

# Lululemon Athletica faces profit pressure on outerwear push, analysts warn

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Lululemon Athletica Inc (NASDAQ:LULU) is facing potential margin pressure as the company increases its focus on outerwear, according to analysts from Jefferies.

The analysts noted that the brand is dedicating significant in-store and online space to the category but cautioned that early signs of discounting could weigh on profitability.

They observed that Lululemon is "heavily prioritizing outerwear in-store and online," with the website featuring 115 women's and 65 men's outerwear items. By comparison, women's leggings, a core product, list 163 styles.

The analysts said this "sharp over-indexation signals a continued shift away from LULU's core offerings."

"Outerwear may deliver higher AURs, but its high unit costs make it a margin risk if sell-through falls short. Heavy discounting will then be necessary to clear inventory as a result, which creates a massive margin burden," the analysts wrote.

Jefferies highlighted that Lululemon's margins are already under pressure, with Q2 markdowns reducing gross margin by 80 basis points.

Management has also widened its financial year 2025 guidance from a 10 to 20 basis point contraction to 50 basis points due to markdowns.

Jefferies said early signs of discounted inventory are already visible. "In store, we've already noticed markdown tags on outerwear products—a bad sign this early into the Fall/Winter season," they wrote.

"Online, 50 of the 115 Women's Outerwear items are discounted. Meanwhile, LULU's 'We Made Too Much' page now lists roughly 1,100 products on markdown."

The analysts also cited rising competitive pressure from rivals such as Alo and Vuori.

"Alo just launched a site-wide 30% off Early Access Black Friday sale, likely pulling traffic away from LULU," they wrote.

"We're seeing this play out in real time: the Alo store at Walt Whitman Shops is packed, while LULU remains nearly empty."

Foot traffic trends at Lululemon reflect this shift, declining 4.3% in September compared with 2.8% in August and 9.5% in July, according to the analysts.

Jefferies concluded that Lululemon faces a "dangerous combination" of declining store traffic and rising markdown activity, which could lead to "meaningful earnings downgrades ahead."

The firm set a price target of \$120 on Lululemon shares, representing a 34% downside at their time of writing.

Shares traded down 4% at about \$173 in the early afternoon on Wednesday.

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