

Lululemon Athletica



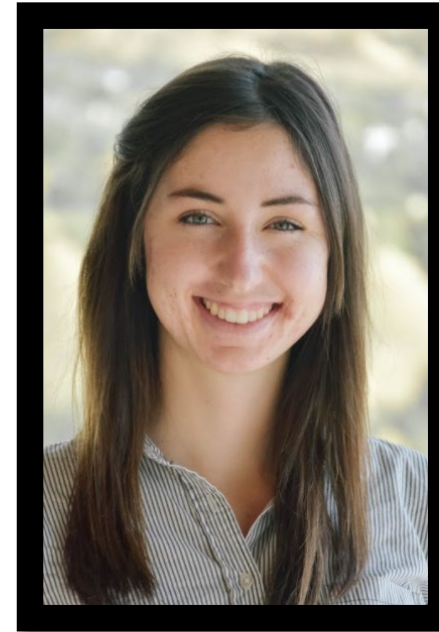
Meet Our Team



Samantha Keller
Major: Finance & Economics
Sophomore



Megan Harris
Major: Marketing
Sophomore



Lacey Lamborn
Major: Finance & Economics
Sophomore



Nicole Day
Major: Finance & MIS
Sophomore



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& Culture

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Price Recommendation

Stock Price from 3/16/21

\$309
p/share

12%

Projected for 3/16/22

\$345
p/share



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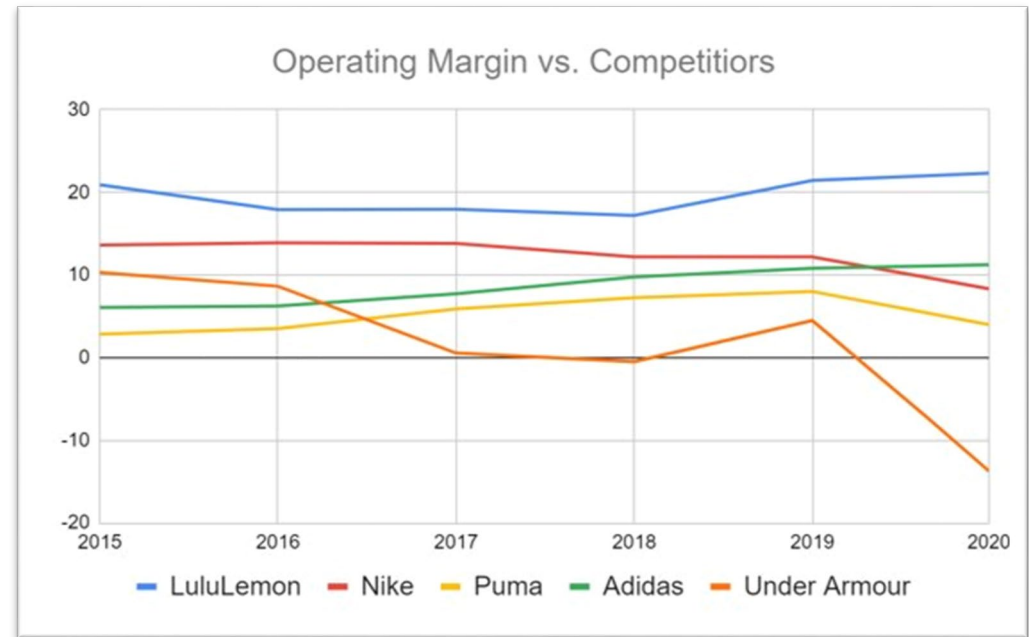
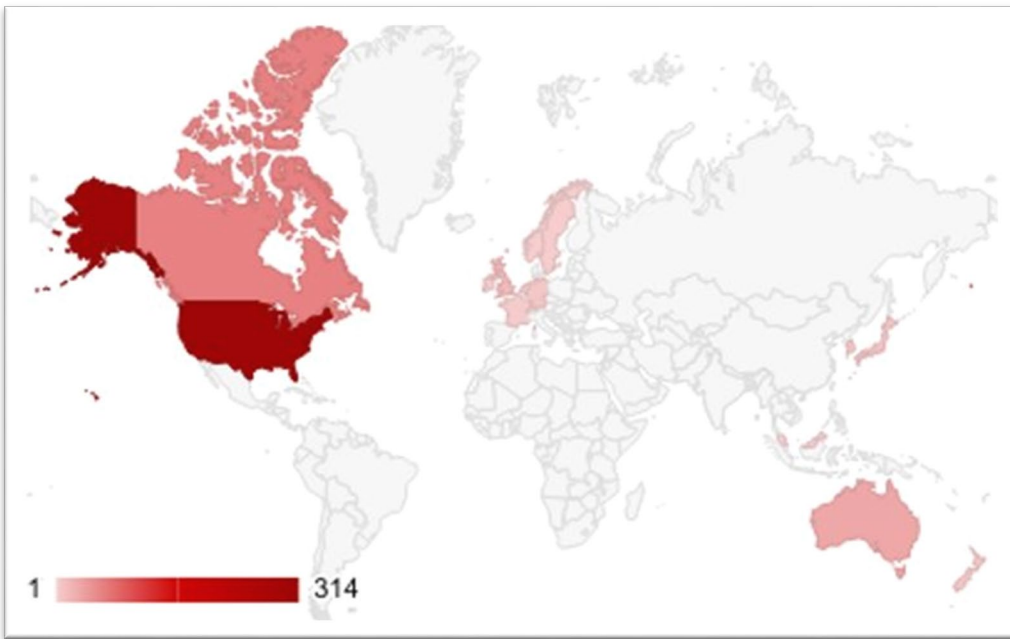
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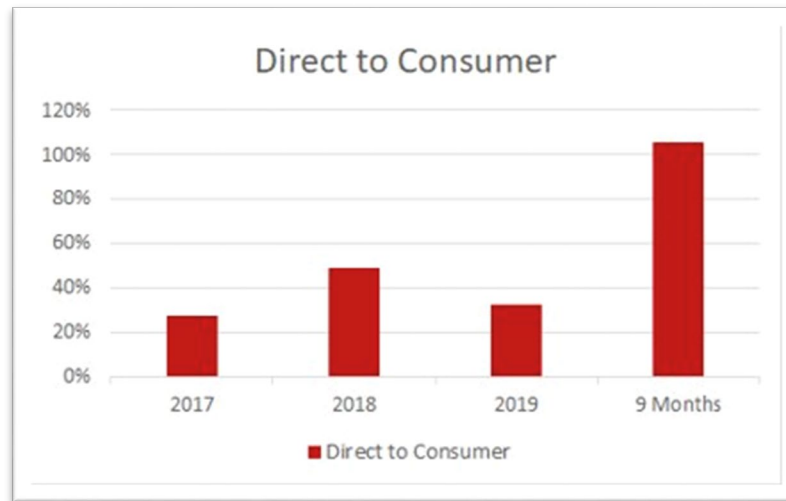
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Drivers

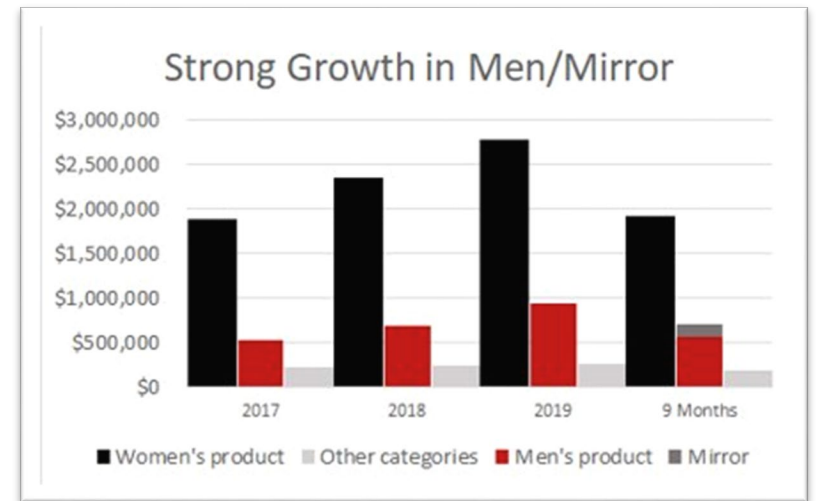
International Growth



Omni Channel Experience



Product Innovation



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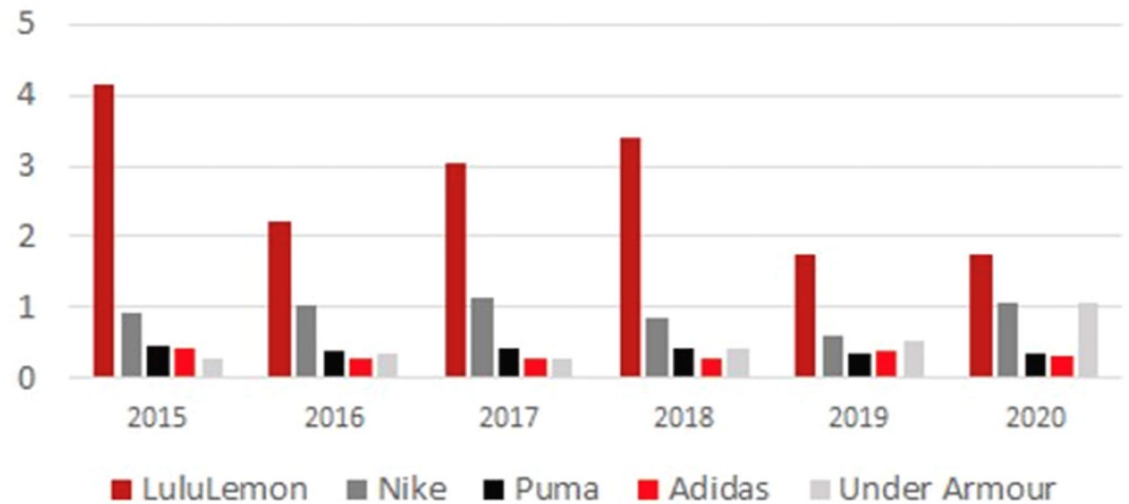
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Historical Performance

