

# Lululemon faces margins, sales headwinds in Q3 as brand momentum erodes: Jefferies

Author: Emily Jarvie / First published: 21:00 8 December 2025



Lululemon Athletica Inc (NASDAQ:LULU) faced a challenging third quarter, which will be reflected in its sales, margins and earnings per share (EPS), according to Jefferies analysts.

Jefferies analysts forecast Q3 sales of \$2.3 billion, down roughly 2% year-over-year, with comparable store sales declining 3%.

"Traffic gains from Amex perks and promotions look temporary as brand momentum erodes, markdowns rise, and inventory stays high," the analysts wrote.

While October saw a 2% increase in foot traffic and a 30% jump in web visits, Jefferies believes these gains were largely promotional and unsustainable. Observed sales during the same period declined 5.2%, signaling weaker conversion.

Margins are also expected to come under pressure. Jefferies models gross margins contracting 450 basis points to 54%, steeper than the company's guidance of a 410 basis point decline.

"Elevated inventory from constant newness and product missteps, particularly in outerwear, is driving aggressive discounting, especially in outlets," the analysts wrote.

For the full fiscal year 2025, Jefferies expects gross margins at 55.9%, compared with management's 300 basis point reduction guidance.

Earnings per share are projected to decline sharply. Jefferies anticipates Q3 EPS of \$1.98 versus the Street consensus of \$2.21, with full-year 2025 EPS at \$11.50 versus the consensus of \$12.85.

Looking ahead, the firm cut its fiscal 2026 EPS estimate to \$9 from the Street's \$12.67. "We believe the market is still underestimating the depth of LULU's challenges and see big EPS downside in calendar year 2026/financial year 2027," the analysts wrote.

Jefferies highlighted several long-term risks for the brand, including erosion of brand momentum, heavy reliance on outlets and discounting, competitive pressures from rivals such as Alo and Vuori, and difficulties in the Chinese market. Leadership transitions in North America also add to execution concerns.

Jefferies repeated its 'Underperform' rating and \$120 price target, implying 37% downside from current levels.

"LULU's decade of dominance is fading. With comps negative, margins contracting, and brand equity eroding, we see further downside ahead," the analysts concluded.

Lululemon will report its Q3 earnings on December 11 after the market close.

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