during 2020 in comparison with 2019. The capital expenditures for our company-operated stores segment also included \$41.0 million to open 40 company-operated stores and \$44.3 million to open 57 company-operated stores, in 2020 and 2019

respectively. As a result of the COVID-19 pandemic we delayed certain store renovations and new store openings. We expect to open between 40 and 50 company-operated stores in 2021.

Capital expenditures for our direct to consumer segment were \$37.2 million and \$15.8 million in 2020 and 2019, respectively. We accelerated our investments in our e-commerce websites and mobile apps during 2020 in response to the COVID-19 pandemic and the impact it had on guest shopping behavior. The capital expenditures in 2020 were primarily related to enhancing the functionality and capacity of our websites, and in 2019 were primarily related to our then new distribution center in Toronto, Canada as well as other information technology infrastructure and system initiatives.

Capital expenditures related to corporate activities and other were \$57.8 million and \$95.7 million in 2020 and 2019, respectively. The capital expenditures in each fiscal year were primarily related to investments in information technology and business systems, and for capital expenditures related to opening retail locations other than company-operated stores. The decrease in capital expenditures for our corporate activities and other was partially due to more larger scale projects in the prior year in comparison to the current year as well as a shift to cloud computing. Implementation costs related to cloud service arrangements are capitalized within other non-current assets in the consolidated balance sheets and the associated cash flows are included in operating activities. We anticipate that we will continue to shift towards more cloud-based technology services in the future.

### ***Financing Activities***

Cash used in financing activities decreased \$96.4 million, to \$80.8 million in 2020 from \$177.2 million in 2019. The decrease was primarily the result of a decrease in our stock repurchases.

During 2020, 0.4 million shares were repurchased at a cost of \$63.7 million. During 2019, 1.1 million shares, were repurchased at a cost of \$173.4 million. In the first quarter of 2019, we repurchased 1.0 million shares in a private transaction. We did not purchase any shares in private transactions during 2020. The other common stock was repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors.

### **Revolving Credit Facilities**

#### ***North America revolving credit facility***

During 2016, we obtained a \$150.0 million committed and unsecured five-year revolving credit facility with major financial institutions. On June 6, 2018, we amended the credit agreement to provide for (i) an increase in the aggregate commitments under the revolving credit facility to \$400.0 million, with an increase of the sub-limits for the issuance of letters of credit and extensions of swing line loans to \$50.0 million for each, (ii) an increase in the option, subject to certain conditions, to request increases in commitments from \$400.0 million to \$600.0 million and (iii) an extension in the maturity of the facility from December 15, 2021 to June 6, 2023. Borrowings under the facility may be made in U.S. Dollars, Euros, Canadian Dollars, and in other currencies, subject to the lenders' approval.

As of January 31, 2021, aside from letters of credit of \$2.4 million, we had no other borrowings outstanding under this credit facility.

Borrowings under the facility bear interest at a rate equal to, at our option, either (a) based on the rates applicable for deposits on the interbank market for U.S. Dollars or the applicable currency in which the borrowings are made ("LIBOR") or (b) an alternate base rate, plus, an applicable margin determined by reference to a pricing grid, based on the ratio of indebtedness to earnings before interest, tax, depreciation, amortization, and rent ("EBITDAR") and ranges between 1.00%-1.50% for LIBOR loans and 0.00%-0.50% for alternate base rate loans. Additionally, a commitment fee of between 0.10%-0.20% is payable on the average unused amounts under the revolving credit facility, and fees of 1.00%-1.50% are payable on unused letters of credit.

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

We are also required to maintain a consolidated rent-adjusted leverage ratio of not greater than 3.5:1 and to maintain the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) below 2:1. The credit agreement also contains certain customary representations, warranties, affirmative covenants, and events of default (including, among others, an event of default upon the occurrence of a change of control). As of January 31, 2021, we were in compliance with the covenants of the credit facility.

### **Mainland China revolving credit facility**

In December 2019, we entered into an uncommitted and unsecured 130.0 million Chinese Yuan revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan during 2020. It comprises of a revolving loan of up to 200.0 million Chinese Yuan and a financial guarantee facility of up to 30.0 million Chinese Yuan, or its equivalent in another currency. Loans are available for a period not to exceed 12 months, at an interest rate equal to the loan prime rate plus a spread of 0.5175%. We are required to follow certain covenants. As of January 31, 2021, we were in compliance with the covenant and there were no borrowings or guarantees outstanding under this credit facility.

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

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

### **Contractual Obligations and Commitments**

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

*Purchase obligations.* The amounts listed for purchase obligations in the table below represent agreements (including open purchase orders) to purchase products and for other expenditures in the ordinary course of business that are enforceable and legally binding and that specify all significant terms. In some cases, values are subject to change, such as for product purchases throughout the production process. The reported amounts exclude liabilities included in our consolidated balance sheets as of January 31, 2021.

*One-time transition tax.* As outlined in Note 17. Income Taxes included in Item 8 of Part II of this report, U.S. tax reform imposed a mandatory transition tax on accumulated foreign subsidiary earnings which have not previously been subject to U.S. income tax. The one-time transition tax is payable over eight years beginning in fiscal 2018. The table below outlines the expected payments due by fiscal year.

*Deferred consideration.* The amounts listed for deferred consideration in the table below represent expected future cash payments for certain continuing MIRROR employees, subject to the continued employment of those individuals up to three years from the acquisition date as outlined in Note 6. Acquisition included in Item 8 of Part II of this report.

The following table summarizes our contractual arrangements due by fiscal year as of January 31, 2021, and the timing and effect that such commitments are expected to have on our liquidity and cash flows in future periods:

	Total	2021	2022	2023	2024	2025	Thereafter
	<i>(In thousands)</i>						
Operating leases (minimum rent)	\$ 874,517	\$ 189,907	\$ 177,819	\$ 151,668	\$ 127,834	\$ 71,670	\$ 155,619
Purchase obligations	567,864	522,467	4,696	4,696	15,654	2,348	18,003
One-time transition tax payable	48,226	5,076	5,076	9,518	12,691	15,865	—
Deferred consideration	49,544	25,194	24,341	9	—	—	—

### **Off-Balance Sheet Arrangements**

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes, and duties. As of January 31, 2021, letters of credit and letters of guarantee totaling \$2.8 million had been issued, including \$2.4 million under our committed revolving credit facility.

We have not entered into any transactions, agreements or other contractual arrangements to which an entity unconsolidated with us is a party and under which we have (i) any obligation under a guarantee, (ii) any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity, (iii) any obligation under derivative instruments that are indexed to our shares and classified as equity in our consolidated balance sheets, or (iv) any obligation arising out of a variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

## **Critical Accounting Policies and Estimates**

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

Our critical accounting policies, estimates, and judgements are as follows, and see Note 2. Summary of Significant Account Policies included in Item 8 of Part II for additional information:

### ***Inventory provisions***

Inventory is valued at the lower of cost and net realizable value. We periodically review our inventories and make a provision for obsolescence and goods that have quality issues or that are damaged. We record a provision at an amount that is equal to the difference between the inventory cost and its net realizable value. As at January 31, 2021 the net carrying value of our inventories was \$647.2 million, which included provisions for obsolete and damaged inventory of \$30.0 million. The provision is determined based upon assumptions about product quality, damages, future demand, selling prices, and market conditions. If changes in market conditions result in reductions in the estimated net realizable value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination.

### ***Goodwill impairment assessment***

Goodwill is tested annually for impairment on the first day of the fourth quarter each fiscal year, or more frequently if there are indicators of impairment. Goodwill is allocated to the reporting unit which is expected to receive the benefit from the synergies of the combination.

The Company has allocated \$362.5 million of goodwill to the MIRROR reporting unit. As at November 2, 2020, we performed a qualitative assessment and concluded that it was more likely than not that the fair value of the MIRROR reporting unit exceeded its carrying value, and therefore, no further impairment testing was required.

In concluding that it was more likely than not that the fair value of the MIRROR reporting unit exceeded its fair value we considered if there had been any negative changes to the key valuation inputs; including future revenue growth rates, future gross and operating margin, discount rates, and terminal value assumptions since the date of acquisition.

In future periods a full impairment test may be required depending on changes to market conditions, performance of the MIRROR reporting unit, or changes in the Company's strategy.

### ***Deferred taxes on undistributed net investment of foreign subsidiaries.***

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

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

As of January 31, 2021, the paid-up-capital balance of the Canadian subsidiaries for tax purposes was \$2.0 billion. The net investment in our Canadian subsidiaries was \$1.8 billion, of which \$0.8 billion was determined to be indefinitely reinvested. The Canadian subsidiaries have sufficient paid-up-capital such that we could choose to repatriate the portion of our net investment that is not indefinitely reinvested without paying Canadian withholding tax.

Deferred income tax liabilities of \$3.0 million have been recognized in relation to the portion of our net investment in our Canadian subsidiaries that is not indefinitely reinvested, principally representing the U.S. state income taxes which would

be due upon repatriation. The unrecognized deferred tax liability on the indefinitely reinvested amount is approximately \$2.4 million.

In future periods, if the net investment in our Canadian subsidiaries exceeds their paid-up-capital balance, whether due to a change in the amount that is indefinitely reinvested or as a result of accumulation of profits by these subsidiaries, we will record additional deferred tax liabilities for Canadian withholding taxes and our effective tax rate will increase.

### **Contingencies**

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

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

As of January 31, 2021, we had certain forward currency contracts outstanding in order to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. We also had certain forward currency contracts outstanding in an effort to reduce our exposure to the foreign exchange revaluation gains and losses that are recognized by our Canadian and Chinese subsidiaries on U.S. dollar denominated monetary assets and liabilities. Please refer to Note 15. Derivative Financial Instruments included in Item 8 of Part II of this report for further information, including details of the notional amounts outstanding.

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

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

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

- an increase in the foreign currency translation adjustment which arises on the translation of our Canadian subsidiaries' balance sheets into U.S. dollars; and
- a decrease in the foreign currency translation adjustment from derivative valuation losses on forward currency contracts, entered into as net investment hedges of a Canadian subsidiary.

During 2020, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$57.0 million reduction in accumulated other comprehensive loss within stockholders' equity. During 2019, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$4.6 million increase in accumulated other comprehensive loss within stockholders' equity.

A 10% appreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the exchange rates in effect for 2020 would have resulted in lower income from operations of approximately \$22.0 million in 2020. This assumes a consistent 10% appreciation in the U.S. dollar against the Canadian dollar throughout the fiscal year. The timing of changes in the relative value of the U.S. dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

*Interest Rate Risk.* Our committed revolving credit facility provides us with available borrowings in an amount up to \$400.0 million. Because our revolving credit facilities bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of January 31, 2021, aside from letters of credit of \$2.4 million, there were no borrowings outstanding under these credit facilities. We currently do not engage in any interest rate hedging activity and currently have no intention to do so. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

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

*Credit Risk.* We have cash on deposit with various large, reputable financial institutions and have invested in U.S. and Canadian Treasury Bills, and in AAA-rated money market funds. The amount of cash and cash equivalents held with certain financial institutions exceeds government-insured limits. We are also exposed to credit-related losses in the event of nonperformance by the financial institutions that are counterparties to our forward currency contracts. The credit risk amount is our unrealized gains on our derivative instruments, based on foreign currency rates at the time of nonperformance. We have not experienced any losses related to these items, and we believe credit risk to be minimal. We seek to minimize our credit risk by entering into transactions with credit worthy and reputable financial institutions and by monitoring the credit standing of the financial institutions with whom we transact. We seek to limit the amount of exposure with any one counterparty.

