Lululemon losing share as Alo gains momentum, analysts warn

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Lululemon Athletica Inc (NASDAQ:LULU) is beginning to lose ground to rival Alo Yoga, as the premium activewear market grows more competitive and consumer buzz shifts away from the long-time category leader, analysts at Jefferies have warned.

They repeated their 'Underperform' rating and $120 price target on Lululemon shares, implying about 30% downside from current levels.

Jefferies described a clear contrast between the two brands during recent store visits. Alo's Roosevelt Field Mall location was "buzzing" with shoppers amid the company's 30% off Singles' Day sale, while the neighboring Lululemon store was "empty."

The analysts said Alo's site, and store-wide sale, accessible only through the brand's mobile app, appeared to be driving both traffic and new customer sign-ups.

Jefferies highlighted Alo's "sleek, minimalist design" and cohesive merchandising as helping create a premium and consistent shopping experience.

The firm expects this latest promotion to boost Alo's traffic further and accelerate share gains at Lululemon's expense.

In comparison, the analysts described Lululemon's store presentation felt less cohesive, and that the company's recent efforts to introduce "newness" in its product lineup have moved it away from its core identity.

According to Jefferies, these changes have resulted in more styles that fail to resonate with consumers, leaving Lululemon vulnerable to losing high-value customers to Alo and other competitors.

"LULU is increasingly positioned as a share donor," they wrote, warning that the brand's momentum has likely peaked.

Jefferies' data show that Lululemon captured 6.5% of the North American sportswear market in 2024, second only to Nike. However, the firm said that this position is now under pressure due to product missteps and a re-acceleration of innovation at competitors such as Nike.

The analysts compared Lululemon's current dynamics to Under Armour's post-peak period, when that company's market share declined from 6.3% in 2016 to 3.5% in 2024.

Despite strong fundamentals, with fiscal 2024 sales per square foot of about $1,600 and operating margins near 24%, Jefferies pointed to softening trends in North America.

In the second quarter of fiscal 2025, Lululemon's regional sales rose just 1%, while comparable sales declined 4%. The firm's base-case forecast assumes a 5% decline in total fiscal 2026 sales and earnings per share of $9 or below.

"With LULU cycling peak productivity and facing intensifying competition, the brand is increasingly positioned as a share donor, driving further downside ahead," the analysts concluded.

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