

# Lululemon Athletica Inc. (NASDAQ: LULU)

Fundamental Analysis and Investment Recommendation

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**Team: Quantum Returns**

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**Dexter Cly**  
Recommendation



**Andrew Richardson**  
Valuation



**Diego Llanos**  
Industry



**Daniel Sun**  
Risks

# BUY @ \$255.31 Target | +46% Upside



## LULULEMON

Current Stock Price NASDAQ: LULU	\$174.09
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12-Month Target Price	\$255.31 / share
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Upside Potential	+46%
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Proposed Allocation (Shares)	115 Shares (\$20K AUM)
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Valuation Method	DCF (Base Case)
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Key Assumptions	WACC 9.08%, g = 3%
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Valuation Range	\$174 - \$316 / share
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Portfolio Impact	\$9.3K unrealized gain on \$20K allocation
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### Snapshot Summary

Market Cap	~\$21B
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FY2024 EPS	\$14.64
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P/E Ratio	13x vs. 25–30x historical
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### International Expansion



### Margin Leadership



### Undervalued Premium Brand



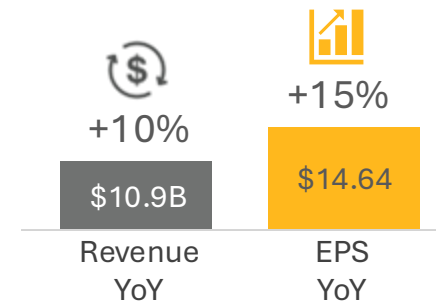
### AI-Driven Innovation Catalyst

# Company Snapshot – Lululemon Athletica Inc. (NASDAQ: LULU)



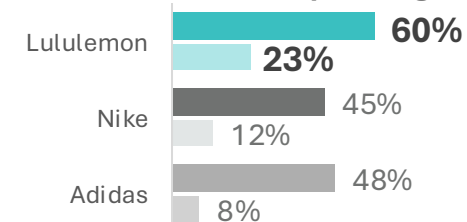
Founded	1998, Vancouver, Canada
Employees	~39,000 Worldwide
Store	784 Global
Core Business	Athletic & Lifestyle Apparel, Premium Performance Brand
Strategic Framework	Power of Three x 2
Product Innovation	New Fabrics & Design IP
Guest Experience	Omnichannel + Community Connection
Market Expansion	Geographic & Demographic Growth (Menswear, Footwear)

## Revenue / EPS Growth

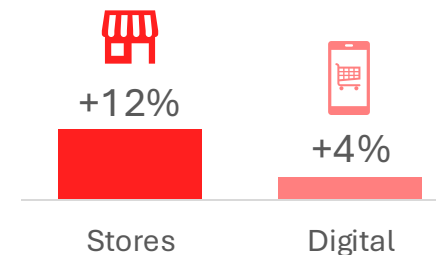


## Profitability

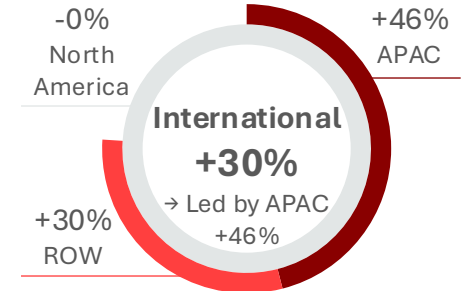
60 % Gross → 23 % Operating Margin



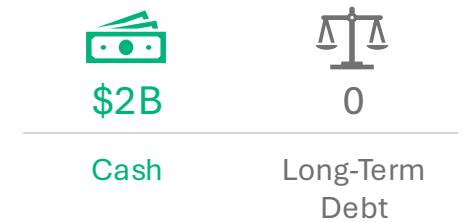
## Channel Growth



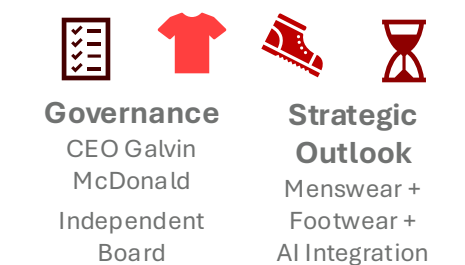
## Market Growth



## Financial Strength



## Strategic Outlook



# Revenue Assumptions



## Base Key Drivers:

- Gradual U.S. recovery **6% CAGR**
- Steady China/Intl
- Direct to consumer growth
- Stable pricing power

