



Lululemon Athletica

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4/13/24

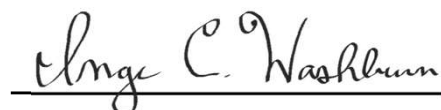
Current Price:	\$336.13
Target Price:	\$450.00
Upside:	34%

Highlights

- I. Stock has dipped due to decreased earnings projections.
- II. Maturation of the domestic market and expanded product offering yet to be priced into stock.
- III. Growth strategy pivot to foreign markets yet to be priced into stock.
- IV. Rebound offers unique growth-oriented position in LULU.

Order Type: Limit @ \$370

Allocation: 9 shares (~\$3,000)



PHIG President

PHIG Director

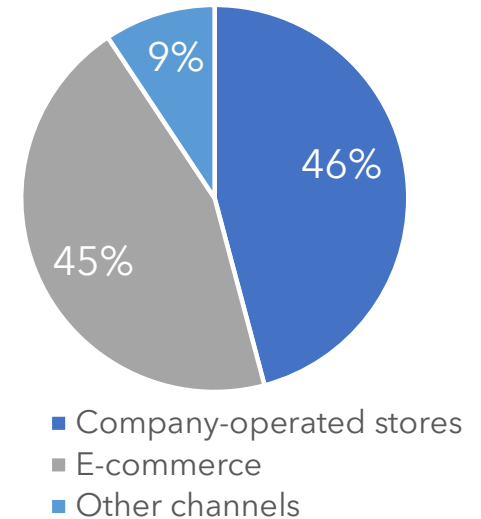
VP of Finance

Company Overview

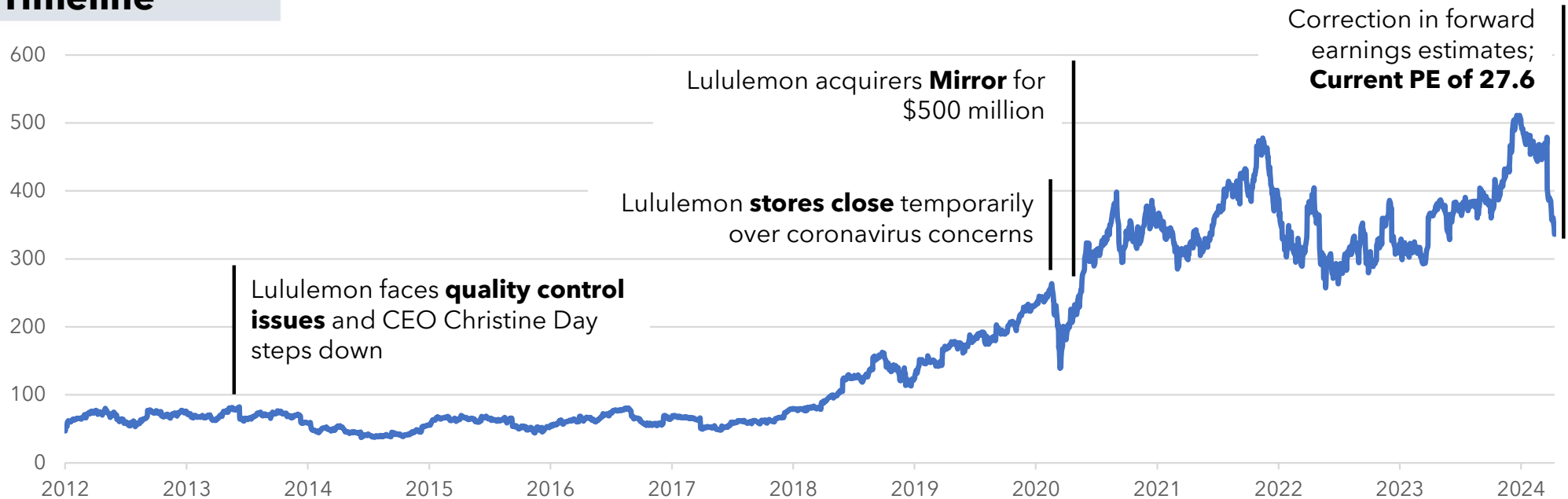
Key Highlights

- Founded in 1998, Lululemon sells women-focused athleisure apparel.
- Operating in over **25 countries** across **4 regional markets**.
- Transitioning from being a growth company to a mature, established retailer.
- Focused on **broadening merchandise offerings** through product expansion, innovating with technical fabrics/features, growing men's line, introducing new categories/accessories, and providing an omni-channel/seamless retail experience.
- Growth potential in expanding **men's wear, performance wear, and global footprint**.

Sales by Channel



Timeline

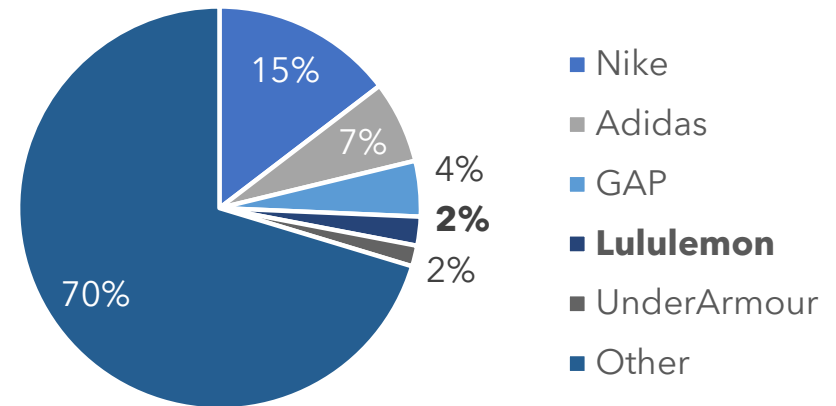


Industry Overview

Industry Overview

- **The athleisure market is big and brutal.** Athleisure market is valued at \$358.1B in 2023. Industry distribution channels are 65% offline and 35% online. Competition is through the roof, new entrants come in frequently, suppliers are strong, buyers can switch brands and substitute products easily.
- **The athleisure market is growing consistently.** Rise in fitness & health consciousness combined with desire for comfortable and fashionable clothes, sports + casual clothing converging. Projected 8.5% CAGR for global market from 2024-2030.