## **Inflation**

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenue if the selling prices of our products do not increase with these increased costs.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**lululemon athletica inc.**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

We have audited the consolidated balance sheets of lululemon athletica inc. and its subsidiaries (together, the Company) as of January 31, 2021 and February 2, 2020, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for the 52-week period ended January 31, 2021, the 52-week period ended February 2, 2020, and the 53-week period ended February 3, 2019, including the related notes, listed in the index appearing under item 15(a)(1) and the financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of January 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 31, 2021 and February 2, 2020, and the results of its operations and its cash flows for the 52-week period ended January 31, 2021, the 52-week period ended February 2, 2020, and the 53-week period ended February 3, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the COSO.

#### *Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of February 4, 2019.

### Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A of the Company's 2020 Annual Report on Form 10-K. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

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

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as

necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

### **Critical Audit Matters**

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

#### *Inventory provision*

As described in Notes 2 and 3 to the consolidated financial statements, inventory is valued at the lower of cost and net realizable value, and management records a provision as necessary to appropriately value inventories that are obsolete, have quality issues, or are damaged. Provision expense is recorded in cost of goods sold. As of January 31, 2021, the Company's consolidated net inventories balance was \$647.2 million inclusive of the inventory provision of \$31.0 million. The amount of the inventory provision is equal to the difference between the cost of the inventory and its estimated net realizable value based on assumptions about product quality, damages, future demand, selling prices, and market conditions.

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

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

#### *Acquisition of MIRROR – valuation of intangible assets*

As described in Notes 1, 2 and 6 to the consolidated financial statements, the Company completed the acquisition of Curiouser Products Inc., dba MIRROR, ("MIRROR") for net consideration of \$452.6 million in 2020 which resulted in \$85.0 million of intangible assets being recorded. The fair values of intangible assets were based upon valuation techniques including discounted cash flows, relief from royalty, and replacement cost methods. Management applied judgment in estimating the fair values of intangible assets acquired, which involved the use of significant estimates and assumptions with respect to future revenue growth rates, royalty rates, and the discount rate.

The principal considerations for our determination that performing procedures relating to the valuation of intangible assets in the acquisition of MIRROR – is a critical audit matter are (i) the high degree of auditor judgment and subjectivity in applying procedures relating to the fair value measurements of intangible assets acquired due to the judgment by management when estimating the fair values of the intangible assets; (ii) significant audit effort in evaluating the significant assumptions relating to the intangible assets, such as the future revenue growth rates, royalty rates, and the discount rate; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of intangible assets, including controls over management's development of the future revenue growth rates, royalty rates, and discount rate assumptions utilized in the valuation of the intangible assets. These procedures also included, among others, (i) reading the purchase agreement and (ii) testing management's process for estimating the fair values of intangible assets. Testing management's process included evaluating the appropriateness of the valuation methods, testing the completeness and accuracy of data provided by management, and evaluating the reasonableness of significant assumptions related to the future revenue growth rates, royalty rates and discount rate assumptions for the intangible assets. Evaluating the reasonableness of the future revenue growth rates involved considering the past performance of the acquired business, as well as economic and industry forecasts. Professionals with specialized skill and knowledge were used to assist in the evaluation of the royalty rates and discount rate assumptions.

/s/ PricewaterhouseCoopers LLP  
Chartered Professional Accountants  
Vancouver, Canada  
March 30, 2021

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

**lululemon athletica inc.**  
**CONSOLIDATED BALANCE SHEETS**  
*(Amounts in thousands, except per share amounts)*

	January 31, 2021	February 2, 2020
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,150,517	\$ 1,093,505
Accounts receivable	62,399	40,219
Inventories	647,230	518,513
Prepaid and receivable income taxes	139,126	85,159
Prepaid expenses and other current assets	125,107	70,542
	2,124,379	1,807,938
Property and equipment, net	745,687	671,693
Right-of-use lease assets	734,835	689,664
Goodwill	386,877	24,182
Intangible assets, net	80,080	241
Deferred income tax assets	6,731	31,435
Other non-current assets	106,626	56,201
	\$ 4,185,215	\$ 3,281,354
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 172,246	\$ 79,997
Accrued inventory liabilities	14,956	6,344
Other accrued liabilities	211,911	112,641
Accrued compensation and related expenses	130,171	133,688
Current lease liabilities	166,091	128,497
Current income taxes payable	8,357	26,436
Unredeemed gift card liability	155,848	120,413
Other current liabilities	23,598	12,402
	883,178	620,418
Non-current lease liabilities	632,590	611,464
Non-current income taxes payable	43,150	48,226
Deferred income tax liabilities	58,755	43,432
Other non-current liabilities	8,976	5,596
	1,626,649	1,329,136
Commitments and contingencies		
Stockholders' equity		
Undesignated preferred stock, \$0.01 par value: 5,000 shares authorized; none issued and outstanding	—	—
Exchangeable stock, no par value: 60,000 shares authorized; 5,203 and 6,227 issued and outstanding	—	—
Special voting stock, \$0.000005 par value: 60,000 shares authorized; 5,203 and 6,227 issued and outstanding	—	—
Common stock, \$0.005 par value: 400,000 shares authorized; 125,150 and 124,122 issued and outstanding	626	621
Additional paid-in capital	388,667	355,541
Retained earnings	2,346,428	1,820,637
Accumulated other comprehensive loss	(177,155)	(224,581)
	2,558,566	1,952,218
	\$ 4,185,215	\$ 3,281,354

See accompanying notes to the consolidated financial statements

**lululemon athletica inc.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

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

	Fiscal Year Ended		
	January 31, 2021	February 2, 2020	February 3, 2019
Net revenue	\$ 4,401,879	\$ 3,979,296	\$ 3,288,319
Cost of goods sold	1,937,888	1,755,910	1,472,032
Gross profit	2,463,991	2,223,386	1,816,287
Selling, general and administrative expenses	1,609,003	1,334,247	1,110,379
Amortization of intangible assets	5,160	29	72
Acquisition-related expenses	29,842	—	—
Income from operations	819,986	889,110	705,836
Other income (expense), net	(636)	8,283	9,414
Income before income tax expense	819,350	897,393	715,250
Income tax expense	230,437	251,797	231,449
Net income	\$ 588,913	\$ 645,596	\$ 483,801
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	47,426	(7,773)	(73,885)
Comprehensive income	\$ 636,339	\$ 637,823	\$ 409,916
Basic earnings per share	\$ 4.52	\$ 4.95	\$ 3.63
Diluted earnings per share	\$ 4.50	\$ 4.93	\$ 3.61
Basic weighted-average number of shares outstanding	130,289	130,393	133,413
Diluted weighted-average number of shares outstanding	130,871	130,955	133,971

See accompanying notes to the consolidated financial statements

**lululemon athletica inc.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Amounts in thousands)

	Exchangeable Stock	Special Voting Stock	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	
	Shares	Shares	Par Value	Shares					Par Value
Balance as of January 28, 2018	9,781	9,781	\$ —	125,650	\$ 628	\$ 284,253	\$ 1,455,002	\$ (142,923)	\$ 1,596,960
Net income						483,801			483,801
Foreign currency translation adjustment							(73,885)		(73,885)
Common stock issued upon exchange of exchangeable shares	(449)	(449)	—	449	2	(2)			—
Stock-based compensation expense						28,568			28,568
Common stock issued upon settlement of stock-based compensation				535	3	17,647			17,650
Shares withheld related to net share settlement of stock-based compensation				(94)	—	(8,779)			(8,779)
Repurchase of common stock				(4,940)	(25)	(6,402)	(591,913)		(598,340)
Balance as of February 3, 2019	9,332	9,332	\$ —	121,600	\$ 608	\$ 315,285	\$ 1,346,890	\$ (216,808)	\$ 1,445,975
Net income						645,596			645,596
Foreign currency translation adjustment							(7,773)		(7,773)
Common stock issued upon exchange of exchangeable shares	(3,105)	(3,105)	—	3,105	16	(16)			—
Stock-based compensation expense						45,593			45,593
Common stock issued upon settlement of stock-based compensation				603	3	18,167			18,170
Shares withheld related to net share settlement of stock-based compensation				(130)	(1)	(21,943)			(21,944)
Repurchase of common stock				(1,056)	(5)	(1,545)	(171,849)		(173,399)
Balance as of February 2, 2020	6,227	6,227	\$ —	124,122	\$ 621	\$ 355,541	\$ 1,820,637	\$ (224,581)	\$ 1,952,218

	Exchangeable Stock	Special Voting Stock	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	
	Shares	Shares	Par Value	Par Value					
Net income						588,913		588,913	
Foreign currency translation adjustment							47,426	47,426	
Common stock issued upon exchange of exchangeable shares	(1,024)	(1,024)	—	1,024	5	(5)		—	
Stock-based compensation expense						50,797		50,797	
Common stock issued upon settlement of stock-based compensation				532	3	15,260		15,263	
Shares withheld related to net share settlement of stock-based compensation				(159)	(1)	(32,387)		(32,388)	
Repurchase of common stock				(369)	(2)	(539)	(63,122)	(63,663)	
Balance as of January 31, 2021	5,203	5,203	\$ —	125,150	\$ 626	\$ 388,667	\$ 2,346,428	\$ (177,155)	\$ 2,558,566