## Bear Key Drivers:

- Tariffs persist **3- (.9)% CAGR**
- U.S. demand stagnates
- China/Intl growth slows

## Bull Key Drivers:

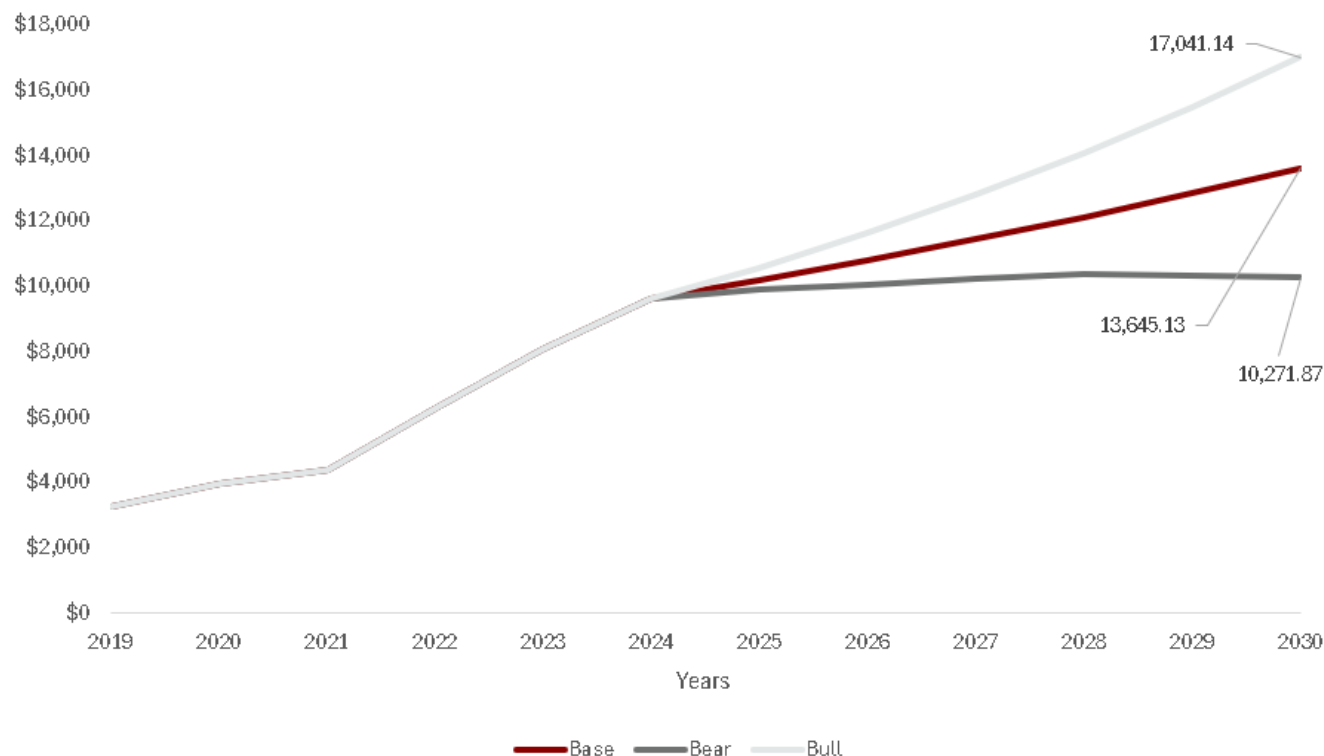
- Tariff relief **10% CAGR**
- Upside from Men's and Footwear
- Store openings
- Strong growth in China/Intl
- Digital expansion and DTC

