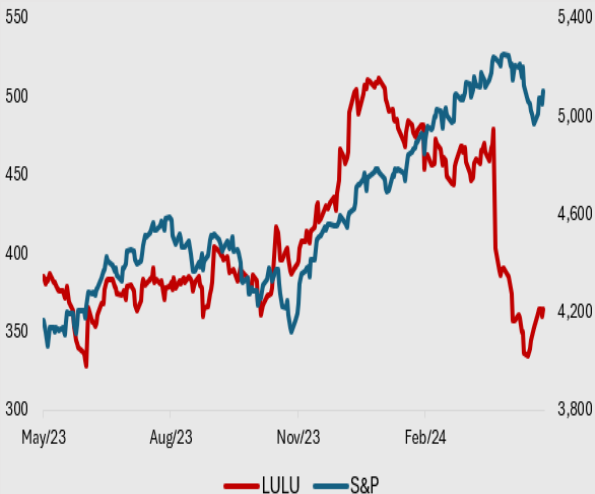




LULULEMON

RECOMMENDATION:	BUY
CURRENT MARKET PRICE:	364.7
TARGET PRICE:	411.93
UPSIDE:	13%
TICKER:	LULU
GICS:	CONSUMER DISCRETIONARY
INDUSTRY:	APPAREL RETAIL

S&P VS LULU PRICE PERFORMANCE



LULULEMON- EQUITY RESEARCH REPORT

BUSINESS OVERVIEW

Lululemon Athletica (LULU) was founded in Vancouver, Canada in 1998 and is a technical athletic apparel company for yoga, running, training, and other fitness related activities for both men and women. The company opened their first location in a small yoga studio in Vancouver and began to expand accrescents the United States in the early 2000’s, officially going public in 2007. Lululemon’s product line includes pants, shorts, tops, and jackets that can be used by young and middle-aged customers looking for athletic apparel or comfortable everyday clothes. Since expanding into the United States, Lululemon has sold its products in various channels such as stores, outlets, yoga and fitness studios, fitness platforms, college campuses, and on their global e-commerce site. Along with the United States, a big part of Lululemon’s ascension into a premier athletic apparel company has been expanding into international locations such as Australia, the United Kingdom, France, Germany, Spain, China, Japan, along with many other countries across Europe, Asia, and Africa. The company has been able to compete with the likes of other big-time athletic apparel providers such as Nike, Under Armor, Puma, and Adidas by providing an innovative, high-quality product line. The apparel tends to be more expensive than competitors’ due to the quality of the materials, but the brand has resonated with consumers due to the incredible quality and consistency of Lululemon’s product lines. The company’s materials and research and development to differentiate products can lead to high production costs, but Lululemon has managed to grow exponentially over the past few years.

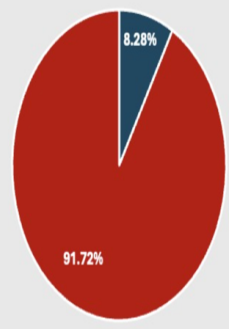
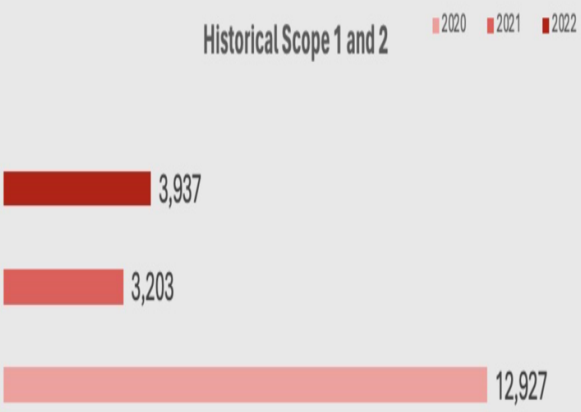
Recent Highlights

Date	Event	Catalysts
April 26, 2024	lululemon (LULU) Driving Brand Awareness, Customer Engagement	Growth in omnichannel, e-commerce investments, digital sales boost, enhanced customer experience.
April 26, 2024	Lululemon Option Trade Could Net \$385, But Risk Could 'Strangle' Traders	Option sale with high premium, unlimited loss potential, short vega, requires stock to trade flat.
April 22, 2024	Why Lululemon Athletica (LULU) Declined in Q1	Q1 market decoupling, underperformance, reduced hedge fund interest, negative one-month return.

INVESTMENT SUMMARY

Market cap:	45588.47
52 Week Range:	326.93 - 516.39
Avg. Volume:	1,949,666
EV/EBITDA:	16.82
P/E:	27.75

Historical Scope 1 and 2



■ Lululemon Athletica Inc Market Share ■ Competitors market share

We recommend a **BUY** for Lululemon (LULU) with a price target of \$411.93. This target is based on a comprehensive analysis that incorporates both Discounted Cash Flow (DCF) and Relative Multiples Valuation methods. This price target is fortified by various positive attributes, while also acknowledging and weighing potential risks

Investment Drivers:

Strong Brand Loyalty and Expanding Customer Base:

Lululemon's quality and innovation fuel brand loyalty. They build a community through events and classes, which increases engagement. Their product line growth targets a broader variety of customers, from fitness enthusiasts to homebodies. By catering to a variety of lifestyles, Lululemon portrays itself as a go-to brand for everyday wear, potentially increasing sales.

International Expansion:

Lululemon's expansion into overseas markets like Asia and Europe is a strategic effort to grasp fresh growth opportunities. The brand's emphasis on a holistic lifestyle is particularly appealing in these regions, where health and wellness concepts are gaining traction. Establishing a local presence, knowing regional consumer preferences, and customizing marketing methods to local cultures are all critical components of their expansion plan. Lululemon may successfully enter these new areas by utilizing its strong brand identification, gradually creating a devoted client base abroad.

Solid Financial Performance:

Lululemon has demonstrated steadfast financial strength, frequently outperforming market expectations. Despite economic constraints, it has accomplished exceptional financial milestones, as indicated by a revenue increase from \$2.65 billion in 2018 to \$4.4 billion in 2021, and an astonishing rise to \$9.6 billion in 2023. This trajectory emphasizes the brand's operational efficiency and effective management. Notably, its EBITDA margin has remained robust, hovering above 20% annually, which reflects its ability to sustain profitability despite the broader retail sector's volatility. Lululemon's financial steadiness empowers it to channel funds into growth and innovation, maintaining its edge in the competitive landscape.

Digital and Omni-channel Growth:

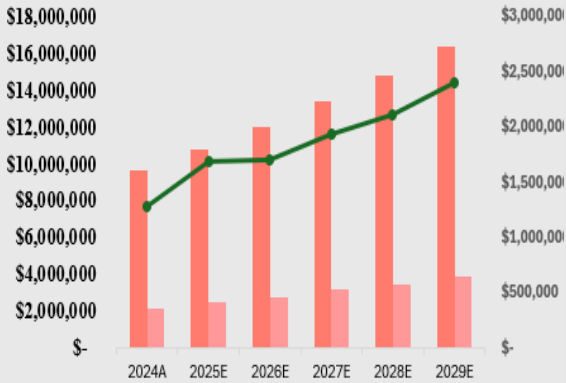
Lululemon's digital efforts broaden its reach and establish a lifestyle brand. Mirror acquisition broadens their products and integrates into their daily routines. Lululemon caters to the increased desire for convenient purchasing by offering mobile apps and a better online experience. These digital enhancements are critical for staying ahead in the competitive online market.

Weaknesses:

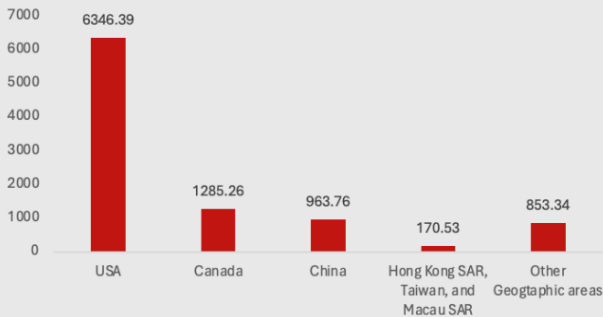
Economic Sensitivity:

Lululemon competes in the premium area of the athletic gear market, which experiences variations in demand due to economic situations. During an economic slump, shoppers may prioritize essential spending above premium-branded apparel. As a result, the company's sales volume and profitability may be susceptible to variations in consumer purchasing power, which are frequently influenced by factors such as employment rates, pay growth, and overall economic health.