Efficient Cash Management Despite Covid

	2017	2018	2019	3Q 2020
A/P Turnover in Days	7	24	16	36
Inventory Turnover in Days	87	82	84	116
Cash Cycle	80	58	68	80

Cash Ratio



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Publicly Traded Competitors



Private Competitors



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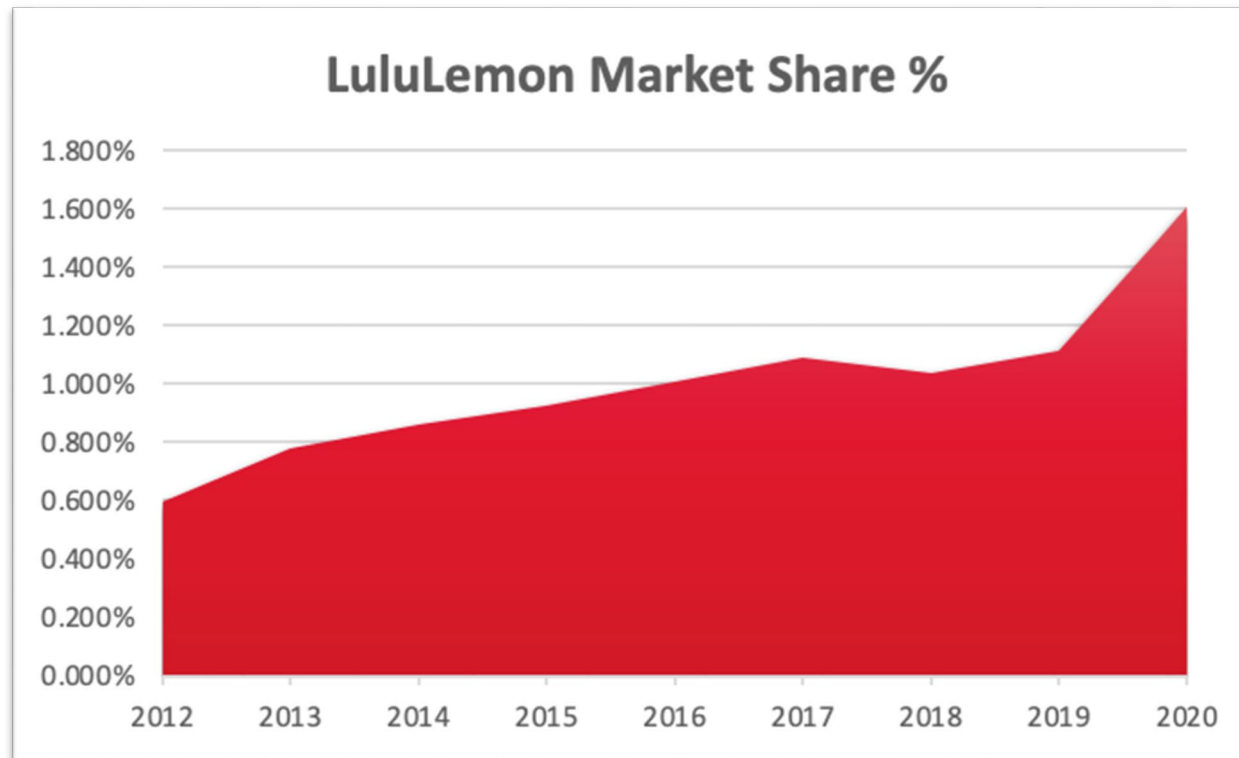
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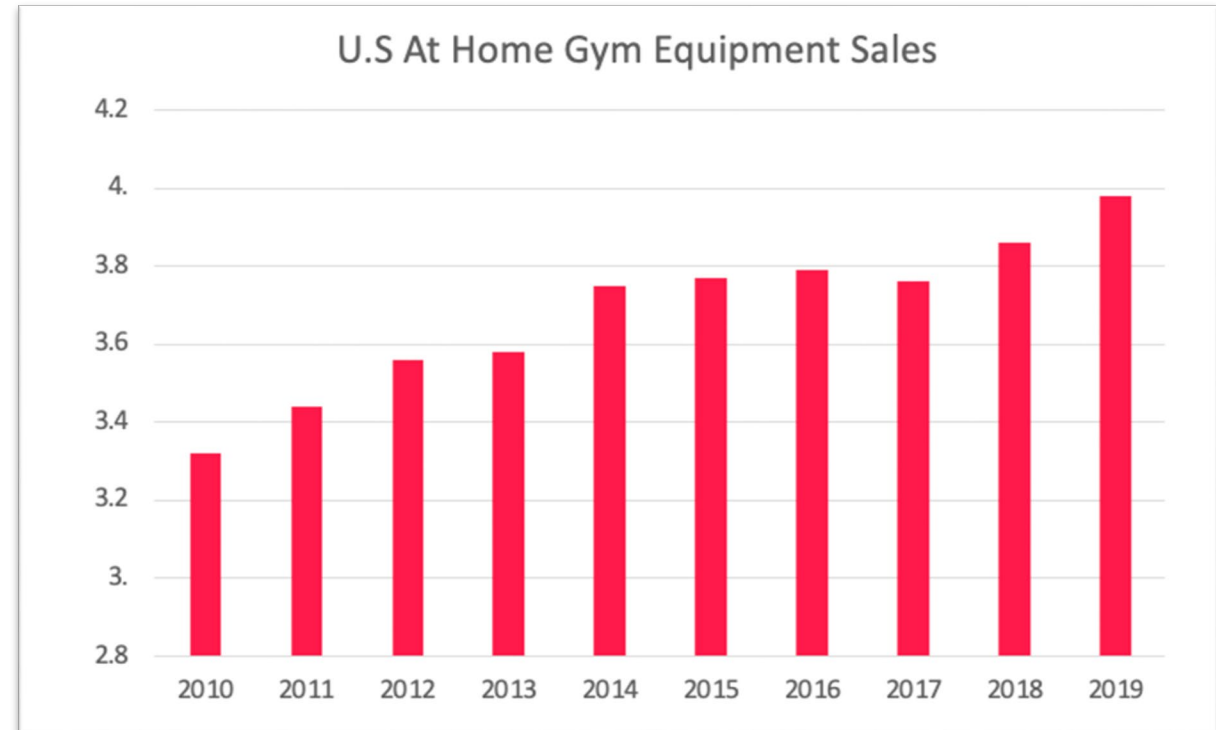
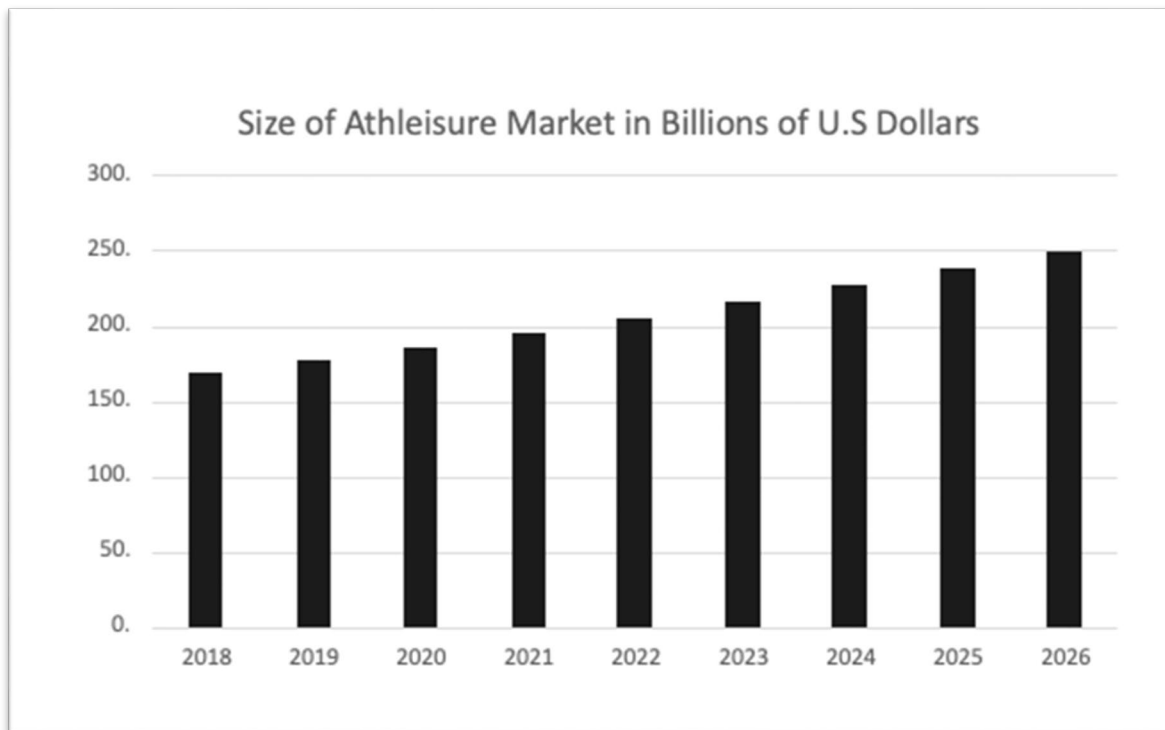
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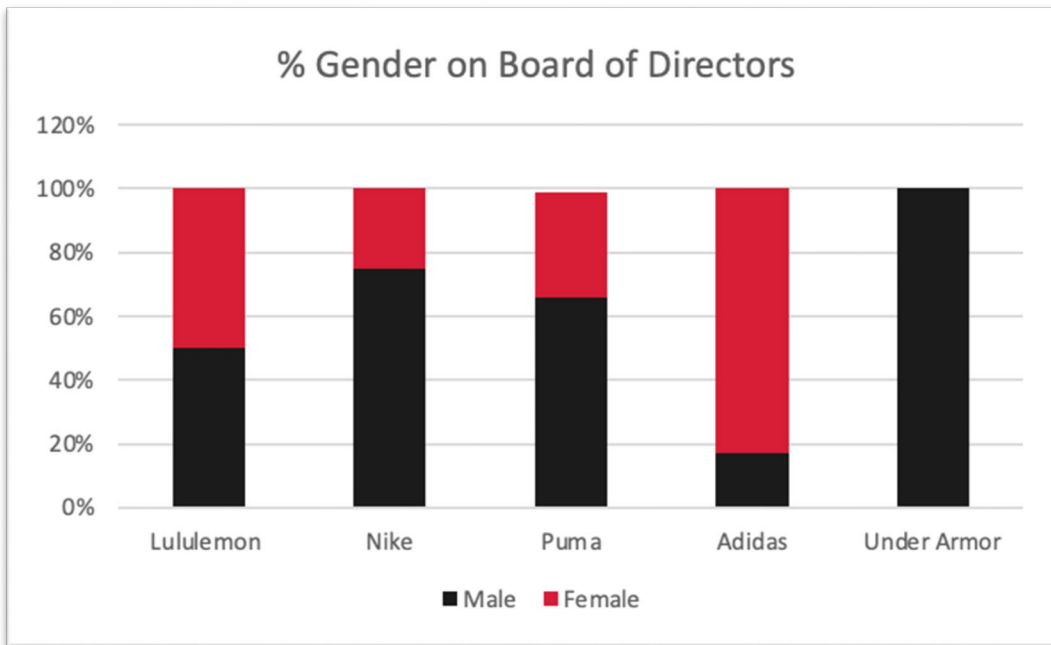
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Management & Culture