## WACC:

**9.08% - Base and Bull**

**10% - Bear**

Revenue Projection in Millions



## Perpetuity Growth Rate :

**3% - Base and Bull**

**1.5% Bear**

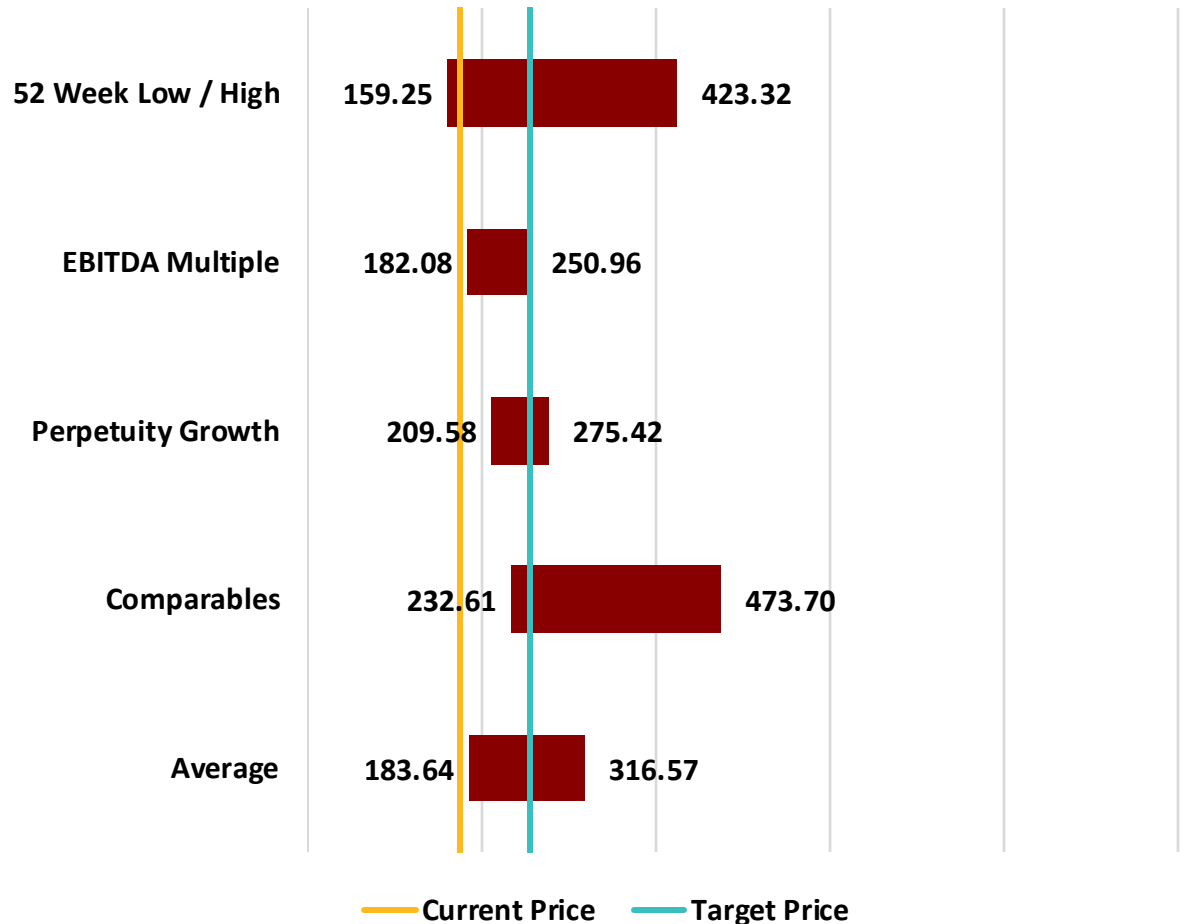
# Outcomes



Valuation Scenarios					
Model	Base	Bear	Spread	Bull	Valuation Weight
Average	207.06	157.46	159.29	316.61	20.0%
Comparables	399.25	232.61	241.09	473.70	20.0%
Perpetuity Growth	237.35	149.74	125.96	275.49	30.0%
EBITDA Multiple	209.52	163.39	87.85	251.03	30.0%
52 Week Low / High	174.09	159.25	264.07	423.32	
Target Price	255.39	171.95		316.02	100.0%

Upside (Downside)				
	Current	Bear	Base	Bull
Stock Price	174.09	171.95	255.31	316.02
Upside (Downside)		(2.14)	81.30	141.93
Upside (Downside) %		(1.2%)	46.7%	81.6%