Athleisure Market Breakdown

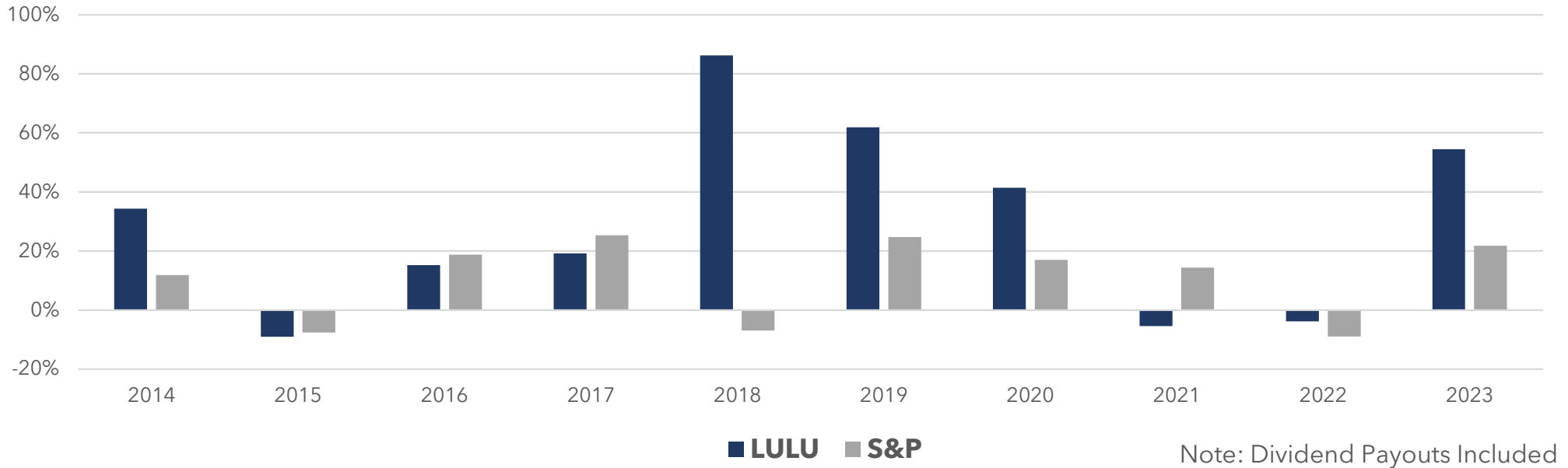


Porter's Five Forces

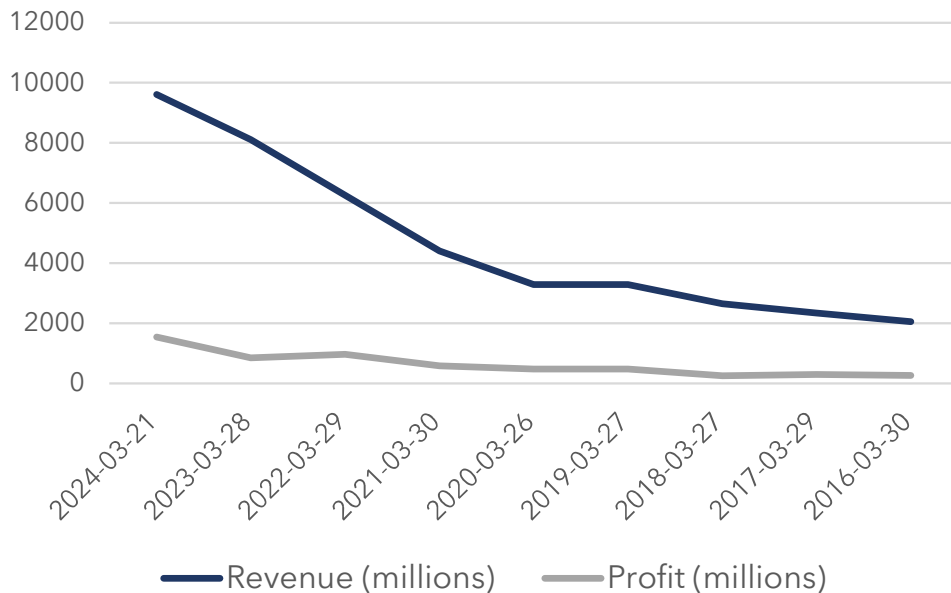
Competitive Rivalry	New Entrants	Power of Suppliers	Power of Buyers	Substitutes
High	High	Moderate	High	Moderate
<ul style="list-style-type: none"> • Saturated market with established brands only taking ~30% market share. 	<ul style="list-style-type: none"> • New "insta-brands" take Gen Z market share from established companies. 	<ul style="list-style-type: none"> • Companies do not own/operate manufacturing facilities. • Companies have many suppliers with 6> making 50% of products. 	<ul style="list-style-type: none"> • Brand loyalty is a narrow economic moat. • No switching costs for customers. 	<ul style="list-style-type: none"> • Athleisure itself is a substitute for both athletic and causal clothing. • "Counterfeit luxury" products dilute market internationally.

