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ASSET MANAGEMENT

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ANALYSIS OF
LULULEMON ATHLETICA
INC.

DATE :
20th August 2024

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Lululemon Athletica Inc. (LULU)

BUY: 408.69 (+69.94%)

Summary

Informations

Country	Vancouver, Canada
Tax Rate	25%
Sector	Athletic Apparel (Industrials)
Date	19/08/2024
Last Price	\$ 259.79
Target Price	\$ 427.97
+/- Potential	64.74%
Ticker	LULU

Market Data

52-Week High	516.39
52-Week Low	226.01
Avg. 3 Month Volume	2.63 MM
5 Yr Beta	1.26

Market Data

Revenue Growth (Cagr 3 yr)	29.77%
Revenue Growth (Cagr 5 yr)	23.95%
Price Return (ytd)	-48.90%
Price Return (1 yr)	-32.30%
Price Return (5 yr)	25.70%

Capital structure

Market Cap	32,263
Enterprise Value	31,765
Shares O/S	125
Interest cover Ratio	
Debt/Equity	3.81%

(\$mnl)	FY22	FY23	LTM
Revenues	8,111	9,619	9,827
Gross Profit	4,492	5,609	5,734
EBITDA	2,018	2,587	2,629
EBIT	1,726	2,207	2,238
Net Income	855	1,550	1,581

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OVERVIEW

Introduction

Lululemon Athletica Inc. (LULU) is a leading retailer in the athletic apparel industry, recognized for its premium-quality products and strong brand identity. Founded in 1998 by Chip Wilson, the company has grown from a single design studio and yoga studio in Vancouver, Canada, to a global presence with over 711 stores worldwide as of January 2024. Lululemon's product portfolio primarily includes sportswear, accessories, and footwear, all designed to support a healthy and active lifestyle.

Operating in the highly competitive Textiles, Apparel, and Luxury Goods industry, Lululemon has positioned itself as more than just an apparel retailer; it markets a lifestyle centered around health, wellness, and mindfulness. This strategic focus has allowed the company to command premium prices for its products, which are perceived as essential tools for an active and enjoyable life.

Lululemon's sales channels are diverse, encompassing company-operated stores, outlets, an interactive workout platform, yoga and fitness studios, university campus retailers, as well as a robust e-commerce platform and mobile app. The company's innovative approach to retail and its commitment to providing high-quality, custom-made fabrics such as Luon, Luxtreme, and Nulux, have garnered a loyal customer base, particularly among millennial and Gen Z consumers.

Despite facing significant competition from industry giants like Nike, Adidas, and Under Armour, Lululemon has successfully maintained a strong niche in the high-end athletic apparel market. The company continues to expand its product offerings and geographic reach, particularly in the APAC and EMEA regions, while also exploring new opportunities in men's apparel and digital fitness content.

Under the leadership of CEO Calvin McDonald, who brings extensive experience from his previous roles at Sephora and Sears Canada, Lululemon has achieved double-digit revenue growth annually and is on track to quadruple its international business from 2021 levels. With a clear focus on product innovation, customer experience, and international expansion, Lululemon remains poised for continued growth in the dynamic global apparel market.

Business Model

Lululemon Athletica Inc. has established itself not just as a retailer of athletic apparel, but as a brand that markets a lifestyle centered around health, wellness, and active living. The company's key objective is to market this lifestyle rather than merely selling products. By positioning its branded products as integral to an active and enjoyable lifestyle, Lululemon is able to command premium pricing. This approach aligns with broader consumer trends, as the shift towards healthier lifestyles continues to gain momentum, providing opportunities for the brand to expand further.

Manufacturing and Supply Chain:

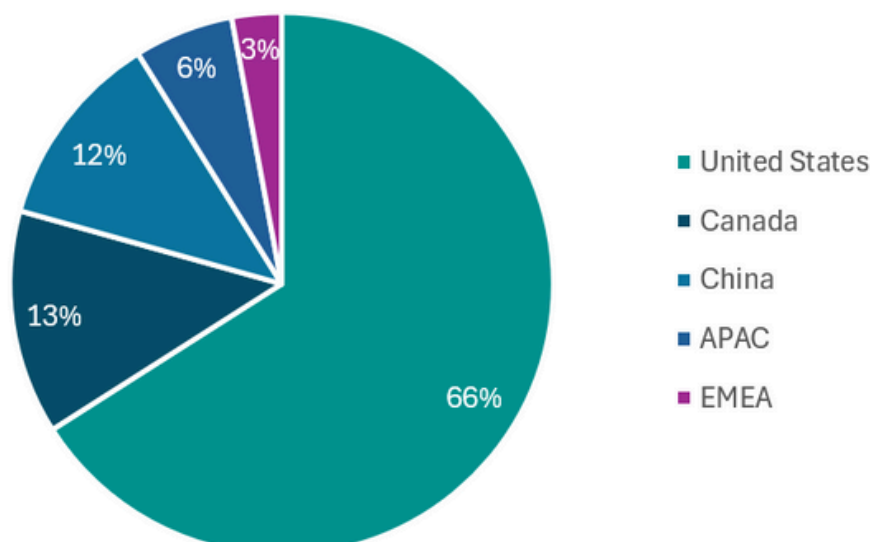
Lululemon does not own or operate any manufacturing facilities, instead relying on a limited number of suppliers to provide fabrics and produce its merchandise. This reliance on external vendors has both advantages and risks. On one hand, it allows the company to maintain flexibility in its operations; however, during global crises like the COVID-19 pandemic, such reliance can lead to significant supply chain disruptions.

Lululemon works with 45 vendors, with five of them responsible for producing 56% of its products. The majority of these products are manufactured in Vietnam (39%), followed by Cambodia (14%), Sri Lanka (12%), Bangladesh (8%), and Indonesia (7%), with the remaining 20% produced in other regions. Notably, the company does not have long-term contracts with these suppliers, further increasing its supply chain risks. The complex and specialized nature of Lululemon's fabrics also limits the number of potential manufacturers, as the production of state-of-the-art materials like Luon and Luxtreme requires significant expertise.

Product and Market Segmentation:

Lululemon primarily targets women who aspire to lead a healthy lifestyle while managing a busy life. The company's product portfolio includes custom-made fabrics such as Luon, Luxtreme, Nulu, and Nulux, which are designed to meet the needs of its active customer base.

Revenue by Geographic Segmentation

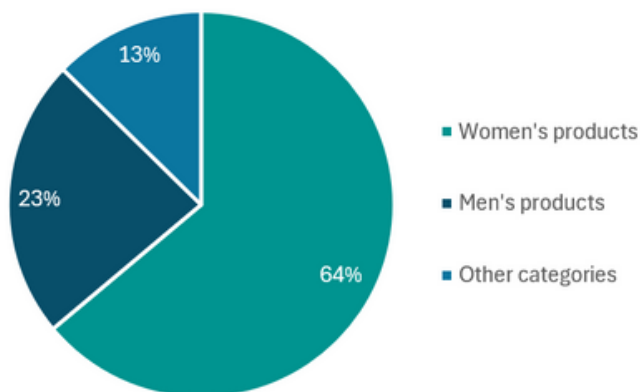


Business Model

Despite its strong positioning in the women's market, Lululemon has faced challenges in expanding into the men's segment. For instance, the opening of men's-only stores in Toronto in 2016 resulted in closures by 2019 due to low performance. The company has since pivoted to a dual-gender strategy, though capturing the men's market remains difficult.

The company's revenue segmentation further highlights its strengths and challenges. In 2023, 64% of Lululemon's revenue came from women's products, while men's products accounted for 23%, and other categories made up 13%. This distribution underscores the company's strong reliance on its female customer base.