See accompanying notes to the consolidated financial statements



**lululemon athletica inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

	Fiscal Year Ended		
	January 31, 2021	February 2, 2020	February 3, 2019
<b>Cash flows from operating activities</b>			
Net income	\$ 588,913	\$ 645,596	\$ 483,801
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	185,478	161,933	122,484
Stock-based compensation expense	50,797	45,593	28,568
Derecognition of unredeemed gift card liability	(13,696)	(11,939)	(6,859)
Settlement of derivatives not designated in a hedging relationship	4,485	(1,925)	(14,876)
Deferred income taxes	34,908	24,129	16,786
Changes in operating assets and liabilities:			
Inventories	(96,548)	(117,591)	(85,942)
Prepaid and receivable income taxes	(53,966)	(35,775)	(437)
Prepaid expenses and other current assets	(70,999)	(53,754)	(28,546)
Other non-current assets	(49,056)	(27,852)	(2,107)
Accounts payable	82,663	(14,810)	71,962
Accrued inventory liabilities	8,046	(9,598)	4,312
Other accrued liabilities	91,115	14,276	9,416
Accrued compensation and related expenses	(6,692)	25,326	41,600
Current and non-current income taxes payable	(24,125)	(34,137)	46,428
Unredeemed gift card liability	47,962	33,289	24,885
Right-of-use lease assets and current and non-current lease liabilities	13,267	17,422	—
Other current and non-current liabilities	10,784	9,133	31,304
<b>Net cash provided by operating activities</b>	<b>803,336</b>	<b>669,316</b>	<b>742,779</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	(229,226)	(283,048)	(225,807)
Settlement of net investment hedges	(14,607)	347	(16,216)
Acquisition, net of cash acquired	(452,581)	—	—
Other investing activities	882	4,293	(771)
<b>Net cash used in investing activities</b>	<b>(695,532)</b>	<b>(278,408)</b>	<b>(242,794)</b>
<b>Cash flows from financing activities</b>			
Proceeds from settlement of stock-based compensation	15,263	18,170	17,650
Taxes paid related to net share settlement of stock-based compensation	(32,388)	(21,944)	(8,779)
Repurchase of common stock	(63,663)	(173,399)	(598,340)
Other financing activities	—	—	(745)
<b>Net cash used in financing activities</b>	<b>(80,788)</b>	<b>(177,173)</b>	<b>(590,214)</b>
Effect of exchange rate changes on cash	29,996	(1,550)	(18,952)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>57,012</b>	<b>212,185</b>	<b>(109,181)</b>
Cash and cash equivalents, beginning of period	\$ 1,093,505	\$ 881,320	\$ 990,501
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,150,517</b>	<b>\$ 1,093,505</b>	<b>\$ 881,320</b>

See accompanying notes to the consolidated financial statements

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

**NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

***Nature of operations***

lululemon athletica inc., a Delaware corporation, ("lululemon" and, together with its subsidiaries unless the context otherwise requires, the "Company") is engaged in the design, distribution, and retail of healthy lifestyle inspired athletic apparel and accessories, which are sold through a chain of company-operated stores, direct to consumer through e-commerce, outlets, sales from temporary locations, sales to wholesale accounts, license and supply arrangements, and warehouse sales. The Company operates stores in the United States, Canada, the People's Republic of China ("PRC"), Australia, the United Kingdom, Germany, New Zealand, South Korea, Japan, Singapore, France, Malaysia, Sweden, Ireland, the Netherlands, Norway, and Switzerland. There were 521, 491, and 440 company-operated stores in operation as of January 31, 2021, February 2, 2020, and February 3, 2019, respectively.

On July 7, 2020, the Company acquired Curiouser Products Inc., dba MIRROR, ("MIRROR") which has been consolidated from the date of acquisition. MIRROR generates net revenue from the sale of in-home fitness equipment and associated content subscriptions. Please refer to Note 6. Acquisition for further information.

***COVID-19 Pandemic***

The outbreak of a novel strain of coronavirus ("COVID-19") was declared a global pandemic by the World Health Organization in March 2020 and it has caused governments and public health officials to impose restrictions and to recommend precautions to mitigate the spread of the virus.

In February 2020, the Company temporarily closed all of its retail locations in Mainland China, and in March 2020, the Company temporarily closed all of its retail locations in North America, Europe, and certain countries in Asia Pacific. The stores in Mainland China reopened during the first quarter of fiscal 2020, and stores in other markets began reopening in accordance with local government and public health authority guidelines during the second quarter of fiscal 2020. Almost all of the Company's retail locations were open during the third quarter of fiscal 2020, and while most retail locations have remained open, certain locations have temporarily closed based on government and health authority guidance in those markets.

The Company's distribution centers and most of its open retail locations are operating with restrictive and precautionary measures in place such as reduced operating hours, physical distancing, enhanced cleaning and sanitation, and limited occupancy levels.

In response to the COVID-19 pandemic, various government programs have been announced which provide financial relief for affected businesses. The most significant relief measures which the Company qualified for are the Employee Retention Credit under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in the United States, and the Canada Emergency Wage Subsidy ("CEWS") under the COVID-19 Economic Response Plan in Canada. During fiscal 2020 the Company recognized payroll subsidies totaling \$37.1 million under these wage subsidy programs and similar plans in other jurisdictions. These subsidies were recorded as a reduction in the associated wage costs which the Company incurred, and were recognized in selling, general and administrative expenses.

The Financial Accounting Standards Board ("FASB") issued guidance in April 2020 in relation to accounting for lease concessions made in connection with the effects of COVID-19. In accordance with this guidance, the Company has elected to treat COVID-19-related lease concessions as variable lease payments. The Company is actively negotiating commercially reasonable lease concessions. Lease concessions of \$9.1 million were recognized during fiscal 2020.

Temporary closures as a result of COVID-19 and associated reduction in operating income during the first two quarters of fiscal 2020 were considered to be an indicator of impairment and the Company performed an assessment of recoverability for the long-lived assets and right-of-use assets associated with closed retail locations. In the first quarter of fiscal 2020, the Company recognized an insignificant impairment charge as a result of this analysis.

Revenue is presented net of an allowance for expected returns. The increase in the sales return allowance reflects the higher proportion of direct to consumer net revenue, and the longer period of time taken for returns to be made as a result of restricted capacity at retail locations.

The COVID-19 pandemic has materially impacted the Company's operations. The extent to which COVID-19 continues to impact the Company's operations, and in turn, its operating results and financial position will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and the actions taken to contain it or treat its impact. Continued proliferation of the virus, or resurgence, may result in further or prolonged closures of the Company's retail locations and distribution centers, reduce operating hours, interrupt the Company's supply chain, cause changes in guest behavior, and reduce discretionary spending. Such factors could result in the impairment of long-lived assets and right-of-use assets and the need for an increased provision against the carrying value of the Company's inventories.

### ***Basis of presentation***

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

The Company's fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. Fiscal 2020 and fiscal 2019 were each 52-week years. Fiscal 2018 was a 53-week year. Fiscal 2020, 2019, and 2018 ended on January 31, 2021, February 2, 2020, and February 3, 2019, respectively, and are referred to as "2020," "2019," and "2018," respectively.

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

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Principles of consolidation***

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

### ***Cash and cash equivalents***

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

### ***Accounts receivable***

Accounts receivable primarily arise out of duty receivables, sales to wholesale accounts, and license and supply arrangements. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable. Receivables are written off against the allowance when management believes that the amount receivable will not be recovered. As of January 31, 2021, February 2, 2020, and February 3, 2019, the Company recorded an insignificant allowance for doubtful accounts.

### ***Inventories***

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

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

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

### ***Business combinations***

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

### **Goodwill**

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

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

### **Intangible assets**

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

### **Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation. Direct internal and external costs related to software used for internal purposes which are incurred during the application development stage or for upgrades that add functionality are capitalized. All other costs related to internal use software are expensed as incurred.

Depreciation commences when an asset is ready for its intended use. Buildings are depreciated on a straight-line basis over the expected useful life of the asset, which is individually assessed, and estimated to be up to 20 years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the length of the lease and the estimated useful life of the improvement, to a maximum of 10 years for stores and 15 years for corporate offices and distribution centers. All other property and equipment are depreciated using the declining balance method as follows:

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

### **Cloud Computing Arrangements**

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

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

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

### ***Leased property and equipment***

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

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

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

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

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

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

### ***Revenue recognition***

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

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

Revenue is recognized when performance obligations are satisfied through the transfer of control of promised goods to the Company's customers. Control transfers once a customer has the ability to direct the use of, and obtain substantially all of the benefits from, the product. This includes the transfer of legal title, physical possession, the risks and rewards of ownership, and customer acceptance. Revenue from company-operated stores and other retail locations is recognized at the point of sale. Direct to consumer revenue, sales to wholesale accounts and in-home fitness hardware sales are recognized

upon receipt by the customer. In certain arrangements the Company receives payment before the customer receives the promised good. These payments are initially recorded as deferred revenue, and recognized as revenue in the period when control is transferred to the customer.

Revenue is presented net of an allowance for estimated returns. The Company's liability for sales return refunds is recognized within other current liabilities, and an asset for the value of inventory which is expected to be returned is recognized within other prepaid expenses and other current assets on the consolidated balance sheets.

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

Proceeds from the sale of gift cards are initially deferred and recognized within unredeemed gift card liability on the consolidated balance sheets, and are recognized as revenue when tendered for payment. While the Company will continue to honor all gift cards presented for payment, to the extent management determines there is no requirement to remit unused card balances to government agencies under unclaimed property laws, the portion of card balances not expected to be redeemed are recognized in net revenue in proportion to the gift cards which have been redeemed, under the redemption recognition method. For 2020, 2019, and 2018, net revenue recognized on unredeemed gift card balances was \$13.7 million, \$11.9 million, and \$6.9 million, respectively.

### ***Cost of goods sold***

Cost of goods sold includes:

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

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

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

For 2020, 2019, and 2018, the Company incurred costs to transport its products from its distribution facilities to its retail locations and e-commerce guests of \$232.4 million, \$106.7 million, and \$79.5 million, respectively.

### ***Store pre-opening costs***

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

### ***Income taxes***

The Company follows the liability method with respect to accounting for income taxes. Deferred income tax assets and liabilities are determined based on the temporary differences between the carrying amounts and the tax basis of assets and liabilities, and for tax losses, tax credit carryforwards, and other tax attributes. Deferred income tax assets and liabilities are

measured using enacted tax rates, for the appropriate tax jurisdiction, that are expected to be in effect when these differences are anticipated to reverse.

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

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

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

The U.S. Tax Cuts and Jobs Act ("U.S. tax reform") was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law. The Company completed the accounting for the income tax effects of U.S. tax reform during 2018. U.S. tax reform changes and their impact to the Company are outlined in Note 17. Income Taxes. The Company treats the global intangible low-taxed income ("GILTI") tax as an in period tax.

#### ***Fair value of financial instruments***

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

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

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

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

The Company holds certain assets and liabilities that are required to be measured at fair value on a recurring basis, which are outlined in Note 14. Fair Value Measurement.

#### ***Foreign currency***

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

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

#### ***Derivative financial instruments***

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



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

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

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

The Company does not enter into derivative contracts for speculative or trading purposes. Additional information on the Company's derivative financial instruments is included in Note 14. Fair Value Measurement and Note 15. Derivative Financial Instruments.

### ***Concentration of credit risk***

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

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

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

### ***Stock-based compensation***

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

For awards with service and/or performance conditions, the amount of compensation expense recognized is based on the number of awards expected to vest, reflecting estimated expected forfeitures, and is adjusted to reflect those awards that do ultimately vest. For awards with performance conditions, the Company recognizes the compensation expense if and when the Company concludes that it is probable that the performance condition will be achieved. The Company reassesses the probability of achieving the performance condition at each reporting date.

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

settlement. This fair value is based on the closing price of the Company's common stock on the last business day before each period end.

### ***Earnings per share***

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

### ***Contingencies***

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

### ***Use of estimates***

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

### ***Recently adopted accounting pronouncements***

The Company considers the applicability and impact of all Accounting Standard Updates ("ASUs"). ASUs adopted during 2020 were assessed, and determined to be either not applicable or are expected to have minimal impact on its consolidated financial position or results of operations.