Valuation Range and Implied Share Price



# WACC Calculation

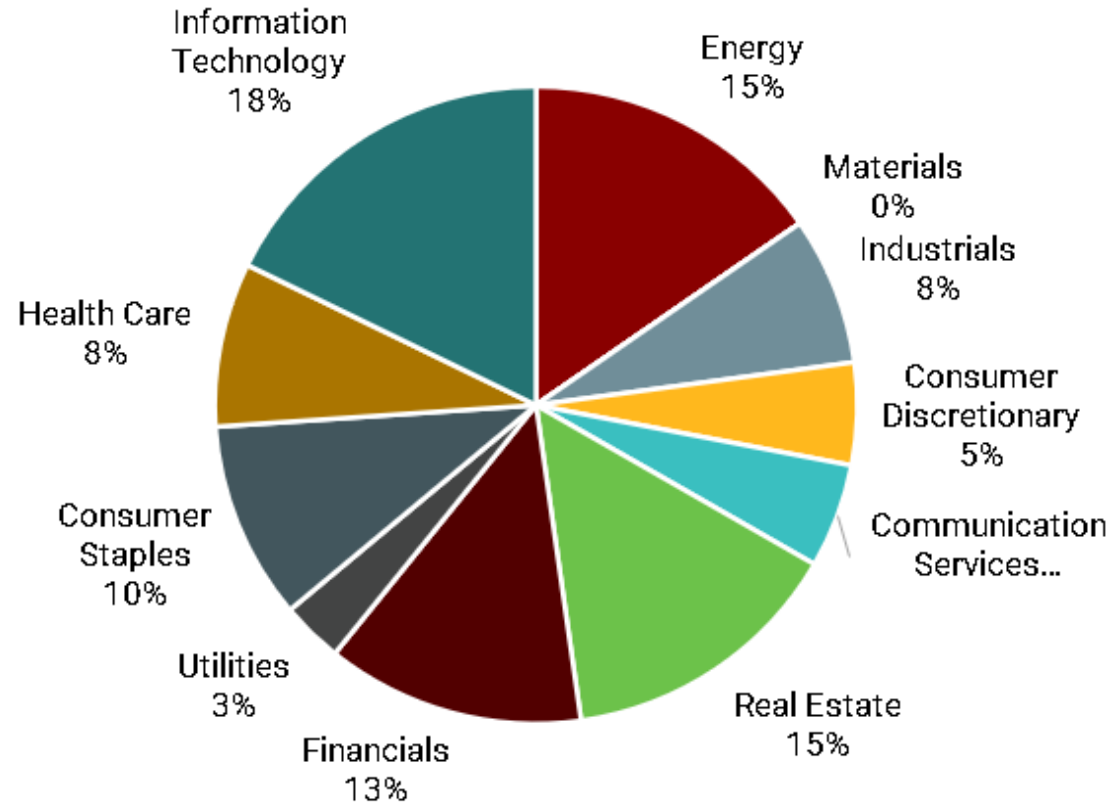


		Weighted Average Cost of Capital		9.08%		
<b>Equity</b>		<b>+ Debt</b>			<b>+ Preferred Equity</b>	
<b>Cost of Equity</b>		<b>Cost of Debt</b>			<b>Cost of Preferred Equity</b>	
Risk Free Rate	4.11%	1 - Effective Tax Rate	71.72%		Preferred Dividend	
+ Equity Risk Premium	5.35%	Effective Tax Rate	28.28%		/ Preferred Equity	
Beta	0.93	x Total Pre-Tax Cost of Debt	5.54%			
x Country / Region Premium	5.75%	Note Rate x ST Debt as % of Total Debt	0.62%			
Expected Market Return	9.86%	Short Term Debt as % of Total Debt	17.46%			
- Risk Free Rate	4.11%	x Note Rate	3.57%			
		+ Bond Rate x LT Debt as % of Total Debt	3.39%			
		Long Term Debt as % of Total Debt	82.54%			
		Bond Rate	4.11%			
		x Debt Adjustment Factor	1.38			
Total Cost of Common Equity	9.46%	Total Cost of Debt	3.97%		Total Cost of Preferred Equity	0.0%
Market Cap	21,114	Total Debt	1,575.79		Total Preferred Equity	-
% of Total Capital	93.1%	% of Total Capital	6.9%		% of Total Capital	0.0%
Share Price	174.09	ST Debt	275.15		Preferred Equity and Hybrid Capital	-
Shares Outstanding	121.28	LT Debt	1,300.64		Total Capital	22,690