Revenues by Category 2023

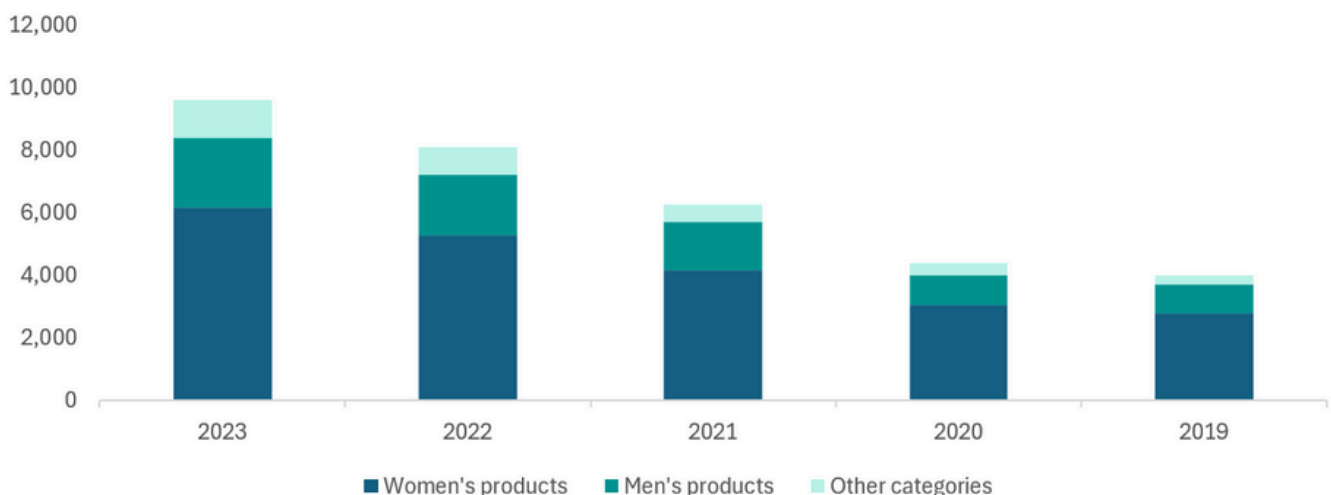


The revenue growth by category, as depicted in the accompanying charts, shows steady growth across all segments, with women's products consistently leading the charge.

Sales Channels: Lululemon operates through a variety of sales channels, including company-operated stores, e-commerce, and other outlets such as health clubs and fitness centers. In 2023, 46% of the company's revenue was generated through company-operated stores, 45% through e-commerce, and 9% through other channels. The significant share of revenue from e-commerce reflects the company's successful adaptation to digital sales, particularly important during the pandemic when physical stores faced restrictions. The accompanying revenue growth chart by channel indicates that both company-operated stores and e-commerce have seen significant growth, highlighting the importance of an omnichannel approach.

Strategic Partnerships: Lululemon has also formed strategic partnerships to enhance its product offerings and brand reach.

Revenues Growth by Category (MM)



Business Model

The acquisition of the Studio Mirror, a home fitness device, initially seemed promising but ultimately led to challenges, with the company discontinuing the product by the end of 2023. However, Lululemon's partnership with Peloton has been more successful, allowing consumers to access Peloton memberships through Lululemon's products. Peloton has become the exclusive digital fitness content provider for Lululemon's Mirror devices under a five-year contract, and Lululemon has also become Peloton's primary apparel partner.

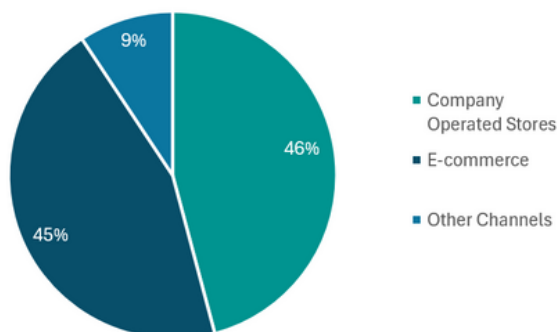
Brand Strength and Marketing: Lululemon's brand strength is supported by a significant investment in marketing and a focus on innovation.

The company's "White Space" R&D initiative at its headquarters exemplifies its commitment to developing high-quality, durable, and innovative products. This emphasis on quality allows Lululemon to justify its premium pricing.

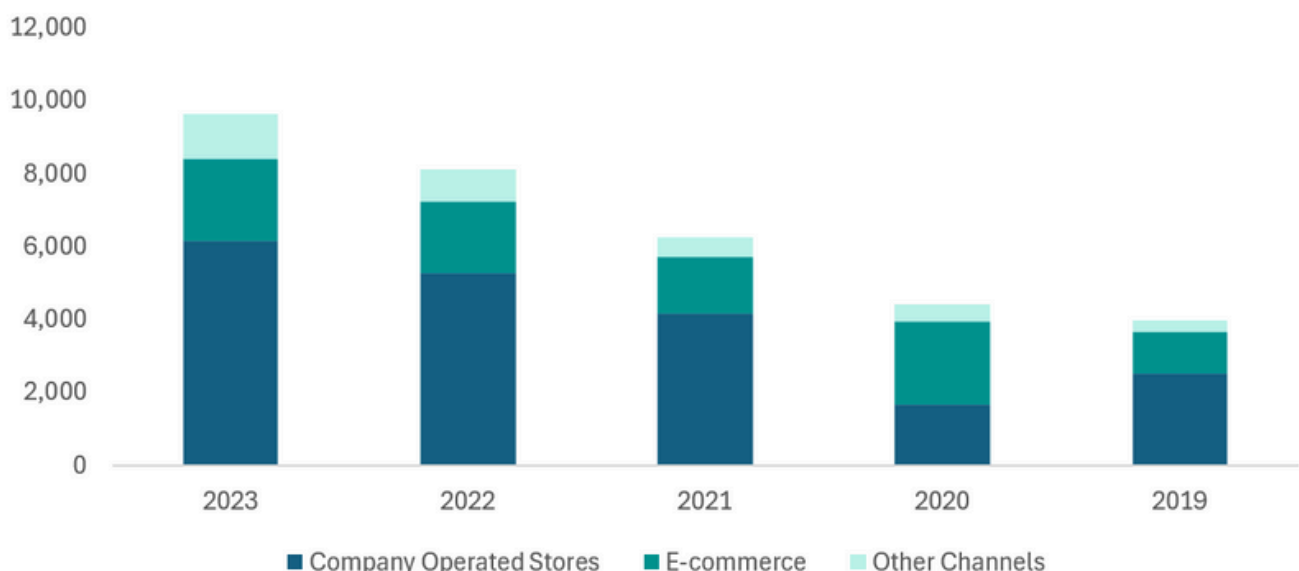
The brand's popularity has grown exponentially over the last decade, particularly among millennial and Gen Z women, who are attracted to its association with quality and lifestyle. Social media influencers play a crucial role in promoting the brand, although Lululemon's social media presence is not as strong as some of its competitors.

Lululemon has also made efforts to address past controversies and improve its corporate image through its IDEA (Inclusion, Diversity, Equity, and Action) program. This initiative followed the departure of former CEO Chip Wilson after controversial comments in 2015. The company now seeks to make systemic changes to improve its community relations, which is particularly important given its reliance on overseas manufacturers.

Revenues by Channel 2023



Revenues Growth by Channel (MM)



Management

Corporate Team: Lululemon Athletica Inc. is led by CEO Calvin McDonald, who brings extensive experience from his previous roles as CEO of successful companies such as Sephora and Sears Canada. Under his leadership, Lululemon has achieved impressive double-digit revenue growth annually. McDonald has also set the company on a trajectory to quadruple its international business from 2021 levels, demonstrating his effective leadership and strategic vision for global expansion.

Capital Allocation: Lululemon's management has made strategic decisions regarding capital allocation, particularly by retaining earnings to fund international growth rather than distributing dividends to shareholders. This approach indicates a clear commitment to expansion, though it does present challenges, especially in the competitive overseas markets. The company's financial management is prudent, with no long-term debt on its balance sheet.

The main liabilities consist of accounts payable, accrued liabilities, and lease-related obligations, reflecting a conservative approach to capital management. However, as Lululemon looks to expand aggressively on a global scale, the potential need for debt financing may arise, which could be seen as a risk by some investors.

In addition, Lululemon has engaged in share buybacks, purchasing nearly three million shares in 2022 and 2023. This move suggests that management believes the company's stock is currently undervalued, and it has further benefited shareholders by increasing the value of remaining shares. This buyback strategy underscores management's confidence in the company's long-term value and its commitment to maximizing shareholder returns.

Compensation and Share Ownership: While specific details on executive compensation were not highlighted in the notes, it's clear that management's decisions are closely aligned with shareholder interests. The buyback of shares indicates a focus on enhancing shareholder value, and the company's capital allocation strategy—retaining earnings for growth rather than paying dividends—reflects a long-term commitment to expanding the company's market presence and increasing its value.