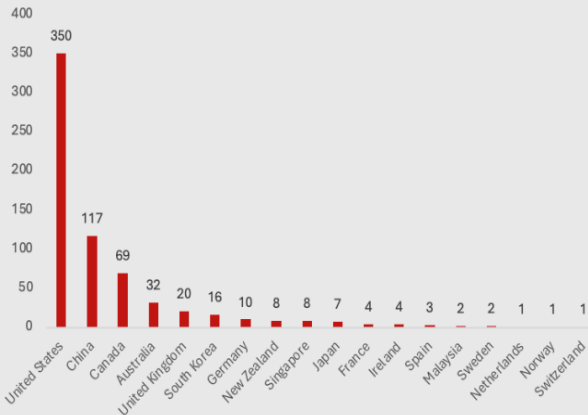
REVENUE FORECASTS FOR VALUATION



Domestic & International Sales in Million USD



Lululemon Company-Operated Stores



Competition and Market Saturation:

The athleisure sector has grown in prominence, resulting in increasing rivalry between existing firms and new newcomers. Lululemon faces the challenge of standing out in a crowded market where competitors may offer comparable products at lower prices or with alternative value propositions. Furthermore, market saturation in certain countries may limit Lululemon's development potential, forcing the company to seek new ways to innovate and attract customers.

Supply Chain Disruptions:

Recent global crises have demonstrated the vulnerability of international supply systems. Lululemon relies on a global network of suppliers and manufacturers, and disruptions can result in inventory shortages, delayed product introductions, and higher pricing. These disruptions may have a severe effect on the company's capacity to meet consumer demand while maintaining profit margins.

Consumer Trend Variability:

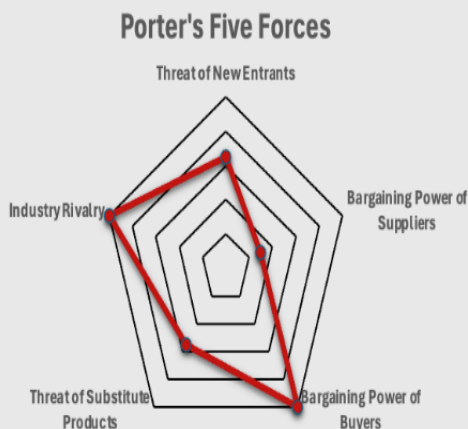
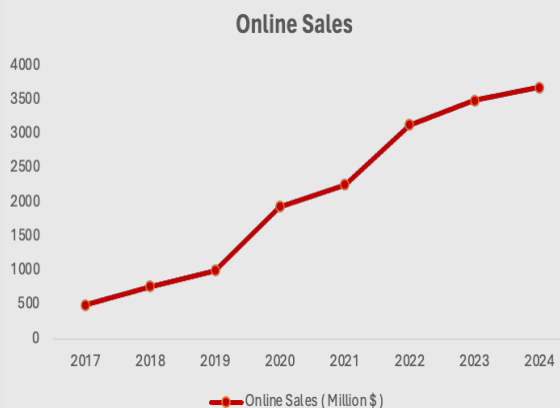
Fashion and consumer choices in clothes are often unpredictable. As a business that has prospered on the 'athleisure' trend, Lululemon must constantly adapt to changing consumer preferences. There is a danger that changes in consumer patterns will result in a drop in demand for its products. Furthermore, the brand's emphasis on wellness and high-end products may conflict with consumer objectives in the case of a change towards more value-oriented shopping.

INDUSTRY OVERVIEW & COMPETITIVE POSITIONING

Lululemon Athletica, established as a cornerstone in the premium athletic apparel industry, continues to excel despite facing macroeconomic headwinds such as rising interest rates and looming inflation projected between 6%-7%. The company has capitalized on its strengths in direct-to-consumer sales and a robust online presence, supplemented by an expanding international retail footprint. Lululemon generates over 50% of its sales online, demonstrating the company's robust marketing capabilities, data-driven marketing strategies, and cost-effectiveness. Renowned for its high-quality, innovative products tailored for a range of activities including yoga and running, Lululemon aligns well with ongoing consumer trends that prioritize health and wellness—a sector that has demonstrated remarkable spending resilience. The athletic apparel sector, in which Lululemon operates, is highly competitive and includes major industry players such as Nike, Adidas, Under Armour, Puma, VFC, as well as Columbia. The market is also enriched by the presence of private companies like Gymshark, Alo Yoga and Fabletics, adding to the variety and intensity of the competition. The graph highlights Lululemon's sales, revealing that the USA is its largest market, yielding \$6346.39 million, surpassing its Canadian home base. Canada and China are also key markets, with revenues indicating Lululemon's effective global penetration.

Lululemon's retail strategy is evidenced by its substantial international presence, with 350 company-operated stores in the United States, 117 in China, and notable market penetrations in Canada, Australia, and the United Kingdom, among other regions. The brand's global retail footprint showcases its commitment to a diverse market strategy, allowing it to cater to a wide range of consumer needs across different cultures and regions.

The brand's financial health is apparent in the year-over-year increase in online sales, jumping from \$497.3 million in 2017 to a projected \$3,684.80 million in 2024. This exponential growth in online sales is a testament to Lululemon's digital acumen and its ability to tap into the growing e-commerce market successfully.



Competitive Positioning:

Lululemon exhibits consistent growth and robust margins, supported by a sophisticated pricing strategy and deep-rooted brand loyalty. While navigating potential challenges like economic downturns or supply chain disruptions that could affect costs and inventory, the company maintains a strong commitment to sustainability. This commitment is evident in its efforts to reduce environmental impacts and enhance social well-being through active community engagement. Looking ahead, Lululemon's strategic initiatives focused on digital innovation, market expansion, and product diversity position it to adeptly handle the evolving market dynamics. These initiatives, alongside ongoing investments in sustainability, ensure that Lululemon not only meets but exceeds the modern consumer's expectations for quality, functionality, and corporate responsibility, securing its trajectory of growth and industry leadership.

Porter's Five Forces Analysis:

1. Threat of New Entrants: (Moderate-high) Due to the appeal of the growing athleisure trend, despite the challenges of scaling and building brand reputation.
2. Bargaining Power of Suppliers: (Low) As Lululemon has multiple supplier options and requires high-quality materials, giving them leverage.
3. Bargaining Power of Buyers: (High) with many brand choices and easy switching options for customers, necessitating constant innovation from Lululemon.
4. Threat of Substitute Products: (Moderate) With brand prestige and quality as differentiators that make Lululemon's offerings distinct.
5. Industry Rivalry: (High) With intense competition from established sportswear brands and fashion brands entering the athleisure space.

WACC CALCULATION

Cost of Debt

short term debt	249,270.00
long term debt	1,154,012.00
total debt	1403282
Weight of Debt	3%
pre- tax cost of debt	5.694%
tax rate	25.00%
After - tax cost of debt	4.3%

cost of equity

Expected market return	8.25%
risk free rate (rf)	4.50%
beta(β)	1.29
equity risk premium(ERP)	3.75%
Cost of equity	9.34%
weight of equity	97%
Market Cap	45,955,152
Total Cap	47,358,434
WACC	9.19%

VALUATION

A number of valuation methodologies were utilized in deriving a target price of \$411.93 for Lululemon Athletica Inc. Including a 5 year DCF using Perpetuity Growth Method & Exit Multiple Method and a Relative Multiples Valuation.

DCF Model

Revenue Outlook

Lululemon is projected to maintain a robust growth trajectory, with revenues estimated to rise from \$9.62 billion in 2024 to \$16.38 billion by 2029. This progression represents a steady year-over-year growth rate, underscoring the brand's resilience and expanding market share in the athletic apparel industry.

Capital Expenditure

Capital expenditures are expected to sustain between 6% to 7% of revenue, reflecting Lululemon's strategic asset investments aimed at enhancing long-term growth and operational scalability.