Financial Overview

Historical Performance



Revenue and Profit



Summary

- LULU has beaten the S&P 500 **6 out of the last 10 years**.
- During this time, Gross margins have grown by **+744 bps**, while net margins have improved by **+281 bps**.
- Since 2019, Revenue has experienced average annual growth of **23.9%**. Fueled by **margin expansion**, net income has grown by **26.2%**.
- Revenue growth for 2024 is projected at **12%**.

Sustainable Competitive Advantage

Generic Business Unit Strategy

- | | | |
|--|--|---|
| <input type="checkbox"/> Product Leadership
Leapfrog of New Products: Innovation | <input type="checkbox"/> Operational Excellence
Unmatched Focus; Quality, Price & Ease | <input type="checkbox"/> Customer Intimacy
1:1 Bonding; Specific Customer Needs |
| <input type="checkbox"/> Product Differentiation
Unique Features, Product, and/or Service | <input type="checkbox"/> Operational Competency
Std Product, Good Quality, Capable Delivery | <input checked="" type="checkbox"/> Customer Responsive
Loyalty thru Broad Marketing/Service Focus |

Advantage - Strategic Dimensions & Distinctives *(Economic Moat)*

Dimensions



Product Quality

Proprietary fabric technology with higher cotton content and breathability protected by limited patents and trade secret rights in the technology.



Customer Engagement

Lululemon Studio gives members an all-access experience to deals and athletic training.



Manufacturing

Lululemon maintains established relationships with a portion of its supply partners, providing more stable supply.



Demand Responsiveness

Lululemon utilizes temporary locations to accommodate seasonal peaks in demand. This is an important means of capturing additional revenue.

Distinctives



Market Knowledge

Lululemon is the first-mover in women's athleisure and maintains dominance in both market knowledge and recognition, resulting in a strong and sustainable brand.

Slide 5

EMO

In the Strong Dividend section, mention the appendix which has a good graph to illustrate the point

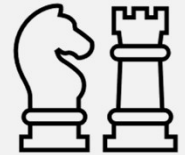
Elijah L. Mendoza, 2024-01-26T06:42:14.125

Investment Summary

Investment Thesis

Thesis

As Lululemon transitions from a domestic growth strategy to one focused on growth in secondary markets and stability in domestic markets, share price will recover and normalize under recalibrated long-term assumptions.



Catalyst 1

Sustained domestic growth rate driven by athleticwear and men's clothing.

Catalyst 2

The rate of growth in secondary markets (APAC and EMEA) will increase as marketing and sales reach critical mass.



Historical Valuation

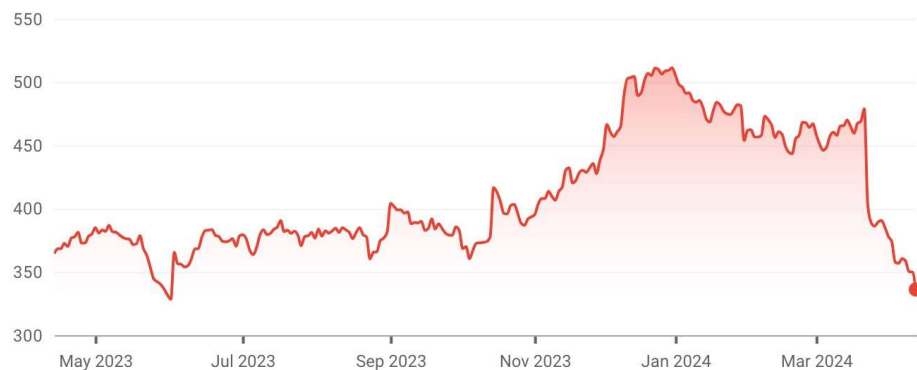
\$336.13 ↓ 7.75% -28.25 1Y

After Hours: **\$335.27** (↓ 0.26%) -0.86

Closed: Apr 12, 7:40:51 PM UTC-4 · USD · NASDAQ · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX

[Key events](#)



