

## lululemon athletica Inc

# Strong sales momentum continues through holiday

Reiterate Rating: BUY | PO: 540.00 USD | Price: 491.10 USD

## Guidance raised after a strong holiday

We continue to think that LULU's robust innovation pipeline will result in outsized market share gains and strong earnings growth. We reiterate our Buy rating and raise our PO to \$540 (from \$520), based on 20x F25 EV/EBITDA (was 19x) to reflect market multiple expansion and higher estimates. LULU preannounced a strong holiday season, raising sales and gross margin (GM) guidance. We raise our 4Q EPS estimate by 2% to \$5.00.

## Sales and GM both beat, no excess SG&A spending

The company now expects 4Q sales to grow 14-15% (was 13-14%) based on balanced growth across geographies. The 4Q guidance for North America sales to grow high single digits was controversial, and we will look for more clarity on the region in our management meeting at the ICR conference. GM came in better in the quarter (now guided +120-130bp) as LULU laps excess clearance inventory from 4Q22. Management reiterated its SG&A guidance.

## 2024 on algo will be a key question

LULU's 5-year plan calls for 15% sales growth with modest EBIT margin expansion. We are modeling F2024 in line with that algo, aided by an extra week. We do not expect commentary on the plan this week but think that the ability to achieve a mid-teens sales cadence will be an important factor for the stock in 2024.

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	14.21	16.29
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	63.0x	48.8x	39.4x	34.2x	30.2x
GAAP P/E	63.0x	74.3x	39.4x	34.2x	30.2x
EV / EBITDA*	39.8x	30.6x	24.6x	21.2x	18.8x
Free Cash Flow Yield*	1.5%	0.5%	1.8%	2.3%	2.5%

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

08 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	520.00	540.00
2024E Rev (m)	9,578.4	9,607.1
2025E Rev (m)	10,974.0	11,007.2
2026E Rev (m)	12,098.5	12,209.6
2024E EPS	12.37	12.48
2025E EPS	14.19	14.36
2026E EPS	15.99	16.27

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### Stock Data

Price	491.10 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
Mrkt Val (mn) / Shares Out	64,271 USD / 130.9 (mn)
Free Float	94.8%
Average Daily Value (mn)	838.72 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™	High

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# 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

1,707,842

## 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

**IQmethod<sup>SM</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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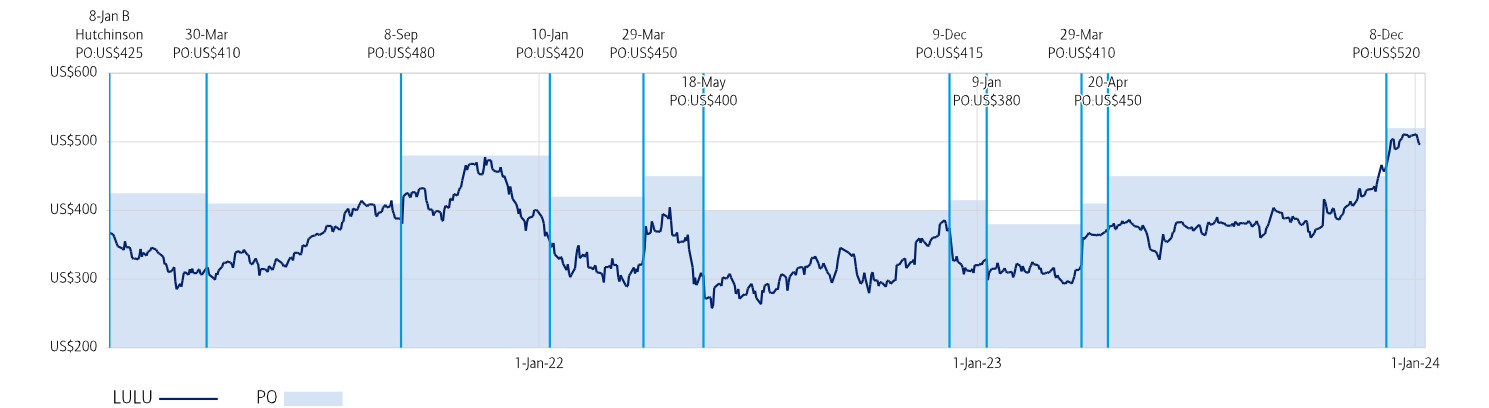
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lululemon ath (LULU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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%

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