DCF Valuation

Perpetuity Growth Approach

Present Value of FCFFs	\$ 7,321,952.00
Long-Term Growth Rate	3%
Final Year FCF × (1 + g)	\$ 2,476,276.67
Terminal Value in Final Year	\$ 40,021,500.22
Present Value of Terminal Value	\$ 25,226,800.70
Total Enterprise Value (TEV)	\$ 32,548,752.70
Less: Total Debt	\$ (1,403,282.00)
Plus: Cash and Cash Equivalents	\$ 2,243,971.00
Equity Value	\$ 33,389,441.70

Share Price Calculation

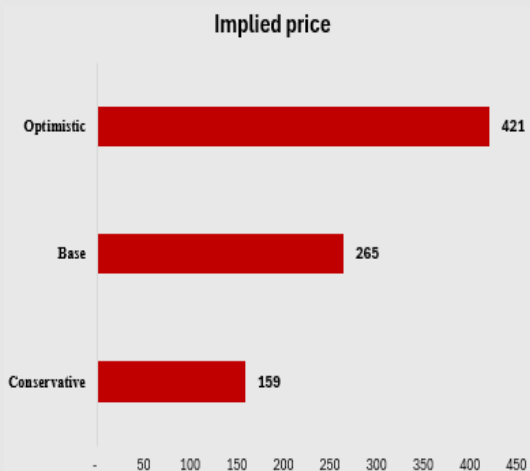
Shares Outstanding	120,892,132
exchangable stock	5,115,961
total stocks outstanding	126,008
Implied Share Price	\$ 264.98
Current price	364.7
% Upside / (Downside)	-27%

EXIT Multiples Approach

Present Value of FCFFs	\$ 7,321,952.00
EV/EBIDTA multiple	14.35
Terminal Value in Final Year	\$ 65,206,156.62
Present Value of Terminal Value	\$ 41,101,475.67
Total Enterprise Value (TEV)	\$ 48,423,427.67
Less: Total Debt	\$ (1,403,282.00)
Plus: Cash and Cash Equivalents	\$ 2,243,971.00
Equity Value	\$ 49,264,116.67

Share Price Calculation

Shares Outstanding	120,892,132
exchangable stock	5,115,961
total stocks outstanding	126,008
Implied Share Price	\$ 390.96
Current price	364.7
% Upside / (Downside)	7%



Weighted Average Cost of Capital (WACC)

The Weighted Average Cost of Capital for Lululemon Athletica has been meticulously calculated at 9.19%. This figure is derived from a capital structure consisting of a minimal amount of debt, making up 3% of the total capital, and a predominant equity portion constituting 97%. The cost of debt before taxes is 5.694%, and after accounting for a tax rate of 25%, the after-tax cost of debt stands at 4.3%. The cost of equity, forming the majority of the WACC calculation, is estimated at 9.34% and is based on an expected market return of 8.25%, a risk-free rate of 4.50%, and a beta of 1.29, which suggests a moderate level of market risk associated with the company. This cost of equity incorporates an equity risk premium of 3.75%. The resulting WACC of 9.19% represents the average rate of return that the company is expected to pay its shareholders and debt holders, reflecting the cost of financing its operations and growth.

Perpetuity Growth Approach

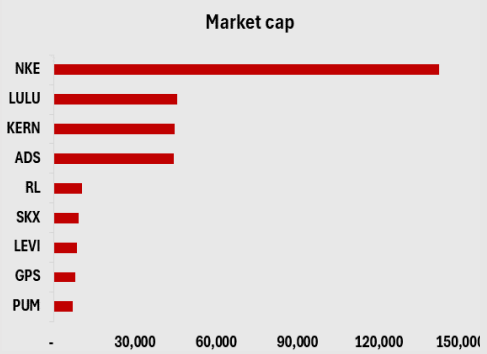
Grounded in a prudent assessment, this approach initiates with a 3% perpetual growth rate to determine the Terminal Value, which is estimated to be a substantial \$40.02 billion. After meticulous adjustment for the present value, the Total Enterprise Value stands at an impressive \$32.55 billion, leading to an Equity Value of approximately \$33.39 billion, reflecting the addition of net debt. This rigorous analysis leads to an implied share price of \$265.04, marking a notable -27% potential downside when juxtaposed with the current market price of \$364.7, hinting at a market price potentially inflated beyond the company's conservative growth projections.

EXIT Multiples Approach:

This method hinges on the strategic application of an EV/EBITDA multiple to Lululemon's projected terminal year EBITDA. The outcome is a substantial Terminal Value of around \$65.20 billion and a TEV proximately placed at \$48.45 billion. This financial scrutiny, post-adjustments for net debt positions, unveils an Equity Value near \$49.27 billion. It culminates in an implied share price of \$391.05, suggesting a 7% potential upside relative to the prevailing market price, indicating a potentially undervalued stock through a market-driven lens.

Assessing Three Scenarios:

- 1) **Conservative Case:** This scenario embodies a cautious perspective, accounting for potential adversity and slower market progression, casting a modest shadow on Lululemon's financial future. Here, the revenue growth rates from 2025 to 2029 are cautiously pegged at 80% of the projected revenue for 2029, while EBIT margins are reservedly assumed at 80% for the same period. This valuation intimates a price beneath the current market, spotlighting possible downturns and operational hurdles that might beset international market expansion. The Conservative case leads to a target price of \$159.54 indicating a 56% downside.
- 2) **Base Case:** Representing a more measured and realistic forecast, this outlook hinges on a synthesis of historical performance and management's strategic efficiency. This scenario envisions a revenue growth trajectory of 11.2% from 2025 to 2029 painting a picture of stability and incremental growth that resonates with the broader market's anticipation for Lululemon.



Ticker	EV/EBITDA
PUM	10.34
GPS	9.99
LEVI	14.91
SKX	10.18
RL	11.49
ADS	28.56
KERN	8.38
NKE	20.94

Company Name	P/E
Puma SE	20.97X
The Gap, Inc.	15.26X
Levi Strauss & Co.	68.71X
Skechers U.S.A., Inc.	16.43X
Ralph Lauren Corporation	18.10X
Adidas AG	-
Kering SA	01.16X
Nike, Inc.	27.46X

Approach	Target Price	Weightages
DCF growth	\$ 264.98	35% \$ 92.74
DCF multiples	\$ 390.96	35% \$ 136.84
Relative valuation	\$ 607.85	30% \$ 182.36
Target Price		100% \$ 411.93
Current share price		\$ 364.7
Overvalued/Undervalued		12.95%

Blended Valuation

3) **Optimistic Case:** This case is the epitome of the most favorable business conditions, presuming a robust uptick in revenue projected at 120% of the revenue figure of 2029 and an ascendant EBIT margin narrative reaching 120% of the 2029 forecast. With an adjusted WACC at a lower 8.19%, reflecting a mitigated risk profile thanks to bullish business outcomes, and an elevated TGR of 3.0%, this scenario illustrates a future where Lululemon's strategic endeavors could potentially surpass existing market predictions and catalyze exceptional growth and profitability, leading to a target price of \$421.58 suggesting the undervaluation by 16%.

Sensitivity to Margin Analysis

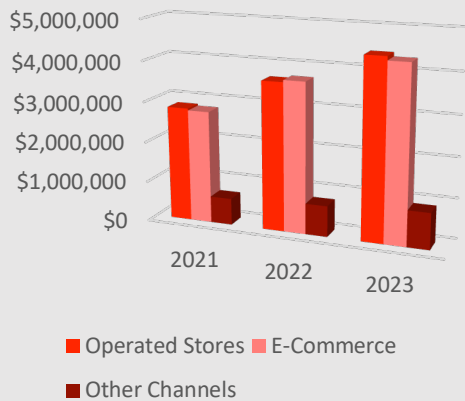
- 1) **EBIT Margin +200bps:** An increase of 200bps in Lululemon's operating margin reflects enhanced efficiency, cost control, and the ability to leverage higher selling prices. Under this optimistic scenario, our DCF model adjusts for the higher margin, leading to an increase in projected free cash flows. The revised analysis yields an implied share price of \$300.25. This price reflects an operating margin of 25.2%, representing an 18% downside from the current share price, suggesting that even with a considerable improvement in operating efficiency, the current market price may still be overvalued.
- 2) **EBIT Margin -200bps:** Conversely, a decrease of 200bps in operating margin could result from heightened competition, increased cost of goods sold, or decreased pricing power. In this more conservative scenario, our DCF model recalibrates the lower margin, resulting in decreased projected free cash flows. The subsequent implied share price is \$229.83, with an operating margin of 21.2%. This presents a 37% downside compared to the current share price, signaling significant overvaluation and potential risks.

