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Consumer Cyclical | *Apparel Retail*
Aug 14, 2025

BLUEGRASS CAPITAL RESEARCH

Lululemon Athletica

Stretching Without Breaking a Thread

Despite a sentiment-driven sell-off, lululemon remains a leader in athleisure with elite margins, brand strength, a sturdy balance sheet, and a long growth runway. **We initiate $LULU as a BUY with a one-year PT $300.**

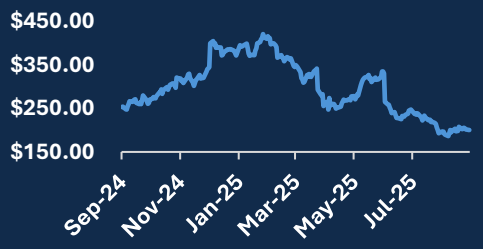
Thesis Point 1 Investor sentiment toward lululemon has flipped, driving shares down over 50% in six months despite limited changes to fundamentals. Q1 earnings results in June came in at the high end of guidance, management maintained their full-year targets, and the company gained over a percentage of market share, yet concerns around tariffs, rising inventory, slowing growth in the Americas, and potential share pressure from Alo and Vuori, along with multiple price target cuts, have weighed on the stock. Lululemon generates about $1,600 in sales per square foot (which is exceptional for a retailer), ranks above Alo and Vuori in versatility, quality, and performance, and holds the highest repeat purchase rate of any athletic brand. Alo and Vuori's estimated North American market shares of 3% and 1.3% remain far below lululemon's 21%, making rapid displacement difficult, though not impossible. Lululemon has no long-term debt, $1.3B in cash, $400M in credit facilities, and over $1.5B in annual free cash flow, with $1.1B remaining on its buyback authorization. Trading at 13x P/E and 8x EV/EBITDA versus Nike at 35x and 26x, the stock offers a significant discount to peers despite financial strength and international growth.

Thesis Point 2 International expansion remains a key long-term growth driver. In 2024, China revenue grew 41% year over year and now represents ~13% of total sales, with more than half of planned new stores slated for the Chinese market this year. Management views China as its most significant growth lever given rising demand in the premium fitness and wellness segment from China consumers, particularly middle-aged women. The Rest of World segment which includes all geographies outside of China and North America, grew 27% and represents ~15% of revenue, with entry into the massive and untapped market of India planned for 2026. With a growing consumer base and a shift toward active lifestyles in markets like China and India, we believe international revenue could exceed $11B by 2034, as management expects international sales to lap US sales. Menswear is also an underappreciated driver. It's grown at a 20% CAGR since 2018, and the market remains underpenetrated. Popular products like the ABC pant and Pace Breaker shorts have gone from Silicon Valley cult items to mainstream premium basics, and the category now makes up around 26% of revenue and continues to climb. We expect this segment to be a meaningful contributor to growth over the next few years, especially as men's adoption in international markets comes to parity with women's.

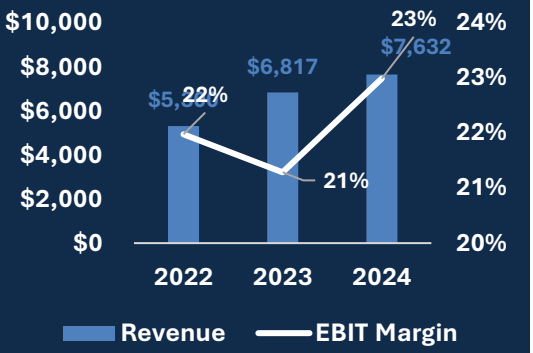
Company Overview Often credited with pioneering athleisure's rise to popularity, lululemon athletica designs, develops, and sells premium athletic apparel and accessories, primarily in the women's category, through a direct-to-consumer model encompassing 767 stores globally (See pie chart on pg. 2 for revenue breakdown) and a growing e-commerce platform. Marketing spend is ~4% of revenue, well below Nike (9%) and Adidas (12%), yet brand recognition and pricing power remain strong. Design and fabric innovation are led from Vancouver, where they develop proprietary, performance-focused fabrics, with manufacturing outsourced mainly to Vietnam, Cambodia, and Sri Lanka. This DTC model enables tighter pricing discipline and limited markdowns, supporting operating margins near 22%, well above peers.

