

Stock Analysis Sheet

Company: Lululemon Athletica

Ticker: LULU Current Price: \$259.18 Industry: Retail Sub Industry: Specialty Apparel	Target Price: \$305.71 Stop Loss: \$217.08 52 Week High/ Low: \$516.39 / \$226.01	Forward P/E: 18.83 EPS: \$3.15 Market Cap: \$33.32B ESG Overall Rating: 94.30 Overall Median: 91.50 Environmental Percentile: 93.1 Social Percentile: 96.6 Government Percentile: 93.2 MSCI ESG rating: AA
---	---	---

Company Background: Lululemon Athletica Inc. is a leading retailer of technical athletic apparel, known for its premium yogainspired clothing. The company offers a range of products for activities like running and training, along with accessories such as yoga mats and bags. Its core market includes fitness enthusiasts and those seeking athleisure wear. Lululemon operates globally through retail stores and its e-commerce platform, with a focus on community engagement and expanding its brand to encompass overall wellness.

Outlook: The outlook for the athleisure industry, particularly the premium segment in which Lululemon operates, is highly positive over the next 12 months. The global athleisure market, valued at \$358 billion, is projected to grow rapidly, driven by increasing consumer focus on health, fitness, and stylish comfort wear. Lululemon is well-positioned within this expanding market, especially with the premium segment expected to grow at a 10.3% CAGR. The company's focus on high-quality, innovative products, such as its patented performance fabrics, sets it apart from competitors in a space where durability and comfort are prioritized over cost. International expansion, especially in high-growth regions like Asia and Europe, along with the booming demand for yoga and men's athletic apparel, will further drive industry growth. Despite challenges such as increased competition and supply chain disruptions, Lululemon's strong brand loyalty and innovative offerings make it a dominant player in the athleisure sector, which is poised for long-term growth.

Investment Thesis: A buy opinion on Lululemon primarily reflects its compelling valuation after a nearly 50% YTD drop and the halving of its P/E multiple, presenting an attractive entry point. Lululemon's strong market position in the athleisure space, along with its premium pricing strategy and high customer loyalty, continue to provide a competitive advantage. The company's success in China, driven by favorable market trends and ongoing expansion, offers a significant but underappreciated growth opportunity. Despite facing execution challenges related to color and sizing issues, Lululemon has a track record of quick recoveries in similar situations. With a robust balance sheet and recent \$1 billion share repurchase program, Lululemon is well-positioned to enhance shareholder returns while driving long-term growth through international expansion and product innovation.

Investment Risks

- Increasing competition from brands like Alo and Vuori, though largely focused on niche markets, poses a growing challenge in the athleisure space.
- Lululemon must continue to innovate with its product offerings, especially as the company expands its men's segment and international markets. Any significant misstep, such as recent execution issues with color and sizing, could temporarily harm customer loyalty and brand perception.
- Fluctuations in global supply chains and raw material prices, despite recent cost decreases, could impact margins if trends reverse.

Current Stock Price \$271.35

Forward P/E Ratio 18.83

7-Year Average P/E Ratio 42.86

Gross Margin 58.31%

Net Income Margin 16.12%

Net Debt/EBITDA -0.06 (projected to improve to -0.94)

DCF Valuation 1 \$336.28 (23% margin of safety)

DCF Valuation 2 \$305.71 (12% margin of safety)

DCF Valuation 3 \$236.35 (-12% margin of safety)