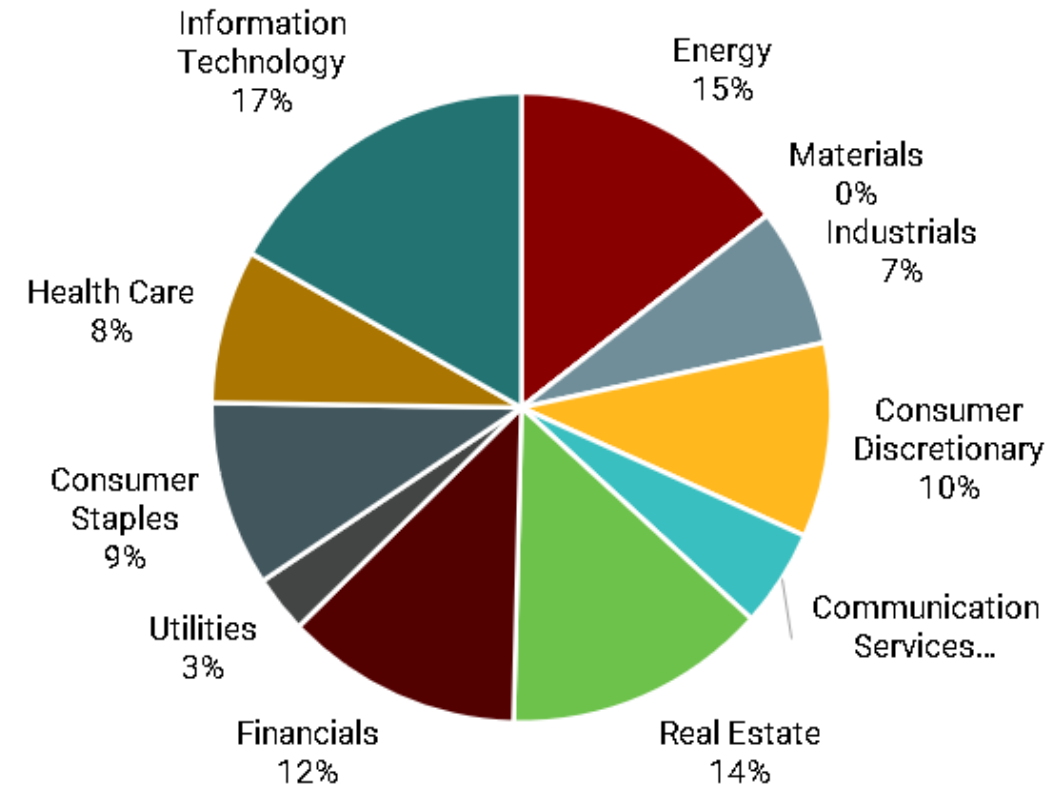
# Portfolio Sector Allocation



## Existing - Sector Allocations



## Adjusted - Sector Allocations



# Peer Comparison & Ratios



## Peer Comparison

#	Companies	LTM Revenue	LTM EBITDA	% Ebitda	P / E	EV / Sales	EV / EBITDA	EV / EBIT
1	NIKE INC -CL B	46.309	4.477	9.7%	32.8	2.0x	20.4x	24.7x
2	ADIDAS AG	26.666	3.324	12.5%	27.7	1.8x	14.2x	23.8x
3	LULULEMON ATHLETICA INC	10.904	2.977	27.3%	11.8	2.2x	7.9x	9.5x
4	AMER SPORTS INC	5.698	980	17.2%	65.8	4.0x	23.4x	36.6x
5	ON HOLDING AG-CLASS A	3.139	476	15.2%	80.8	4.9x	32.2x	44.8x
6	DECKERS OUTDOOR CORP	5.125	1.292	25.2%	17.1	2.7x	10.8x	11.5x
7	VF CORP	9.496	1.348	14.2%	15.1	1.0x	7.2x	28.4x
Mean		-	-	13.7%	-	2.1x	15.3x	25.5x
LULULEMON - TARGET Base Case		-	-	27.0%	-	2.9x	10.9x	12.8x

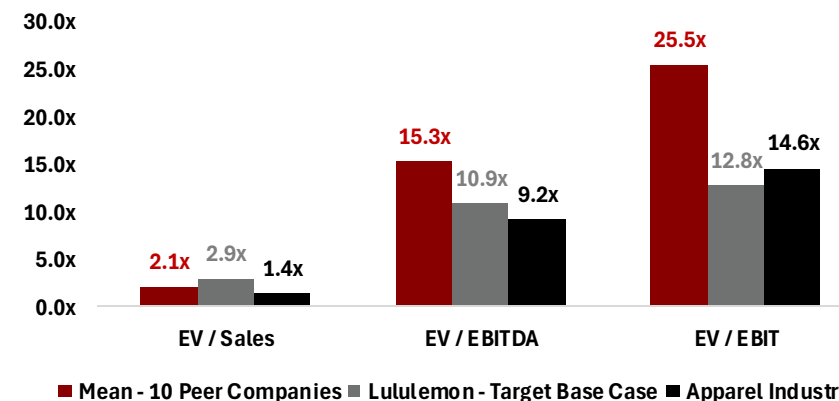
## Industry & Peer Comparison

	Number of Firms	EV / Sales	EV / EBITDA	EV / EBIT
Mean - 10 Peer Companies	10	2.1x	15.3x	25.5x
Lululemon - Target Base Case	1	2.9x	10.9x	12.8x
Apparel Industry	37	1.4x	9.2x	14.6x