Sensitivity Analysis

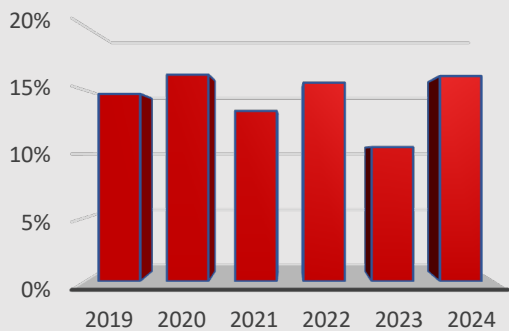
The sensitivity analysis incorporates a range of terminal value growth rates, from 1.80% to 4.20%, and discount rates, also referred to as the Weighted Average Cost of Capital (WACC), from 8.79% to 9.79%. These parameters are critical in assessing the present value of future free cash flows and the terminal value at the end of the projection period. The analysis reveals a notable variance in the implied share price under different terminal growth and discount rate assumptions. Specifically, an increase in the terminal growth rate results in a higher valuation, which underscores the importance of Lululemon's long-term growth prospects. Conversely, an increase in the WACC leads to a lower valuation, reflecting the higher risk and required return. At the Company's current WACC of 9.19%, the implied share prices range from \$232.51 with a terminal growth rate of 1.80%, to \$313.22 with a terminal growth rate of 4.20%. A terminal growth rate of 3.00% with the current WACC results in an implied share price of \$265.04, aligning with the previous intrinsic value calculations. At lower discount rates, such as 8.79%, the sensitivity to growth rate fluctuations is less pronounced, suggesting a stronger valuation at lower levels of risk.

Relative Valuation

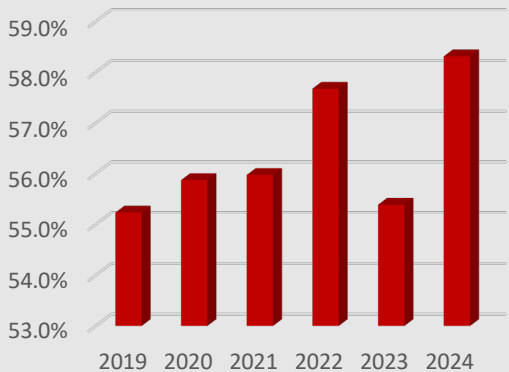
Net Revenue by Channels



Net Profit Margin



Gross Margin



Lululemon's market capitalization stands at \$45.59 billion with an enterprise value (EV) of \$44.75 billion. When compared to peers, the Company exhibits a higher EV/Revenue multiple at 4.65 and an EV/EBITDA multiple of 16.82, which exceeds the industry median of 1.68 and 10.92, respectively. Such a premium is indicative of higher growth expectations from the market and a stronger brand positioning. The price-to-earnings (P/E) ratio for Lululemon is 27.75, aligning closely with the industry average of 24.01 but significantly higher than the median of 18.10. Demonstrating that investors are willing to pay more for Lululemon's earnings, likely reflecting the Company's strong profitability and potential for future earnings growth.

The Company's revenue and EBITDA figures are relatively robust, with the latter being significantly higher than the median of the peer set. This denotes healthy operational efficiency and profit conversion capability. Lululemon's share price reflects these positive attributes, trading at \$364.68, which is above the target price of \$607.85. This again supports the premium valuation bestowed upon the Company by the market.

FINANCIAL ANALYSIS

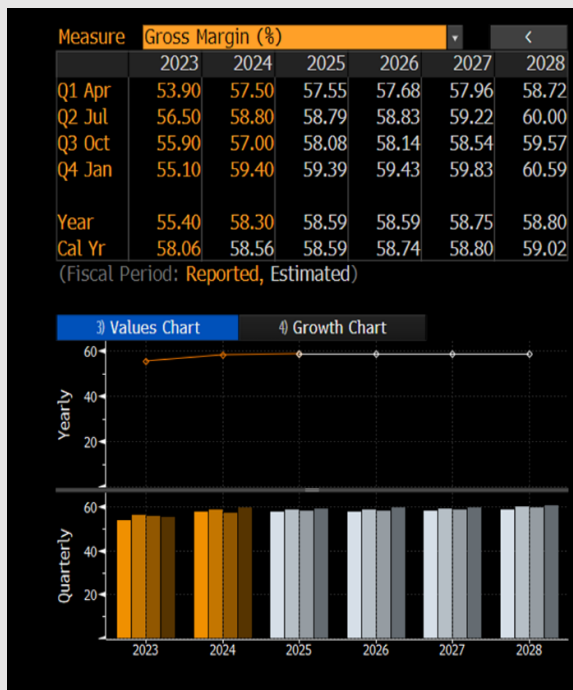
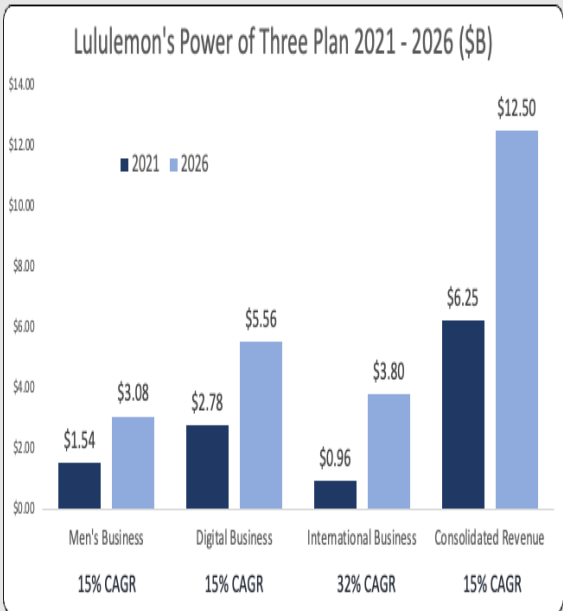
Revenue Growth and Strategic Initiatives:

From 2018 to 2024, Lululemon Athletica Inc. (LULU) has achieved substantial growth, marked by impressive gains in revenue, gross profit, and operating margins. This upward trend is the result of strategic initiatives, brand rebuilding, and innovative approaches to product development and sales. In 2019, Lululemon faced challenges from the previous year, leading it to focus on rebuilding consumer trust through stricter quality control measures and enhanced marketing efforts. This emphasis on brand restoration helped stabilize sales and set the stage for future growth. To adapt to shifting market dynamics, LULU pivoted its product mix toward higher-margin technical apparel, which boosted revenue growth from 2019 onward, despite relatively flat unit sales.

In 2020, the COVID-19 pandemic forced the company to rethink its business model, driving a stronger focus on e-commerce to capture online sales and mitigate revenue losses due to closed brick-and-mortar stores. This shift helped LULU weather the uncertain revenue impacts during the pandemic. As pandemic restrictions eased in 2021, Lululemon saw a significant surge in revenue, driven by reopened stores, pent-up consumer demand, and a continued emphasis on direct-to-consumer (D2C) sales, which generally yield higher margins. The 11% growth rate in 2021 reflects a return to normalcy after the exceptional circumstances of 2020.

However, the most substantial growth occurred in 2022, with a remarkable 42% increase in revenue. This leap was fueled by Lululemon's international expansion strategy and a concerted focus on accelerating growth in the men's and accessories segments, demonstrating the company's agility in responding to new opportunities.

Financial Analysis:



In 2023, LULU achieved notable financial results, with a 19% increase in net revenue to \$9.6 billion and a 25% increase in gross profit to \$5.6 billion. The gross margin rose by 290 basis points to 58.3%, while the operating margin increased by 580 basis points to 22.2%. Diluted earnings per share for 2023 were \$12.20, compared to \$6.68 in 2022. LULU chain of retail stores provides a durable competitive advantage. It has experienced increasing sales and has expanded aggressively. Despite growth in its e-commerce business and pandemic disruption, LULU's sales per square foot were \$1,609 in 2023, among the highest for any large apparel retailer in North America and continue to expand square footage and open new company-operated stores to support growth objectives. The company plans to continue to invest in China Mainland and expect that the majority of the company-operated store openings in 2024 will be in this market. The company's success continued across regions, merchandise categories, and channels in 2023.

The company's Power of Three x2 growth plan led to significant expansion, with 12% growth in the Americas, 67% in China Mainland, and 43% in the Rest of World. The men's product range represented 23% of net revenue in 2023, and Lululemon's Comprehensive men's line is a key pillar of its strategic growth plans. Net revenue from other product categories represented 13% of net revenue in 2023.