Acquisition Developments: Lululemon's management has faced challenges, notably with the acquisition of Mirror, a home fitness company purchased during the COVID-19 pandemic. The initial excitement around Mirror waned as gyms reopened, leading to significant expenses for Lululemon with limited returns. This has resulted in substantial costs related to asset impairment, restructuring, and ongoing support for existing users. Despite this setback, Lululemon's management remains focused on growth and value creation, although the Mirror acquisition serves as a cautionary tale of the risks associated with rapid market shifts.

Sector

The athletic apparel sector, where Lululemon operates, is experiencing dynamic shifts driven by changing consumer lifestyles and preferences. A significant growth driver is the increasing popularity of athleisure, as consumers seek versatile clothing that seamlessly transitions between casual wear and athletic activities. This blurring of lines between casual and sports apparel has enabled companies like Lululemon to expand into new market areas without incurring substantial additional costs.

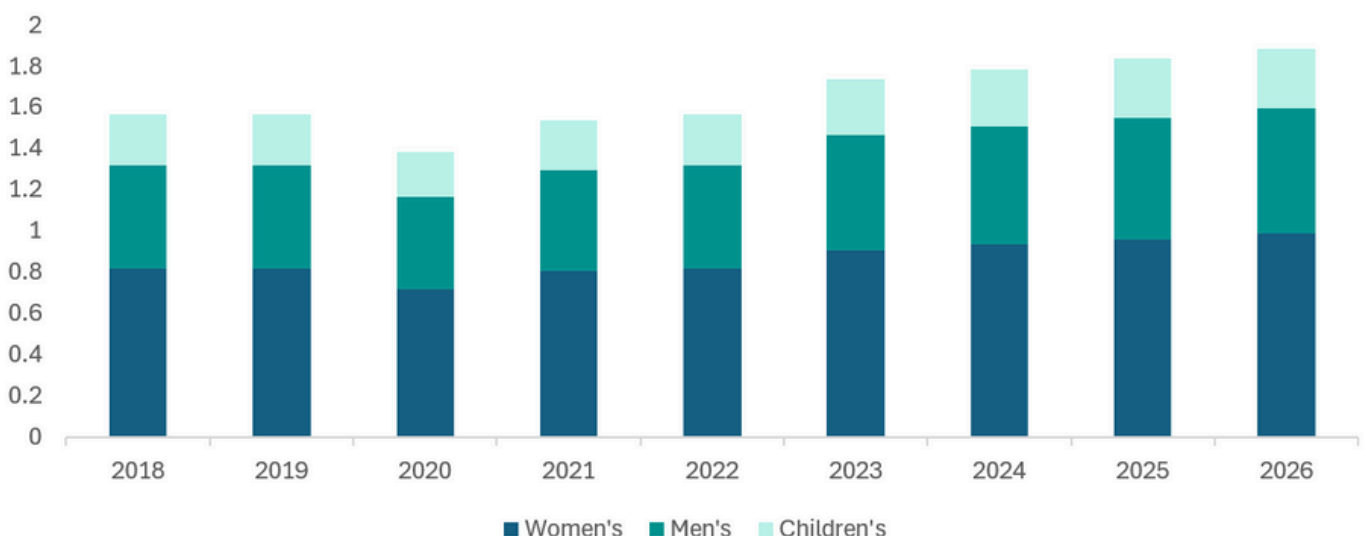
Furthermore, the influence of social media, particularly through fitness and lifestyle influencers, has amplified the demand for athletic wear, aligning with broader trends toward healthier living.

However, the sector also faces notable challenges. Consumer preferences in fashion and lifestyle are rapidly evolving, making it difficult for companies to predict product demand accurately. This uncertainty can lead to inventory surpluses and eroded profit margins.

The competitive landscape is another significant challenge, particularly with the entry of more affordable brands that can undercut premium players like Lululemon. Additionally, there is growing pressure to adopt environmentally friendly, sustainable, and responsibly sourced materials. While this aligns with consumer expectations, it also limits material options and increases production costs, especially for specialized fabrics.

Despite these challenges, the global apparel market has shown resilience, with the women's apparel segment outperforming both men's and children's sectors. This trend is particularly favorable for Lululemon, given its strong focus on women's clothing, which allows the company to better align its resources with market demand. Industry projections suggest a compound annual growth rate (CAGR) of 2.35% from 2018 to 2026, with some forecasts expecting growth to reach 3.1% over the period from 2024 to 2032.

Global Apparel Market Growth by Segment



Market Shares

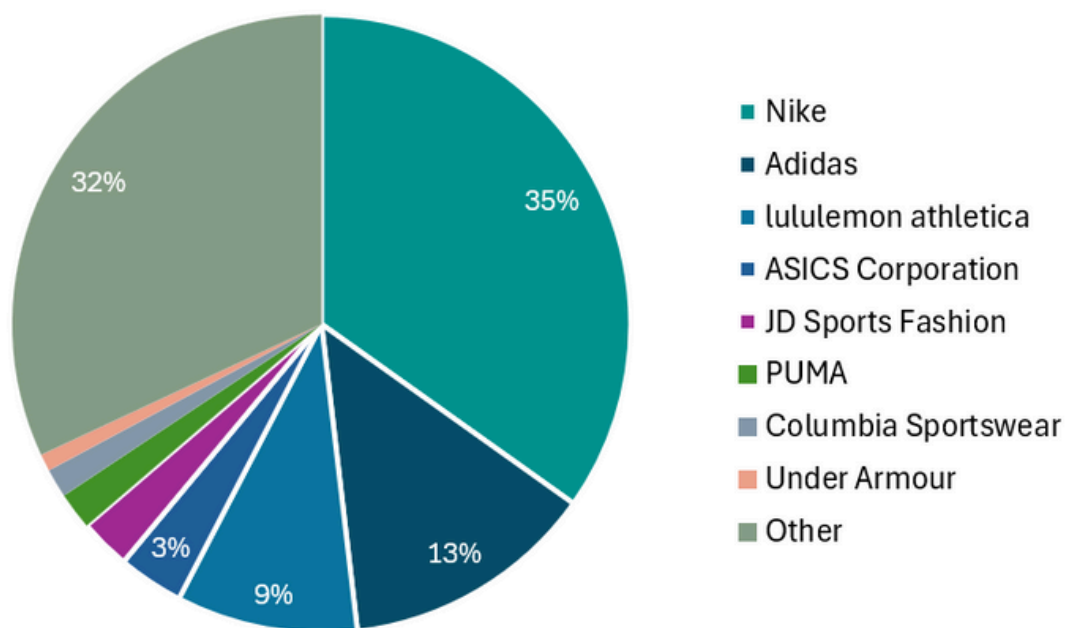
Lululemon Athletica Inc. holds a notable position in the athletic apparel market, yet its market share remains modest compared to its largest competitors. The company controls 9.5% of the overall Sports Goods Market and 13.9% of the athletic apparel industry when focusing on its seven largest competitors. In the broader clothing market, Lululemon ranks 12th, with a market share of just 1.8%. This demonstrates the intense competition Lululemon faces, especially against industry leaders like Nike and Adidas.

To increase its market share, Lululemon has focused on expanding its product line and growing its presence in new regions. The company has targeted the men's apparel market, which has been challenging. Earlier attempts, like opening men's-only stores, were not successful, leading to their closure.

Now, Lululemon is introducing new products, including lounge offerings like Steady State and Soft Jersey, as well as new footwear styles for men. The company is hopeful that these will appeal more to male customers.

Lululemon is also expanding geographically, with a focus on the APAC and EMEA regions. The company is particularly poised to grow in Mainland China, which is a key market for premium athletic apparel. While there are no current plans for further expansion beyond China, Lululemon's management is fully supporting these growth strategies by retaining earnings to fund them. This clear focus on product diversification and regional growth shows Lululemon's dedication to increasing its market share despite the strong competition.

Sports Goods Sector by Market Cap



EXTERNAL ANALYSIS

Porter's Five Forces



Rivalry Between Existing Competitors:

The apparel industry, particularly within the athleisure segment, is highly competitive. Major players such as Nike, Adidas, and Under Armour dominate the market with substantial brand recognition and customer loyalty. Lululemon, while successful, faces constant pressure to differentiate itself. The company does this by focusing on high-quality, innovative materials and maintaining a strong brand image in the premium segment. However, given the aggressive strategies of its competitors, Lululemon must continually invest in product innovation and brand management to maintain its market position.