## Key Notes

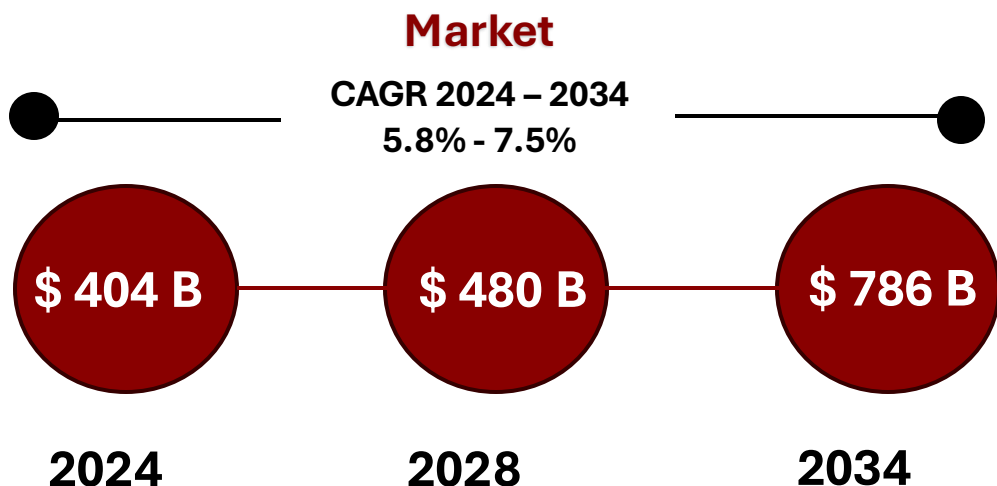
- **EBITDA Margin:** Lululemon's multiples should be higher, not lower than the overall market.
- Its **valuation multiples** are stronger than the broader apparel industry but weaker compared to its direct peers.
- Lululemon belongs to the **Textiles, Apparel & Luxury Goods** sector.
- Even under our base case scenario, the company's multiples remain below those of its peers.

## Industry & Peer Comparison





# Industry & Competitive Landscape



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## Overview

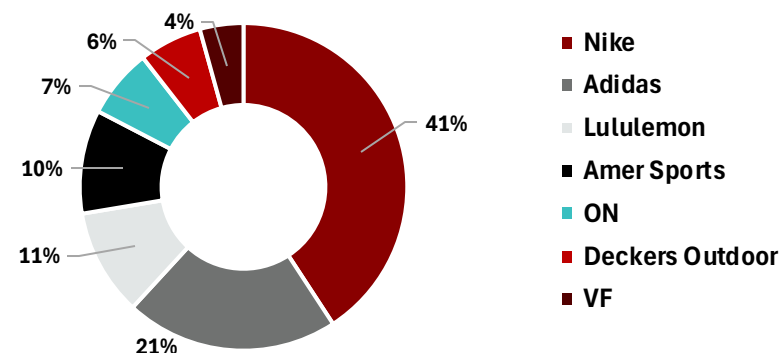
- Global Market 404 B (2024)
- Historical growth (2015–2024):** + ~ 8–9 % CAGR, outperforming traditional apparel (~ 3 %)
- North America remains the largest region (~ 40 % of global sales), followed by APAC (~ 30 %)

3

## Competitive Landscape

- Highly fragmented market with clear leaders in premium and mass segments.
- Top 5 brands** control between 20–25% of total market share.
- Lululemon:** Holds 5–6% share in apparel/activewear, but **industry-leading margins** (EBITDA - 27%)

## Top 7 Companies by Revenue



2

## Key Growth Drivers

- Health & Wellness Megatrend:** Consumers shift toward active lifestyles
- Athleisure Normalization:** Sportswear is now used for daily wear and work.
- Digital Channels:** DTC & e-commerce revolutionized distribution.
- Material Innovation:** Technical fabrics, sustainability, and gender-neutral design.