Projected Growth:

The quarterly figures from Q1 2023 to Q4 2028 reveals a promising upward trend in gross margins, indicative of the company's increasing efficiency in managing production costs relative to its revenue. Beginning at 53.90% in Q1 2023, there is a noticeable pattern of growth, particularly in Q2 of each year, where margins consistently peak compared to other quarters. This pattern may be reflective of seasonal influences on the company's product demand or cost structure. The annual data shows a progressive increase in gross margin from 55.40% in the fiscal year 2023 to a forecasted 58.80% in 2028. The upward trend is a testament to the company's strategic focus on enhancing profitability through operational efficiency or a shift to higher-margin products.

Economic Moat:

LULU has earned a narrow moat rating due to its intangible assets. The company is often recognized as the pioneer of the athleisure apparel trend and has grown into one of the largest activewear companies in the US and Canada. Despite intense competition, the company has maintained double-digit sales growth every year since 2003, expanding its revenue from \$41 million in 2004 to \$9.6 billion in 2023. A key advantage of LULU is its control over the sales process. Unlike many competitors, the company does not rely heavily on a wholesale business. Instead, it primarily sells its products through company-owned full-price physical stores and its e-commerce platform. This approach allows the company to control pricing, discounting, expenses, product assortment, and marketing, which competitors using traditional wholesale channels cannot do,

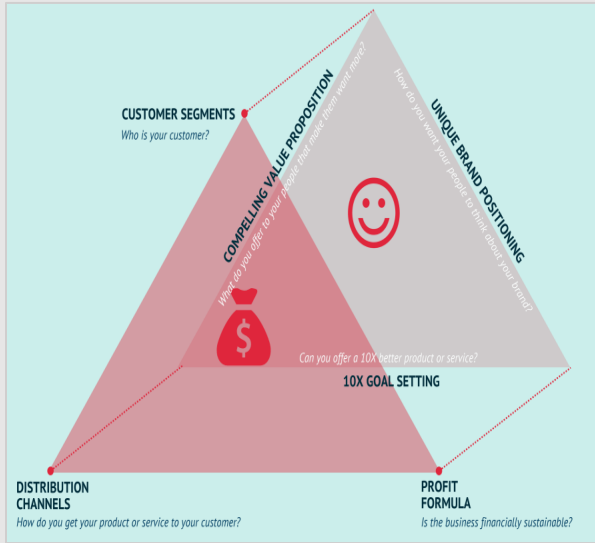
as they must share margins with retail partners. This business model helps LULU maintain its premium brand status.

The company's premium pricing strategy allows for high gross margins. It has maintained a gross margin above 55% since 2018. To diversify its product line, it has reduced its dependence on women's yoga pants by introducing new offerings such as men's clothing, footwear, and fitness and leisure clothing for women. To support product innovation, it continually develops new fabrics, ensuring high quality, while competitors often use cheaper materials to produce lower-cost apparel. LULU's efforts to expand its brand beyond North America, particularly in China, further support its narrow moat rating. The company operates stores in 20 countries, with most of these expansions occurring within the last 10 years. Its expansion in Western Europe and most of Asia has been gradual, but sales in mainland China doubled between 2021 and 2023. Lululemon plans to add around 25 stores in China to the existing 127 by the end of 2023, which could drive sales in China to exceed \$1 billion in 2024. Overall, Lululemon's narrow moat rating reflects its strategic control over its business, premium brand positioning, product diversification, and successful international expansion, all contributing to its consistent growth and resilience in the competitive activewear market.

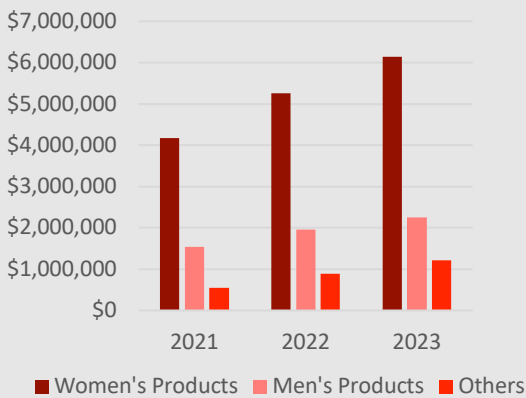
EPS Growth and Strategic Capital Allocation:

LULU has demonstrated a consistent upward trend in earnings per share (EPS) from 2020 to 2025, indicating a significant improvement in profitability. The fiscal year EPS rose from 4.93 in 2020 to an estimated 14.05 in 2025, showing robust growth. The quarterly EPS also increased, with Q1 2020 at 0.74 and an estimated 2.39 in 2025. Similarly, Q2 grew from 0.96 in 2020 to 3.04 in 2025, Q3 from 0.96 to 2.79, and Q4 from 2.28 to 5.96 during the same period. This upward trend suggests that Lululemon has successfully navigated market fluctuations and business disruptions, particularly during the COVID-19 pandemic.

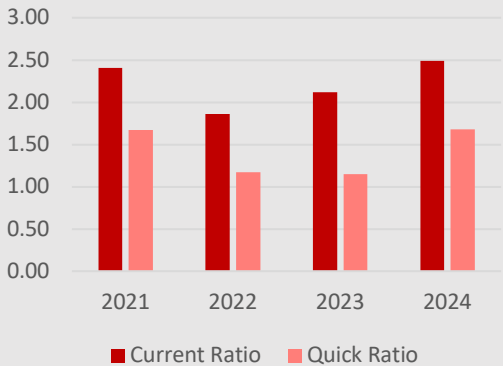
In terms of capital allocation, Lululemon achieved a 15-year average annual shareholder returns of 30% as of April 2024, highlighting consistent profitability and free cash flow. The company generated an average of about \$540 million in annual free cash flow over the past 10 years while investing approximately \$300 million per year in capital expenditures, mainly in new stores and expanded e-commerce. This strategic capital allocation allowed the company to grow without incurring any debt. LULU's only external investment occurred in mid-2020 when it purchased Mirror, an interactive fitness product, for about \$450 million. This acquisition did not yield the expected benefits, leading to Mirror's discontinuation. Despite this setback, Lululemon's internal growth strategy, focusing on consistent profitability and free cash flow generation, has enabled it to remain debt-free while expanding its business operations.



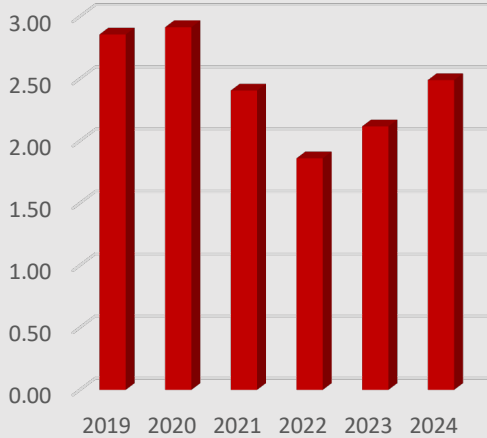
Net Revenue by Category



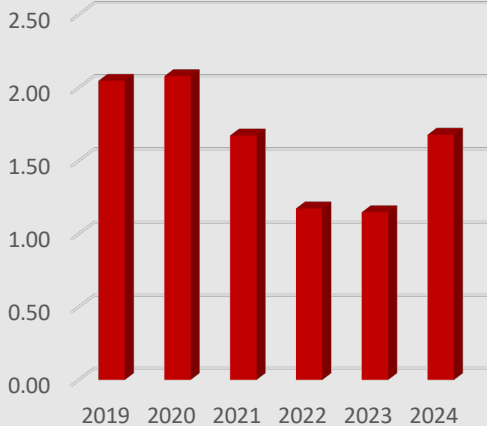
Liquidity Ratios



Current Ratio



Quick Ratio



Comparative Performance: Pre-COVID v. Post-COVID:

Prior to the COVID-19 pandemic, LULU faced significant inflationary pressures affecting their operational costs and cost of goods. Challenges included fluctuating prices for specialized fabrics, increased labor costs in South and Southeast Asia, and variable logistics and shipping costs due to global trade tensions and fuel prices. In response, LULU implemented strategies like a nuanced pricing strategy, enhanced supply chain efficiency, continued product innovation, and market expansion to maintain profitable margins and cater to premium consumers. It also emphasized a direct-to-consumer sales model and optimized inventory management and store locations.