Target Prices

Target Price: **\$450**

34% upside

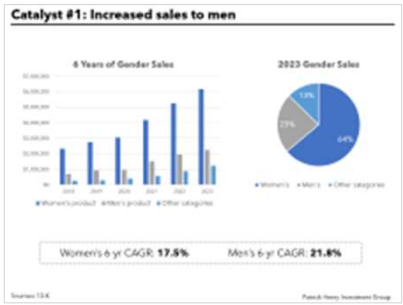
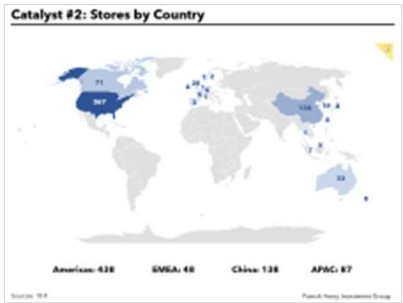
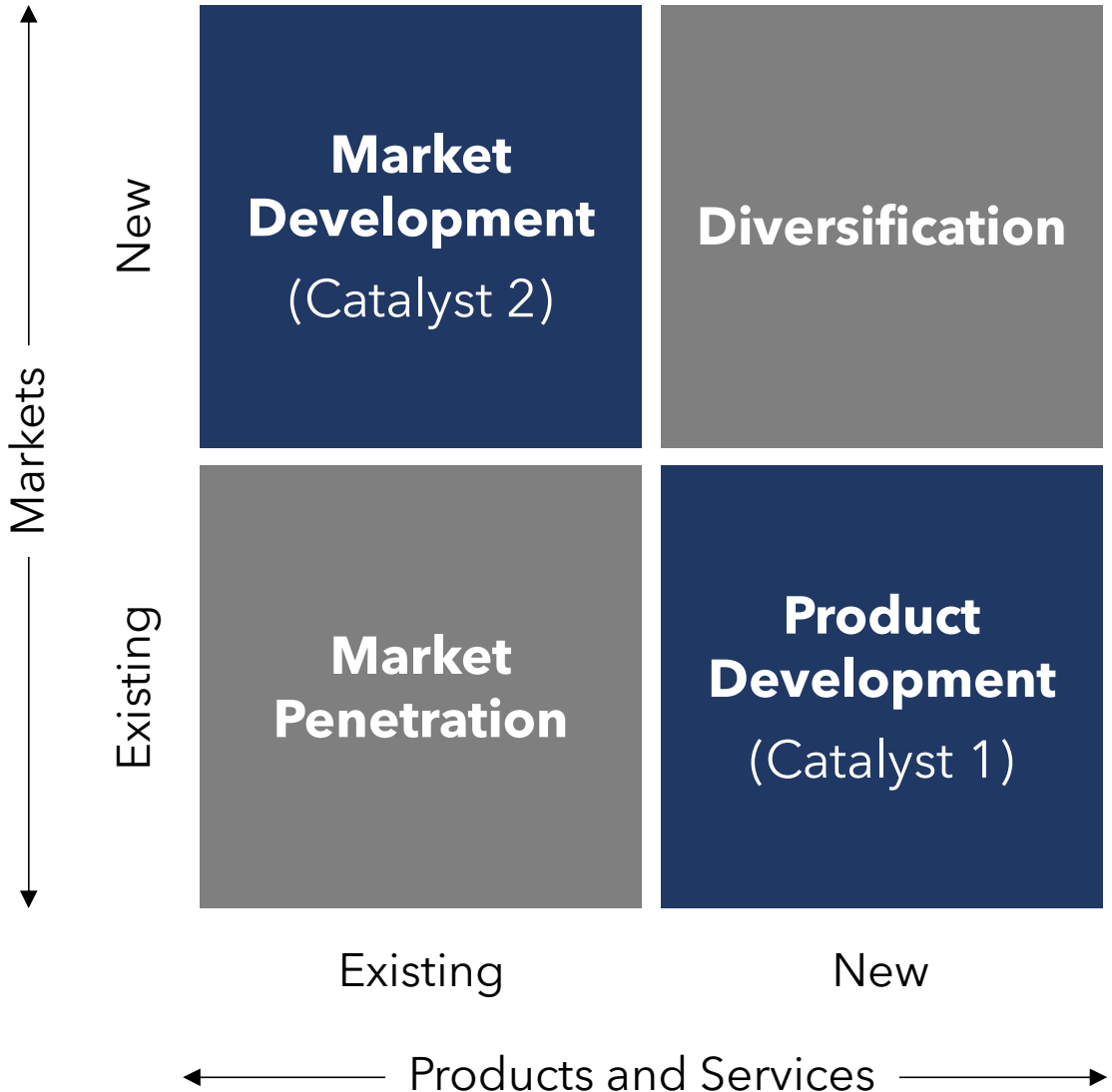




Appendix: Lululemon Athletica (LULU)

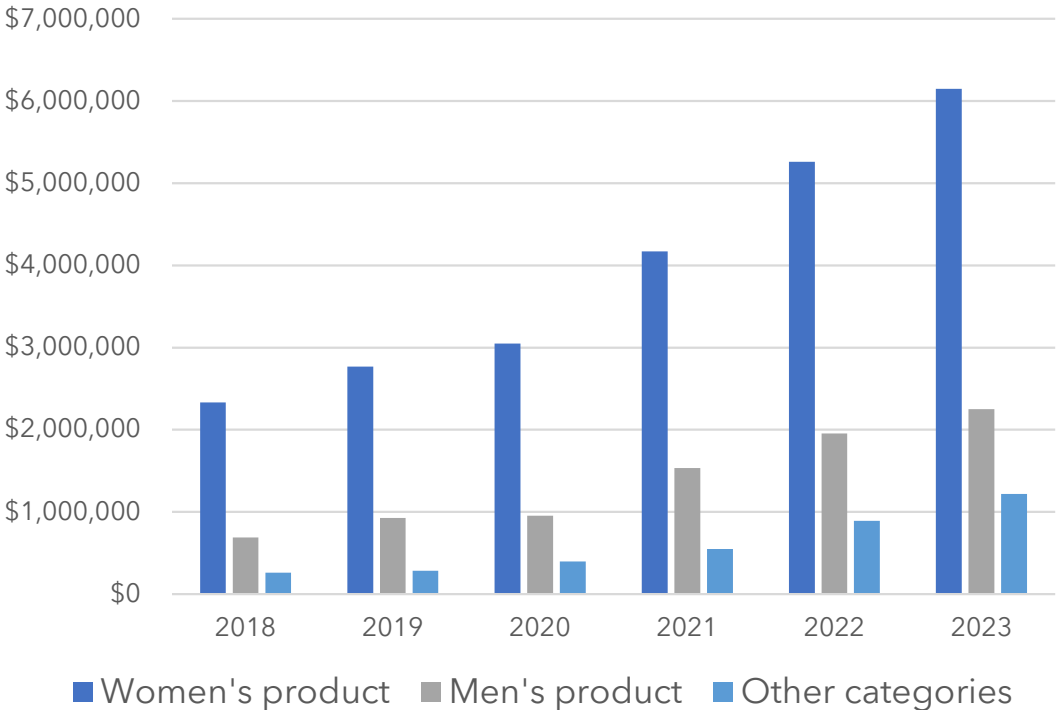
- 1) Catalyst #1: Product Development
- 2) Catalyst #2: Market Development
- 3) Analyst coverage
- 4) Charts
- 5) DCF assumptions