Threat of New Entrants:

The threat of new entrants in the athletic apparel market is relatively low to moderate due to high barriers to entry. New companies would struggle to compete in Lululemon's niche, which requires significant capital for branding, marketing, and establishing a retail presence. However, existing large retailers, such as Gap Inc. with its Athleta brand, pose a more tangible threat as they can leverage their existing infrastructure and brand equity to expand into the athleisure space. To counter this, Lululemon relies on strategic partnerships and the strength of its brand to retain customer loyalty and market share.



Bargaining Power of Suppliers:

Lululemon faces a moderate to high level of supplier power due to its reliance on a limited number of manufacturers. With only 45 vendors responsible for the production of its products, and five of these vendors producing 56% of its merchandise, the company is vulnerable to supply chain disruptions. This risk is further compounded by the absence of long-term contracts and the specialized nature of the materials used, such as custom fabrics like Luon and Luxtreme, which are produced by only a few suppliers. Any interruption in the supply of these critical materials could significantly impact Lululemon's ability to meet product demand.



Bargaining Power of Customers:

The bargaining power of customers in Lululemon's market is moderate. On one hand, the company's products are perceived as premium, and customers are generally willing to pay a higher price for quality. However, the availability of cheaper alternatives from competitors during economic downturns can erode this pricing power. Lululemon mitigates this risk by fostering customer loyalty through exclusive membership programs, innovative product offerings, and a strong brand experience that aligns with the lifestyle aspirations of its target audience.



Threat of Substitute Products:

The threat of substitute products for Lululemon is low to moderate. Fast fashion brands entering the athleisure market could pose a risk; however, Lululemon's focus on high-quality, durable, and innovative materials, along with a strong brand reputation, helps insulate it from lower-cost competitors. The company's investment in research and development to create unique fabrics and technologies further reduces the likelihood that customers will switch to substitutes, as they perceive Lululemon's products to be superior in terms of quality and performance.

Competition

Lululemon Athletica Inc. competes with major industry players like Nike (NKE), Adidas (ADDYY), and Under Armour (UA), which dominate the global athletic apparel market. Despite their broad product lines and strong brand loyalty, Lululemon has successfully carved out a niche in the premium segment, focusing on high-quality products that blend performance and style. A significant factor distinguishing Lululemon from its competitors is its continuous investment in research and development (R&D). By regularly updating its products and developing proprietary fabrics, Lululemon stays closely aligned with customer preferences. This focus on innovation and quality solidifies its reputation as a premium brand, allowing it to command higher prices in a competitive market.

Lululemon's strong leadership in the high-end athletic apparel niche has given it a competitive edge, with limited direct competition in this segment. However, the company faces challenges in expanding market share, particularly through new product lines and geographic expansion.

Brand Image: Lululemon's reputation for high quality positions it alongside industry giants like Nike and Adidas. The brand's commitment to premium materials and innovative designs has built a strong, loyal customer base.

Product Quality: The quality of Lululemon's products often surpasses that of its competitors, especially in its targeted niches. Proprietary fabrics and meticulous manufacturing processes ensure high standards of performance and durability.

Innovation: Lululemon's White Space R&D initiative enables continuous innovation, keeping the company ahead of market trends. This gives Lululemon a significant competitive advantage through unique, patented products.

Style: Lululemon successfully blends performance with style, a key factor in its appeal to consumers influenced by the athleisure movement. This focus has strengthened its brand identity and customer loyalty.

Distribution: While Lululemon has a robust e-commerce presence, its lack of international retail stores compared to competitors is a drawback. The reliance on e-commerce has been effective, but the limited physical store network could hinder global market share growth.

Price: Lululemon's premium pricing strategy, while reinforcing its brand image, limits its appeal to price-sensitive consumers, especially in new markets. This remains a key challenge as the company seeks to expand.

Athletic Apparel Market						
Characteristics	Lululemon	NIKE	Adidas	PUMA	UA	Asics
Brand Image	Excellent	Excellent	Excellent	Good	Good	Good
Product Quality	Excellent	Excellent	Excellent	Good	Good	Excellent
Innovation	Excellent	Excellent	Excellent	Good	Good	Good
Style	Excellent	Excellent	Excellent	Excellent	Good	Discrete
Distribution	Good	Excellent	Excellent	Good	Good	Good
Price	Discrete	Good	Good	Good	Good	Good

SWOT

Strengths

Lululemon's primary strengths include its high-quality products, which justify premium pricing and reinforce brand strength. The use of custom-made, trademarked textiles like those made from Nylon and Lycra ensures durability and performance, attracting a loyal customer base. The company's strong brand loyalty is further bolstered by its focus on innovation, particularly through its "White Space" R&D initiative, which allows Lululemon to stay ahead of trends with cutting-edge products. Additionally, Lululemon benefits from robust sales channels, combining a solid retail presence with a thriving e-commerce platform, and has a strong commitment to sustainability, aiming for 75% sustainable material use by 2025.

Weaknesses

Lululemon has significant growth opportunities, particularly in expanding into untapped global markets, such as Europe, where the athleisure trend is gaining momentum. The company can also enhance its product offerings and customer engagement through new partnerships and branding initiatives. Expanding loyalty programs and increasing digital products, such as fitness content, would further strengthen customer retention and provide additional revenue streams. Given its existing orientation towards fitness services, Lululemon could leverage new technologies, like AI, to expand its digital offerings and maintain customer loyalty, rather than relying solely on partnerships like the one with Peloton.

Opportunities

Lululemon's positioning as a high-end brand with expensive products limits its appeal to price-sensitive consumers, potentially excluding a significant portion of the market, especially during economic downturns. The company's primary focus on women's apparel has also hindered its success in the men's market, where it struggles to match competitors like Nike and Adidas. Furthermore, Lululemon's brand recall and social media presence lag behind those of its major competitors, which could impact its ability to expand its market share and increase brand visibility. The company's reliance on a limited number of manufacturers also makes it vulnerable to supply chain disruptions.

Threats

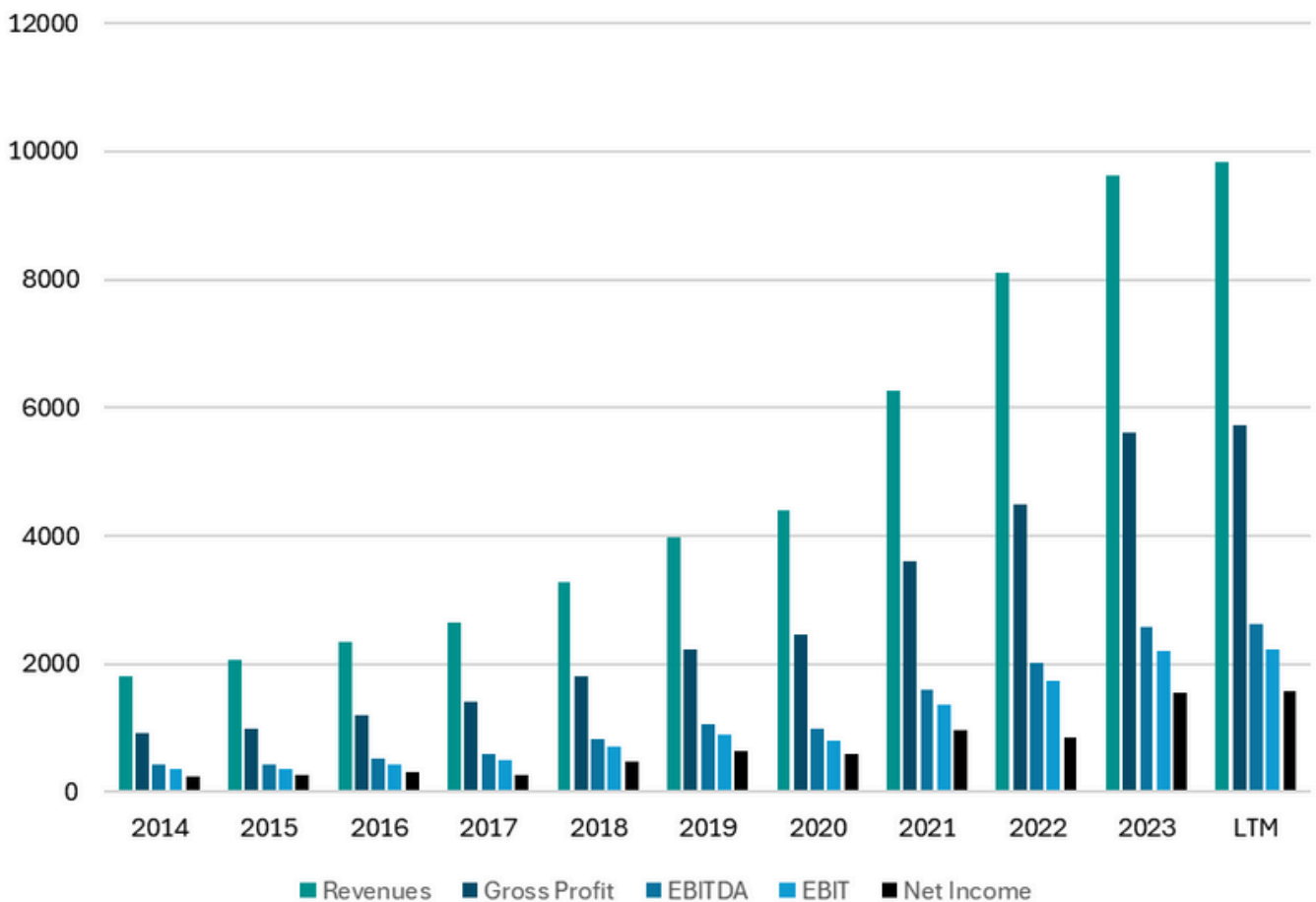
Lululemon faces several threats, including intense competition from established brands like Nike and Adidas, which have larger market shares and more extensive distribution networks. The athleisure market is also susceptible to fast-fashion trends, which could undercut Lululemon's premium pricing strategy. Additionally, the company's reliance on a limited number of suppliers exposes it to risks of supply chain disruptions, particularly in light of geopolitical tensions that could affect material sourcing. Economic downturns and shifts in consumer preferences pose further risks, as prohibitively expensive products may drive customers towards more affordable alternatives, impacting Lululemon's market share and profitability.