Liquidity:

The liquidity ratios for a company from 2021 to 2024, reflecting its ability to cover short-term obligations. In 2021, strong liquidity was evident with a current ratio of 2.41 and a quick ratio of 1.67. However, in 2022, there was a decrease to a current ratio of 1.86 and a quick ratio of 1.17, indicating a tighter financial state but still above the 1.0 benchmark, ensuring the company's ability to fulfill its short-term liabilities. The year 2023 showed a slight decline in liquidity ratios, yet LULU maintained a good position. By 2024, there was a notable recovery, with ratios rising close to the 2021 levels, suggesting effective asset management and financial resilience. The variation in liquidity across the years likely resulted from strategic financial maneuvers and shifts in the economic landscape, with a clear rebound in 2024 highlighting the company's improved financial health.

INVESTMENT RISK

Lululemon Athletica is subject to several investment risks specific to their business and industry. As a technical athletic apparel company, Lululemon operates in a highly competitive market that has seen increased competition in recent years. The company currently must compete against wholesalers, direct retailers of athletic apparel that already have substantial market share and worldwide recognition, and established companies expanding into technical athletic apparel. Recently companies like J Crew, H&M, and Banana Republic that have traditionally focused on casual and formal clothing are even expanding into this market. If Lululemon's competitors grow and operate more effectively in this market, the company could face a loss of market share and a decrease in revenue and profitability. A highly competitive market like technical athletic apparel can easily lead to pressures to increase or reduce prices, reduced profit margins, and problems growing or maintaining market share. Lululemon already has significant pressure on costs and pricing due to a highly competitive market, inflation, pressure from consumers to cut prices, and changes in consumer demand. For Lululemon to continue to compete in this market, the company is going to have to continue to innovate, differentiate, and expand the growth of the brand. The company should be able to avoid the risk of increased competition if they are able to maintain the brand's reputation as a high-end producer of technical athletic apparel that resonates with consumers.

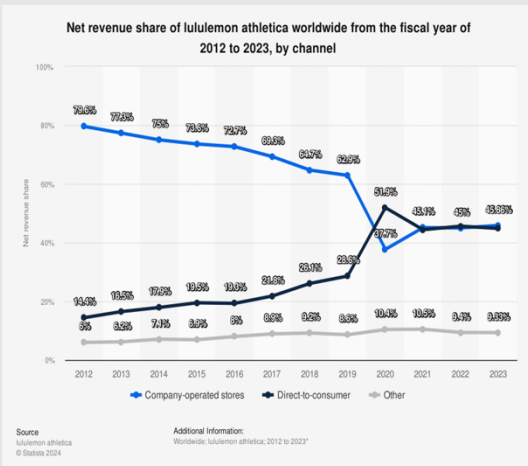
Year	Revenue from Brick-and-Mortar Stores
2018	64.7%
2019	62.9%
2020	37.7%
2021	45.1%
2022	45.0%
2023	45.86%

Risk	Mitigating Factors
Highly Competitive Market	Product differentiation
Significant Pressure on Cost and Pricing	Product innovation and brand value
Changes in Consumer Preferences and Shifts in Distribution Channels	Pro-active shift to omni-channel of e-commerce
Power of the High-End Consumer	Product consistency and brand awareness

Another investment risk Lululemon is subject to is changes in consumer preferences and shifts in distribution channels over the next few years. The company sells their products in a variety of channels, but the majority of their sales are still sold in brick-and-mortar stores that they own and operate (Statista, 2024). To adapt to the online economy, Lululemon has already started to transition to an omni-channel of e-commerce by creating websites for specific regions and promoting and selling products through social media, product notification emails, and mobile apps. The increased shift towards e-commerce could be very harmful for the company and lead to store closures and increased costs that will negatively impact their return on investment in brick-and-mortar stores. A big part of Lululemon’s success is providing customers with a very welcoming experience at their stores, which may be very hard to re-create through online channels of distribution. Consumers may opt for cheaper alternatives if Lululemon is unable to re-create this guest experience. Due to Lululemon’s strong brand recognition and proactive approach adapting to e-commerce, the company should be able to overcome these changes in consumer preferences and shifts in distribution channels.

The power of the high-end consumer and their preferences is one of the biggest risks Lululemon faces going forward. The company has been able to succeed by providing a high-quality product line that has justified higher prices for consumers compared to competitors. The current economic environment has put a lot of stress on high-end consumers due to inflation and a continued rise in prices in the clothing industry. If Lululemon continues to increase prices and the purchasing power of high-end consumers is reduced, the company could face even more competition. The preferences of these high-end consumers could also easily change, leading them to opt for cheaper alternatives such as Nike, Under Armour, and Puma that are able to provide a similar product. If the purchasing power and preferences of this group of consumer changes, Lululemon may struggle to maintain their market share and differentiate their products from competitors.

The most important factor in Lululemon avoiding the risks stated above and continuing to succeed is maintaining the value and reputation of the brand. The company needs to continue to produce high-quality, consistent products and continue to use social media to have a positive impact on brand value and reputation. To maintain the brand’s reputation, the company must keep providing a positive guest experience in stores and when handling product recalls or returns. Lululemon also needs to avoid manufacturing and design defects by protecting their design software and intellectual property to keep producing their consistent, high-quality products and differentiate from competitors. If Lululemon maintains their value and reputation in the mind of consumers, the company’s profitability and revenue will continue to grow.

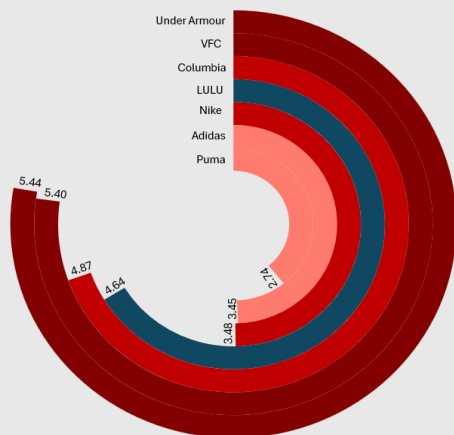


ENVIRONMENTAL, SOCIAL AND GOVERNANCE

THIRD-PARTY SCORES

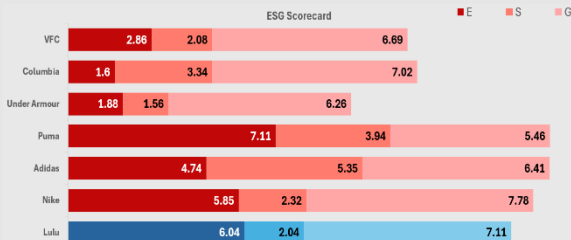
MSCI Rating	AA
Sustainalytics	
Risk Score	16.88
Risk Category	Low
Controversy Level	2.00
S&P Global ESG Rank	61.00

ESG RV



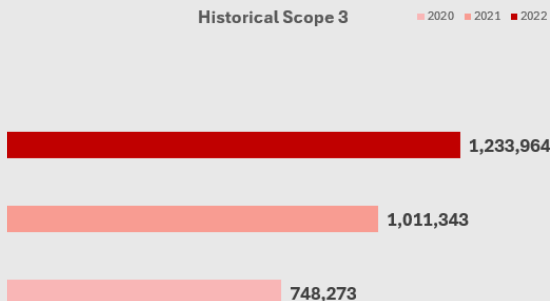
Source: Bloomberg

ESG Scorecard



Source: Bloomberg

Historical Scope 3



Source: Company Filings

Amid growing global emphasis on corporate responsibility, Lululemon Athletica Inc. stands out for its commitment to Environmental, Social, and Governance principles. Aligned with UN Sustainable Development Goals (SDGs) 5, 8, 10, 7, 12, and 13, Lululemon's ESG slogan, "Be Human, Be Well, Be Planet," encapsulates its holistic approach. Company stands at an average industry rating (Exhibit) but an MSCI rating of AA Lululemon integrates ESG metrics into its Financial Framework. Exploring Lululemon's environmental, social, and governance initiatives, we'll highlight its strengths and areas for improvement.

Environmental

Addressing Environmental Accountability: Lululemon's Progress and Ambitions: Goals: Lululemon acknowledges the pressing need to combat climate change and its far-reaching consequences. The company is steadfast in its commitment to driving decarbonization efforts throughout its business operations and industry value chain. With a clear vision, Lululemon aims to achieve net-zero emissions by 2050, aligning its aspirations with global initiatives to mitigate climate change. The company values transparency and pledges to share progress annually, underscoring its dedication to fulfilling commitments to stakeholders.