50/50 ratio of men to women on Board of Directors



Culture establishes importance of an active, healthy lifestyle



96% of employees approve of Calvin McDonald, CEO



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International Growth

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Omni-Channel Experience

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Product Innovation



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Risks to Thesis

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High growth rate leading to quality being compromised

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Mirror Acquisition leads to Under Armour Trap

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Large market for knock-offs



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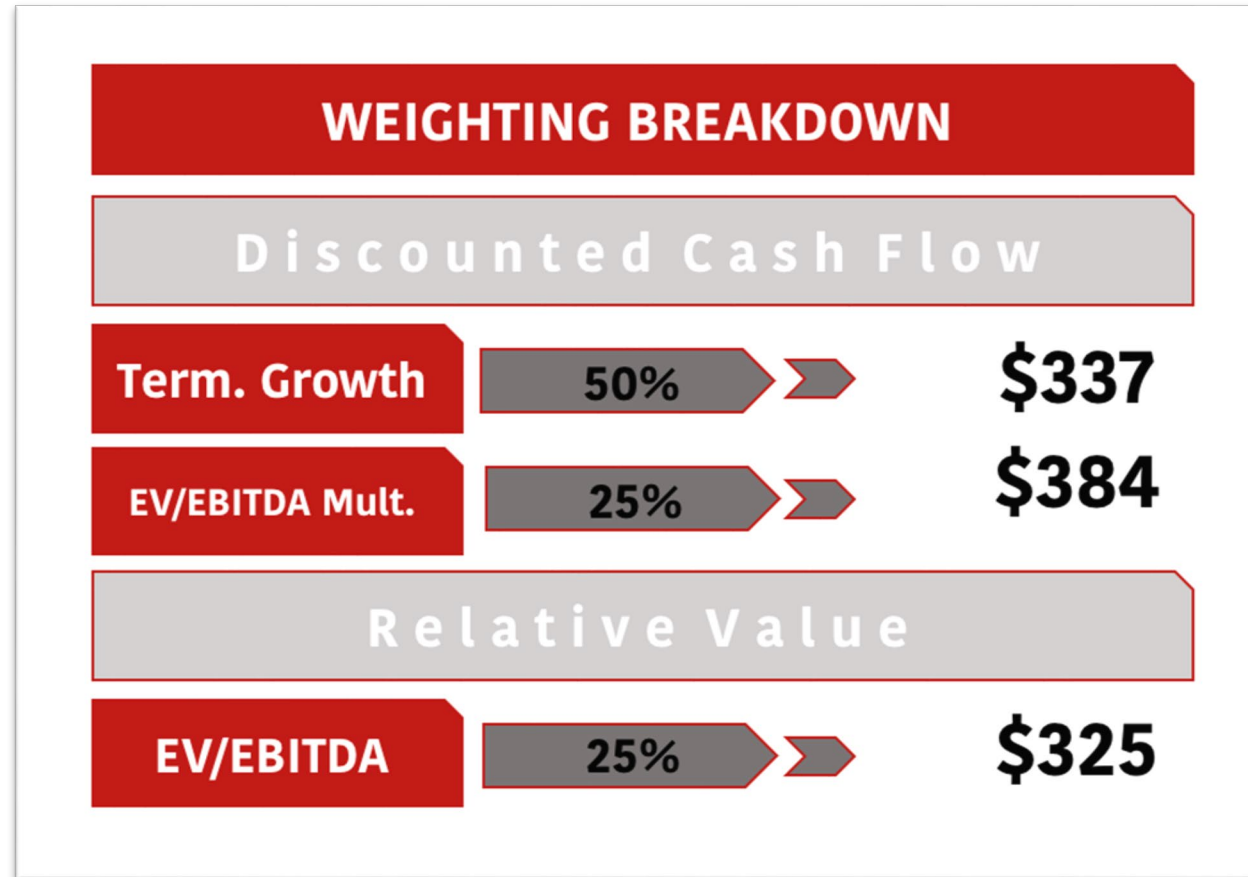
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Valuation Model



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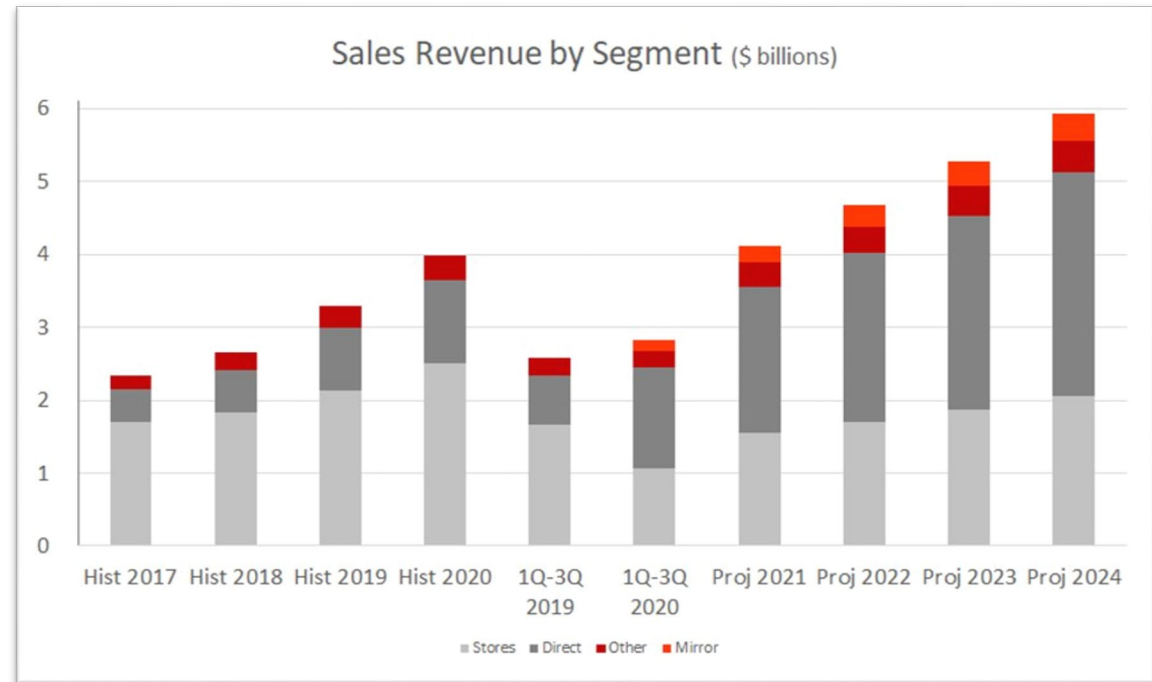
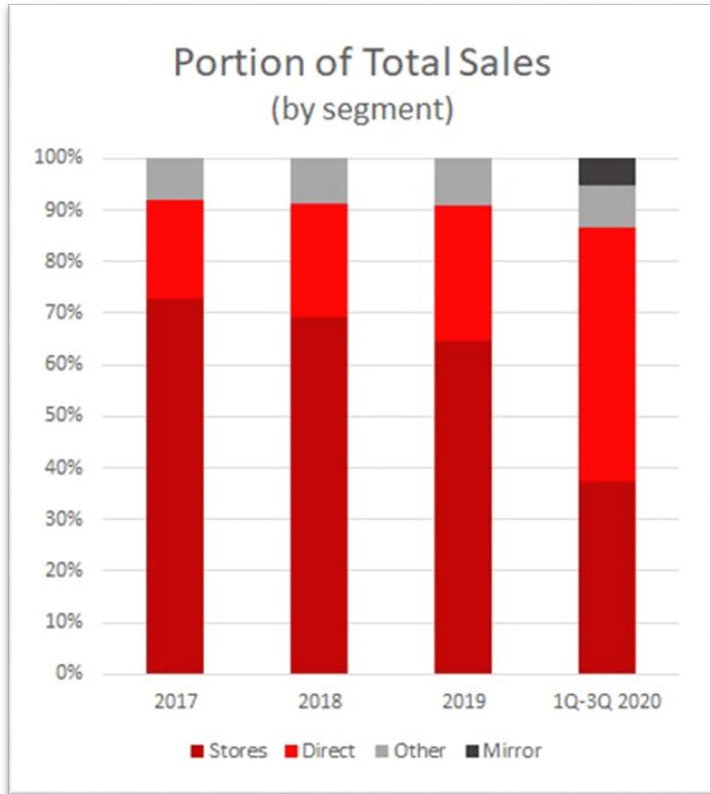
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Sales Growth Assumptions