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASC 842, Leases ("ASC 842") to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees are required to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet. The Company adopted ASC 842 on February 4, 2019 using the modified retrospective approach with no restatement of comparative periods.

The Company has chosen to apply the transition package of three practical expedients which allow companies not to reassess whether agreements contain leases, the classification of leases, and the capitalization of initial direct costs. The Company did not elect the practical expedient to use hindsight when determining the lease term.

The primary financial statement impact upon adoption was the recognition, on a discounted basis, of the Company's minimum payments under noncancelable operating leases as right-of-use assets and obligations on the consolidated balance sheets. As of February 4, 2019, right-of-use assets and lease liabilities were \$619.6 million and \$651.1 million, respectively. Pre-existing lease balances of \$34.8 million from current assets, \$9.3 million from non-current assets, and \$75.5 million from non-current liabilities were reclassified to right-of-use assets and lease liabilities as part of the adoption of the new standard. There was no cumulative earnings effect adjustment on transition.

### ***Recently issued accounting pronouncements***

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

In December 2019, the FASB issued guidance on ASC 740, Income Taxes. The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments also improve consistent application and simplify GAAP for other areas of this topic by clarifying and amending existing guidance. This Company is evaluating the impact of this update.

**NOTE 3. INVENTORIES**

	January 31, 2021	February 2, 2020
<i>(In thousands)</i>		
Inventories, at cost	\$ 678,200	\$ 540,580
Provision to reduce inventories to net realizable value	(30,970)	(22,067)
Inventories	\$ 647,230	\$ 518,513

The Company had net write-offs of \$20.5 million, \$28.6 million, and \$25.3 million of inventory in 2020, 2019, and 2018, respectively for goods that were obsolete, had quality issues, or were damaged.

**NOTE 4. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

	January 31, 2021	February 2, 2020
<i>(In thousands)</i>		
Prepaid expenses	\$ 82,164	\$ 64,568
Forward currency contract assets	17,364	1,735
Government payroll subsidy receivables	13,309	—
Other current assets	12,270	4,239
Prepaid expenses and other current assets	\$ 125,107	\$ 70,542

**NOTE 5. PROPERTY AND EQUIPMENT**

	January 31, 2021	February 2, 2020
<i>(In thousands)</i>		
Land	\$ 74,261	\$ 71,829
Buildings	30,870	30,187
Leasehold improvements	583,305	489,202
Furniture and fixtures	117,334	109,533
Computer hardware	116,239	95,399
Computer software	427,313	336,768
Equipment and vehicles	17,105	19,521
Work in progress	69,847	40,930
Property and equipment, gross	1,436,274	1,193,369
Accumulated depreciation	(690,587)	(521,676)
Property and equipment, net	\$ 745,687	\$ 671,693

Included in the cost of computer software are capitalized costs of \$23.5 million and \$20.7 million as of January 31, 2021 and February 2, 2020, respectively, associated with internally developed software.

Depreciation expense related to property and equipment was \$180.1 million, \$161.8 million, and \$122.4 million for 2020, 2019, and 2018, respectively.

**NOTE 6. ACQUISITION**

On July 7, 2020, the Company acquired all of the outstanding shares of MIRROR, an in-home fitness company with an interactive workout platform that features live and on-demand classes. The results of operations, financial position, and cash flows of MIRROR have been included in the Company's consolidated financial statements since the date of acquisition.

The following table summarizes the fair value of the consideration transferred at the date of acquisition, as well as the calculation of goodwill based on the excess of consideration over the provisional fair value of net assets acquired. As part of the transaction, the Company assumed \$30.1 million of MIRROR's outstanding debt. This included \$15.1 million of external debt that was settled as part of the transaction and \$15.0 million of debt previously owed by MIRROR to the Company, which

represents the effective settlement of a preexisting relationship. The debt was determined to be at market terms and was recognized as a component of the consideration transferred, and no gain or loss was recorded on settlement.

		July 7, 2020
		<i>(in thousands)</i>
Fair value of consideration transferred:		
Cash paid to shareholders	\$	428,261
Employee options attributed to pre-combination vesting		4,569
Acquired debt settled on acquisition		30,122
Fair value of existing lululemon investment		1,782
	\$	464,734
Less cash and cash equivalents acquired		(12,153)
Fair value of consideration transferred, net of cash and cash equivalents acquired	\$	452,581
Less net assets acquired:		
Assets acquired:		
Inventories	\$	16,734
Prepaid expenses and other current assets		3,492
Intangible assets		85,000
Other non-current assets		5,648
	\$	110,874
Liabilities assumed:		
Current liabilities	\$	(13,465)
Current and non-current lease liabilities		(3,246)
Net deferred income tax liability		(4,074)
	\$	(20,785)
Net assets acquired	\$	90,089
Goodwill	\$	362,492

Goodwill relates to benefits expected as a result of the acquisition to MIRROR's business and has been allocated to the MIRROR reporting unit which is included within Other in the Company's segment disclosures. None of the goodwill is expected to be deductible for income tax purposes.

The Company assigned a fair value to and estimated useful lives for the intangible assets acquired as part of the MIRROR business combination. The fair value of the separately identifiable intangible assets, and their estimated useful lives as of the acquisition date were as follows:

	Estimated Fair Value	Estimated Useful Life
<i>(In thousands)</i>		
Intangible assets:		
Brand	\$ 26,500	20.0 years
Customer relationships	28,000	10.0 years
Technology	25,500	7.5 years
Content	5,000	5.0 years
	\$ 85,000	

Accounting for business combinations requires estimates and assumptions to derive the fair value of acquired assets and liabilities, and in the case of MIRROR, this is with specific reference to acquired intangible assets. The fair value of intangible assets was based upon widely-accepted valuation techniques, including discounted cash flows and relief from royalty and replacement cost methods, depending on the nature of the assets acquired or liabilities assumed. Inherent in each valuation technique are critical assumptions, including future revenue growth rates, royalty rates, and the discount rate. The recognition of deferred tax assets in relation to the historic net operating losses of MIRROR relied on assumptions and estimates of the future profitability of the Company's U.S. operations.

The Company has not disclosed pro forma information of the combined business as the transaction is not material to revenue or net earnings.

#### **Acquisition-related expenses**

In connection with the acquisition, the Company recognized certain acquisition-related expenses which are expensed as incurred. These expenses are recognized within acquisition-related expenses in the consolidated statements of operations include the following amounts:

- transaction and integration costs, including fees for advisory and professional services incurred as part of the acquisition and integration costs subsequent to the acquisition;
- acquisition-related compensation, including the partial acceleration of vesting of certain stock options, and amounts due to selling shareholders that are contingent upon continuing employment; and
- gain recognized on the Company's existing investment in the acquiree as of the acquisition date.

The following table summarizes the acquisition-related expenses recognized during 2020:

	<b>2020</b>
	<i>(in thousands)</i>
Acquisition-related expenses:	
Transaction and integration costs	\$ 10,548
Gain on existing investment	(782)
Acquisition-related compensation	20,076
	\$ 29,842
Income tax effects of acquisition-related expenses	\$ (3,133)

In 2020, the Company recognized \$17.2 million related to deferred consideration, and recognized an expense of \$2.9 million for the partial acceleration of vesting of certain stock options held by MIRROR employees.

The Company will recognize a total expense of \$57.1 million for deferred consideration which is due to certain continuing MIRROR employees, subject to the continued employment of those individuals through various vesting dates up to three years from the acquisition date. This acquisition-related compensation is expensed over the vesting periods as service is provided, and consists of cash payments, which are included within accrued compensation and related expenses until payments are made, and stock-based compensation awards that have been granted under the Company's 2014 Equity Incentive Plan to replace certain unvested options as of the acquisition date.

#### **NOTE 7. GOODWILL**

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

	<b>Goodwill</b>
	<i>(In thousands)</i>
Balance as of February 2, 2020	\$ 24,182
MIRROR acquisition	362,492
Effect of foreign currency translation	203
Balance as of January 31, 2021	\$ 386,877

Of the Company's goodwill, \$362.5 million relates to the MIRROR reporting unit that is included within Other in the Company's segment disclosures. The remaining \$24.4 million relates to the company-operated stores segment.

#### NOTE 8. INTANGIBLE ASSETS

The carrying value of intangible assets, and their estimated remaining useful lives as of January 31, 2021 were as follows:

	January 31, 2021	February 02, 2020	Remaining Useful Life
<i>(In thousands)</i>			
Intangible assets, net:			
Brand	\$ 25,727	\$ —	19.4 years
Customer relationships	26,308	—	9.4 years
Technology	23,478	—	6.9 years
Content	4,417	—	4.4 years
Other	150	241	1.7 years
	\$ 80,080	\$ 241	

#### NOTE 9. OTHER NON-CURRENT ASSETS

	January 31, 2021	February 02, 2020
<i>(In thousands)</i>		
Cloud computing arrangement implementation costs	\$ 74,631	\$ 24,648
Security deposits	23,154	19,901
Other	8,841	11,652
Other non-current assets	\$ 106,626	\$ 56,201

#### NOTE 10. OTHER ACCRUED LIABILITIES

	January 31, 2021	February 02, 2020
<i>(In thousands)</i>		
Accrued freight and other operating expenses	\$ 97,335	\$ 43,225
Accrued duty	17,404	16,178
Sales tax collected	15,246	17,370
Sales return allowances	32,560	12,897
Accrued rent	8,559	8,356
Accrued capital expenditures	8,653	5,457
Forward currency contract liabilities	18,766	1,920
Other	13,388	7,238
Other accrued liabilities	\$ 211,911	\$ 112,641

#### NOTE 11. REVOLVING CREDIT FACILITIES

##### *North America revolving credit facility*

During 2016, the Company obtained a \$150.0 million committed and unsecured five-year revolving credit facility with major financial institutions. During 2018, the Company amended the credit agreement to provide for:

- i. an increase in the aggregate commitments under the revolving credit facility to \$400.0 million, with an increase of the sub-limits for the issuance of letters of credit and extensions of swing line loans to \$50.0 million for each;
- ii. an increase in the option, subject to certain conditions, to request increases in commitments from \$400.0 million to \$600.0 million; and

- iii. an extension in the maturity of the facility from December 15, 2021 to June 6, 2023. Borrowings under the facility may be made in U.S. Dollars, Euros, Canadian Dollars, and in other currencies, subject to the lenders' approval.

As of January 31, 2021, aside from letters of credit of \$2.4 million, there were no other borrowings outstanding under this facility.

Borrowings under the facility bear interest at a rate equal to, at the Company's option, either (a) based on the rates applicable for deposits on the interbank market for U.S. Dollars or the applicable currency in which the borrowings are made ("LIBOR") or (b) an alternate base rate, plus, an applicable margin determined by reference to a pricing grid, based on the ratio of indebtedness to earnings before interest, tax, depreciation, amortization, and rent ("EBITDAR") and ranges between 1.00%-1.50% for LIBOR loans and 0.00%-0.50% for alternate base rate loans. Additionally, a commitment fee of between 0.10%-0.20% is payable on the average unused amounts under the revolving credit facility, and fees of 1.00%-1.50% are payable on unused letters of credit.