Striving for Environmental Excellence: Lululemon has made notable strides in reducing Scope 1 and 2 emissions, surpassing targets and implementing renewable energy strategies. However, challenges persist in managing Scope 3 emissions (Exhibit), which have seen a significant increase. The company's efforts to transition transportation modes and pilot electric vehicles demonstrate a commitment to addressing environmental challenges. Yet, without clear reporting on the percentage circularity initiatives and its true environmental impact.

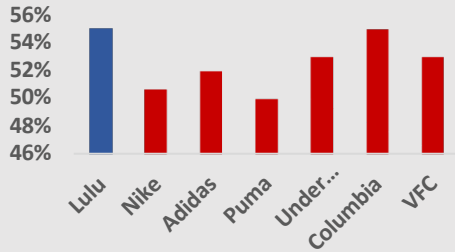
Navigating Greenwashing Concerns and Advancing Circular Practices: The company's goal to switch to 100% recycled nylon by 2023 saw only 8% achievement in FY22. Critics argue that the company's environmental claims, such as the "be planet" slogan, may lack substance considering such discrepancies. Lululemon's recent partnership with Samsara Eco to produce enzymatically recycled nylon 6,6 represents a step forward in circularity efforts. However, the lack of transparency regarding the percentage of recycled nylon used raises questions about the company's environmental practices and commitment to sustainability.

Social

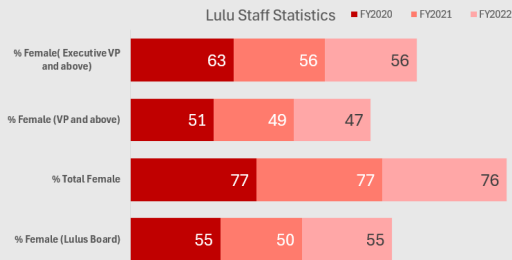
Celebrating Diversity, Empowering Inclusion: Lululemon surpassed its goal of achieving 40% racial diversity among global store employees by 2023, starting company's workforce became 41% racially diverse, a 3% increase from the previous year. Notably, distribution centers witnessed a four percent surge in racial diversity while retail stores achieved 40% racially diverse representation. Additionally, in January 2023, Lululemon launched the first phase of its Supplier Inclusion & Diversity program in the United States, focusing on empowering businesses owned, operated, and controlled by underrepresented groups.

Incomplete Transparency: Concerns persist regarding worker treatment within Lululemon's supply chain, as transparency regarding living wages and commitment to diversity and inclusion remain lacking. Despite setting goals to achieve Fair Labor Association (FLA) accreditation by 2024, the company has not provided updates on its progress, raising questions about its commitment to addressing these issues. While some final production stages are FLA certified, the overall lack of transparency casts doubt on

Female Staff %

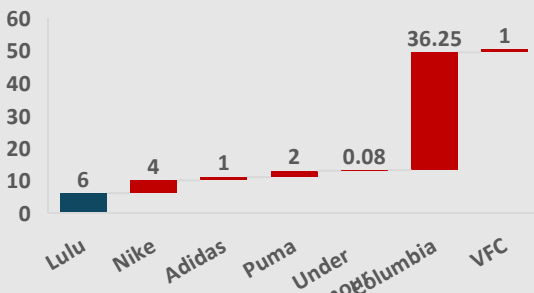


Source: Company Filings



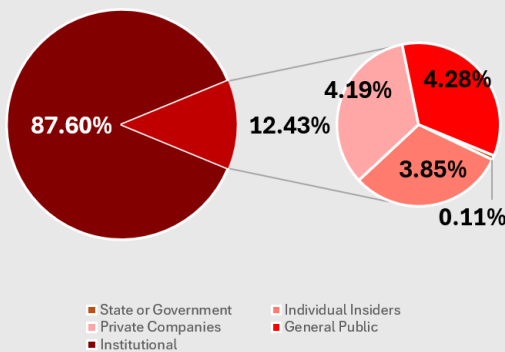
Source: Company Filings

CEO Tenure Years (RV)



Source: Company Filings

Public Ownership %



the effectiveness of these measures. Additionally, Lululemon received a score of 51-60% in the 2023 Fashion Transparency Index, indicating room for improvement in disclosing social responsibility practices. The absence of updates on achieving FLA accreditation highlights the need for greater transparency and accountability within Lululemon's supply chain.

Navigating Fair Compensation: Challenges Persist in Lululemon's Supply Chain: Lululemon's social responsibility efforts aim to address global challenges in fair compensation within its supply chain. While the company claims to verify minimum wage compliance through Responsible Supply Chain (RSC) assessments, doubts persist about ensuring living wages for workers. Despite collecting wage data in key supplier facilities, there's limited evidence of comprehensive wage management systems. The absence of clear assurances regarding fair compensation raises concerns about the effectiveness of its initiatives and transparency in addressing worker welfare.

Governance:

Executive Remuneration and Alignment with Shareholder: Lululemon Athletica Inc. maintains a robust executive compensation framework, as evidenced by the resounding 92% shareholder approval in the 2022 advisory "say-on-pay" vote, showcasing strong alignment between compensation and shareholder value. The company's leading Bloomberg governance underscores its commitment to exemplary governance practices.

CEO Tenure: Calvin McDonald, CEO of Lululemon, has served as the CEO for 6 years, contributing to the company's strategic vision. This tenure falls slightly below the updated industry average of 7.19 years, but still reflects a significant commitment to experience and long-term stewardship. However, uncertainty surrounding succession planning poses a potential governance challenge, highlighting the need for clarity in leadership transition strategies.

Board of Directors: Independence: At Lululemon, despite the assertion that all board directors are independent non-executives tasked with safeguarding shareholders' interests, there's a notable exception. Calvin McDonald, the CEO, occupies a position on the board, potentially compromising the board's independence and raising concerns about provide impartial oversight and scrutiny of management decisions, posing risks.

Diversity: At Lululemon, gender diversity on the board has remained consistently strong, with women comprising 55% of the board in both FY22 and FY21. This stability reflects the company's ongoing commitment to fostering an inclusive and diverse corporate culture.

Public and Inside Ownership: Public Ownership is demonstrated in management is less than 1% for all the members, positively aligning the interests of shareholders with agents of the business. Our confidence in Lulu's team is further affirmed share purchases by non-executive director Martha A. Morfitt of of \$1.4M. Although this purchase only marginally increased Morfitt's holdings by 4.2%, its magnitude suggests conviction in a brighter future.

APPENDIX:

SWOT ANALYSIS

Strengths:

- **Brand Reputation & Customer Loyalty:** Lululemon's premium branding has earned a strong reputation, resulting in a loyal customer base. Their commitment to quality and style has created a community of dedicated followers who not only make repeat purchases but also promote the brand organically.
- **Vertical Integration & Supply Chain Control:** The brand's comprehensive oversight of its production process allows for stringent quality control and rapid response to market shifts, positioning it to outpace competitors in innovation and trend adaptation.
- **Strong Online Presence & Digital Strategy:** Lululemon's digital strategy is a cornerstone of its strength, with a significant percentage of sales conducted online. A well-crafted social media presence amplifies its reach and engagement, capitalizing on the shift towards digital retail.

Weaknesses:

- **High Pricing Strategy:** The brand's premium pricing could narrow its appeal, potentially alienating a segment of consumers who are unable or unwilling to pay a premium, especially in economically uncertain times.
- **Limited Product Range:** Focused product lines, while enhancing the brand's image in specific niches, may limit exposure to diverse athletic segments. This specialization may restrict overall market share growth in comparison to competitors with broader offerings.
- **Supplier Dependence:** Lululemon's reliance on third-party suppliers introduces potential risks, such as disruptions that could impede the brand's ability to deliver products consistently and maintain its standard of quality.

Opportunities:

- **International Expansion:** Lululemon has substantial room for growth outside its current main markets. International expansion is a clear pathway to increase its global footprint and capitalize on emerging markets with an interest in health and fitness lifestyles.
- **Men's Activewear Market:** There's a significant opportunity in the men's activewear space. A targeted expansion here could diversify Lululemon's consumer base and increase market share.
- **Sustainability & Ethical Practices:** As consumer trends shift towards sustainability, Lululemon's further investment in environmentally conscious practices and ethical supply chains could resonate with a growing demographic of eco-aware consumers.