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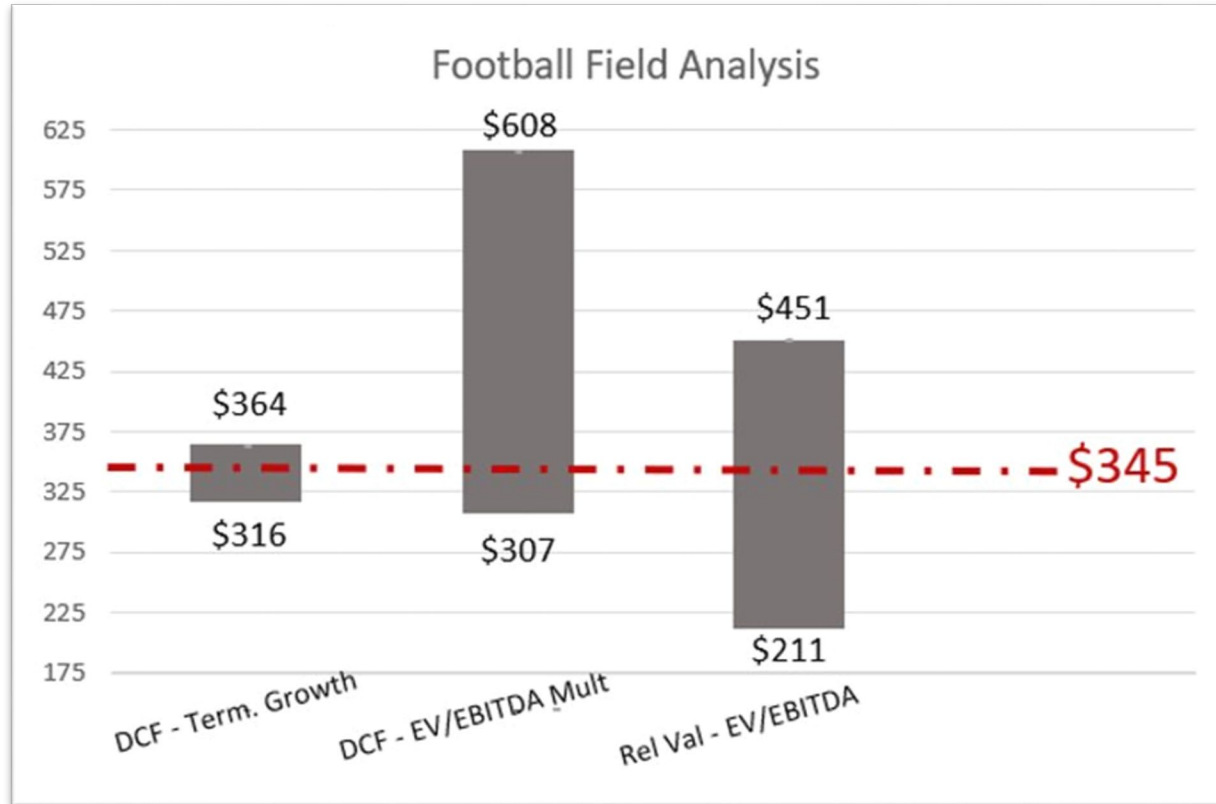
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Relative Value Model



DCF Term. Growth

2.50%	3.50%
\$316.08	\$363.51

DCF - EV/EBITDA Multiple

Historical High	40.00
Midpoint	27.00
Worst Case	18.00

Rel Val - EV/EBITDA

Historical High	40.00
Midpoint	27.00
Worst Case	18.00



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Management



Calvin McDonald – CEO (2018-Present)

MBA, University of Toronto

- CEO of Sephora (2013-2018)
- CEO of Sears Canada for 17 years



Sun Choe – CPO (2016-Present)

B.A from University of Maryland College Park

- Was chief product operator at Marc Jacobs
- Previously worked at West Elm, Madewell, and Urban Outfitters



Meghan Frank – CFO (2016-Present)

B.A Economics from Colgate University

- Held senior finance and merchandising roles and Ross Stores and J-Crew where she served for nearly a decade



Ted Daganese – CSCO (2016-Present)

MS Engineering Economics Stanford

- served as Vice President, Supply Chain at VF Corporation and Senior Director at Gap, Inc.

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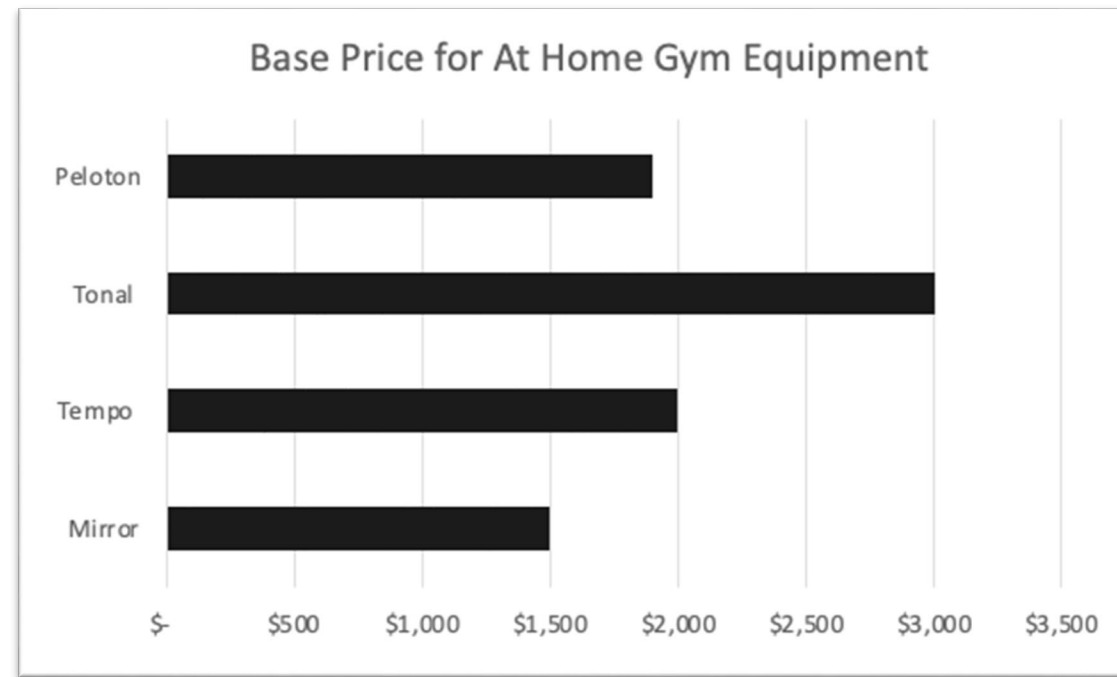
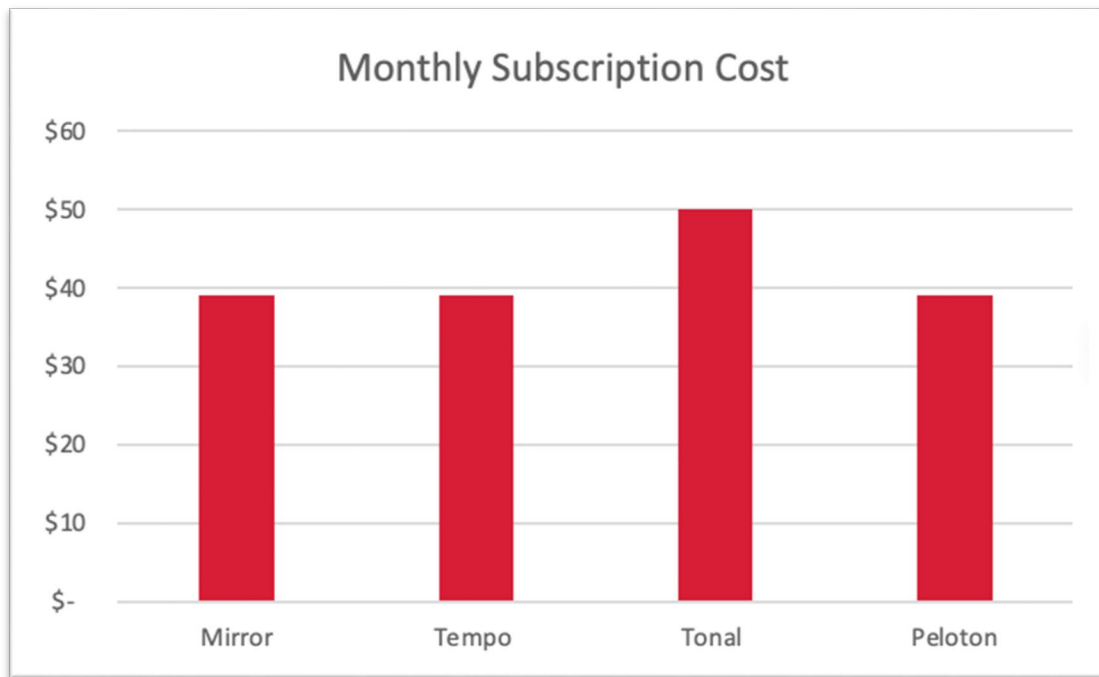
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Monthly Subscription Cost



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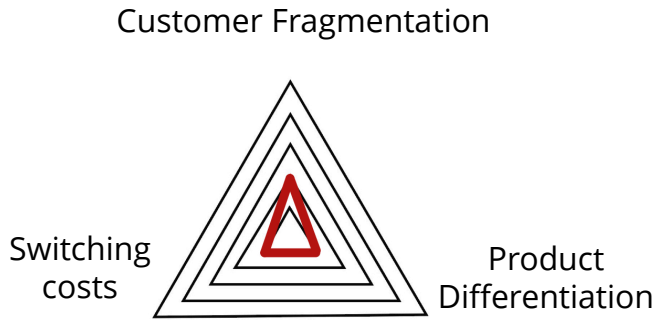
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Five Forces