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

The Company is also required to maintain a consolidated rent-adjusted leverage ratio of not greater than 3.5:1 and to maintain the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) below 2:1. The credit agreement also contains certain customary representations, warranties, affirmative covenants, and events of default (including, among others, an event of default upon the occurrence of a change of control). As of January 31, 2021, the Company was in compliance with the covenants of the credit facility.

#### ***Mainland China revolving credit facility***

In December 2019, the Company entered into an uncommitted and unsecured 130.0 million Chinese Yuan revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan during 2020. It comprises of a revolving loan of up to 200.0 million Chinese Yuan and a financial guarantee facility of up to 30.0 million Chinese Yuan, or its equivalent in another currency. Loans are available for a period not to exceed 12 months, at an interest rate equal to the loan prime rate plus a spread of 0.5175%. The Company is required to follow certain covenants. As of January 31, 2021, the Company was in compliance with the covenant and there were no borrowings or guarantees outstanding under this credit facility.

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

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

### **NOTE 12. STOCKHOLDERS' EQUITY**

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

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

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

## **NOTE 13. STOCK-BASED COMPENSATION AND BENEFIT PLANS**

### ***Stock-based compensation plans***

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

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

The awards granted under the 2007 Equity Incentive Plan ("2007 Plan") remain outstanding and continue to vest under their original conditions. No further awards will be granted under the 2007 Plan.

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

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

Stock-based compensation expense charged to income for the plans was \$56.6 million, \$46.1 million, and \$29.6 million for 2020, 2019, and 2018, respectively.

Total unrecognized compensation cost for all stock-based compensation plans was \$75.7 million as of January 31, 2021, which is expected to be recognized over a weighted-average period of 1.9 years, and was \$63.4 million as of February 2, 2020 over a weighted-average period of 2.0 years.



A summary of the balances of the Company's stock-based compensation plans as of January 31, 2021, February 2, 2020, and February 3, 2019, and changes during the fiscal years then ended is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units		Restricted Stock Units (Liability Accounting)	
	Number	Weighted -Average Exercise Price	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Fair Value
<i>(In thousands, except per share amounts)</i>										
Balance as of January 28, 2018	1,117	\$ 56.44	329	\$ 60.42	21	\$ 52.45	427	\$ 57.54	—	\$ —
Granted	388	96.96	123	102.49	6	124.19	257	88.75	44	136.67
Exercised/vested	316	56.29	39	63.04	21	52.45	174	58.94	—	—
Forfeited/expired	319	59.76	133	61.71	—	—	70	66.90	—	—
Balance as of February 3, 2019	870	\$ 73.34	280	\$ 78.01	6	\$ 124.19	440	\$ 73.73	44	\$ 146.12
Granted	325	168.14	93	142.33	7	175.82	124	170.15	—	—
Exercised/vested	299	60.75	97	72.04	6	124.19	186	70.69	15	179.67
Forfeited/expired	120	102.37	38	91.03	—	—	45	95.46	—	—
Balance as of February 2, 2020	776	\$ 113.41	238	\$ 103.52	7	\$ 175.82	333	\$ 108.44	29	\$ 239.39
Granted	241	182.78	140	122.21	4	299.09	130	208.35	—	—
Exercised/vested	182	83.89	171	63.03	7	175.82	175	87.31	14	366.42
Forfeited/expired	31	155.33	8	155.08	—	—	13	162.60	—	—
Balance as of January 31, 2021	804	\$ 139.27	199	\$ 149.20	4	\$ 299.09	275	\$ 166.50	15	\$ 328.68

A total of 12.9 million shares of the Company's common stock have been authorized for future issuance under the Company's 2014 Equity Incentive Plan.

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

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

The grant date fair value of each stock option granted is estimated on the date of grant using the Black-Scholes model. The assumptions used to calculate the fair value of the options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon the historical experience of similar awards, giving consideration to expectations of future employee behavior. Expected volatility is based upon the historical volatility of the Company's common stock for the period corresponding with the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve for the period corresponding with the expected term of the options. The following are weighted averages of the assumptions that were used in calculating the fair value of stock options granted in 2020, 2019, and 2018:

	2020	2019	2018
Expected term	3.61 years	3.75 years	3.75 years
Expected volatility	40.01 %	38.43 %	36.87 %
Risk-free interest rate	0.32 %	2.19 %	2.46 %
Dividend yield	— %	— %	— %

The following table summarizes information about stock options outstanding and exercisable as of January 31, 2021:

Range of Exercise Prices	Outstanding			Exercisable		
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
<i>(In thousands, except per share amounts and years)</i>						
\$2.78-\$81.22	147	\$ 57.03	3.6	61	\$ 62.04	3.0
\$85.96-\$124.19	129	88.16	4.2	26	89.77	4.2
\$136.67-\$155.97	73	137.22	4.6	36	137.09	4.6
\$167.54-\$167.54	230	167.54	5.2	40	167.54	5.2
\$174.52-\$356.93	226	194.03	6.1	2	182.81	5.4
	804	\$ 139.27	4.9	165	\$ 109.79	4.1
Intrinsic value	\$ 152,342			\$ 36,081		

As of January 31, 2021, the unrecognized compensation cost related to these options was \$23.1 million, which is expected to be recognized over a weighted-average period of 2.4 years. The weighted-average grant date fair value of options granted during 2020, 2019, and 2018 was \$74.91, \$54.09, and \$30.30, respectively.

The following table summarizes the intrinsic value of options exercised and awards that vested during 2020, 2019, and 2018:

	2020	2019	2018
<i>(In thousands)</i>			
Stock options	\$ 37,022	\$ 36,188	\$ 17,268
Performance-based restricted stock units	32,384	16,003	3,413
Restricted shares	2,115	1,048	2,600
Restricted stock units	37,791	31,300	17,142
Restricted stock units (liability accounting)	5,309	2,603	—
	\$ 114,621	\$ 87,142	\$ 40,423

#### **Employee share purchase plan**

The Company's board of directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. Contributions are made by eligible employees, subject to certain limits defined in the ESPP, and the Company matches one-third of the contribution. The maximum number of shares authorized to be purchased under the ESPP is 6.0 million shares. All shares purchased under the ESPP are purchased in the open market. During 2020, there were 0.1 million shares purchased.

#### **Defined contribution pension plans**

The Company offers defined contribution pension plans to its eligible employees. Participating employees may elect to defer and contribute a portion of their eligible compensation to a plan up to limits stated in the plan documents, not to exceed the dollar amounts set by applicable laws. The Company matches 50% to 75% of the contribution depending on the participant's length of service, and the contribution is subject to a two year vesting period. The Company's net expense for the defined contribution plans was \$9.2 million, \$8.5 million, and \$6.4 million during 2020, 2019, and 2018, respectively.

## NOTE 14. FAIR VALUE MEASUREMENT

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

As of January 31, 2021 and February 2, 2020, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

	January 31, 2021	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 671,817	\$ 671,817	\$ —	\$ —	Cash and cash equivalents
Term deposits	183,015	—	183,015	—	Cash and cash equivalents
Forward currency contract assets	17,364	—	17,364	—	Prepaid expenses and other current assets
Forward currency contract liabilities	18,767	—	18,767	—	Other current liabilities

	February 2, 2020	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 610,800	\$ 610,800	\$ —	\$ —	Cash and cash equivalents
Term deposits	203,360	—	203,360	—	Cash and cash equivalents
Forward currency contract assets	1,735	—	1,735	—	Prepaid expenses and other current assets
Forward currency contract liabilities	1,920	—	1,920	—	Other current liabilities

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

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

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

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

## NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS

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

### *Net investment hedges*

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

The Company holds a significant portion of its assets in Canada and during 2020, it entered into forward currency contracts designed to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. These forward currency contracts are designated as net investment hedges. The Company assesses hedge effectiveness based on changes in forward rates. The Company recorded no ineffectiveness from net investment hedges during 2020.

### Derivatives not designated as hedging instruments

During 2020, the Company entered into certain forward currency contracts designed to economically hedge the foreign exchange revaluation gains and losses that are recognized by its Canadian and Chinese subsidiaries on U.S. dollar denominated monetary assets and liabilities.

### Quantitative disclosures about derivative financial instruments

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

	January 31, 2021			February 2, 2020		
	Gross Notional	Assets	Liabilities	Gross Notional	Assets	Liabilities
<i>(In thousands)</i>						
Derivatives designated as net investment hedges:						
Forward currency contracts	\$ 985,000	\$ —	\$ 18,099	\$ 417,000	\$ 1,583	\$ —
Derivatives not designated in a hedging relationship:						
Forward currency contracts	1,055,000	17,364	668	460,000	152	1,920
Net derivatives recognized on consolidated balance sheets:						
Forward currency contracts		\$ 17,364	\$ 18,767		\$ 1,735	\$ 1,920

As of January 31, 2021, there were derivative assets of \$17.4 million and derivative liabilities of \$18.8 million subject to enforceable netting arrangements.

The forward currency contracts designated as net investment hedges mature on different dates between February 2021 and September 2021.

The forward currency contracts not designated in a hedging relationship mature on different dates between February 2021 and September 2021.

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

	2020	2019	2018
<i>(In thousands)</i>			
Gains (losses) recognized in foreign currency translation adjustment:			
Derivatives designated as net investment hedges	\$ (34,289)	\$ 2,972	\$ 23,946

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

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

	2020	2019	2018
<i>(In thousands)</i>			
Gains (losses) recognized in selling, general and administrative expenses:			
Foreign exchange gains (losses)	\$ (26,053)	\$ 2,701	\$ 23,642
Derivatives not designated in a hedging relationship	22,949	(4,209)	(22,249)
Net foreign exchange and derivative gains (losses)	\$ (3,104)	\$ (1,508)	\$ 1,393

### NOTE 16. LEASES

The Company has obligations under operating leases for its store and other retail locations, distribution centers, offices, and equipment. As of January 31, 2021, the lease terms of the various leases range from two to fifteen years. The majority of the Company's leases include renewal options at the sole discretion of the Company. In general, it is not reasonably certain

that lease renewals will be exercised at lease commencement and therefore lease renewals are not included in the lease term.

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

	2020	2019
	<i>(In thousands)</i>	
Net lease expense:		
Operating lease expense	\$ 193,498	\$ 176,367
Short-term lease expense	11,721	9,358
Variable lease expense	60,991	70,957
	\$ 266,210	\$ 256,682

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

	January 31, 2021
	<i>(In thousands)</i>
2021	\$ 189,907
2022	177,819
2023	151,668
2024	127,834
2025	71,670
After 2026	155,619
Future minimum lease payments	\$ 874,517
Impact of discounting	(75,836)
Present value of lease liabilities	\$ 798,681
Balance sheet classification:	
Current lease liabilities	\$ 166,091
Non-current lease liabilities	632,590
	\$ 798,681

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

	January 31, 2021
Weighted-average remaining lease term	5.59 years
Weighted-average discount rate	3.42 %

### Disclosures related to periods prior to adoption of ASC 842

The following table details the Company's total rent expense prior to the adoption of ASC 842 as well as the property taxes for leased locations.