Catalysts: Ansoff Matrix

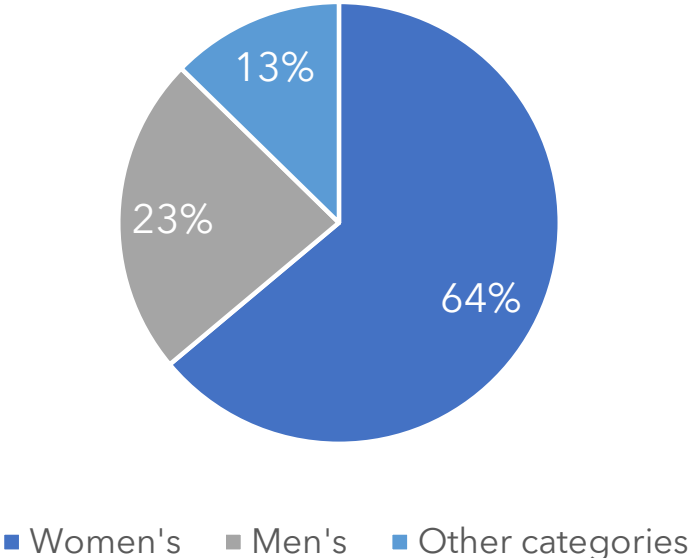


Catalyst #1: Increased sales to men

6 Years of Gender Sales



2023 Gender Sales



Women's 6-yr CAGR: **17.5%** Men's 6-yr CAGR: **21.8%**

Catalyst #1: Attracting Diverse Male Demographics



Good Old Boys



Young Professionals

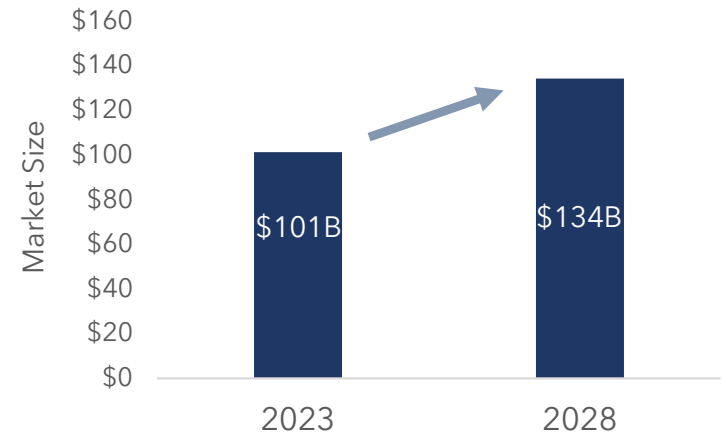
Catalyst #1: Move to Performance Wear

Opportunities

Tired, Non-innovative Brands



Projected Performance Wear Growth



Current Initiatives



Tailoring performance wear to women's needs

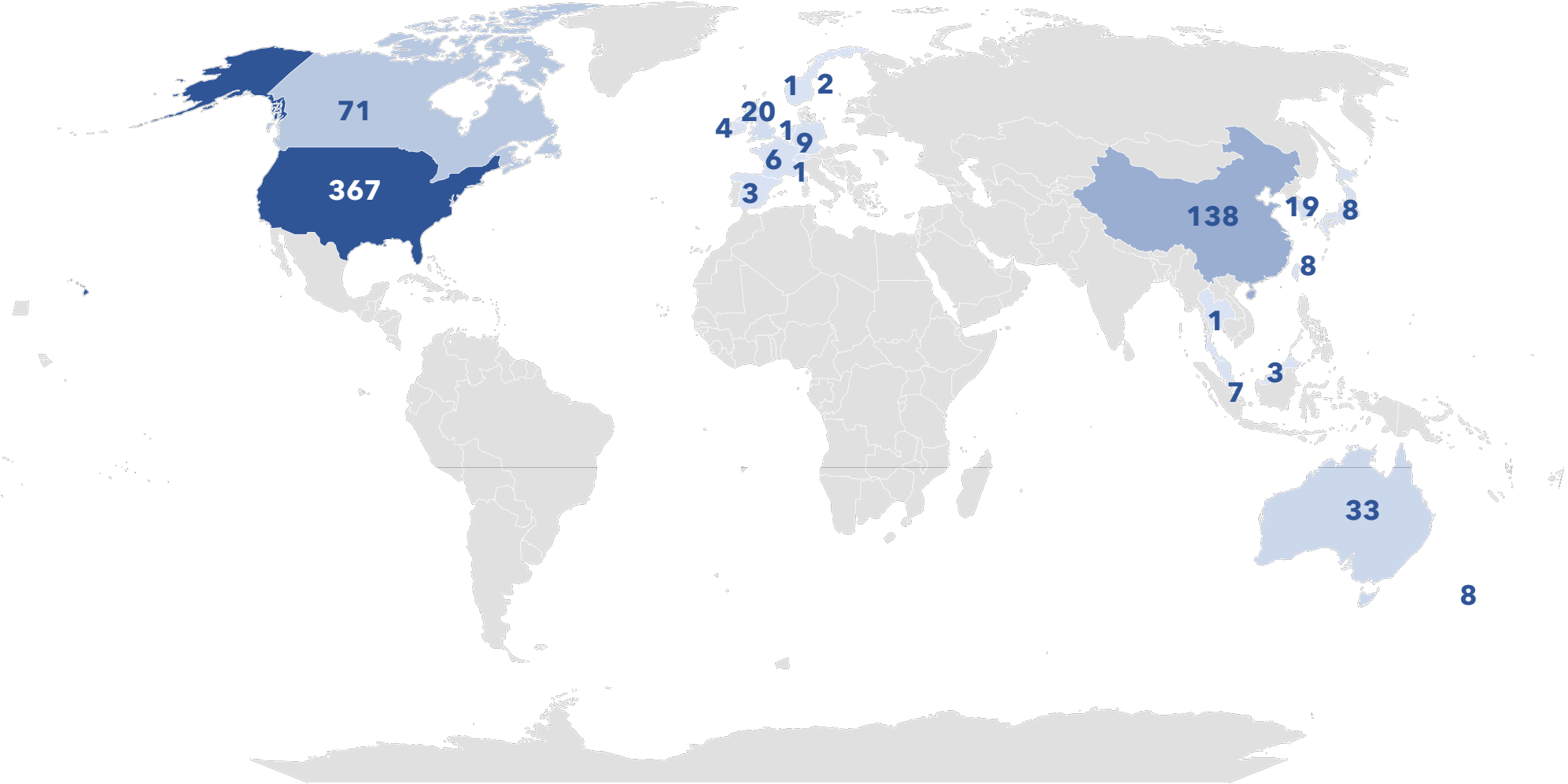


Developing performance attire



Women-specific shoe line

Catalyst #2: Stores by Country



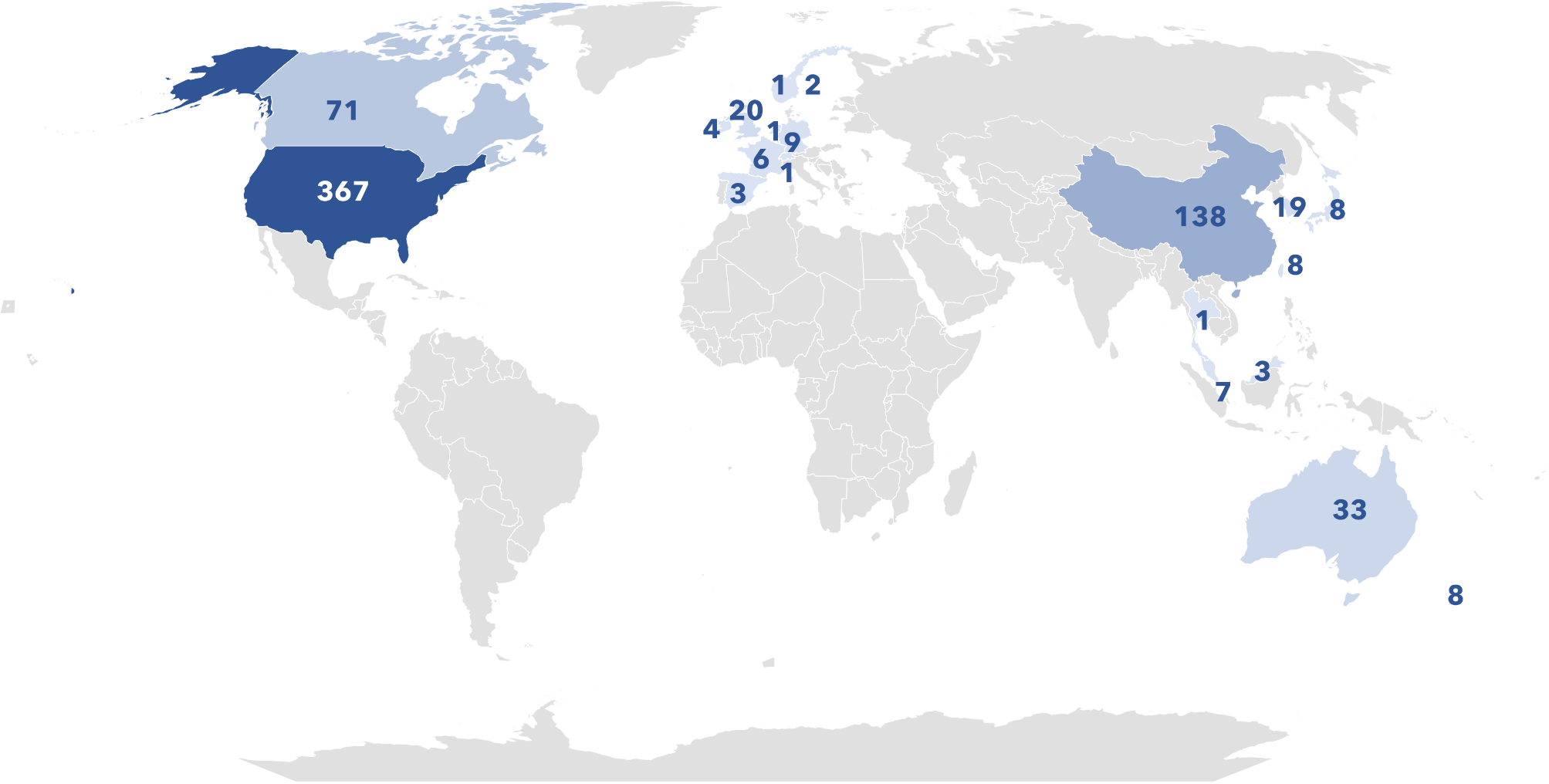