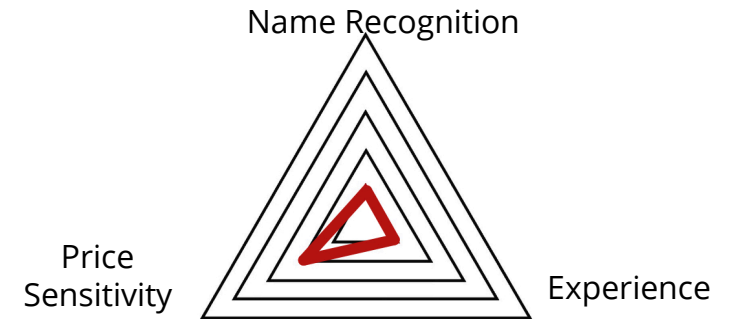
Bargaining Power of Consumers



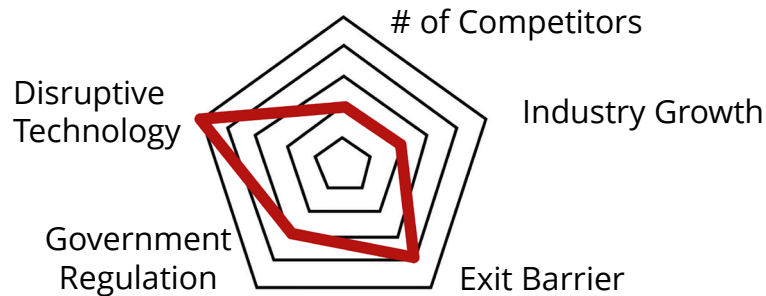
Threat of New Entrants



Threat of Substitutes



Rivalry Within Industry



Bargaining Power of Supplier



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Balance Sheet

Balance Sheet	Yearly Historicals					Yearly Forecasts					
	2017 1/29/2017	2018 1/28/2018	2019 2/3/2019	2020 2/2/2020	3Q 2020	2021 1/31/2021	2022 2/6/2022	2023 2/5/2023	2024 2/4/2024	2025 2/3/2025	2026 2/2/2026
Current Assets								Project as % of Sales			
Excess Cash						\$977,711	\$2,143,127	\$3,390,189	\$4,853,356	\$6,571,437	\$8,590,119
Cash and Cash Equivalents	\$734,846	\$990,501	\$881,320	\$1,093,505	\$481,581	\$123,338	\$146,026	\$170,775	\$199,876	\$234,120	\$274,440
Accounts Receivable	9,200	19,173	35,786	40,219	59,772	41,113	48,675	56,925	66,625	78,040	91,480
Inventories	298,432	329,562	404,842	518,513	770,990	469,793	408,873	478,169	559,653	655,535	768,432
Prepaid and Receivable Income Taxes	81,190	48,948	49,385	85,159	168,272	82,226	97,351	113,850	133,251	156,080	182,960
Other Prepaid Expenses and Other Current Assets	39,069	48,098	57,949	70,542	120,198	71,947	85,182	99,619	116,594	136,570	160,090
Total Current Assets	1,162,737	1,436,282	1,429,282	1,807,938	1,600,813	788,417	786,107	919,336	1,076,000	1,260,343	1,477,402
Property and Equipment, Net	423,499	473,642	567,237	671,693	719,880	772,014	851,360	962,220	1,100,895	1,270,031	1,473,401
Right-of-Use Lease Assets				689,664	714,086	698,917	827,481	967,723	1,132,631	1,326,677	1,555,160
Goodwill	24,557	24,679	24,239	24,423	386,632	386,632	386,632	386,632	386,632	386,632	386,632
Intangible Assets					82,276	79,576	71,051	62,526	54,001	45,476	36,951
Deferred Income Tax Assets	26,256	32,491	26,549	31,435	31,562	32,890	38,940	45,540	53,300	62,432	73,184
Other Non-Current Assets	20,492	31,389	37,404	56,201	92,671	47,280	55,977	65,464	76,619	89,746	105,202
Total Assets	1,657,541	1,998,483	2,084,711	3,281,354	3,627,920	2,805,726	3,017,548	3,409,441	3,880,078	4,441,337	5,107,932
Current Liabilities											
Revolver						0	0	0	0	0	0
Accounts Payable	24,846	24,646	95,533	79,997	160,779	83,892	73,013	85,387	99,938	117,060	137,220
Accrued Inventory Liabilities	8,601	13,027	16,241	6,344	10,654	16,778	14,603	17,077	19,988	23,412	27,444
Accrued Compensation and Related Expenses	55,238	70,141	109,181	133,688	190,366	133,617	158,195	185,006	216,532	253,629	297,310
Current Lease Liabilities				128,497	96,527	131,561	155,761	182,160	213,201	249,727	292,736
Current Income Taxes Payable	30,290	15,700	67,412	26,436	138,082	30,835	36,507	42,694	49,969	58,530	68,610
Deferred Revenue	70,454	82,668	99,412	120,413	5,818	123,338	146,026	170,775	199,876	234,120	274,440
Lease Termination Liabilities	0	0			104,760						
Other Current Liabilities	52,561	86,416	112,698	125,043	23,892	129,505	153,327	179,313	209,870	245,825	288,162
Total Current Liabilities	241,990	292,598	500,477	620,418	730,878	649,525	737,432	862,412	1,009,374	1,182,304	1,385,922
Non-Current Lease Liabilities				611,464	635,386	616,692	730,131	853,873	999,380	1,170,598	1,372,200
Non-Current Income Taxes Payable	0	48,268	42,099	48,226	43,150	51,391	60,844	71,156	83,282	97,550	114,350
Deferred Income Tax Liabilities	7,262	1,336	14,249	43,432	47,199	37,001	43,808	51,232	59,963	70,236	82,332
Other Non-Current Liabilities	48,316	59,321	81,911	5,596	8,354	32,890	38,940	45,540	53,300	62,432	73,184
Total Liabilities	297,568	401,523	638,736	1,329,136	1,464,967	1,387,500	1,611,155	1,884,213	2,205,300	2,583,119	3,027,988
Common Stock	637	628	608	621	626	626	626	626	626	626	626
Additional Paid-In Capital	266,622	284,253	315,285	355,541	374,352	374,352	374,352	374,352	374,352	374,352	374,352
Retained Earnings	1,294,214	1,455,002	1,346,890	1,820,637	2,016,591	2,249,576	3,403,159	4,769,055	6,381,773	8,283,293	10,523,701
Accumulated Other Comprehensive Loss	-201,500	-142,923	-216,808	-224,581	-228,616	-228,616	-228,616	-228,616	-228,616	-228,616	-228,616
Total Stockholders' Equity	1,359,973	1,596,960	1,445,975	1,952,218	2,162,953	2,395,938	3,549,521	4,915,417	6,528,135	8,429,655	10,670,063
Total Liabilities and Stockholders' Equity	\$1,657,541	\$1,998,483	\$2,084,711	\$3,281,354	\$3,627,920	3,783,438	5,160,676	6,799,630	8,733,434	11,012,774	13,698,051



Income Statement

Income Statement	Yearly Historicals						Yearly Forecasts					
	2017 1/29/17	2018 1/28/18	2019 2/3/19	2020 2/2/20	1Q-3Q 2020	4Q 2020	2021 1/31/21	2022 2/6/22	2023 2/5/23	2024 2/4/24	2025 2/3/25	2026 2/2/26
Net Revenue	\$2,344,392	\$2,649,181	\$3,288,319	\$3,979,296	2,672,330	\$1,438,947	4,111,277	4,867,537	5,692,486	6,662,537	7,803,984	9,148,000
Cost of Goods Sold	-1,057,078	-1,142,156	-1,349,548	-1,593,977	-1,087,864	-589,968	-1,677,832	-1,460,261	-1,707,746	-1,998,761	-2,341,195	-2,744,400
Depreciation Expense	-87,697	-108,235	-122,484	-161,933	-133,209	-48,592	-181,801	-208,444	-229,867	-259,799	-297,242	-342,908
Gross Profit	1,199,617	1,398,790	1,816,287	2,223,386	1,451,257	800,387	2,251,644	3,198,832	3,754,873	4,403,976	5,165,547	6,060,692
Selling, General & Admin Expenses	-778,465	-904,264	-1,110,451	-1,334,276	-1,064,172	-474,852	-1,539,024	-1,606,287	-1,878,520	-2,198,637	-2,575,315	-3,018,840
Asset Impairment & Restructuring Costs	0	-38,525	0	0	0	0						
Amortization					-2,965	-2,700	-5,665	-8,525	-8,525	-8,525	-8,525	-8,525
Acquisition-Related Expenses					-22,040		-22,040					
Income from Operations	421,152	456,001	705,836	889,110	362,080	322,834	684,914	1,584,020	1,867,828	2,196,814	2,581,707	3,033,327
Interest Income	1,577	3,997	9,414	8,283	250	756	1,006	1,347	1,584	1,853	2,170	2,543
Income before Tax Expense	422,729	459,998	715,250	897,393	362,330	323,590	685,920	1,600,975	1,897,078	2,239,885	2,641,001	3,111,677
Income Tax Expense	-119,348	-201,336	-231,449	-251,797	-103,254	-90,605	-193,859	-448,273	-531,182	-627,168	-739,480	-871,270
Net Income	303,381	258,662	483,801	645,596	259,076	232,985	492,061	1,152,702	1,365,896	1,612,717	1,901,521	2,240,408
Other Comprehensive Income (loss), Net of Tax:												
Foreign Currency Translation Adjustment	36,703	58,577	-73,885	-7,773	-4,035							
Comprehensive Income	\$340,084	\$317,239	\$409,916	\$637,823	\$255,041							
Basic Earnings per Share (\$ per share)	\$2.21	\$1.90	\$3.63	\$4.95	\$1.99							
Diluted Earnings per Share (\$ per share)	\$2.21	\$1.90	\$3.61	\$4.93	\$1.98							
Basic Weighted Average # of shares outstanding	137,086	135,988	133,413	130,393	130,271							
Diluted Weighted-Average # of Shares Outstanding	137,302	136,198	133,971	130,955	130,842							

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Sensitivity Analysis

Sensitivity Analysis - DCF			
\$ 337.71	2.00%	3.00%	4.00%
13.05%	177.66	190.63	206.46
12.05%	198.42	214.97	235.64
11.05%	223.94	245.55	273.30
10.05%	256.00	285.03	323.65
9.05%	297.41	337.83	394.27
8.05%	352.80	411.90	500.18
7.05%	430.52	523.00	676.12