FINANCIAL STATEMENT

Income Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM	CAGR 3y	CAGR 5y	CAGR 10y
Income Statement														
Revenues	1,797	2,061	2,344	2,649	3,288	3,979	4,402	6,257	8,111	9,619	9,827	29.77%	23.95%	18.26%
% YoY Growth		14.65%	13.78%	13.00%	24.13%	21.01%	10.62%	42.14%	29.63%	18.60%	2.16%			
COGS	(883)	(1,063)	(1,145)	(1,242)	(1,472)	(1,756)	(1,938)	(2,648)	(3,618)	(4,010)	(4,094)	27.43%	22.19%	16.34%
Gross Profit	914	997	1,200	1,407	1,816	2,223	2,464	3,609	4,492	5,609	5,734	31.55%	25.30%	19.89%
% YoY Growth		9%	20%	17%	29%	22%	11%	46%	24%	25%	2%			
Operating expenses	(545)	(640)	(770)	(912)	(1,110)	(1,334)	(1,651)	(2,234)	(2,766)	(3,402)	(3,495)	27.25%	25.10%	20.11%
EBITDA	428	431	517	600	828	1,051	998	1,599	2,018	2,587	2,629	37.35%	25.58%	19.71%
% YoY Growth		1%	20%	16%	38%	27%	-5%	60%	26%	28%	2%			
Depreciation & Amortization	58.36	73.38	87.7	104.48	122.48	161.93	185.48	224.21	291.79	379.38	391.03	26.94%	25.37%	20.59%
EBIT	370	357	429	496	706	889	813	1,375	1,726	2,207	2,238	39.52%	25.61%	19.57%
% YoY Growth		-3%	20%	15%	42%	26%	-9%	69%	26%	28%	1%			
Other Expenses/Income	14	15	(5)	(36)	9	8	7	(41)	(394)	(31)	(16)			
Interest Expenses/Income	0	(4)	(2)	0	0	0	0	0	0	0	0			
Income Tax Expense	(144)	(102)	(119)	(201)	(231)	(252)	(230)	(359)	(478)	(626)	(641)			
Net Income	239	266	303	259	484	646	589	975	855	1,550	1,581	38.07%	26.22%	20.56%
% YoY Growth		11%	14%	(15%)	87%	33%	(9%)	66%	(12%)	81%	2%			
Supplementary Data														
Effective Tax Rate	(38%)	(28%)	(28%)	(44%)	(32%)	(28%)	(28%)	(27%)	(36%)	(29%)	(29%)	-30.49%	-31.15%	-29.36%
Diluted Shares Outstanding	144	141	137	136	134	131	131	130	128	127	127			
EPS	1.66	1.89	2.21	1.90	3.61	4.93	4.50	7.49	6.68	12.20	12.48	39.44%	27.57%	22.10%
% YoY Growth		14%	17%	(14%)	90%	37%	(9%)	66%	(11%)	83%	2%			
Dividends per Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%			
R&D Expense	0	0	0	0	0	0	0	0	0	0	0			
Selling and Marketing Expense	0	0	0	0	0	0	216	298	329	430	430	25.77%		
EBT Incl. Unusual Items	383	369	423	460	715	897	819	1,334	1,333	2,176	2,222			

Income Statement



Income Statement

Lululemon Athletica Inc. has demonstrated steady revenue growth over the past few years, showcasing a strong recovery following the COVID-19 pandemic. However, 2023 marked a slight dip in this growth trajectory, which warrants close monitoring moving forward. Despite this, the company has maintained a solid Gross Profit Margin of around 56%, indicating that it continues to manage its production costs effectively while maintaining its premium pricing strategy.

The company's Earnings Before Interest and Taxes (EBIT) has remained positive, reflecting management's strong ability to generate cash from operations. The EBIT margin, a critical indicator of operational efficiency, has shown a consistent upward trend—growing by 5% since the end of COVID-19 and by 1% since pre-COVID levels. This steady improvement underscores Lululemon's commitment to optimizing its operations and sustaining profitability.

In 2022, Lululemon experienced a drop in net income, primarily due to Other Expenses related to impairment and restructuring costs. These expenses were notably tied to the discontinuation of the MIRROR product line, a strategic misstep during the COVID era. Despite this, the company's continued investment in product research and development (R&D) remains robust. Although these R&D expenses are included in the Cost of Goods Sold, making them difficult to isolate in financial statements, they are integral to Lululemon's "White Space" innovation initiative, which focuses on developing high-quality, patented materials.

Lululemon's Earnings Per Share (EPS) has shown consistent growth, rising from 1.66 in 2014 to 12.48 in recent years. This growth in EPS is attributable to both increased net profit and a slight reduction in diluted shares, resulting from the company's strategic share buyback programs. These buybacks reflect management's confidence in the company's undervalued stock and its long-term growth prospects. However, it's important to note that Lululemon does not pay dividends, opting instead to reinvest capital to fuel future growth, which aligns with the company's long-term strategy.

The effective tax rate for Lululemon increased in 2022, partly due to non-deductible expenses related to the MIRROR acquisition. This further highlights the financial impact of this acquisition's discontinuation and the associated challenges in managing strategic investments. Despite these hurdles, Lululemon's overall financial health remains strong, supported by its effective operational strategies and commitment to long-term growth.