TICKER:	$LULU
RATING:	BUY
PRICE:	$192.30
PRICE TARGET:	$300.00
MARKET CAP:	$24bn
52-W RANGE:	$185.95 - $423.32
P/E:	13.0x
IMPLIED UPSIDE:	56%

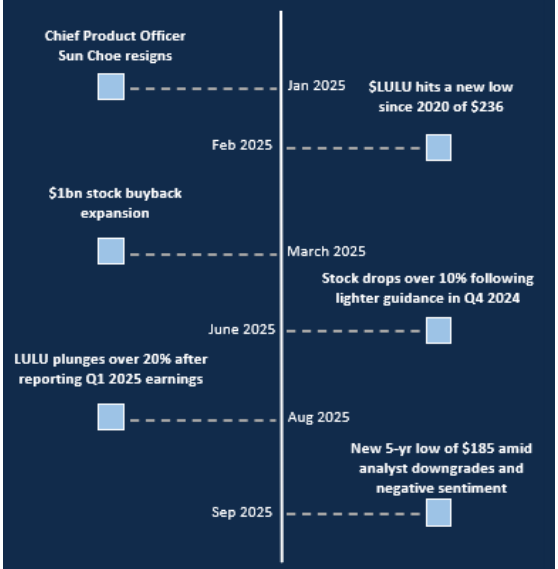
1 Year Price History



EBIT Margin with Annual Revenue



Recent Events Timeline



Lululemon Athletica | *NASDAQ: LULU*
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Risk 1 Near-term headwinds include higher tariffs, considering most products are manufactured in Asia, which will impact margins more in 2H 2025 as older inventory flows through. Strategic price increases rolled out by management may offset some pressure, supported by brand loyalty and DTC control. Macro risks include softer discretionary spending and elevated interest rates. Volatility remains high, and absent a catalyst, shares could trend lower in the near term.

Risk 2 Lululemon's execution missteps in both core and new product categories is another risk. Setbacks include a July 2024 recall of "Breezethrough" leggings due to design flaws and the departure of Chief Product Officer Sun Choe. Lululemon's push into new categories, particularly clothing with large graphics, has caused some core consumers to feel alienated. Furthermore, efforts to grow in footwear and golf put Lulu in direct competition with established leaders like Nike, with no guarantee these expansions will deliver sustainable growth.

Catalysts Potential tariff relief on imported apparel from Asia could provide both a margin lift and a sentiment boost, though we believe its impact is actually uncertain given the broader negative outlook. Continued solid execution remains the most likely driver of share recovery, with earnings beats, seasonal strength, share buybacks, or new product momentum serving as potential catalysts to shift the narrative and spur the stock to the upside.

Valuation

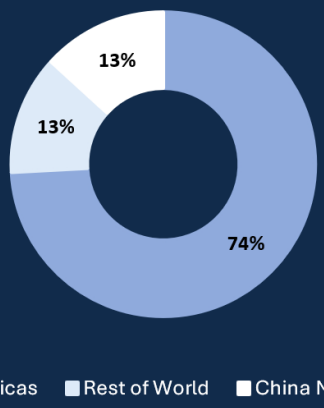
DCF Analysis ($mm)	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/31/2030
Revenue	11,220	11,902	12,616	13,338	14,042	14,704
Revenue Growth	*6%*	*6%*	*6%*	*6%*	*5%*	*5%*
Americas	8,000	8,160	8,344	8,552	8,787	9,051
Rest of World	1,520	1,702	1,885	2,065	2,235	2,391
China Mainland	1,700	2,040	2,387	2,721	3,020	3,262
EBIT	2,300	2,500	2,649	2,801	2,949	3,088
EBIT Margin	*20%*	*21%*	*21%*	*21%*	*21%*	*21%*
Tax Expense	650	750	795	840	885	926
Effective Tax Rate	*28%*	*30%*	*30%*	*30%*	*30%*	*30%*
NOPAT	1,650.00	1,749.65	1,854.52	1,960.64	2,064.24	2,161.51
D&A	470	512	533	554	572	588
Capex	730	833	852	867	878	882
Changes in NWC	228	119	79	33	(18)	(74)
UFCF	1,162	1,309	1,457	1,614	1,776	1,941
PV of FCF	1,143	1,215	1,242	1,264	1,279	1,284

Our base case DCF projection assumes a 12.0x EV/EBITDA exit multiple, a revenue CAGR of 5.9% through FY2030, and EBIT margins stabilizing at 21%, modestly below historical levels. The 12.0x multiple applies a discount to historical trading levels and current peer medians to account for fashion sector cyclicality and sentiment headwinds. These projections reflect steady growth across geographies, continued international expansion, and disciplined cost management and pricing through their DTC model. Please reference bottom of the appendix on the next page for descriptions of our downside and upside DCF projections.

Conclusion

We rate lululemon athletica a BUY given the disconnect between valuation, fundamentals, and growth prospects. Contrary to the findings of many other analysts, we have not uncovered meaningful evidence of erosion in brand equity. The brand has been punished by negative sentiment despite $1.3B in cash, no long-term debt, and a strong track record of innovation with adjusted ROIC averaging 39% over the past decade. International remains a significant growth opportunity, with early expansion showing strong traction. We initiate coverage with a BUY rating and a $300 price target, implying well over 50% upside over the next 12 months.