Sensitivity Analysis - FCFF Multiple					
\$ 199.79	16.00	18.00	20.00	22.00	24.00
13.05%	263.86	289.34	314.81	340.28	365.76
12.05%	277.00	303.87	330.74	357.61	384.48
11.05%	290.97	319.32	347.67	376.03	404.38
10.05%	305.81	335.74	365.68	395.61	425.55
9.05%	321.60	353.22	384.84	416.46	448.08
8.05%	338.40	371.82	405.24	438.66	472.07
7.05%	356.31	391.64	426.97	462.31	497.64

DCF Term. Growth	
2.00%	3.00%
316.08	363.51

DCF - EV/EBITDA Multiple	
Historical High	40.00
Midpoint	27.00
Worst Case	18.00

Rel Val - EV/EBITDA	
Historical High	40.00
Midpoint	27.00
Worst Case	18.00

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Assumptions

	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026
	1/29/17	1/28/18	2/3/19	2/2/20	1Q-3Q 20	4Q 20	1/31/21	2/6/22	2/5/23	2/4/24	2/3/25	2/2/26
Income Statement												
					Annualized	Annualized						
Sales Growth (% annual growth)		13.00%	24.13%	21.01%	-32.84%	-63.84%	15.00%	15.00%	10.00%	10.00%	10.00%	10.00%
Cost of goods sold ex Dep (% of sales)	-45.09%	-43.11%	-41.04%	-40.06%	-40.71%	41.00%	41.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Depreciation Expense (% of Beginning Net PPE)		25.56%	25.86%	28.55%	26.44%	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%
Selling, general and administrative expenses (% of sales)	-33.21%	-34.13%	-33.77%	-33.53%	-39.82%	-33.00%	-33.00%	-33.00%	-33.00%	-33.00%	-33.00%	-33.00%
Income tax expense (% of sales)	-28.23%	-43.77%	-32.36%	-28.06%	-28.50%	-28.00%	-28.00%	-28.00%	-28.00%	-28.00%	-28.00%	-28.00%
Balance Sheet												
Required Cash (% of Sales)	31.34%	37.39%	26.80%	27.48%	18.02%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Accounts receivable (% of Sales)	0.39%	0.72%	1.09%	1.01%	2.98%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Inventories (% of COGS)	-28.23%	28.85%	30.00%	32.53%	53.15%	28.00%	28.00%	28.00%	28.00%	28.00%	28.00%	28.00%
Prepaid and receivable income taxes (% of Sales)	-6.77%	1.85%	1.50%	2.14%	4.72%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other prepaid expenses and other current assets (% of Sales)	5.02%	1.82%	1.76%	1.77%	3.37%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
Capital Expenditures (% of Sales)	0.00%	-5.96%	-6.87%	-7.11%	-4.79%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%
Right-of-use lease assets (% of Sales)		started in 2020			17.33%	20.04%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%
Deferred income tax assets (% of Sales)	1.12%	1.23%	0.81%	0.79%	0.89%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%
Other non-current assets (% of Sales)	0.87%	1.18%	1.14%	1.41%	2.60%	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%
Accounts payable (% of COGS)	-2.35%	-2.16%	-7.08%	-5.02%	-11.08%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
Accrued inventory liabilities (% of COGS)	-0.81%	-1.14%	-1.20%	-0.40%	-0.73%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Accrued compensation and related expenses (% of sales)	2.36%	2.65%	3.32%	3.36%	5.34%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
Current lease liabilities (% of sales)	0.00%	0.00%	0.00%	3.23%	2.71%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%
Current income taxes payable (% of sales)	1.29%	0.59%	2.05%	0.66%	3.88%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Deferred revenue (% of sales)	3.01%	3.12%	3.02%	3.03%	0.16%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Other current liabilities (% of sales)	2.24%	3.26%	3.43%	3.14%	0.67%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%
Non-current lease liabilities (% of sales)	0.00%	0.00%	0.00%	15.37%	17.83%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Non-current income taxes payable (% of sales)	0.00%	1.82%	1.28%	1.21%	1.21%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Deferred income tax liabilities (% of sales)	0.31%	0.05%	0.43%	1.09%	1.32%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%
Other non-current liabilities (% of sales)	2.06%	2.24%	2.49%	0.14%	0.23%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%
Interest Rate on Cash						1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Interest Rate on Borrowings						3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

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Cash Flow Projections

Cash Flow Projections	4Q 2021	2/6/22	2/5/23	2/4/24	2/3/25	2/2/26
Net Income	232,985	1,152,702	1,365,896	1,612,717	1,901,521	2,240,408
Plus Dep	48,592	208,444	229,867	256,625	287,594	323,165
Plus Amort	2,700	8,525	8,525	8,525	8,525	8,525
Change in						
Accounts Receivable	18,659	-5,883	-6,051	-6,859	-7,778	-8,824
Inventories	301,197	75,030	-50,828	-57,614	-65,333	-74,118
Prepaid and Receivable Income Taxes	86,046	-11,766	-12,102	-13,718	-15,555	-17,647
Other Prepaid Expenses and Other Current Assets	48,251	-10,295	-10,589	-12,003	-13,611	-15,441
Accounts Payable	-76,887	-13,398	9,076	10,288	11,667	13,235
Accrued Inventory Liabilities	6,124	-2,680	1,815	2,058	2,333	2,647
Accrued Compensation and Related Expenses	-56,750	19,119	19,666	22,291	25,278	28,677
Current Lease Liabilities	35,034	18,825	19,363	21,948	24,889	28,236
Current Income Taxes Payable	-107,247	4,412	4,538	5,144	5,833	6,618
Deferred Revenue	117,520	17,649	18,153	20,576	23,333	26,471
Lease Termination Liabilities	-104,760	0	0	0	0	0
Other Current Liabilities	105,613	18,531	19,060	21,605	24,500	27,794
Cash from Operations	657,078	1,482,575	1,620,787	1,900,443	2,230,117	2,618,721
Capital Expenditures	-100,726	-287,789	-328,969	-371,326	-419,337	-473,781
Right-of-Use Lease Assets	15,169	-100,008	-102,866	-116,599	-132,222	-150,001
Goodwill	0	0	0	0	0	0
Deferred Income Tax Assets	-1,328	-4,706	-4,841	-5,487	-6,222	-7,059
Other Non-Current Assets	45,391	-6,765	-6,959	-7,888	-8,944	-10,147
Non-Current Lease Liabilities	-18,694	88,243	90,764	102,881	116,666	132,354
Non-Current Income Taxes Payable	8,241	7,354	7,564	8,573	9,722	11,029
Deferred Income Tax Liabilities	-10,198	5,295	5,446	6,173	7,000	7,941
Other Non-Current Liabilities	24,536	4,706	4,841	5,487	6,222	7,059
Cash from Investing	-37,609	-293,672	-335,020	-378,185	-427,115	-482,605
Beginning Cash	481,581	1,101,050	2,289,154	3,560,964	5,053,232	6,805,557
Change in Cash	619,469	1,187,223	1,271,810	1,492,268	1,752,324	2,059,002
Ending Cash	1,101,050	2,289,154	3,560,964	5,053,232	6,805,557	8,864,559
Less Required Cash	-123,338	-140,987	-159,140	-179,716	-203,049	-229,520
Ending Excess Cash (Revolver)	977,711	2,143,127	3,390,189	4,853,356	6,571,437	8,590,119

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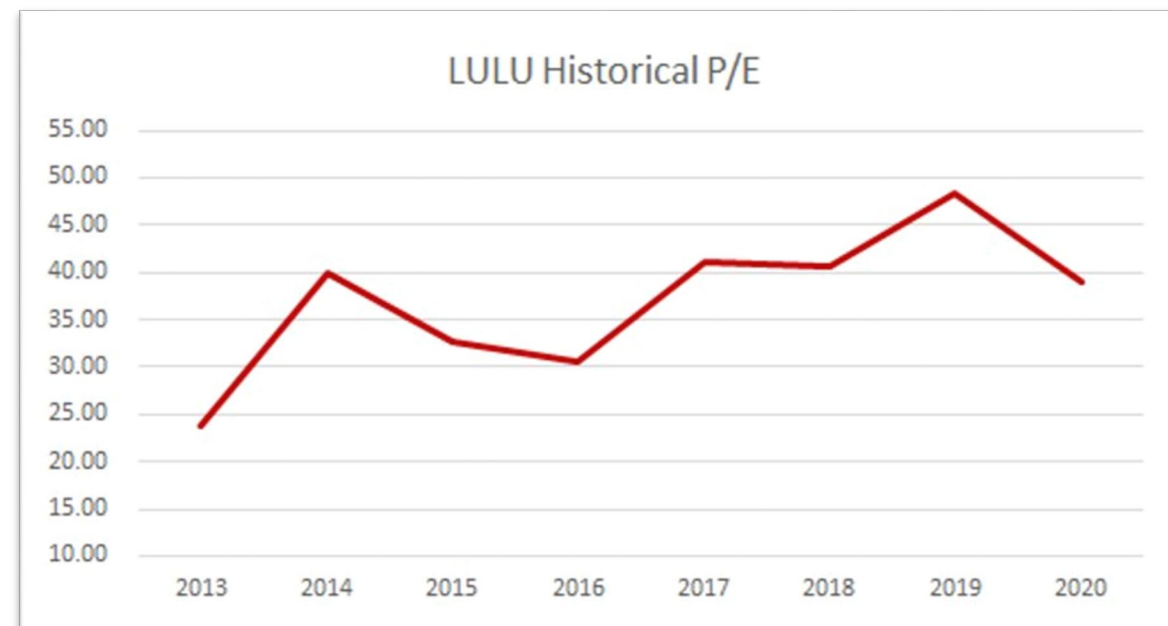


Relative Valuation

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Company	EV/EBITDA
Lulu	27.30
Nike	27.70
Adidas	18.20
VF Corp	18.30
Puma	19.10
Under Armour	25.90
Average	22.70

Company	P/E
Lulu	44.60
Nike	37.80
Adidas	36.20
VF Corp	27.20
Puma	47.40
Under Armour	108.20
Average	38.60