Balance Sheet

Balance Sheet												CAGR 3y	CAGR 5y	CAGR 10y
Cash and equivalents	664	501	735	991	881	1,094	1,151	1,260	1,155	2,244	1,901	24.94%	20.55%	12.94%
Short Term Investments	0	0	0	0	0	0	0	0	0	0	0			
Cash and short Term Investments	664	501	735	991	881	1,094	1,151	1,260	1,155	2,244	1,901	24.94%	20.55%	12.94%
Total Receivables	14	13	9	19	36	40	62	77	133	125	126	25.98%	28.37%	24.68%
Inventory	208	284	298	330	405	519	647	1,009	1,447	1,324	1,345	26.93%	26.73%	20.32%
Prepaid Expenses	24	27	39	40	57	65	82	98	142	137	147	18.64%	19.03%	18.99%
Other current Assets	41	91	81	57	50	91	182	171	282	231	249	8.26%	35.87%	19.01%
% of Revenue	0.04	0.06	0.05	0.04	0.03	0.04	0.06	0.04	0.05	0.04	0.04			
Total Current Assets	951	917	1,163	1,436	1,429	1,808	2,124	2,615	3,159	4,061	3,768	24.10%	23.22%	15.62%
Net PP&E	296	350	424	474	567	1,361	1,481	1,731	2,239	2,811	2,825	23.83%	37.73%	25.25%
Long term Investments	0	0	0	0	0	0	0	0	0	0	0			
Goodwill	24	24	24	25	0	24	387	387	24	24	24			
Other intangibles	2	1	0	0	27	0	155	71	22	0	0			
Other long-Term Assets	7	11	20	31	26	56	32	43	41	53	58			
Total non-current Assets	345	397	495	562	655	1,473	2,061	2,328	2,448	3,031	3,060			
Total Assets	1,296	1,314	1,658	1,998	2,085	3,281	4,185	4,942	5,607	7,092	6,829	19.22%	27.74%	18.52%
Accounts Payable	9	10	25	25	96	80	172	290	173	348	262	26.47%	29.54%	43.61%
Accrued Liabilities	84	120	103	136	199	232	284	449	533	561	394			
% of Revenue	0.05	0.06	0.04	0.05	0.06	0.06	0.06	0.07	0.07	0.06	0.04			
Long-Term Debt due within one year	0	0	0	0	0	0	0	0	0	0	0			
Current Portion of Capital Lease Obligations	0	0	0	0	0	129	166	189	208	249	254			
Other Current Liabilities	0	0	14	31	31	33	97	135	153	154	152	16.72%	37.57%	
Total Current Liabilities	160	226	242	293	500	620	883	1,405	1,492	1,631	1,384	22.69%	26.66%	26.15%
Long Term Debt	0	0	0	0	0	0	0	0	0	0	0			
Other non-current Liabilities	43	50	48	108	124	54	52	52	49	45	48			
Total non-current Liabilities	47	61	56	109	138	709	743	797	966	1,229	1,225			
Total Liabilities	207	287	298	402	639	1,329	1,627	2,202	2,458	2,860	2,609	20.69%	34.96%	30.05%
Common Stocks	1	1	1	1	1	1	1	1	1	1	1			
Additional Paid in Capital	242	246	267	284	315	356	389	423	475	575	570			
Retained Earnings	1,021	1,020	1,294	1,455	1,347	1,821	2,346	2,513	2,926	3,920	3,944	18.66%	23.82%	14.41%
Treasury Stocks	0	0	0	0	0	0	0	0	0	0	0			
Comprehensive Income and Other	(173)	(238)	(202)	(143)	(217)	(225)	(177)	(196)	(253)	(264)	(295)			
Total Equity	1,090	1,027	1,360	1,597	1,446	1,952	2,559	2,740	3,149	4,232	4,220	18.26%	23.96%	14.53%

Lululemon Athletica Inc.'s balance sheet is strongly weighted in favor of equity, which provides the company with significant flexibility in its use of funds. This equity-heavy structure lowers the financial risk of insolvency, particularly during periods of low profitability, as Lululemon does not have long-term debt repayments to manage. This is particularly advantageous in a dynamic market where financial stability is critical. However, the absence of long-term debt also has drawbacks, such as increasing the company's cost of capital and diluting ownership. As Lululemon looks to expand geographically, particularly into new markets, the lack of debt financing could be seen as a missed opportunity. While organic growth may support its expansion into Mainland China, relying solely on this approach may limit the company's ability to aggressively penetrate other new markets.

Overall, Lululemon's cash reserves have shown strong growth, contributing to the company's robust financial position. Retained earnings have increased by 33%, which suggests that these funds could be effectively deployed for future expansion efforts.

The company's tangible book value per share has also seen healthy growth, further stabilizing its asset base due to the lack of debt repayment obligations. Additionally, Lululemon's balance sheet shows a negative net debt position, indicating that the company holds more liquid assets than its debt liabilities, a positive sign of financial health.

However, one area of concern is Lululemon's inventory, which has doubled since the COVID-19 pandemic and now constitutes about 20% of total assets, aligning with industry peers like Nike and Adidas. While this inventory growth reflects strong supply chain management practices, it also poses risks. Rapidly shifting consumer preferences, combined with the company's premium pricing, could lead to potential obsolescence and increased storage costs. The Days Outstanding Inventory (DOI) metric, which has settled around 120 days—comparable to Nike's 106 days and Adidas' 157 days—further underscores the importance of maintaining efficient inventory management to avoid these potential pitfalls.

Cash Flow Statement

Cash Flow Statement											CAGR 3y	CAGR 5y	CAGR 10y	
D&A	58	73	88	104	122	162	185	224	292	379	391	26.94%	25.37%	20.59%
Asset Writedown & Restructuring Costs	0	0	0	15	0	0	0	0	408	75	75			
Stock-Based Compensation	8	10	17	18	29	46	51	69	78	94	98	22.58%	26.78%	27.46%
Change In Accounts Receivable	0	0	0	0	0	0	0	0	0	0	0			
Change In Inventories	(27)	(83)	(5)	(21)	(86)	(118)	(97)	(324)	(573)	67	185			
Change In Accounts Payable	(2)	1	14	(2)	72	(15)	83	118	(107)	177	(22)			
Cash from Operations	314	298	386	489	743	669	803	1,389	966	2,296	2,378	41.92%	25.32%	22.00%
Change in Net Working Capital	(9)	60	(1)	(105)	(113)	194	48	(129)	660	(199)	(234)			36.96%
CAPEX	(120)	(143)	(150)	(158)	(226)	(283)	(229)	(395)	(639)	(652)	(646)	41.68%	23.62%	18.47%
Cash Acquisition	0	0	0	0	0	0	(453)	0	0	0	0			
Divestitures	0	0	0	0	0	0	0	0	0	0	0			
Cash From Investing	(120)	(143)	(150)	(173)	(243)	(278)	(696)	(428)	(570)	(654)	(647)			
Total Debt Issued	0	0	0	0	0	0	0	0	0	0	0			
Total Debt Repaid	0	0	0	0	0	0	0	0	0	0	0			
Issuance of Common Stock	3	5	7	6	18	18	15	18	12	42	34			
Repurchase of Common Stock	(152)	(277)	(33)	(103)	(607)	(195)	(96)	(862)	(479)	(591)	(796)			
Common & Preferred Stock Dividends Paid	0	0	0	0	0	0	0	0	0	0	0			
Cash from Financing	(149)	(272)	(27)	(98)	(590)	(177)	(81)	(845)	(467)	(549)	(762)			
Net Change in Cash	(34)	(163)	233	256	(109)	212	57	109	(105)	1,089	950			
% YoY		377%	-243%	10%	-143%	-294%	-73%	92%	-196%	-1137%	-13%			
Free Cash Flow to the firm	161	247	246	121	261	713	588	706	1,420	1,101	1,104	23.25%	33.34%	21.22%
FCFE	161	245	245	121	261	713	588	706	1,420	1,101	1,104	23.25%	33.34%	21.22%

Lululemon Athletica Inc. continues to demonstrate a robust cash flow strategy, reinforcing its commitment to growth and shareholder value. The company's rising capital expenditures (CAPEX) highlight ongoing investments in its future, including purchasing new equipment, expanding facilities, and developing new products. These investments indicate that Lululemon is actively reinvesting in its business to support future growth, though they also demand substantial cash resources.

In 2023, Lululemon's liquidity strategy was strongly anchored by its operational cash flow, which increased significantly by \$1.33 billion. This increase was driven by higher net income and favorable shifts in working capital. However, the company also experienced higher cash outflows from investing activities, primarily due to increased CAPEX focused on expanding distribution centers and enhancing technology infrastructure. Despite these outflows, Lululemon maintained strong liquidity with substantial cash reserves and access to a revolving credit facility.

On the financing front, Lululemon intensified its share repurchase program in 2023, spending \$558.7 million to buy back shares. This move underscores the company's commitment to returning value to shareholders while maintaining minimal debt. With no long-term debt obligations, Lululemon enjoys considerable financial flexibility, relying on equity and short-term borrowing as necessary.

Looking ahead, Lululemon remains confident in its ability to meet liquidity and capital needs, supported by cash on hand, ongoing operating cash flow, and available credit. The company has planned capital expenditures for 2024 in the range of \$690 million to \$710 million, emphasizing its continued focus on growth and operational efficiency while maintaining a conservative financial position.