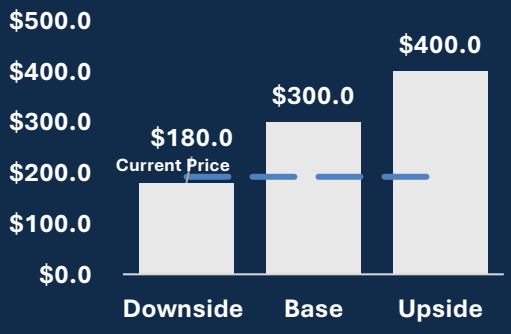
Revenue Segments



Terminal Value	
Exit Multiple Method	
2034 EBITDA	$3,676
EV/EBITDA Exit Multiple	12.0x
Terminal Value	$44,112
PV of Terminal Value	$29,173
PV of Projection Period	$7,428
PV of Terminal Value	$29,173
Implied TEV	$36,601
(-) Debt	$1,707
(+) Cash	$1,325
Implied Equity Value	$36,220
Diluted Shares Outstanding	120
Implied Share Price	$302.22
Upside/Downside	56.9%

Football Field Valuation Range

Risk vs. Reward - DCF Cases



Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	10,588	11,220	11,902	12,616	13,338	8.0%
EBITDA	2,949	2,770	3,011	3,182	3,354	4.4%
EBIT	2,506	2,300	2,500	2,649	2,801	3.8%
NOPAT	582	1,016	1,248	1,585	1,744	44.2%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	27.9%	24.7%	25.3%	25.2%	25.2%	25.6%
EBIT Margin	23.7%	20.5%	21.0%	21.0%	21.0%	21.4%
Revenue Growth	10.1%	6.0%	6.1%	6.0%	5.7%	6.8%
EBIT Growth	13.3%	-8.2%	8.7%	6.0%	5.7%	5.1%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	15.4x	19.9x	17.7x	15.9x	14.3x	16.6x
EV/Sales	2.2x	2.1x	2.0x	1.9x	1.8x	2.0x
EV/EBITDA	8.0x	8.5x	7.8x	7.4x	7.0x	7.7x
FCF Yield	6.5%	5.0%	5.7%	6.3%	7.0%	6.1%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Deckers Outdoor Corporation (NYSE:DECK)	$15,595	$14,187	16.8x	$5,125	$1,288
NIKE, Inc. (NYSE:NKE)	$110,502	$112,372	35.7x	$46,309	$4,477
adidas AG (XTRA:ADS)	$34,450	$40,286	24.8x	$28,349	$2,691
The Gap, Inc. (NYSE:GAP)	$7,282	$10,548	8.1x	$15,161	$1,667
lululemon athletica	$7,282	$23,894	13.1x	$10,750	$2,977

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Deckers Outdoor Corporation (NYSE:DECK)	11.0x	57.6%	25.1%	23.7%	15.5%
NIKE, Inc. (NYSE:NKE)	25.1x	42.7%	9.7%	8.0%	(9.8%)
adidas AG (XTRA:ADS)	15.0x	51.2%	9.5%	7.3%	11.0%
The Gap, Inc. (NYSE:GAP)	6.3x	41.4%	11.0%	7.7%	1.1%
lululemon athletica	8.0x	59.3%	27.7%	23.4%	9.4%
High	25.10x	59.3%	27.7%	23.7%	15.5%
75th Percentile	14.97x	57.6%	25.1%	23.4%	11.0%
Average	13.09x	50.4%	16.6%	14.0%	5.4%
Median	11.02x	51.2%	0.0%	8.0%	9.4%
25th Percentile	8.03x	42.7%	9.7%	7.7%	1.1%
Low	6.33x	41.4%	9.5%	7.3%	-9.8%

lululemon athletica		
Implied Enterprise Value (25th Percentile)	$	23,894
Implied Enterprise Value (Median)	**$**	**32,801**
Implied Enterprise Value (75th Percentile)	$	44,574
Implied Share Price (25th Percentile)	$	196.19
Implied Share Price (Median)	**$**	**270.51**
Implied Share Price (75th Percentile)	$	368.74

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	1.12
Risk Free Rate	4.39%
Cost of Equity	8.63%
Weighted Average Cost of Debt	4.50%
Tax Rate	30.00%
Cost of Debt	0.22%
Total Equity	$23,197
Total Debt	$382
Equity/Total Capitalization	93.15%
Debt/Total Capitalization	6.85%
WACC	8.84%

Downside Case: Our $180 downside case PT is based on a 9.0x EV/EBITDA multiple, with sales growth turning negative in the Americas and international growth slowing meaningfully despite management's expansion plans. Operating margin contracts to 19% due to increased markdowns.

Upside Case: Our $400 upside case PT is based off a 15.0x EV/EBITDA multiple, sales growing at a CAGR of 6.8%, with LSD Americas growth, but strong growth abroad, driving international sales to $6B in 2030 (roughly 40% of 2030 revenue). Operating margins expands from historical levels of 22% to 23% lifted by supply chain optimization and DTC pricing power.