4

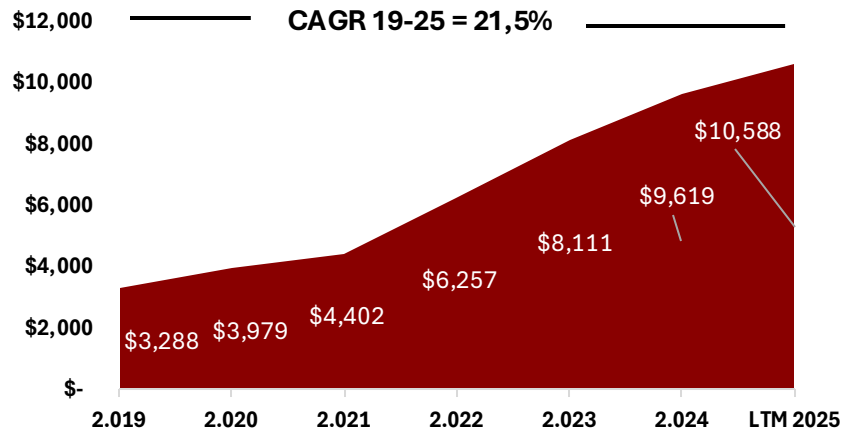
## Challenges

- Increasing **competition** from DTC startups and Asian brands (Anta, Lorna Jane, Gymshark).
- Sustainability Pressures:** Need to lower carbon footprint in textile supply chains.
- Economic Sensitivity:** Premium brands must maintain pricing power amid inflation.