Profitability, Efficiency and Financial Solidity

Profitability

Lululemon Athletica Inc. has consistently demonstrated strong profitability, significantly outperforming the retail industry average. The company's Return on Assets (ROA) has averaged around 20%, well above the industry norm of 7.54%, even during the challenging COVID-19 period. This indicates Lululemon's exceptional efficiency in utilizing its assets to generate profits.

The Return on Invested Capital (ROIC) has also shown robust growth, consistently scoring within the high end of the 10%-15% range, which is considered very strong.

Similarly, the Return on Equity (ROE) has exceeded market expectations, maintaining levels above the typical 15%-20% range. These metrics reflect Lululemon's ability to effectively manage its capital and deliver substantial returns to its shareholders.

Notably, aside from a brief dip during the COVID-19 pandemic, the company's ROA, ROIC, and ROE have remained stable, underscoring its resilience and long-term attractiveness to investors.

Efficiency

Lululemon's Asset Turnover has remained consistent, with minor dips during the pandemic from which it recovered well. The company's average asset turnover of 1.45 places it ahead of some competitors, such as Adidas, which scored 1.19 in 2023. This efficiency highlights Lululemon's ability to generate revenue from its asset base, a critical factor in maintaining its competitive edge in a fast-moving sector.

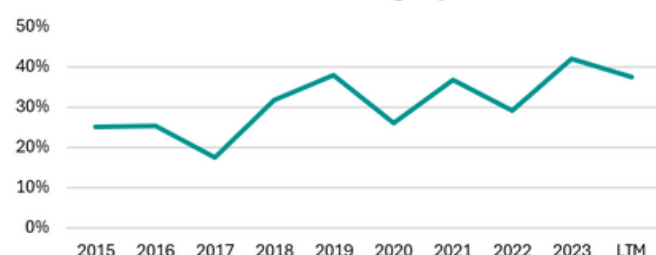
Return on Invested Capital



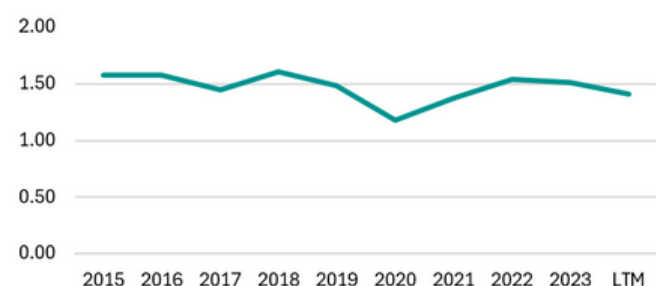
Return on Assets



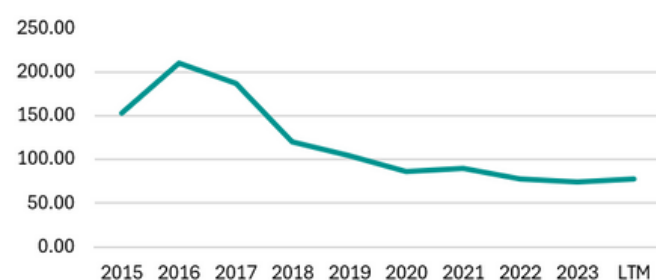
Return on Equity



Asset Turnover



Receivables Turnover



Profitability, Efficiency and Financial Solidity

The Receivables Turnover has shown a steady decline, leveling off around 80. This trend, while indicative of increased operations, is not expected to pose significant issues given Lululemon's strong cash reserves. The company's management appears to be effectively handling the balance between credit sales and collections, maintaining a healthy operational flow.

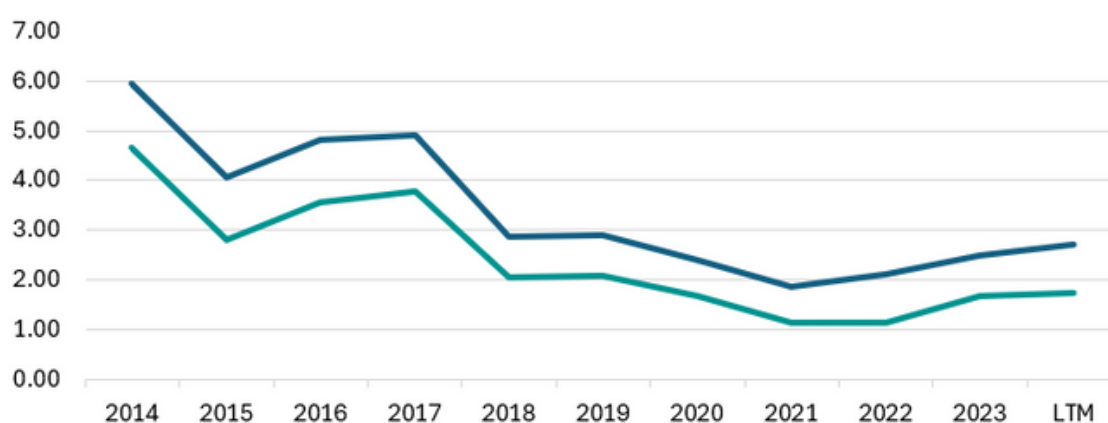
Financial Solidity

Lululemon's financial solidity is illustrated by its liquidity and leverage metrics. Both the Current and Quick Ratios have declined from just over 6 to around 2.5, reflecting a greater exposure to liabilities and the potential use of liquid assets for growth. However, these ratios still indicate adequate liquidity, ensuring the company can comfortably cover short-term obligations.

The Debt/Equity Ratio has shown an upward trend, peaking near 0.85, which reflects an increase in capital financed through debt. While this suggests higher leverage, the ratio remains within a manageable range, demonstrating prudent debt management. Lululemon's Interest Coverage Ratio is generally not a concern, given the absence of long-term debt. Although it has experienced some fluctuations, the company consistently maintains sufficient earnings to cover any interest obligations.

Lastly, the Debt/FCF Ratio has displayed some volatility, with peaks around 3.00, indicating variations in the company's ability to cover debt with free cash flow. Despite these fluctuations, Lululemon has consistently generated enough cash flow to effectively manage its debt, ensuring ongoing financial stability.

Current and Quick Ratio



Debt/Equity



Debt/FCF



Valuation

Multiples analysis

Lululemon Athletica Inc.'s multiples analysis provides a comprehensive view of how the company is valued in relation to its peers, highlighting both strengths and potential undervaluation.

Strengths: Lululemon's EV/Sales multiple of 3.0x, higher than the industry average of 1.5x, indicates that the market values Lululemon's revenue generation capability more highly compared to its peers. The P/S multiple of 3.1x, also above the industry average, suggests that investors are willing to pay a premium for Lululemon's sales, reflecting confidence in the brand's strength and market position. Furthermore, the MC/FCF multiple of 26.7x, while high, is indicative of Lululemon's robust free cash flow generation, which is a strong indicator of financial health and efficient capital management.

Potential Undervaluation: Despite these strengths, Lululemon's EV/EBITDA multiple of 11.0x and EV/EBIT multiple of 13.0x are lower than the industry averages of 15.7x and 22.8x, respectively. This suggests that the market may be undervaluing Lululemon's operational efficiency and earnings potential compared to competitors like Nike and Adidas, which have significantly higher multiples.

The P/E multiple of 19.4x, below the peer average, further indicates that the market may have conservative expectations for Lululemon's future growth.

Valuation Insights: When considering the implied prices based on these multiples, Lululemon's stock price appears undervalued according to the EV/Sales, EV/EBITDA, P/S, and P/TBV multiples, where the implied prices are all lower than the current market value. Conversely, the implied price based on the P/BV and MC/FCF multiples suggests that the stock could be overvalued, with the implied price exceeding the current market value.

Lululemon's valuation multiples reveal a mix of market confidence in its revenue generation and cash flow, contrasted with potential underappreciation of its earnings efficiency. The variance in implied prices based on different multiples underscores the importance of considering multiple valuation methods. Given the significant disparities and the context provided by industry averages, it may be prudent to use these insights in conjunction with other valuation approaches to obtain a more balanced view of Lululemon's market position.

