

## lululemon athletica Inc

## Another standout year of innovation ahead

Maintain Rating: BUY | PO: 540.00 USD | Price: 485.71 USD

## Mix of core/new styles lead 4Q growth

We maintain our Buy rating as we expect a robust product pipeline will result in share gains and support mid-teens sales growth. Management increased its 4Q sales growth outlook by 1ppt to +14-15%; 4QTD sales through holiday were driven by success in bottoms and second layers; particularly key styles. In Men's this includes ABC, Steady State and Soft Jersey; for women's product lines with momentum include key icons such as the Align, Scuba, and Define. Traffic was strong across both stores and ecommerce. We expect the momentum to continue and think shares deserves to trade at a premium multiple given the company's consistent track record of robust growth.

## GM raise: sales leverage, air freight, lower markdowns

We hosted a meeting with Howard Tubin, Head of IR, at the ICR conf. Mgmt increased its F23 GM guide to 58.6-58.8% (from 58.3-58.6%) due to higher sales leverage, better than expected air freight savings, and lower markdowns. In F24, we expect GM expansion will be modest, mainly driven by scale benefits from higher sales; this should coincide with less SG&A deleverage compared to '23. 4Q inventory levels should end roughly in line with prior guidance; we expect dollar inventories will be down slightly and units flat relative to the prior year.

## F24 base case: 15% sales growth

In the first two years of the five year algo, sales growth has increased above the 15% 5yr CAGR. The algo includes +LDD growth in NA and 30%+ int'l growth. Our base case in F24 includes 15% sales growth and modest op. margin expansion of 10bp. We expect int'l will continue to be the main driver of growth in F24, led by China. Over time, we expect China margins (2nd most profitable region) will equate to N.A. margins (most profitable) as the business scales.

## Innovation engine keeps on humming

We expect another strong innovation year in '24 and think women's on the move category (OTM) remains among the biggest untapped opportunities. This follows multiple years of successful innovation and was aided by the company's decision to accelerate product development during Covid. We view the upcoming Paris Olympics as a catalyst for the brand to increase awareness, particularly in Europe where aided awareness is below 5% in almost all key cities ex UK. LULU saw China sales accelerate rapidly after the Beijing Olympics, partly due to the Canada team sponsorship.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.79	10.07	12.48	14.36	16.27
GAAP EPS	7.79	6.61	12.48	14.36	16.27
EPS Change (YoY)	66.1%	29.3%	23.9%	15.1%	13.3%
Consensus EPS (Bloomberg)			12.40	14.23	16.32
DPS	0	0	0	0	0
<b>Valuation (Jan)</b>					
P/E	62.4x	48.2x	38.9x	33.8x	29.9x
GAAP P/E	62.4x	73.5x	38.9x	33.8x	29.9x
EV / EBITDA*	39.4x	30.2x	24.3x	21.0x	18.6x
Free Cash Flow Yield*	1.6%	0.5%	1.8%	2.3%	2.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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## Stock Data

Price	485.71 USD
Price Objective	540.00 USD
Date Established	8-Jan-2024
Investment Opinion	B-1-9
52-Week Range	286.58 USD - 516.39 USD
Mkt Val (mn) / Shares Out (mn)	63,565 USD / 130.9
Free Float	94.8%
Average Daily Value (mn)	846.14 USD
BofA Ticker / Exchange	LULU / NAS
Bloomberg / Reuters	LULU US / LULU.OQ
ROE (2024E)	44.0%
Net Dbt to Eqty (Jan-2023A)	-9.3%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

LDD: Low double digits

NA: North America

# iQprofile<sup>SM</sup> lululemon athletica Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	29.7%	33.7%	34.4%	31.1%	27.8%
Return on Equity	38.3%	43.8%	44.0%	38.0%	32.4%
Operating Margin	22.0%	22.1%	23.1%	23.2%	23.7%
Free Cash Flow	995	328	1,169	1,450	1,625

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	0.7x	1.2x	1.2x	1.1x
Asset Replacement Ratio	1.8x	2.2x	1.8x	1.5x	1.3x
Tax Rate	26.2%	28.1%	29.4%	29.4%	29.4%
Net Debt-to-Equity Ratio	-20.7%	-9.3%	-18.3%	-32.8%	-42.4%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,257	8,111	9,607	11,007	12,210
% Change	42.1%	29.6%	18.5%	14.6%	10.9%
Gross Profit	3,609	4,555	5,603	6,442	7,170
% Change	46.5%	26.2%	23.0%	15.0%	11.3%
EBITDA	1,599	2,081	2,587	2,996	3,389
% Change	54.7%	30.1%	24.3%	15.8%	13.1%
Net Interest & Other Income	1	4	30	12	0
<b>Net Income (Adjusted)</b>	<b>1,015</b>	<b>1,289</b>	<b>1,586</b>	<b>1,811</b>	<b>2,041</b>
<b>% Change</b>	<b>65.5%</b>	<b>27.0%</b>	<b>23.0%</b>	<b>14.2%</b>	<b>12.7%</b>

## Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,015	1,289	1,586	1,811	2,041
Depreciation & Amortization	224	292	371	442	499
Change in Working Capital	129	(597)	(244)	(139)	(250)
Deferred Taxation Charge	(5)	0	0	0	0
Other Adjustments, Net	26	(17)	127	6	6
Capital Expenditure	(395)	(639)	(670)	(670)	(670)
<b>Free Cash Flow</b>	<b>995</b>	<b>328</b>	<b>1,169</b>	<b>1,450</b>	<b>1,625</b>
<b>% Change</b>	<b>73.2%</b>	<b>-67.0%</b>	<b>256.8%</b>	<b>24.0%</b>	<b>12.0%</b>
Share / Issue Repurchase	(813)	(444)	(580)	(400)	(400)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,260	1,155	1,694	2,744	3,969
Trade Receivables	77	133	80	92	102
Other Current Assets	1,278	1,872	1,937	2,154	2,471
Property, Plant & Equipment	928	1,270	1,544	1,772	1,943
Other Non-Current Assets	1,400	1,178	1,243	1,243	1,243
<b>Total Assets</b>	<b>4,942</b>	<b>5,607</b>	<b>6,499</b>	<b>8,006</b>	<b>9,729</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,405	1,492	1,390	1,480	1,557
Long-Term Debt	692	862	951	951	951
Other Non-Current Liabilities	105	104	99	105	111
<b>Total Liabilities</b>	<b>2,202</b>	<b>2,458</b>	<b>2,440</b>	<b>2,536</b>	<b>2,618</b>
<b>Total Equity</b>	<b>2,740</b>	<b>3,149</b>	<b>4,059</b>	<b>5,470</b>	<b>7,111</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,942</b>	<b>5,607</b>	<b>6,499</b>	<b>8,006</b>	<b>9,729</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Retailing-Softline

## Company Description

lululemon is a Vancouver, Canada-based specialty retailer that sells technical, high quality, and premium-priced athletic apparel through its own stores and websites. Founded in 1998 in Vancouver, Canada, the brand began as a line of clothes made out of technical fabric. Today, lululemon has 600 stores in Canada, U.S., Asia, Europe and Australia and is poised for significant expansion.

## Investment Rationale

We rate lululemon shares Buy. We believe LULU is one of the sales and earnings growth stories in retail with a strong brand, innovative product and significant international expansion opportunity. We expect solid same-store sales growth to support continued operating margin expansion.

## Stock Data

Average Daily Volume

1,742,065

## Quarterly Earnings Estimates

	2023	2024
Q1	1.48A	2.28A
Q2	2.20A	2.68A
Q3	2.00A	2.53A
Q4	4.40A	5.00E

## Price objective basis & risk

### lululemon athletica Inc (LULU)

Our \$540 price objective is based on 20x F2025E EV/EBITDA. We think a premium to LULU's peer group average of high-growth consumer companies (15-18x) is justified given LULU's relatively stronger growth prospects including a productive US rollout, rapid e-commerce growth, and international expansion.

Downside risks to our price objective are that operational stumbles could cause sales to be worse than expected. A slowdown in consumer demand could cause comps to retrench and lead to multiple compression. International expansion could cause operational misses.

## Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
<b>NEUTRAL</b>				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
<b>UNDERPERFORM</b>				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao



## US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA

**IQ<sup>method</sup>™ Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
  
Basic EBIT + Depreciation + Amortization

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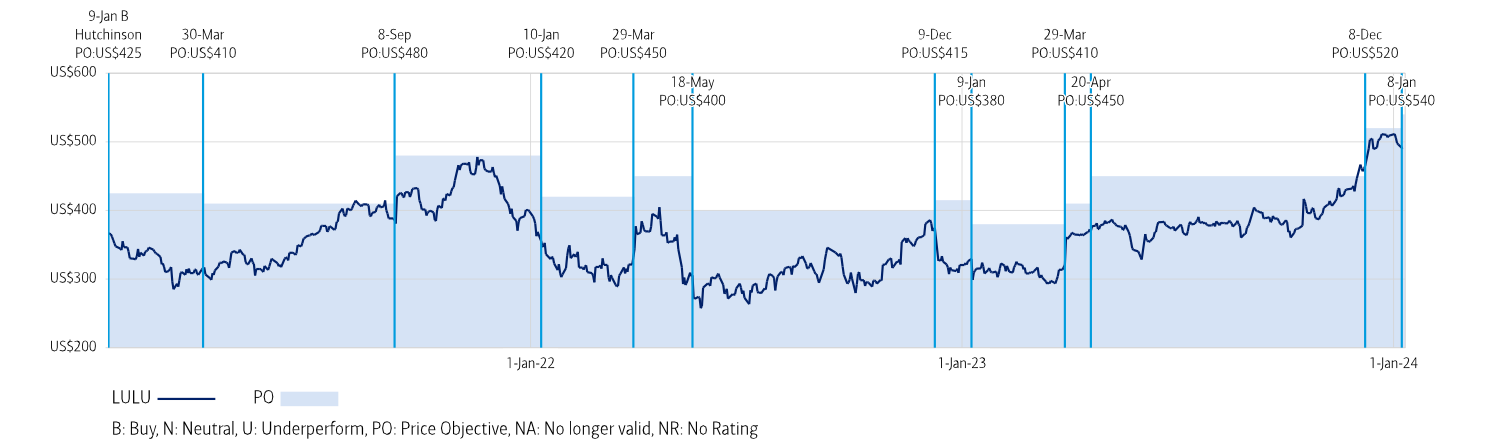
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lululemon ath (LULU) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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