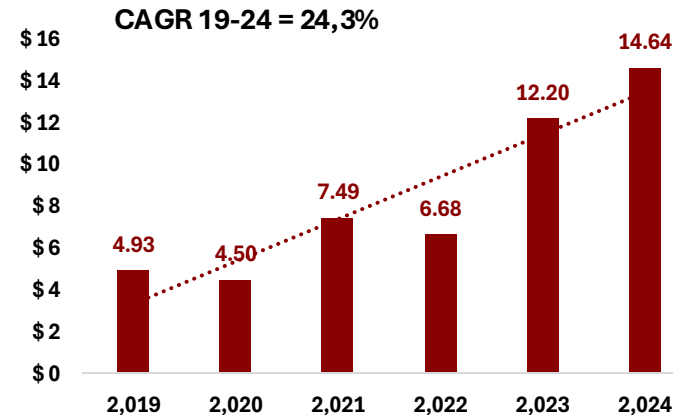


# Historical Financial Performance

## Net Revenue



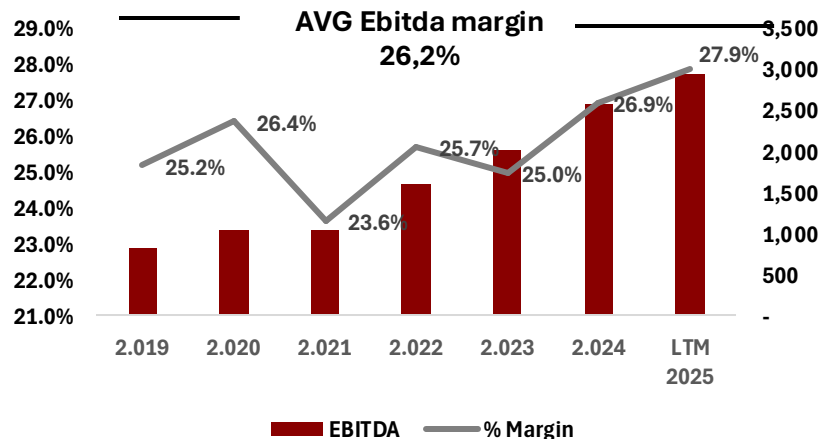
## EPS



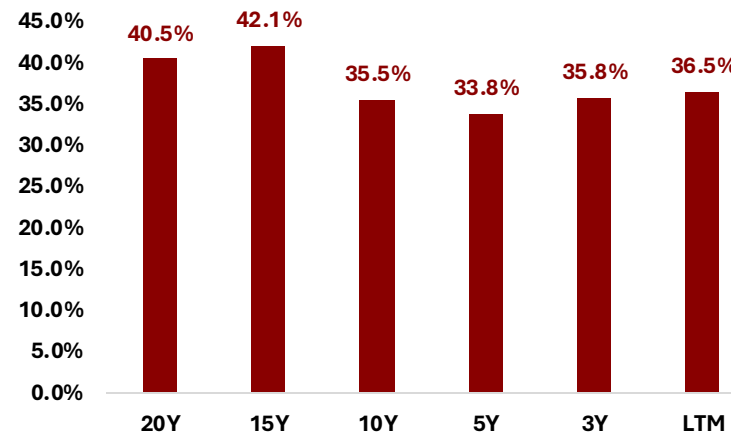
## Key Notes

- **Robust Top-Line Growth;** 21.5% CAGR (2019–2025)
- **Sustained Profitability and Operational Excellence:** EBITDA margin has remained consistently above 25%
- **EPS Compounding and Shareholder Value Creation:** EPS grew from **\$4.93** in **2019** to **\$14.64** in **2024**, a **3×** increase in five years. (TACC 24,3%)
- **Superior Returns on Invested Capital (ROIC):** Consistently delivers ROIC between **33–42%**, far exceeding its cost of capital (**8–9%**).
- “The activewear sector continues to expand faster than the global apparel market, and Lululemon’s premium positioning, strong ROIC, and loyal community uniquely position it to capture disproportionate value in this growth cycle.”

## Ebitda



## AVG ROIC



# Risks & Challenges



## Risks

- Tariffs & Supply Chain ★★★★★
  - Fabrics: Taiwan 35%, China 28% ...
  - Manufacture: Vietnam 40%, Cambodia 17%...
  - Canada Loophole: Bypass US heavy tariffs; 2/3 US online orders shipped from Canada fulfillment center enjoyed the minimal exemption.
- Macro Markets ★★★
  - Customers become sensitive to high prices when the economy outlook is weak.
  - The US & China are both facing economic headwinds.
  - Slower global demand amid weak consumer sentiment.

## Challenges

- Competition ★★★★★
  - The market for athletic apparel is highly competitive;
  - Established companies like Nike may extend product lines — Nike x SKIMS
  - New entrants like Alo Yoga have copied Lulu's success model.
- Slower Growth ★★★
  - Net revenue growth slowed in all markets. US from 11.9% in 2023 to 3.9% in 2024; China from 67.2% to 41.3%
  - The vertical retail strategy depends on opening new retail stores and the traffic of its own website.
- Upholding Brand Image ★★★
  - The most valuable assets. Success depends on brand
  - Maintaining, promoting and positioning the brand depends on a variety of efforts
  - May take a long time to build the reputation but one mistake to ruin
  - Maintaining premium image is critical to justify pricing power.

# SWOT Assessment



## INTERNAL FACTORS

### STRENGTHS +

- Premium brand image
- High profit margin ~50%
- Direct retail to build customer loyalty

### WEAKNESSES -

- High operating costs due to direct retail strategy
- No tangible moat — endless game to innovate

## EXTERNAL FACTORS

### OPPORTUNITIES +

- International expansion — strong growth in China (+41%) and APAC (+27%), with still-low brand awareness abroad
- New product lines targeting men (24% of net revenue during 2024)
- A potential turnaround stock, its share price has reflected the risks

### THREATS -

- Holds limited patents on fabrics and manufacture
- Intense competition from Nike, Alo Yoga, and new entrants offering similar products at lower price points

# Final Recommendations



1

## Investment Recommendation

**Recommendation:** *BUY*

**Target Price (12-month):** \$255.39/share

**Upside Potential:** +46% vs. current price

The company's superior ROIC (33–42%), strong DTC expansion, and robust EPS growth support continued outperformance.

2

## Major Risks (Bear Case Factors)

High exposure to Asia supply chain and U.S. tariffs.

Brand dilution risk amid heavy competition (Nike, Alo Yoga, SKIMS).

Slower store productivity in mature markets.

Sensitivity to macroeconomic downturns and inflationary pressures.

3

## Key Catalysts

Men's and footwear expansion to unlock new TAM.

Strong international growth momentum (China +41%, APAC +27%).

Increasing share of DTC and e-commerce channels.

Sustained pricing power through brand loyalty and innovation.

4

## Strategic Outlook

Lululemon remains a best-in-class premium athletic apparel brand. Its innovation, customer loyalty, and strong financial discipline position it for sustained double-digit EPS growth and ROIC above cost of capital in the long term.