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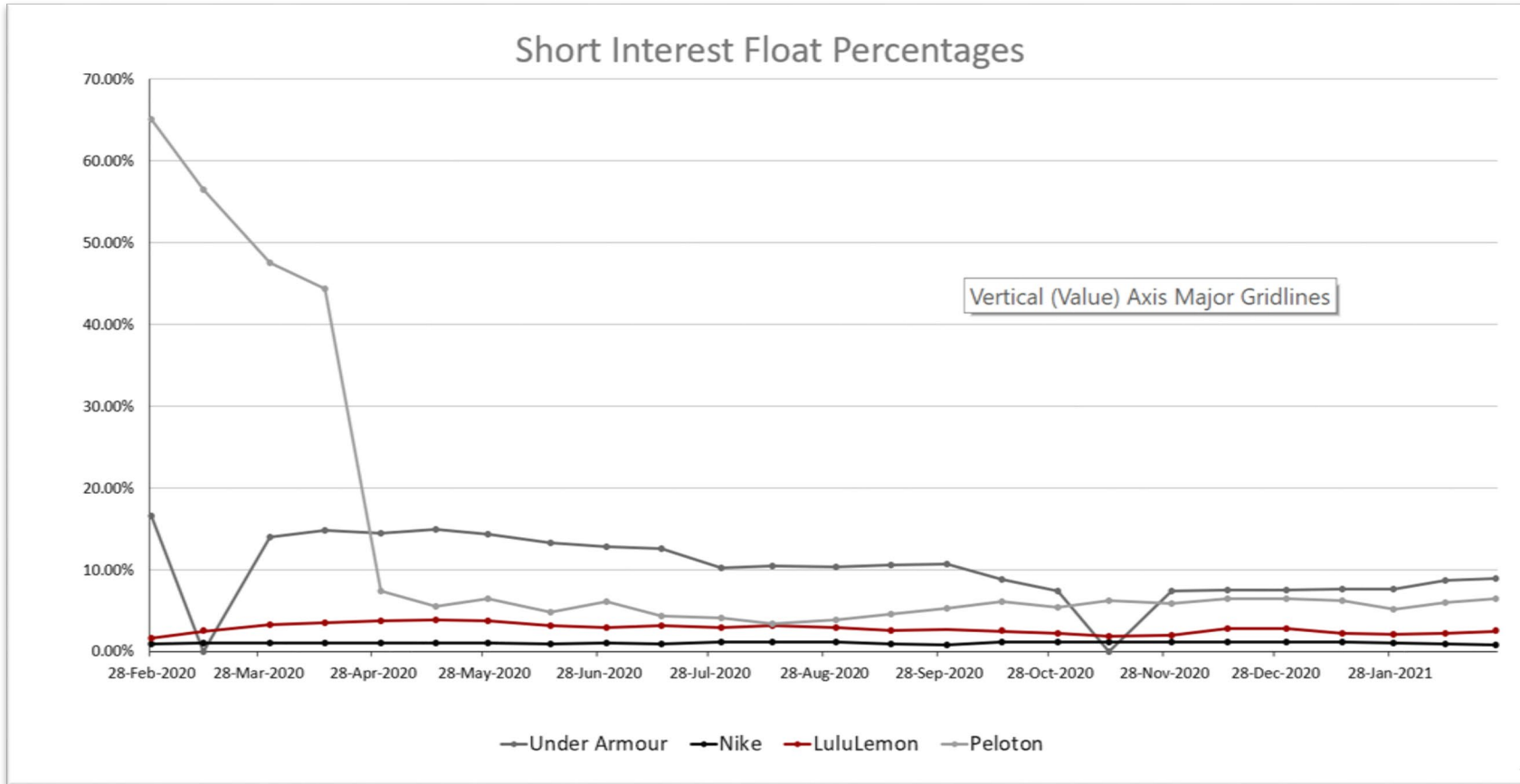
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Summary

	2017 1/29/17	2018 1/28/18	2019 2/3/19	2020 2/2/20	Proj 2021 1/31/21	Proj 2022 2/6/22	Proj 2023 2/5/23	Proj 2024 2/4/24	Proj 2025 2/3/25	Proj 2026 2/2/26
Common Size Ratios										
Net Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Gross Profit	51.17%	52.80%	55.23%	55.87%	54.77%	65.56%	65.67%	65.72%	65.75%	65.78%
Income from Operations	17.96%	17.21%	21.46%	22.34%	16.66%	32.38%	32.51%	32.57%	32.62%	32.66%
Income before inc tax expense	18.03%	17.36%	21.75%	22.55%	16.68%	32.89%	33.33%	33.62%	33.84%	34.01%
Net Income	12.94%	9.76%	14.71%	16.22%	11.97%	23.68%	23.99%	24.21%	24.37%	24.49%
Profitability Ratios										
ROA		14.15%	23.70%	24.06%	15.19%	25.77%	22.84%	20.76%	19.26%	18.13%
ROE		17.50%	31.80%	38.00%	22.63%	38.77%	32.27%	28.19%	25.43%	23.46%
Liquidity Ratios										
Quick Ratio	3.07	3.45	1.83	1.83	1.76	3.17	4.2	5.07	5.82	6.46
Current Ratio	4.8	4.91	2.86	2.91	1.21	3.97	5	5.87	6.62	7.26
Solvency Ratios										
EBIT	421,152	456,001	705,836	889,110	684,914	1,521,869	1,724,331	1,951,347	2,208,154	2,499,056
EBIT/ Interest Expense	-	-	-	-	-	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
EBITDA	508,849	564,236	828,320	1,051,043	866,715	1,730,313	1,954,198	2,207,972	2,495,748	2,822,221
EBITDA/Sales	0.22	0.21	0.25	0.26	0.21	0.37	0.37	0.37	0.37	0.37
EBITDA/Interest Expense	-	-	-	-	-	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Debt/Equity	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Debt/Capital	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Cashflow										
Net Income	303,381	258,662	483,801	645,596	492,061	1,152,702	1,365,896	1,612,717	1,901,521	2,240,408
*+ Deprec & Amort	87,697	108,235	122,484	161,933	181,801	208,444	229,867	256,625	287,594	323,165
*+ After Tax Interest Expense	0	0	0	0	0	-	-	-	-	-
Net Working Capital	381,706	122,440	136,494	-138,213	372,801	109,545	12,102	13,718	15,555	17,647
- Capital Expenditures	-	-157,864	-225,807	-283,048	-100,726	-287,789	-328,969	-371,326	-419,337	-473,781
Free Cash Flow to the Firm (FCFF)	772,784	331,473	516,972	386,268	945,936	1,186,261	1,271,535	1,493,444	1,755,214	2,063,917



Short Interest % of Equity Float



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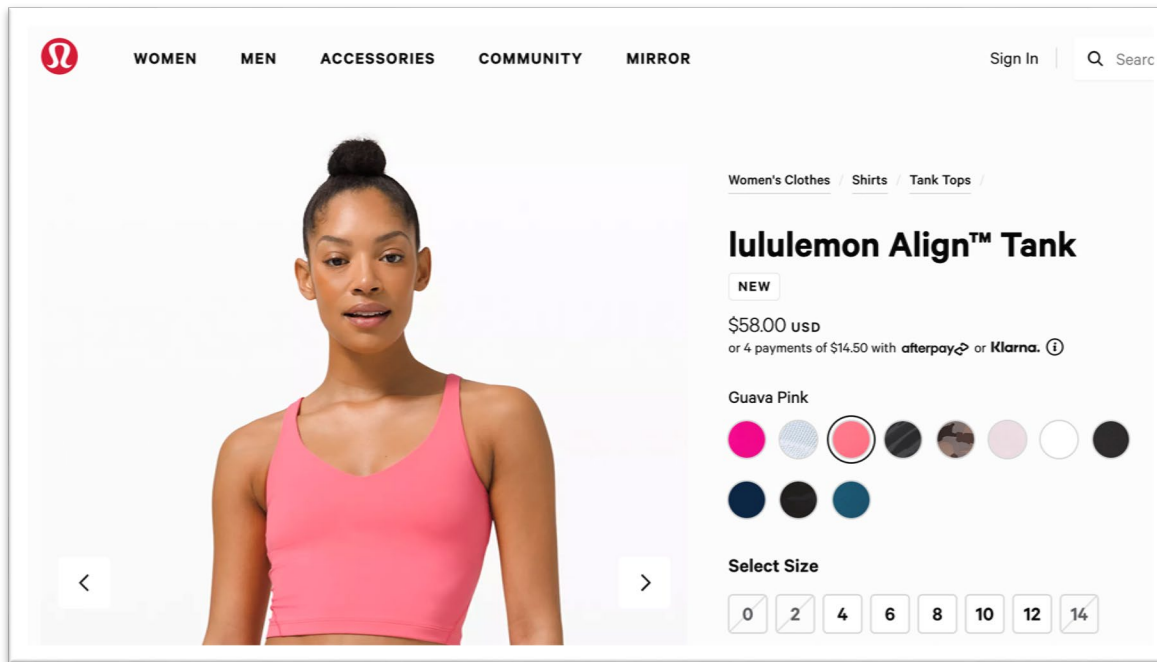
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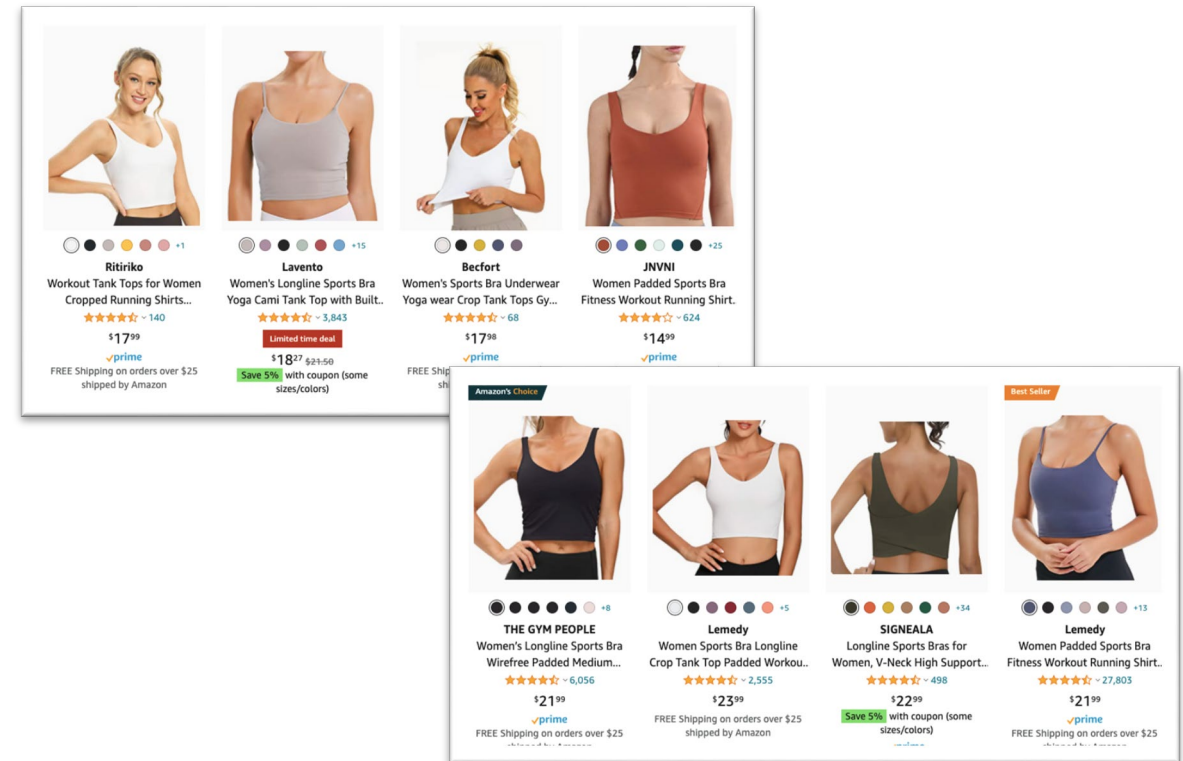
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Knock-off Examples