Americas: 438

EMEA: 48

China: 138

APAC: 87

Catalyst #2: Stores by Country



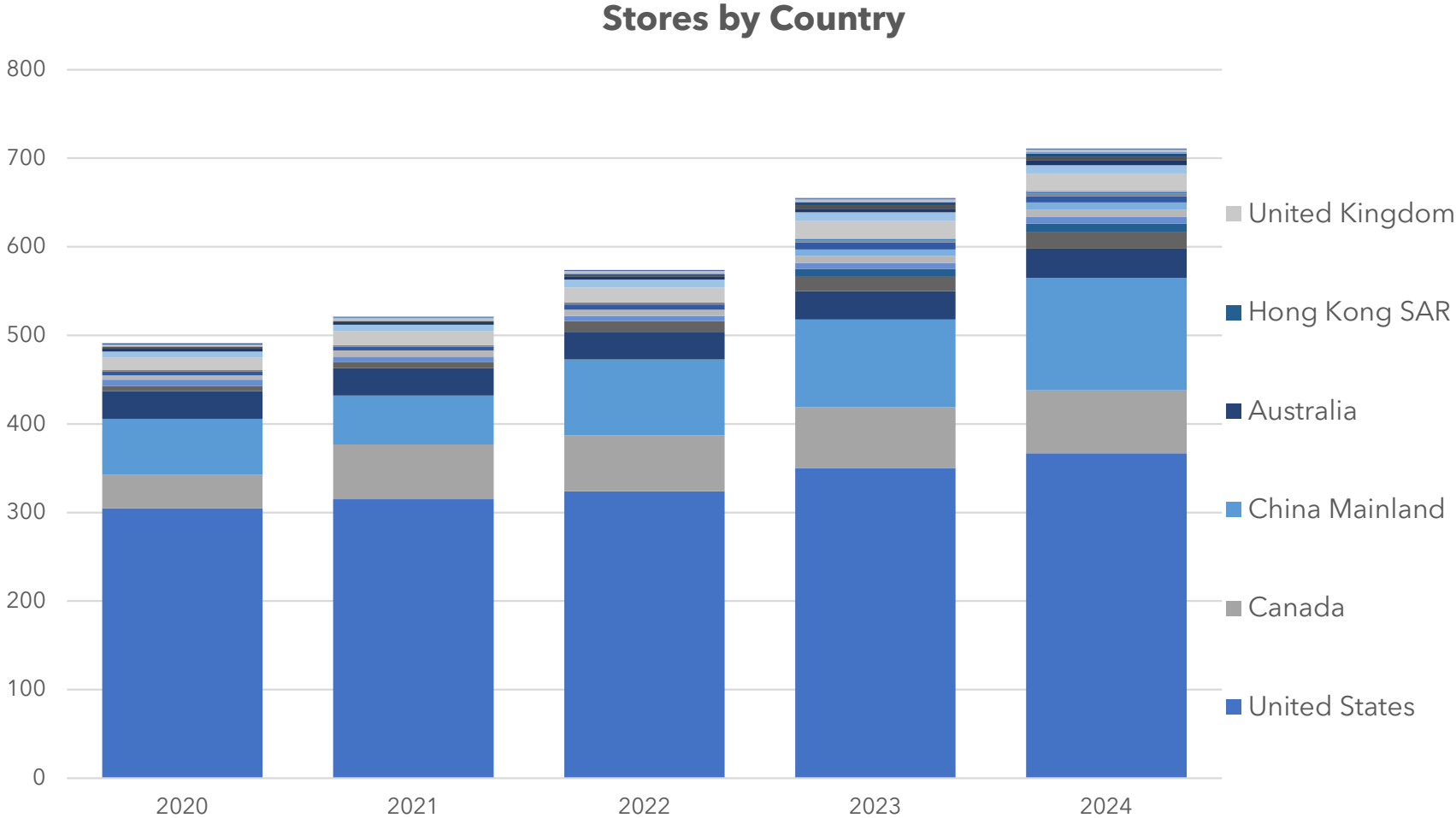
Americas: 438

EMEA: 48

China: 138

APAC: 87

Catalyst #2: Expanding Foreign Markets



In 2023, comparable/same store sales increased in **China** by **56%**; **28 new stores** were also opened

Risks

Scenario 1



Catalyst

Domestic growth stagnates and cannot sustain the company's secondary market campaign to the point of reaching a critical mass of foreign adoption.

Result

Low valuations persevere and likely deepen.
Sunk costs in foreign marketing would be unavailable to deploy domestically.

Probability

Unlikely - Lululemon has seen accelerating adoption in foreign markets that suggest independent viability and strong growth opportunity. The UK and China have been eager adopters of the athleisure fashion development.

Scenario 2



Catalyst

Chinese-US trade relations sour and hurt consumer sentiment toward Lululemon and other US brands in China, similar to how national campaigns are opposing iPhones and US technology

Result

Foreign growth slows in the Lululemon's largest international market.


















Probability

Moderate - the geopolitical climate is unpredictable, but there seems to be a push from both the US and China to pursue trade independence.

Analyst Coverage

Analyst Projections

Analyst Ratings lululemon athletica inc.