	2018
	<i>(in thousands)</i>
Total rent expense:	
Minimum rent expense	\$ 161,847
Common area expenses	23,269
Rent contingent on sales	12,846
	\$ 197,962
Property taxes for leased locations	\$ 17,826

### NOTE 17. INCOME TAXES

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

	2020	2019	2018
	<i>(In thousands)</i>		
Income before income tax expense			
Domestic	\$ 122,573	\$ 180,043	\$ 132,563
Foreign	696,777	717,350	582,687
	\$ 819,350	\$ 897,393	\$ 715,250
Current income tax expense			
Federal	\$ 70	\$ 45,765	\$ 73,213
State	10,439	11,480	16,153
Foreign	185,803	170,158	123,129
	\$ 196,312	\$ 227,403	\$ 212,495
Deferred income tax expense (recovery)			
Federal	\$ 19,754	\$ (5,683)	\$ (13,068)
State	5,923	(150)	(8,566)
Foreign	8,448	30,227	40,588
	\$ 34,125	\$ 24,394	\$ 18,954
Income tax expense	\$ 230,437	\$ 251,797	\$ 231,449

The Company's income tax expense for 2018 included certain discrete tax amounts, as follows:

	2018
	<i>(In thousands)</i>
U.S. tax reform:	
One-time transition tax	\$ 7,464
Tax on repatriation from foreign subsidiaries	23,714
Total discrete amounts	\$ 31,178

### U.S. tax reform

The U.S. tax reforms enacted in December 2017 introduced significant changes to the U.S. income tax laws, including reduction in the U.S. federal income tax rate from 35% to 21%, a shift to a territorial tax system which changed how foreign earnings are subject to U.S. tax, and the imposition of a mandatory one-time transition tax on the accumulated undistributed earnings of foreign subsidiaries.

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

As a result of completing its fiscal 2017 U.S. tax returns and incorporating newly issued guidance into its calculations the Company recognized an additional current tax expense of \$7.5 million during 2018 for the mandatory one-time transition tax.

The Company completed the accounting for the income tax effects of U.S. tax reform in 2018.

#### ***Tax on repatriation from foreign subsidiaries***

U.S. tax reform and the shift to a territorial tax system in fiscal 2017 eliminated U.S. federal income taxes upon the repatriation of foreign earnings. However, U.S. tax reform did not eliminate foreign withholding taxes, or certain state income taxes.

During 2018, the Company completed its evaluation of the impact that U.S. tax reform has upon repatriation taxes, its reinvestment plans, and the most efficient means of deploying its capital resources. As a result of these evaluations, the Company repatriated \$778.9 million from a Canadian subsidiary to the U.S. parent entity in 2018. A net current tax expense of \$23.7 million was recognized in 2018 on this distribution.

As of January 31, 2021, the Company's net investment in its Canadian subsidiaries was \$1.8 billion, of which \$0.8 billion was determined to be indefinitely reinvested. A deferred income tax liability of \$3.0 million has been recognized in relation to the portion of the Company's net investment in its Canadian subsidiaries that is not indefinitely reinvested, principally representing the U.S. state income taxes which would be due upon repatriation. This deferred tax liability has been recorded on the basis that the Company would choose to make the repatriation transactions in the most tax efficient manner. Specifically, to the extent that the Canadian subsidiaries have sufficient paid-up-capital, any such distributions would be characterized as a return of capital for Canadian tax purposes, and therefore not subject to Canadian withholding tax. The unrecognized deferred tax liability on the indefinitely reinvested amount is approximately \$2.4 million.

No deferred income tax liabilities have been recognized on any of the undistributed earnings of the Company's other foreign subsidiaries as these earnings are permanently reinvested outside of the United States. Excluding its Canadian subsidiaries, cumulative undistributed earnings of the Company's foreign subsidiaries as of January 31, 2021 were \$89.7 million.

As of January 31, 2021, the Company had cash and cash equivalents of \$508.7 million outside of the United States.

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

	2020	2019	2018
	<i>(Percentages)</i>		
Federal income tax at statutory rate	21.0 %	21.0 %	21.0 %
Foreign tax rate differentials	4.6	4.6	4.7
U.S. state taxes	0.8	1.0	0.9
Non-deductible compensation expense	1.3	0.6	0.8
Permanent and other	0.4	0.9	0.6
U.S. tax reform	—	—	1.1
Tax on repatriation from foreign subsidiaries	—	—	3.3
Effective tax rate	28.1 %	28.1 %	32.4 %

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities as of January 31, 2021 and February 2, 2020 are presented below:

	January 31, 2021	February 2, 2020
<i>(In thousands)</i>		
Deferred income tax assets:		
Net operating loss carryforwards	\$ 14,149	\$ 2,354
Inventories	14,093	8,763
Property and equipment, net	2,715	5,444
Intangible assets, net	937	975
Non-current lease liabilities	160,015	144,412
Stock-based compensation	7,266	4,961
Accrued bonuses	1,948	3,509
Unredeemed gift card liability	6,629	6,815
Foreign tax credits	4,829	4,827
Other	8,640	1,784
Deferred income tax assets	221,221	183,844
Valuation allowance	(6,464)	(5,655)
Deferred income tax assets, net of valuation allowance	\$ 214,757	\$ 178,189
Deferred income tax liabilities:		
Property and equipment, net	\$ (97,717)	\$ (57,280)
Intangible assets, net	(21,556)	(611)
Right-of-use lease assets	(134,245)	(132,059)
Other	(13,263)	(236)
Deferred income tax liabilities	(266,781)	(190,186)
Net deferred income tax (liabilities) assets	\$ (52,024)	\$ (11,997)
Balance sheet classification:		
Deferred income tax assets	\$ 6,731	\$ 31,435
Deferred income tax liabilities	(58,755)	(43,432)
Net deferred income tax (liabilities) assets	\$ (52,024)	\$ (11,997)

As of January 31, 2021, the Company had net operating loss carryforwards of \$59.1 million. The majority of the net operating loss carryforwards expire, if unused, between fiscal 2026 and fiscal 2039.

The Company files income tax returns in the U.S., Canada, and various foreign, state, and provincial jurisdictions. The 2017 to 2019 tax years remain subject to examination by the U.S. federal and state tax authorities. The 2013 tax year is still open for certain state tax authorities. The 2013 to 2019 tax years remain subject to examination by Canadian tax authorities. The 2013 to 2019 tax years remain subject to examination by tax authorities in certain foreign jurisdictions. The Company does not have any significant unrecognized tax benefits arising from uncertain tax positions taken, or expected to be taken, in the Company's tax returns.



## NOTE 18. EARNINGS PER SHARE

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

	2020	2019	2018
	<i>(In thousands, except per share amounts)</i>		
Net income	\$ 588,913	\$ 645,596	\$ 483,801
Basic weighted-average number of shares outstanding	130,289	130,393	133,413
Assumed conversion of dilutive stock options and awards	582	562	558
Diluted weighted-average number of shares outstanding	130,871	130,955	133,971
Basic earnings per share	\$ 4.52	\$ 4.95	\$ 3.63
Diluted earnings per share	\$ 4.50	\$ 4.93	\$ 3.61

The Company's calculation of weighted-average shares includes the common stock of the Company as well as the exchangeable shares. Exchangeable shares are the equivalent of common shares in all material respects. All classes of stock have in effect the same rights and share equally in undistributed net income. For 2020, 2019, and 2018, 30.8 thousand, 48.0 thousand, and 32.2 thousand stock options and awards, respectively, were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

On November 29, 2017, the Company's board of directors approved a stock repurchase program for up to \$200.0 million and on June 6, 2018, the board of directors approved an increase to this stock repurchase program, authorizing the repurchase of up to a total of \$600.0 million of the Company's common shares. These programs were completed during the first quarter of 2019.

On January 31, 2019, the Company's board of directors approved a stock repurchase program for up to \$500.0 million of the Company's common shares on the open market or in privately negotiated transactions. On December 1, 2020, the Company's board of directors approved an increase in the remaining authorization of the existing stock repurchase program from \$263.6 million to \$500.0 million. The repurchase plan has no time limit and does not require the repurchase of any minimum number of shares. Common shares repurchased on the open market are at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors, in accordance with Securities and Exchange Commission requirements. As of January 31, 2021, the remaining value of shares available to be repurchased under this program was \$500.0 million.

During 2020, 2019, and 2018, 0.4 million, 1.1 million, and 4.9 million shares, respectively, were repurchased under the programs at a total cost of \$63.7 million, \$173.4 million, and \$598.3 million, respectively.

Subsequent to January 31, 2021, and up to March 24, 2021, no shares were repurchased.

## NOTE 19. COMMITMENTS AND CONTINGENCIES

### *Commitments*

*Leases.* The Company has obligations under operating leases for its store and other retail locations, distribution centers, offices, and equipment. Please refer to Note 16. Leases for further details regarding lease commitments and the timing of future minimum lease payments.

*License and supply arrangements.* The Company has entered into license and supply arrangements with partners in the Middle East and Mexico which grant them the right to operate lululemon branded retail locations in the United Arab Emirates, Kuwait, Qatar, Oman, Bahrain, and Mexico. The Company retains the rights to sell lululemon products through its e-commerce websites in these countries. Under these arrangements, the Company supplies the partners with lululemon products, training, and other support. An extension to the initial term of the agreement for the Middle East was signed in 2020 and it extends the arrangement to December 2024. The initial term of the agreement for Mexico expires in November 2026. As of January 31, 2021, there were four licensed retail locations in Mexico, three in the United Arab Emirates, and one in Qatar.

The following table summarizes the Company's contractual arrangements as of January 31, 2021, and the timing and effect that such commitments are expected to have on its liquidity and cash flows in future periods:

	Payments Due by Fiscal Year						
	Total	2021	2022	2023	2024	2025	Thereafter
	(In thousands)						
Deferred consideration	\$ 49,544	\$ 25,194	\$ 24,341	\$ 9	\$ —	\$ —	\$ —
One-time transition tax payable	\$ 48,226	\$ 5,076	\$ 5,076	\$ 9,518	\$ 12,691	\$ 15,865	\$ —

*Deferred consideration.* The amounts listed for deferred consideration in the table above represent expected future cash payments for certain continuing MIRROR employees, subject to the continued employment of those individuals up to three years from the acquisition date as outlined in Note 6. Acquisition.

*One-time transition tax.* As outlined in Note 17. Income Taxes, U.S. tax reform imposed a mandatory transition tax on accumulated foreign subsidiary earnings which have not previously been subject to U.S. income tax. The one-time transition tax is payable over eight years beginning in 2018. The one-time transition tax payable is net of foreign tax credits, and the table above outlines the expected payments due by fiscal year.

