

UConn Student Managed Fund

Lululemon Athletica (NASDAQ: LULU)

Sector: Retail

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend	Beta
\$351.23	\$305.62	\$485.82	\$269.28	47.43	\$39.2B	0%	1.17

Investment Thesis

In an environment of high multiples and overvalued securities, lululemon offers unique opportunities in a niche but growing market, all at a discount. In the near future, lululemon is focused on increasing international revenue and revenue from menswear. With an increase in athleisure wear, lululemon will continue to grow rapidly. Recently, lululemon made an acquisition and acquired Mirror. Now, they're sliding into the fitness industry, which can merge athleisure clothing and fitness. In pair with this, they've implemented installment plans. Now, eager people can purchase clothes and a mirror, while not having to worry about paying it all at once. Even with the pandemic hurting foot traffic in stores, their online business jumped 93% year over year. With their further expansion into international markets, product expansion in their menswear, acquisitions, work from home attire, and a general capturing of more market share, lululemon is poised for incredible upside potential.

Business Overview

lululemon athletica inc. is an athleisure apparel company, which has a primary business model marketing their products as part of an active lifestyle. Their products are priced at a premium due to the flexible comfort and brand recognition. Consumers act as walking billboards to exemplify lululemon's unique branding and pliancy within their product offering. This unique branding has allowed them to establish a niche with leading competitors, such as Nike, Under Armour and Adidas. With them owning a network of established stores globally, some of them include temporary locations, seasonal stores and outlets and warehouses. Mirror is a board of technology that consumers can bolt to a wall in their house. This will attract people looking to get a workout in their house, with something other than cardio.

Industry Description

Within the retail industry, lululemon falls in athletic and athleisure wear. Other players in the athletic clothing industry are Nike, Adidas, Under Armour, and many more. Similarly, the athleisure industry has taken off. Due to work from home, the industry has skyrocketed because of people's want for comfort. Even outside of the home, these athleisure companies are seeing huge inflows of people because the clothes are flexible, comfortable, and affordable. For these clothes, there are prices for shorts from \$20 all the way up to \$80.

<p><u>Valuation Assumptions</u></p> <ul style="list-style-type: none"> ◆ FCF (2023Y)- \$1222.034mm ◆ WACC- 9% ◆ P/E Ratio- 47.43 ◆ EV/EBITDA Multiple - 20x ◆ Implied Share Price- \$351 	<p><u>Competitive Advantages</u></p> <ul style="list-style-type: none"> ◆ Ability to maintain customers due to the clothing quality ◆ Have not taken on any long-term debt ◆ Capacity to capture more market share ◆ Constantly innovating & testing new products
<p><u>Industry Trends</u></p> <ul style="list-style-type: none"> ◆ Switch to athleisure wear ◆ Leniency in corporate dress code ◆ People seeking higher comfort in clothing ◆ Demographic changes pointing towards younger consumers 	<p><u>Management Team</u></p> <ul style="list-style-type: none"> ◆ Calvin McDonald (CEO): Over 20 years of corporate experience at large retailers ◆ Meghan Frank (CFO): Experience in Fortune 500 companies ◆ Sun Choe (Chief Product Officer): Experience in luxury retail innovation and design

Implied Equity Value and Share Price	
PV of Cash Flows	\$ 5,745.5
PV of Terminal Value	\$ 37,704.4
Enterprise Value	\$ 43,449.9
Plus: Cash and Cash Equivalents	\$ 993.6
Less: Total Debt	\$ 859.9
Implied Equity Value	\$ 43,583.6
Fully Diluted Shares Outstanding	124.1
Implied Share Price	\$ 351.23
Current Stock Price	306.52
Margin of Safety	14.59%

Risks

With the coronavirus's impact still undetermined, it is tough to say the overall impact. But if the virus cannot be contained, it could interfere with their supply chain and force them to look in other areas. Although their wear is comfortable, which retains customers, their fabrics and manufacturing tech are not patented. With an increased focus on e-commerce sales, this hurts the opportunity for customers to try on the clothing to confirm fitting and look. As athleisure becomes more popular, we see more companies popping into the business. Other gym apparel companies, like Gymshark, Rhone, and Cuts have gained popularity. But, lululemon has created unique products due to

heavy R&D which has allowed them to separate themselves from competitors. But for people looking for a cheaper alternative, they may shop somewhere besides lululemon.

ESG

They are deeply connected to ourselves, each other and our planet; each part elevating one another. They aim to create healthier environments by inspiring positive change through mindful choices, innovation and collaboration. They focus on eliminating waste and closed-loop innovation, making progress toward clean water and better chemistry, and addressing climate and energy across our communities, supply chain, and operations.

By: Shane Cotter