	EV	Market Cap	Ev/Sales	Ev/Ebitda	Ev/Ebit	P/S	P/E	P/BV	P/TBV	MC/FCF
Simple Average	27,835.86	26,192.43	1.5x	15.7x	22.8x	1.4x	46.4x	4.6x	5.8x	16.8x
Weighted average - EV	-	-	2.0x	19.1x	26.6x	1.9x	60.9x	7.0x	8.3x	19.3x
Weighted average - MC	-	-	2.0x	19.0x	26.1x	1.9x	58.9x	7.1x	8.4x	19.5x
Median	11,043.00	8,139.00	1.3x	11.2x	14.9x	1.4x	20.7x	3.0x	3.0x	19.0x
Standard Deviation			0.80	9.75	16.93	0.84	68.46	2.86	4.42	7.34
(% Average)			53%	62%	74%	61%	148%		97%	44%
High	111,369	110,967	3.0x	36.1x	60.2x	3.1x	200.6x	7.8x	11.9x	26.7x
Low	3,381	2,797	0.6x	8.9x	13.0x	0.5x	12.1x	1.3x	1.7x	6.3x
Price based on multiples			134.58	206.66	402.93	127.23	583.059857	181.1917823	210.66	162.60

DCF

WACC

For the risk free rate, US 10-Year and DE 10-Year Government bond rates were used (3.86% and 2.19% as of 8/8/24) to work out an average (weighted at 66% and 34% respectively in accordance with the geographical distribution of revenues). The country risk premium and market risk premium were calculated in a similar way.

The levered beta was calculated as a weighted average between the bottom up method and Bloom adjusted market data. Given the company's size and low spread, an ICR of 3.89% was used as the cost of debt. Effective tax rate was calculated using three years of effective tax rate data.

Capital Structure

Equity	96.00%
Debt	4.00%

Wacc Calculation

Cost of Equity	8.06%
Risk-free Rate	3.30%
Country Risk Premium	0.24%
Market Risk Premium	4.85%
Levered Beta	0.93
Net Cost of Debt	2.70%
Cost of Debt	3.89%
Tax Rate	30.49%
WACC	7.84%

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Term
Sales (% growth)	7.0%	7.1%	7.2%	7.3%	7.4%	7.5%	6.4%	5.3%	4.2%	3.1%	2.0%	
Optimistic Scenario	8.50%	8.54%	8.58%	8.62%	8.66%	8.70%	7.46%	6.22%	4.98%	3.74%	2.50%	
Base Scenario	7.00%	7.10%	7.20%	7.30%	7.40%	7.50%	6.40%	5.30%	4.20%	3.10%	2.00%	
Pessimistic Scenario	5.00%	5.34%	5.68%	6.02%	6.36%	6.70%	5.76%	4.82%	3.88%	2.94%	2.00%	
Gross Profit margin	58.4%	58.4%	58.4%	58.5%	58.5%	58.5%	58.5%	58.5%	58.6%	58.6%	58.6%	
Optimistic Scenario	58.40%	58.44%	58.48%	58.52%	58.56%	58.60%	58.64%	58.68%	58.72%	58.76%	58.80%	
Base Scenario	58.40%	58.42%	58.44%	58.46%	58.48%	58.50%	58.52%	58.54%	58.56%	58.58%	58.60%	
Pessimistic Scenario	58.40%	58.38%	58.36%	58.34%	58.32%	58.30%	58.28%	58.26%	58.24%	58.22%	58.20%	
Ebit Margin	23.1%	23.1%	23.1%	23.0%	23.0%	23.0%	23.0%	23.0%	22.9%	22.9%	22.9%	
Optimistic Scenario	23.10%	23.22%	23.34%	23.46%	23.58%	23.70%	23.82%	23.94%	24.06%	24.18%	24.30%	
Base Scenario	23.10%	23.08%	23.06%	23.04%	23.02%	23.00%	22.98%	22.96%	22.94%	22.92%	22.90%	
Pessimistic Scenario	23.10%	22.94%	22.78%	22.62%	22.46%	22.30%	22.14%	21.98%	21.82%	21.66%	21.50%	
Depreciation & Amortization (% sales)	3.9%	3.9%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.1%	4.1%	4.1%	
Optimistic Scenario	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	
Base Scenario	3.90%	3.92%	3.94%	3.96%	3.98%	4.00%	4.02%	4.04%	4.06%	4.08%	4.10%	
Pessimistic Scenario	3.90%	3.96%	4.02%	4.08%	4.14%	4.20%	4.26%	4.32%	4.38%	4.44%	4.50%	
Capital Expenditures (% of sales)	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	
Optimistic Scenario	6.80%	6.80%	6.80%	6.80%	6.80%	6.80%	6.80%	6.80%	6.80%	6.80%	6.80%	
Base Scenario	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%	
Pessimistic Scenario	6.40%	6.40%	6.40%	6.40%	6.40%	6.40%	6.40%	6.40%	6.40%	6.40%	6.40%	

Base case revenue growth is estimated to be around 7.0% to 7.5%, slightly below the recent historical averages. This conservative outlook reflects the normalization of growth following the exceptional post-COVID surge and the increasing market saturation as Lululemon matures, particularly after its global expansion efforts.

The Gross Profit Margin is expected to hold steady at approximately 58.4%. This stability is supported by Lululemon's strong brand positioning, pricing power, and effective supply chain management, which collectively help maintain cost efficiencies while delivering high-quality products.

EBIT Margin is projected to remain around 23.1%, assuming that Lululemon continues to manage its operational costs effectively even as it invests in further expansion. This margin reflects the company's ability to balance growth with cost control, maintaining profitability as it scales its business.

Depreciation & Amortization (D&A) and Capital Expenditures (CAPEX) are anticipated to align with revenue growth, holding at 3.9% and 6.6% of sales, respectively. These figures account for ongoing investments in infrastructure, technology, and new store openings, which are crucial for supporting Lululemon's long-term growth ambitions without overextending its resources. This alignment indicates a balanced approach to growth and sustainability, ensuring that the company can continue expanding its market presence while maintaining financial stability.

Optimistic Scenario In this scenario, we assume higher revenue growth rates ranging from 8.5% to 8.7%. This scenario considers continued strong consumer demand for athleisure, coupled with successful market penetration in underdeveloped regions, particularly in Asia-Pacific and EMEA. We also anticipate that Lululemon could achieve slight improvements in its working capital efficiency, driven by better inventory management and supply chain optimization.

Pessimistic Scenario This scenario forecasts lower revenue growth, between 5.0% and 5.8%, reflecting potential market saturation or economic downturns that could dampen consumer spending on premium products. Here, we assume that Lululemon's operational margins might slightly compress due to increased competition and pressure on pricing. However, the company's robust brand and loyal customer base provide a buffer against severe downturns, making this scenario less likely but important for stress testing the model.

In all scenarios, we assume that Depreciation & Amortization and CAPEX will continue to grow in line with revenue, reflecting the necessary investments to maintain the company's infrastructure and support future growth. These assumptions are crucial in understanding how Lululemon's financial strategy aligns with its growth objectives, ensuring that it can sustain operations and capital expenditures without compromising profitability.

DCF

Fair Value

Lululemon appears to be undervalued based on the current market conditions, likely due to broader economic uncertainties impacting stock valuations across the sector. Both the base and optimistic scenarios suggest a significant upside potential for the stock, with the optimistic scenario indicating a notably higher fair value, adding weight to the positive outlook.

	Worse	Base	Optimistic
Value	368.08	408.69	458.77
+/- %	53.05%	69.94%	90.76%

Final Outlook

The analysis indicates that Lululemon is currently undervalued compared to its intrinsic fundamentals. While the multiple valuations offer a mix of below and above current market prices, the fundamental analysis, including growth prospects, financial stability, and operational efficiency, suggests that Lululemon has substantial potential for value appreciation over time. Therefore, the recommendation for Lululemon stock is a strong BUY, given its capacity to grow and capitalize on market opportunities despite economic headwinds.

Sensitivity Analysis

		Wacc				
		5.84%	6.84%	7.84%	8.84%	9.84%
Ev/Ebitda	\$390.15	390.15	390.15	390.15	390.15	390.15
	10.0x	399.39	399.39	399.39	399.39	399.39
	10.5x	408.63	408.63	408.63	408.63	408.63
	11.0x	417.87	417.87	417.87	417.87	417.87
	11.5x	427.11	427.11	427.11	427.11	427.11
	12.0x					

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12.06.2024.

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