Threats:

- **Intense Competition:** The sector is fiercely competitive, with numerous well-established brands and niche entrants. Lululemon must continue to innovate and maintain its unique brand proposition to avoid losing ground.
- **Economic Uncertainty:** Economic instability may tighten consumer budgets, potentially reducing spending on premium brands like Lululemon and impacting its revenue streams.
- **Counterfeit Products & IP Infringement:** The brand faces ongoing threats from counterfeit goods and intellectual property breaches, which could compromise its market share and dilute brand prestige. Proactive measures are essential to combat these issues.

Revenue Schedule (\$ in millions)	2024A	2025E	2026E	2027E	2028E	2029E
Revenue	\$ 9,619,278.00	\$ 10,734,449.70	\$ 11,968,911.42	\$ 13,351,994.59	\$ 14,753,954.02	\$ 16,376,888.96
YoY%	18.52%	11.59%	11.50%	11.56%	10.50%	11.00%
Conservative Case		9.3%	9.2%	9.2%	8.4%	8.8%
Street Case		11.6%	11.5%	11.6%	10.5%	11.0%
Optimistic Case		15.1%	15.0%	15.0%	13.7%	14.3%
Cost of Goods Sold	\$ 4,009,873.00	\$ 4,293,779.88	\$ 4,787,564.57	\$ 5,340,797.84	\$ 5,901,581.61	\$ 6,550,755.58
Margin	41.7%	40%	40%	40%	40%	40%
Gross profit	\$ 5,609,405.00	\$ 6,440,669.82	\$ 7,181,346.85	\$ 8,011,196.75	\$ 8,852,372.41	\$ 9,826,133.38
Margin	58.3%	60.0%	60.0%	60.0%	60.0%	60.0%
EBIT	\$ 2,175,735.00	\$ 2,700,330.12	\$ 3,029,790.88	\$ 3,421,761.90	\$ 3,726,138.06	\$ 4,233,202.78
	22.6%	25.2%	25.3%	25.6%	25.3%	25.8%
Conservative Case		21.2%	21.3%	21.6%	21.3%	21.8%
Street Case	22.6%	23.2%	23.3%	23.6%	23.3%	23.8%
Optimistic Case		25.2%	25.3%	25.6%	25.3%	25.8%
(+) Depreciation & Amortization	\$ 379,384.00	\$ 418,643.54	\$ 466,787.55	\$ 520,727.79	\$ 575,404.21	\$ 638,698.67
EBITDA	\$ 2,555,119.00	\$ 3,118,973.66	\$ 3,496,578.42	\$ 3,942,489.68	\$ 4,301,542.26	\$ 4,871,901.45
Less: Taxes	\$ 625,545.00	\$ 621,410.28	\$ 697,603.16	\$ 788,680.50	\$ 857,764.74	\$ 976,416.25
Less: Capex	651,865.00	644,066.98	718,134.69	801,119.68	885,237.24	982,613.34
Less: Increase / (Decrease) in NWC	\$ -	\$ (43,642.57)	\$ 137,813.42	\$ 154,405.29	\$ 156,512.61	\$ 181,181.97
Free Cash Flow to Firm (FCFF)	\$ 1,277,709.00	\$ 1,897,138.97	\$ 1,943,027.16	\$ 2,198,284.22	\$ 2,402,027.67	\$ 2,731,689.89
Discounting Period	0.97	0.90	0.82	0.75	0.69	0.63
PV of FCFF	\$ 1,236,392.97	\$ 1,700,051.57	\$ 1,594,664.89	\$ 1,652,349.88	\$ 1,653,574.59	\$ 1,722,284.09

Sensitivity analysis for perpetuity growth method

		Terminal value growth rate									
		1.80%	2.10%	2.40%	2.70%	3.00%	3.30%	3.60%	3.90%	4.20%	
Discounting rate/ wacc	8.79%	\$ 242.06	\$ 250.01	\$ 258.71	\$ 268.27	\$ 278.82	\$ 290.52	\$ 303.57	\$ 318.23	\$ 334.81	
	8.89%	\$ 239.56	\$ 247.28	\$ 255.72	\$ 264.98	\$ 275.18	\$ 286.48	\$ 299.06	\$ 313.15	\$ 329.04	
	8.99%	\$ 237.12	\$ 244.63	\$ 252.82	\$ 261.79	\$ 271.67	\$ 282.58	\$ 294.71	\$ 308.27	\$ 323.52	
	9.09%	\$ 234.76	\$ 242.06	\$ 250.01	\$ 258.71	\$ 268.27	\$ 278.82	\$ 290.52	\$ 303.57	\$ 318.23	
	9.19%	\$ 232.46	\$ 239.56	\$ 247.28	\$ 255.72	\$ 264.98	\$ 275.18	\$ 286.48	\$ 299.06	\$ 313.15	
	9.29%	\$ 230.22	\$ 237.12	\$ 244.63	\$ 252.82	\$ 261.79	\$ 271.67	\$ 282.58	\$ 294.71	\$ 308.27	
	9.39%	\$ 228.04	\$ 234.76	\$ 242.06	\$ 250.01	\$ 258.71	\$ 268.27	\$ 278.82	\$ 290.52	\$ 303.57	
	9.49%	\$ 225.91	\$ 232.46	\$ 239.56	\$ 247.28	\$ 255.72	\$ 264.98	\$ 275.18	\$ 286.48	\$ 299.06	
	9.59%	\$ 223.85	\$ 230.22	\$ 237.12	\$ 244.63	\$ 252.82	\$ 261.79	\$ 271.67	\$ 282.58	\$ 294.71	
	9.69%	\$ 221.83	\$ 228.04	\$ 234.76	\$ 242.06	\$ 250.01	\$ 258.71	\$ 268.27	\$ 278.82	\$ 290.52	
9.79%	\$ 219.86	\$ 225.91	\$ 232.46	\$ 239.56	\$ 247.28	\$ 255.72	\$ 264.98	\$ 275.18	\$ 286.48		

		EV/EBITDA MULTIPLE									
		10.35x	11.35x	12.35x	13.35x	14.35x	15.35x	16.35x	17.35x	18.35x	
Discounting rate/ wacc	8.79%	\$ 304.61	\$ 327.78	\$ 350.96	\$ 374.13	\$ 397.31	\$ 420.48	\$ 443.66	\$ 466.83	\$ 490.01	
	8.89%	\$ 303.45	\$ 326.52	\$ 349.58	\$ 372.64	\$ 395.71	\$ 418.77	\$ 441.83	\$ 464.90	\$ 487.96	
	8.99%	\$ 302.31	\$ 325.26	\$ 348.21	\$ 371.16	\$ 394.12	\$ 417.07	\$ 440.02	\$ 462.97	\$ 485.92	
	9.09%	\$ 301.17	\$ 324.01	\$ 346.85	\$ 369.69	\$ 392.53	\$ 415.37	\$ 438.22	\$ 461.06	\$ 483.90	
	9.19%	\$ 300.03	\$ 322.76	\$ 345.50	\$ 368.23	\$ 390.96	\$ 413.69	\$ 436.42	\$ 459.16	\$ 481.89	
	9.29%	\$ 298.90	\$ 321.53	\$ 344.15	\$ 366.77	\$ 389.40	\$ 412.02	\$ 434.64	\$ 457.27	\$ 479.89	
	9.39%	\$ 297.78	\$ 320.30	\$ 342.81	\$ 365.33	\$ 387.84	\$ 410.36	\$ 432.87	\$ 455.39	\$ 477.90	
	9.49%	\$ 296.67	\$ 319.07	\$ 341.48	\$ 363.89	\$ 386.29	\$ 408.70	\$ 431.11	\$ 453.52	\$ 475.92	
	9.59%	\$ 295.56	\$ 317.86	\$ 340.16	\$ 362.46	\$ 384.76	\$ 407.06	\$ 429.36	\$ 451.66	\$ 473.96	
	9.69%	\$ 294.45	\$ 316.65	\$ 338.84	\$ 361.03	\$ 383.23	\$ 405.42	\$ 427.62	\$ 449.81	\$ 472.00	
9.79%	\$ 293.36	\$ 315.45	\$ 337.53	\$ 359.62	\$ 381.71	\$ 403.80	\$ 425.88	\$ 447.97	\$ 470.06		