### Contingencies

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

In March 2020, a former retail employee filed a representative action in the Los Angeles Superior Court alleging violation of the Private Attorney General Act ("PAGA") based on purported California labor code violations including failure to pay wages, failure to pay overtime, failure to provide accurate itemized statements, and failure to provide meal and rest periods. The plaintiff is seeking to recover civil penalties under PAGA. The Company intends to vigorously defend this matter.

In April 2020, Align Activation Wear, LLC filed a lawsuit in the United States District Court for the Central District of California alleging federal trademark infringement, false designation of origin and unfair competition. The plaintiff is seeking injunctive relief, monetary damages and declaratory relief. The Company intends to vigorously defend this matter.

### NOTE 20. SUPPLEMENTAL CASH FLOW INFORMATION

	2020	2019	2018
	(In thousands)		
Cash paid for income taxes	\$ 260,886	\$ 305,493	\$ 177,040
Cash paid for amounts included in the measurement of lease liabilities	180,536	177,144	—
Leased assets obtained in exchange for new operating lease liabilities	178,504	222,448	—
Interest paid	110	325	1,394

## NOTE 21. SEGMENTED INFORMATION

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

During the first quarter of 2020, the Company reviewed its segment and general corporate expenses and determined certain costs that are more appropriately classified in different categories. Accordingly, comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

	2020	2019	2018
	<i>(In thousands)</i>		
<b>Net revenue:</b>			
Company-operated stores	\$ 1,658,807	\$ 2,501,067	\$ 2,126,363
Direct to consumer	2,284,068	1,137,822	858,856
Other	459,004	340,407	303,100
	\$ 4,401,879	\$ 3,979,296	\$ 3,288,319
<b>Segmented income from operations:</b>			
Company-operated stores	\$ 212,592	\$ 689,339	\$ 575,523
Direct to consumer	1,029,102	484,146	357,489
Other	10,502	72,013	62,336
	1,252,196	1,245,498	995,348
General corporate expenses	397,208	356,359	289,440
Amortization of intangible assets	5,160	29	72
Acquisition-related expenses	29,842	—	—
Income from operations	819,986	889,110	705,836
Other income (expense), net	(636)	8,283	9,414
Income before income tax expense	\$ 819,350	\$ 897,393	\$ 715,250
<b>Capital expenditures:</b>			
Company-operated stores	\$ 134,203	\$ 171,496	\$ 129,155
Direct to consumer	37,245	15,813	6,420
Corporate and other	57,778	95,739	90,232
	\$ 229,226	\$ 283,048	\$ 225,807
<b>Depreciation and amortization:</b>			
Company-operated stores	\$ 100,776	\$ 97,896	\$ 76,303
Direct to consumer	14,847	12,469	10,018
Corporate and other	69,855	51,568	36,163
	\$ 185,478	\$ 161,933	\$ 122,484

Intercompany amounts are excluded from the above table as they are not included in the materials reviewed by the chief operating decision maker. The amortization of intangible assets for 2020 in the above table includes \$5.1 million related to MIRROR. MIRROR is included within Other in the Company's segment disclosures.

Property and equipment, net by geographic area as of January 31, 2021 and February 2, 2020 were as follows:

	January 31, 2021	February 2, 2020
<i>(In thousands)</i>		
United States	\$ 267,328	\$ 259,485
Canada	394,861	346,305
Outside of North America	83,498	65,903
	\$ 745,687	\$ 671,693

## NOTE 22. NET REVENUE BY CATEGORY AND GEOGRAPHY

The following table disaggregates the Company's net revenue by geographic area.

	2020	2019	2018
<i>(In thousands)</i>			
United States	\$ 3,105,133	\$ 2,854,364	\$ 2,363,374
Canada	672,607	649,114	565,105
Outside of North America	624,139	475,818	359,840
	\$ 4,401,879	\$ 3,979,296	\$ 3,288,319

The following table disaggregates the Company's net revenue by category. During the fourth quarter of 2020, the Company determined that a portion of certain sales returns which had been recorded within Other categories were more appropriately classified within Women's product and Men's product. Accordingly, comparative figures have been reclassified to conform to the presentation adopted for the current year.

	2020	2019	2018
<i>(In thousands)</i>			
Women's product	\$ 3,049,906	\$ 2,767,826	\$ 2,334,582
Men's product	953,183	927,240	690,530
Other categories	398,790	284,230	263,207
	\$ 4,401,879	\$ 3,979,296	\$ 3,288,319

## ITEM 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

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

### Inherent Limitations over Internal Controls

Our internal control over financial reporting is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial

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

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this evaluation, management concluded that we maintained effective internal control over financial reporting as of January 31, 2021. The effectiveness of our internal control over financial reporting as of January 31, 2021 has been audited by PricewaterhouseCoopers LLP our independent registered public accounting firm, as stated in their report in Item 8 of Part II of this Form 10-K.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

On March 24, 2021, our board of directors amended and restated our bylaws. The amendments are designed to update and modernize the bylaws to (1) conform them to the General Corporation Law, (2) reflect recent developments in public company governance, (3) remove certain outdated provisions and eliminate redundancies, (4) clarify certain corporate procedures, and (5) conform language and style. The amended and restated bylaws include amendments to:

- clarify the provisions for stockholder meetings, including those held solely by means of remote communications;
- update the provisions governing the notice of stockholder meetings;
- update and modernize the provisions governing stockholder lists;
- update and modernize the procedures for meetings of the board of directors, including notice of meetings;
- update and modernize the provisions governing board action by written consent;
- require that any delayed effectiveness of officer or director resignations be subject to the approval of the board of directors;
- update, modernize, and clarify the provisions regarding the Board chair;
- update and modernize provisions regarding the committees of the board of directors;
- update and modernize the provisions governing the indemnification of officers and directors of the company, including providing that the company is required to indemnify (and advance expenses to) officers and directors to the fullest extent permitted by applicable law; and
- make certain other updates, clarifications, and administrative and conforming changes.

The foregoing description of the amended and restated bylaws does not purport to be complete and is qualified in its entirety by reference to the full text of the amended and restated bylaws, a copy of which is attached as Exhibit 3.5 and incorporated by reference herein.

## PART III

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

The information required by this item concerning our directors, director nominees and Section 16 beneficial ownership reporting compliance is incorporated by reference to our definitive Proxy Statement for our 2021 Annual Meeting of Stockholders under the captions "Election of Directors," "Executive Officers," and "Corporate Governance," and, to the extent necessary, under the caption "Delinquent Section 16(a) Reports."

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

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to our 2021 Proxy Statement under the captions "Executive Compensation" and "Executive Compensation Tables."

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

The information required by this item is incorporated by reference to our 2021 Proxy Statement under the caption "Principal Stockholders and Stock Ownership by Management."

#### **Equity Compensation Plan Information (as of January 31, 2021)**

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights <sup>(1)</sup>	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights <sup>(2)</sup>	for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) <sup>(3)</sup>
	(A)	(B)	(C)
Equity compensation plans approved by stockholders	1,293,025	\$ 139.27	17,608,484
Equity compensation plans not approved by stockholders	—	—	—
<b>Total</b>	<b>1,293,025</b>	<b>\$ 139.27</b>	<b>17,608,484</b>

<sup>(1)</sup> This amount represents the following: (a) 804,307 shares subject to outstanding options, (b) 199,085 shares subject to outstanding performance-based restricted stock units, (c) 274,707 shares subject to outstanding restricted stock units, and (d) 14,926 shares subject to outstanding restricted stock units that settle in cash or common stock at the election of the employee. The options, performance-based restricted stock units and restricted stock units are all under our 2007 Equity Incentive Plan or our 2014 Equity Incentive Plan. Restricted shares outstanding under our 2014 Equity Incentive Plan have already been reflected in our total outstanding common stock balance.

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

<sup>(3)</sup> This includes (a) 12,949,072 shares of our common stock available for future issuance under our 2014 Equity Incentive Plan and (b) 4,659,412 shares of our common stock available for future issuance under our Employee Share Purchase Plan. The number of shares remaining available for future issuance under our 2014 Equity Incentive Plan is reduced by 1.7 shares for each award other than stock options granted and by one share for each stock option award granted. Outstanding awards that expire or are canceled without having been exercised or settled in full are available for issuance again under our 2014 Equity Incentive Plan and shares that are withheld in satisfaction of tax withholding obligations for full value awards are also again available for issuance. No further awards may be issued under the predecessor plan, our 2007 Equity Incentive Plan.

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

The information required by this item is incorporated by reference to our 2021 Proxy Statement under the captions "Certain Relationships and Related Party Transactions" and "Corporate Governance."

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

The information required by this item is incorporated by reference to our 2021 Proxy Statement under the caption "Fees for Professional Services."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) Documents filed as part of this report:

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

2. *Financial Statement Schedule.*

Schedule II

Valuation and Qualifying Accounts

Description	Balance at Beginning of Year	Charged to Costs and Expenses	Write-offs Net of Recoveries	Balance at End of Year
<i>(In thousands)</i>				
<b>Shrink Provision on Finished Goods</b>				
For the year ended February 3, 2019	\$ (310)	\$ (13,597)	\$ 12,713	\$ (1,194)
For the year ended February 2, 2020	(1,194)	(12,593)	11,712	(2,075)
For the year ended January 31, 2021	(2,075)	(9,231)	10,323	(983)
<b>Obsolescence and Quality Provision on Finished Goods and Raw Materials</b>				
For the year ended February 3, 2019	\$ (9,303)	\$ (2,453)	\$ 4,204	\$ (7,552)
For the year ended February 2, 2020	(7,552)	(5,363)	2,533	(10,382)
For the year ended January 31, 2021	(10,382)	(2,467)	472	(12,377)
<b>Damage Provision on Finished Goods</b>				
For the year ended February 3, 2019	\$ (5,520)	\$ (22,912)	\$ 21,089	\$ (7,343)
For the year ended February 2, 2020	(7,343)	(28,313)	26,047	(9,609)
For the year ended January 31, 2021	(9,609)	(28,073)	20,073	(17,609)
<b>Sales Return Allowances</b>				
For the year ended February 3, 2019	\$ (6,293)	\$ (5,025)	\$ —	\$ (11,318)
For the year ended February 2, 2020	(11,318)	(1,579)	—	(12,897)
For the year ended January 31, 2021	(12,897)	(19,663)	—	(32,560)
<b>Valuation Allowance on Deferred Income Taxes</b>				
For the year ended February 3, 2019	\$ (1,843)	\$ (427)	\$ 1,763	\$ (507)
For the year ended February 2, 2020	(507)	(5,148)	—	(5,655)
For the year ended January 31, 2021	(5,655)	(809)	—	(6,464)