Lululemon's Align Tank



Align Tank Dupes



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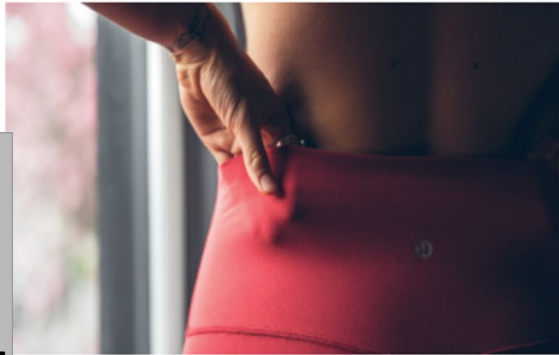
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Fabric Differentiation



Nulu™ Fabric

Developed as part of our Naked Sensation innovation, Nulu™ fabric delivers that next-to-nothing feeling with your must-have technical performance qualities.

[LEARN MORE](#)



Luon®

Our signature four-way stretch fabric is sweat-wicking and cottony soft—we love this performance fabric for its serious stretch and recovery.

[LEARN MORE](#)



Luxtreme®

A sweat-wicking, four-way stretch fabric that's cool to the touch and fits like second skin. This smooth fabric offers support and technical performance when we are sweating our hardest.

[LEARN MORE](#)

- Eclat Textile Co.
- Projects double digits in growth this quarter due to increase in demand for fabric
- Six Sigma



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EXECUTIVE SUMMARY

SAMANTHA KELLER – NICOLE DAY – MEGAN HARRIS – LACEY LAMBORN
JON M. HUNTSMAN SCHOOL OF BUSINESS | UTAH STATE UNIVERSITY
WILLIAM & MARY WOMEN'S STOCK PITCH COMPETITION | MARCH 2021

Business Description. Lululemon Athletica (NASDAQ: LULU), founded in Vancouver, CA in 1998, is a technical athletic apparel company for yoga, running, training and other athletic pursuits. LULU's primary target customer is a sophisticated and educated individual who understands the importance of an active, healthy lifestyle. LULU's performance is due to three main drivers - international growth, omnichannel experience, and product innovation.

International. LULU currently has 515 stores in 17 countries. In the first 9 months of 2020 31.5% of international sales growth came from China alone. We anticipate international presence, especially in China, to be one of the company's biggest drivers of future growth.

Omnichannel. LULU provides a seamless in-store as well as online customer experience. When the pandemic hit the company transitioned seamlessly to online shopping. In first 9 months of 2020, LULU posted a 105% growth in DTC, up from 40% growth in same period 2019.

Innovation. LULU is implementing product innovation through developing a men's line as well as the July 2020 acquisition of "Mirror", an online subscription-based personal training technology which generated \$150m of incremental sales in 2020. Men's apparel revenues increased 30% in both 2018 and 2019 then decreased by 5.52% in 3Q 2020, attributed to men's pandemic shopping behavior. However, we expect the men's pre-pandemic revenue growth rate to resume in 2021-2022.

Historical Performance. LULU reports a clean balance sheet with zero debt as of third quarter 2020, with access to a \$600 million line of credit. Historically, LULU has generated enough cash to finance organic growth, even paying cash for the \$500m acquisition of Mirror in the midst of the pandemic. Inventory turnover decreased of 28% from 2019 to 2020 however negotiating better payment terms with suppliers increased A/P from 84 days to 116 days. The overall cash cycle lengthened slightly more than 2019, and equal to 2017's cash cycle despite a full shutdown of their stores for much of 2020. LULU continued strong sales growth; in 2018, LULU's revenue rose 24%, with DTC sales increasing by 45%. In 2019, we saw revenue increase again by another 21% and DTC sales increased by 35%.

Competitive Landscape. Since 2014 LULU has maintained steady market share growth of 1% per year in the global athleisure apparel industry. We anticipate market share percentage growth will continue due to international expansion, increased omnichannel distribution, and continued innovation. LULU faces strong competition from both established brands (Nike, Adidas, Under Armour) and privately-held smaller brands (Sweaty Betty, Gym shark, Fabletics, Zella. LULU operates in the high-end market segment and differentiates its brand through lifestyle, community, and perceived quality. LULU strengthens customer loyalty by offering a 5-year warranty on all products if the customer is not satisfied with performance or quality.

With the acquisition of Mirror, LULU expanded its reach into digital home gym equipment. At home gym equipment sales (treadmills, cyclers, rowers, stair steppers) in the United States grows 9.7% per year. We anticipating LULU's high-end target audience will be eager consumers of the Mirror product despite a new group of competitors including Peloton, Tonal, and Tempo.

Management and Culture. Calvin McDonald joined LULU as CEO in August of 2018. Prior to joining LULU, McDonald was CEO at Sephora. McDonald has a strong track record directing Sephora through progressive growth and innovation, as well as strengthening culture through connecting all levels of the organization. McDonald echoes the importance of community and healthy lifestyle at LULU through exemplary leadership and performance. McDonald himself, an avid runner, biker and swimmer aspires to be an "Ironman".



LULU demonstrates a culture of diversity among its board of directors, maintaining a 50/50 ratio of men to women, with board members hailing from different continents including Latin America, Asia, and Europe. Members of the board lead active lifestyles and bring a diverse range of industry and technical expertise. Julie Averill, LULU's Executive Vice President and CTO with over a decade of experience from Nordstrom and REI, has played a critical role in leveraging innovative technology to transform LULU's retail business and enhance guest experiences.

Investment Thesis and Risks. We recommend a buy of LULU at the current market price of \$309 with 12% upside to \$345 per share. Our recommendation is based on good sales growth visibility from international, omnichannel, and men's/mirror business in a rebounding post-covid global economy.

LULU's growth rate has been dramatic in recent quarters and growing too quickly could lead to a compromise in quality. Past issues, when a new line of leggings released in 2013 were sheer, led to an investment in Six Sigma, a third-party quality assurance firm which has effectively eliminated this issue. There have not been any quality issues since then.

The Mirror acquisition introduces the risk that LULU neglects core apparel lines in pursuit of fitness equipment and tech development. In 2017 Under Armour diversified into fitness technology which led to loss of focus on its core apparel business and thus market share. LULU's focus on expansion into new markets like menswear and new geographic locations keeps them focused on their apparel brand. Additionally, the original Mirror CEO, Brynn Jinit Putnam, will lead the integration of Mirror, lending her expertise in both the product and the industry to the success of the acquisition.

Finally, product knock-offs are a significant risk. A quick Amazon search brings up hundreds of options for a LULU "Align Legging" dupes. LULU's product is superior due to exclusive fabric sourced from a single producer of Luon, Nulu and Luxtreme fabric unique to LULU's brand. Having one supplier creates a potential risk if the supplier decides to integrate forward, selling to competitors who will mimic the product at a lower price. LULU strategically prepares by targeting a higher-end market, where customers are less likely to be price sensitive.

Valuation. We value LULU using three different methodologies: DCF using a terminal growth rate (weighted 50%), DCF using a terminal multiple (weighted 25%), and a relative valuation method (weighted 25%). The critical assumption of the DCF models is sales growth. We broke down sales growth into in-store sales (10% growth assumption) based on 43 new stores per year at an average revenue of \$5m per store, omnichannel sales (15% growth), and other (Mens/Mirror 10% growth). These individual projections roll up to an average 14% sales growth over our forecast period, which compares to 21% annually pre-covid.

We weighted our terminal growth DCF at 50% because it is the most conservative while providing good visibility of cash flows. Using this method we arrive at a value of \$338 per share assuming 3.5% terminal growth. We weighted the terminal multiple DCF at 25% due to concern about LULU's relatively high EV/EBITDA multiple compared to its peers and arrived at a value of \$385 per share. Using a relative valuation method, we arrive at a value of \$326 per share, again weighting this method lower because LULU's high EV/EBITDA ratio of 27 places it 20% above the industry mean of 22.7. From our valuations and given the best- and worst-case multiples, we arrive at a price target of \$345 per share, representing a 12% gain from the current \$309 share price.