	3 Months Ago	1 Month Ago	Current
Buy	 23	 21	 21
Overweight	 4	 4	 4
Hold	 7	 7	 6
Underweight	 1	 1	0
Sell	 3	 4	 4
Consensus	 OVERWEIGHT	 OVERWEIGHT	 OVERWEIGHT

Stock Price Target LULU

High	\$555.00
Median	\$496.37
Low	\$240.00
Average	\$471.79
Current Price	\$336.13

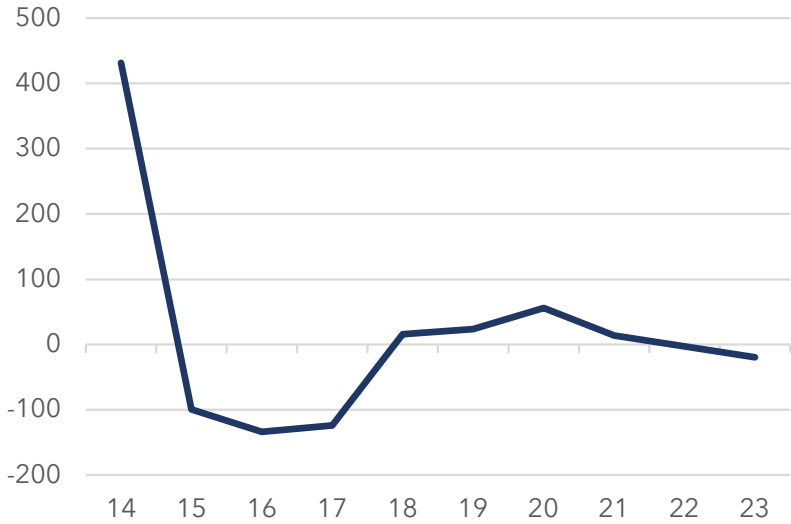
Summary

Analyst confidence remains strong in opposition to the current market reaction to LULU's domestic sales growth.

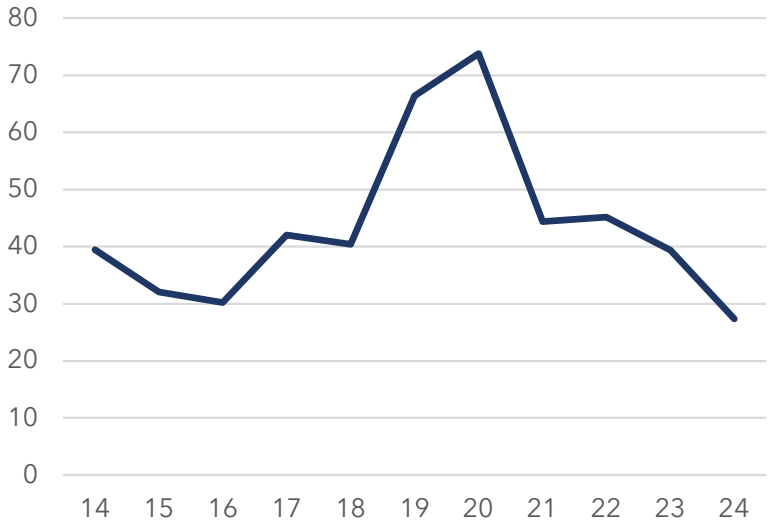
Analyst consensus around an average target price of \$471.79 suggests a potential **upside of 40%**.

Historical Ratios

P/FCF Ratio



P/E Ratio



Comparable Public Companies

	NIKE	UA	LULU
Stores	1032	194	711
Direct-to-consumer sales	44%	38%	46%
Sales (millions)	51,217	5,904	9,619
Sales per Store (thousands)	21,686	11,688	6,204
Market Cap	138.87	2.74	42.36
Dividend	0.0155	-	-
ROA	0.1383	0.0816	0.2441
ROE	0.3638	0.2012	0.4201
ROI	0.2024	0.1177	0.2878
Curr Ratio	2.74	2.13	2.49
Quick Ratio	1.89	1.38	1.68
Long-Term Debt/Equity	0.82	0.57	0.27
Debt/Equity	0.85	0.68	0.33
Gross Margin	43.63%	45.44%	58.26%
Operating Margin	10.95%	4.32%	22.95%
Profit Margin	10.14%	7.00%	16.12%

Bold - winner of each metric

DCF Model Assumptions

Interactive Assumptions

Discount Rate	10.68	%
↳ Market Premium	5	%
↳ Risk Free Rate	4.56	%
↳ Beta	1.295	#
Revenue Growth Rate	20.09	%
Exit Ebitda Multiple	17.58	#
Ebitda Margin	22.47	%
Capital Expenditure To Ebitda	29.96	%
Operating Cash Flow To Ebitda	85.51	%
Projection Years	5	#
Historical Years	10	#

Results

Exit EBITDA Multiple (EV/EBITDA)	17.584
Terminal EBITDA	4,191 Mil. USD
Terminal Enterprise Value	73,673 Mil. USD
Discounted Terminal Enterprise Value	44,357 Mil. USD
Sum of Discounted Free Cash Flow	5,993 Mil. USD
Present Enterprise Value	50,349 Mil. USD
Cash and Equivalents	2,244 Mil. USD
Total Debt	1,403 Mil. USD
Present Equity Value	51,190 Mil. USD
Shares Outstanding	126.2 Mil.
Estimated Value per Share	405.537 USD
Yield of the U.S. 10 Year Treasury Note	4.56%
Cost of Equity	11.04%
Equity Weight	96.8%
Cost of Debt	0%
Debt Weight	3.2%
EBIT Tax Rate	28.75%