### 3. Exhibits

#### Exhibit Index

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
2.1	Agreement and Plan of Merger by and among lululemon athletic inc., Snowflake Acquisition Corp., Curiouser Products Inc., and Shareholder Representative Services LLC		8-K	2.1	001-33608	7/1/2020
3.1	Amended and Restated Certificate of Incorporation of lululemon atletica inc.		8-K	3.1	001-33608	8/8/2007
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of lululemon atletica inc.		8-K	3.1	001-33608	7/1/2011
3.3	Certificate of Amendment to Certificate of Incorporation filed July 20, 2017		10-Q	3.1	001-33608	8/30/2018
3.4	Certificate of Amendment to Certificate of Incorporation filed June 12, 2018		10-Q	3.1	001-33608	8/30/2018
3.5	Bylaws of lululemon atletica inc.	X				
4.1	Form of Specimen Stock Certificate of lululemon atletica inc.		S-3	4.1	333-185899	1/7/2013
4.2	Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934		10-K	4.2	001-33608	3/26/2020
10.1*	lululemon atletica inc. 2014 Equity Incentive Plan		8-K	10.1	001-33608	6/13/2014
10.2*	Form of Non-Qualified Stock Option Agreement (for outside directors)		10-Q	10.2	001-33608	12/6/2012
10.3*	Form of Non-Qualified Stock Option Agreement (with clawback provision)		10-Q	10.1	001-33608	6/1/2017
10.4*	Form of Notice of Grant of Performance Shares and Performance Shares Agreement (with clawback provision)		10-Q	10.2	001-33608	6/1/2017
10.5*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (with clawback provision)		10-Q	10.3	001-33608	6/1/2017
10.6*	Form of Restricted Stock Award Agreement		10-Q	10.12	001-33608	12/11/2014
10.7*	Amended and Restated LIPO Investments (USA), Inc. Option Plan and form of Award Agreement		S-1	10.3	333-142477	5/1/2007
10.8	Second Amended and Restated Registration Rights Agreement dated June 18, 2015 between lululemon atletica inc. and the parties named therein		10-Q	10.2	001-33608	9/10/2015
10.9	Exchange Trust Agreement dated July 26, 2007 between lululemon atletica inc., Lulu Canadian Holding, Inc. and Computershare Trust Company of Canada		10-Q	10.5	001-33608	9/10/2007
10.10	Exchangeable Share Support Agreement dated July 26, 2007 between lululemon atletica inc., Lululemon Callco ULC and Lulu Canadian Holding, Inc.		10-Q	10.6	001-33608	9/10/2007
10.11	Amended and Restated Declaration of Trust for Forfeitable Exchangeable Shares dated July 26, 2007, by and among the parties named therein		10-Q	10.7	001-33608	9/10/2007
10.12	Amended and Restated Arrangement Agreement dated as of June 18, 2007, by and among the parties named therein (including Plan of Arrangement and Exchangeable Share Provisions)		S-1/A	10.14	333-142477	7/9/2007
10.13	Form of Indemnification Agreement between lululemon atletica inc. and its directors and certain officers		S-1/A	10.16	333-142477	7/9/2007

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
10.14*	Outside Director Compensation Plan		10-Q	10.1	001-33608	12/11/2019
10.15*	lululemon athletica inc. Employee Share Purchase Plan		10-Q	10.3	001-33608	11/29/2007
10.16*	Executive Employment Agreement, effective as of December 5, 2016, between lululemon athletica canada inc. and Celeste Burgoyne		10-K	10.23	001-33608	3/29/2017
10.17*	Amendment to Executive Employment Agreement, effective October 27, 2020, between lululemon athletica canada inc. and Celeste Burgoyne		10-Q	10.1	001-33608	12/10/2020
10.18*	Executive Employment Agreement, effective as of August 20, 2018, between lululemon athletica canada inc. and Calvin McDonald		8-K	10.1	001-33608	7/24/2018
10.19*	Executive Employment Agreement, effective as of November 23, 2020, between lululemon athletica inc. and Meghan Frank		10-Q	10.2	001-33608	12/10/2020
10.20*	Executive Employment Agreement, effective as of September 20, 2018, between lululemon athletica inc. and Michelle Choe		10-Q	10.1	001-33608	12/06/2018
10.21*	Executive Employment Agreement, effective as of January 20, 2020, between lululemon athletica inc. and Nicole Neuburger		10-K	10.23	001-33608	3/26/2020
10.22*	Executive Employment Agreement, effective as of January 4, 2021, between lululemon athletica UK ltd. and Andre Maestrini	X				
10.23	Credit Agreement, dated as of December 15, 2016, among lululemon athletica inc., lululemon athletica canada inc., Lulu Canadian Holding, Inc. and lululemon usa inc., as borrowers, Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, HSBC Bank Canada, as syndication agent and letter of credit issuer, and each other lender party thereto.		8-K	10.1	001-33608	12/21/2016
10.24	Amendment No. 1 to Credit Agreement, dated June 6, 2018, among lululemon athletica inc. and the other parties thereto		8-K	10.1	001-33608	6/6/2018
21.1	Significant subsidiaries of lululemon athletica inc.	X				
23.1	Consent of PricewaterhouseCoopers LLP	X				
31.1	Certification of principal executive officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of principal financial and accounting officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
32.1**	Certification of principal executive officer and principal financial and accounting officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					
101	The following financial statements from the Company's 10-K for the fiscal year ended January 31, 2021, formatted in iXBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Consolidated Financial Statements	X				

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

\*\* Furnished herewith.

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

None.

## SIGNATURES

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

LULULEMON ATHLETICA INC.

By: /s/ CALVIN MCDONALD

Calvin McDonald

Chief Executive Officer

(principal executive officer)

Date: March 30, 2021

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

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

Signature	Title	Date
/s/ CALVIN MCDONALD <b>Calvin McDonald</b>	Chief Executive Officer and Director (principal executive officer)	March 30, 2021
/s/ MEGHAN FRANK <b>Meghan Frank</b>	Chief Financial Officer (principal financial and accounting officer)	March 30, 2021
/s/ GLENN MURPHY <b>Glenn Murphy</b>	Director, Board Chair	March 30, 2021
/s/ MICHAEL CASEY <b>Michael Casey</b>	Director	March 30, 2021
/s/ STEPHANIE FERRIS <b>Stephanie Ferris</b>	Director	March 30, 2021
/s/ KOURTNEY GIBSON <b>Kourtney Gibson</b>	Director	March 30, 2021
/s/ TRICIA GLYNN <b>Tricia Glynn</b>	Director	March 30, 2021
/s/ KATHRYN HENRY <b>Kathryn Henry</b>	Director	March 30, 2021
/s/ JON MCNEILL <b>Jon McNeill</b>	Director	March 30, 2021
/s/ MARTHA A.M. MORFITT <b>Martha A.M. Morfitt</b>	Director	March 30, 2021
/s/ DAVID M. MUSSAFER <b>David M. Mussafer</b>	Director	March 30, 2021
/s/ EMILY WHITE <b>Emily White</b>	Director	March 30, 2021

## Exhibit Index

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
2.1	Agreement and Plan of Merger by and among lululemon athletic inc., Snowflake Acquisition Corp., Curiouser Products Inc., and Shareholder Representative Services LLC		8-K	2.1	001-33608	7/1/2020
3.1	Amended and Restated Certificate of Incorporation of lululemon athletica inc.		8-K	3.1	001-33608	8/8/2007
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of lululemon athletica inc.		8-K	3.1	001-33608	7/1/2011
3.3	Certificate of Amendment to Certificate of Incorporation filed July 20, 2017		10-Q	3.1	001-33608	8/30/2018
3.4	Certificate of Amendment to Certificate of Incorporation filed June 12, 2018		10-Q	3.1	001-33608	8/30/2018
3.5	Bylaws of lululemon athletica inc.	X				
4.1	Form of Specimen Stock Certificate of lululemon athletica inc.		S-3	4.1	333-185899	1/7/2013
4.2	Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934		10-K	4.2	001-33608	3/26/2020
10.1*	lululemon athletica inc. 2014 Equity Incentive Plan		8-K	10.1	001-33608	6/13/2014
10.2*	Form of Non-Qualified Stock Option Agreement (for outside directors)		10-Q	10.2	001-33608	12/6/2012
10.3*	Form of Non-Qualified Stock Option Agreement (with clawback provision)		10-Q	10.1	001-33608	6/1/2017
10.4*	Form of Notice of Grant of Performance Shares and Performance Shares Agreement (with clawback provision)		10-Q	10.2	001-33608	6/1/2017
10.5*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (with clawback provision)		10-Q	10.3	001-33608	6/1/2017
10.6*	Form of Restricted Stock Award Agreement		10-Q	10.12	001-33608	12/11/2014
10.7*	Amended and Restated LIPO Investments (USA), Inc. Option Plan and form of Award Agreement		S-1	10.3	333-142477	5/1/2007
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\* Denotes a compensatory plan, contract or arrangement, in which our directors or executive officers may participate.

\*\* Furnished herewith.



# Board of Directors and Executive Officers



## Board of Directors

Glenn Murphy	Board Chair FIS Holdings, Founder and CEO
David Mussafer	Lead Director of the Board Advent International Corporation, Chairman and Managing Partner
Calvin McDonald	Chief Executive Officer
Michael Casey	Starbucks Corporation, Retired Executive Vice President, Chief Financial Officer and Chief Administrative Officer
Stephanie Ferris	Fidelity National Information Services, Inc., Former Chief Operating Officer
Kourtney Gibson	Loop Capital Markets, President
Kathryn Henry	Strategic Advisor and Independent Consultant
Jon McNeill	DVx Ventures, Chief Executive Officer
Martha (Marti) Morfitt	River Rock Partners Inc., Principal
Tricia Glynn	Advent International Corporation, Managing Director
Emily White	Anthos Capital, President

## Executive Officers

Calvin McDonald	Chief Executive Officer
Meghan Frank	Chief Financial Officer
Celeste Burgoyne	President, Americas and Global Guest Innovation
Michelle (Sun) Choe	Chief Product Officer
Andre Maestrini	EVP, International
Nicole (Nikki) Neuburger	Chief Brand Officer

## Annual Meeting

The annual meeting will be held on Wednesday, June 9, 2021 at 8:00 am, Pacific Time, via live webinar at [www.virtualshareholdermeeting.com/lulu2021](http://www.virtualshareholdermeeting.com/lulu2021).

## Investor inquiries should be directed to:

By email: [investors@lululemon.com](mailto:investors@lululemon.com)  
By mail: lululemon athletica Investor Relations  
1818 Cornwall Avenue, Vancouver, British Columbia  
Canada V6J 1C7

## Investor Information

Shareholders are advised to review financial information and other disclosures about lululemon contained in its 2020 Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Proxy Statement and other SEC filings, as well as press releases and earnings announcements by accessing the Company's website at <http://investor.lululemon.com/> or at [www.sec.gov](http://www.sec.gov).

## Independent Auditors

PricewaterhouseCoopers LLP

## Transfer Agent

Computershare Trust Company, N.A.

\*The NPD Group / Consumer Tracking Service / U.S. Adult Activewear market - retailer market share gain over the course of the fiscal year (Feb. 2020- Jan. 2021)  
This letter contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations, and intentions. Our actual results and the timing of events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those stated in the "Item 1A. Risk Factors" section and elsewhere in our Annual Report on Form 10-K.

