Lululemon (LULU)

An Ameriprise Investment Research Group publication

Sector: Consumer Discretionary
Investment style: Mid Cap Value
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Investment Opinion: Hold

Key Takeaways

- Third quarter EPS of $2.59 and revenue of $2.57 billion beat consensus, driven by solid international growth and margin discipline, despite tariff headwinds and U.S. softness.
- Full-year EPS and revenue guidance raised; Q4 outlook remains cautious, in our view, due to calendar shifts, tariff impact, and higher markdown expectations.
- International strength continued, led by China Mainland revenue up 46% and comps up 25%, offsetting Americas comparable sales decline of 5%.
- CEO Calvin McDonald will step down January 31, 2026; interim co-CEOs and Executive Chair appointed to ensure continuity during leadership transition.

LULU Q3 Operating Results

Focused progress amid transition

Lululemon reported better-than-expected third-quarter results with strong margin control and international momentum, while acknowledging softer trends in the United States. Revenue and EPS exceeded consensus as gross margin outperformed prior expectations, driven by top line leverage, disciplined pricing, and lower net tariff impact than planned. International strength, especially China Mainland, was a primary driver, with broad gains across tier cities and strong outerwear response. Digital continued to grow and now represents a significant share of sales, supported by a redesigned site that improves storytelling and conversion.

Two developments framed the quarter. First, the company raised full year guidance for both revenue and EPS despite embedding meaningful tariff and de minimis headwinds. Second, CEO Calvin McDonald announced a planned transition, with the board elevating Marti Morfitt to Executive Chair and naming CFO Meghan Frank and Chief Commercial Officer André Maestrini as interim co-CEOs following McDonald's departure. Product newness and pipeline refresh are central to the action plan, with new style penetration targeted to rise meaningfully in spring 2026. In our view, the combination of transparent tariff accounting, ongoing mitigation initiatives, and a clear succession process supports confidence in margin durability and the long term thesis that Lululemon could maintain a premium positioning through innovation and international expansion.

12-Month Price Chart

12-Dec-2024 to 11-Dec-2025 (Daily)

Source: FactSet Prices

FactSet Consensus Target Price	$184.90
Prior Day's Closing Price	$187.01
52 Week Range	$423.32- $159.25
Market Capitalization ($m)	$21,219.66
Beta Versus the S&P 500	1.21
Book Value Per Share	$38.18
Trailing 12- Month P/E	14.3x
Forward 12-Month P/E	14.7x
Price/Book	4.9x
Price/Sales	2.0x
Price/Operating Cash Flow	11.9x
Annual Dividend	0.00
Dividend Yield	0.0%

Source for chart and data: FactSet

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Revenue (in millions of U.S. Dollars)					Fiscal Year ends in January
Year	**Q1**	**Q2**	**Q3**	**Q4**	**FY**
2025 (A)	2,209	2,371	2,397	3,612	10,588
2026	2,371 (A)	2,525 (A)	2,566 (A)	3,577	11,025
2027	2,471	2,617	2,664	3,724	11,481

A = Actual | *Source: FactSet*

Operating earnings (per share in U.S. Dollars | a non-GAAP metric)						Fiscal Year ends in January
Year	**Q1**	**Q2**	**Q3**	**Q4**	**FY**	**FY P/E**
2025 (A)	2.54	3.15	2.87	6.14	14.64	28.3x
2026	2.60 (A)	3.10 (A)	2.59 (A)	4.81	12.99	14.5x
2027	2.08	2.71	2.57	5.11	12.73	14.7x

A = Actual | *Source: FactSet*

Beat on key earnings measures

For Q3, Lululemon reported adjusted EPS of $2.59 on revenue of about $2.6 billion, compared to consensus estimate of $2.21 and $2.48 billion. Gross margin was 55.6% versus the Street projection of mid-54% range. Operating margin reached 17.0% versus estimates near the mid 14% range. Digital revenue was about $1.1 billion and represented 42% of total revenue, an increase of 13% year over year. Inventory ended at $2.0 billion, up 11% year over year, with units up roughly 4%.

In our view, the quarter demonstrated effective margin stewardship despite tariff and markdown pressure. The beat reflects healthy international demand and improved expense discipline, which aligns with the thesis that Lululemon could protect profitability while refreshing product and activating newness into 2026.

Measured outlook with explicit tariff impacts

Management guided Q4 revenue to $3.50 billion to $3.59 billion and EPS to $4.66 to $4.76, which we believe implies a cautious stance versus the prior year and consensus. For FY Jan 2026, the company raised guidance to revenue of $10.96 billion to $11.05 billion and EPS of $12.92 to $13.02. Profitability outlook reflects gross margin down about 270 basis points for the year, improved from prior expectations, and operating margin down about 390 basis points. Q4 gross margin is expected to decline about 580 basis points year over year, with approximately 410 basis points related to tariffs and the de minimis change.

Strategic initiatives focus on three pillars. Product creation will increase new style penetration and shorten development cycles, with chase capabilities targeting six to eight weeks for select items. Product activation will elevate store curation and digital presentation, including a redesigned site and membership enhancements. Enterprise efficiency targets vendor negotiations, distribution network optimization, and targeted pricing actions. Management stated the FY tariff pressure is now about 190 basis points and equals roughly $210 million of net operating income impact. Calvin McDonald noted the product pipeline is strong, and the action plan in place should yield positive results. The board approved a $1.0 billion increase to the buyback, leaving about 1.6 billion authorization available.

International momentum offsets Americas softness

Americas revenue declined about 2% with comparable sales down 5 %. The United States fell about 3% and Canada was flat on a constant currency basis. International increased about 33%, with China Mainland up about 46% and comparable sales up 25%. Rest of World grew about 19% with comparable sales up 9%. Digital sales rose 13% to about $1.1 billion, representing 42% of revenue. The company ended the quarter with 796 stores and low double digit square footage growth year over year. By category, men rose 8%, women 6%, and accessories and other 12%.

Drivers included strong outerwear demand in China, limited discounting during key platform events, and improved digital merchandising. Headwinds included post Thanksgiving traffic softness in the United States and higher markdowns to clear seasonal inventory. In our view, the most important element for the thesis is the durability of international growth paired with the planned product refresh in North America, which could stabilize comps and support margin quality through improved full price penetration.

Tariffs and de minimis removal shift the cost curve

A critical theme is the explicit accounting for tariff and de minimis impacts. Management quantified about 190 basis points of full year tariff pressure and about 410 basis points of Q4 gross margin impact, with mitigation through vendor savings, pricing, and distribution network changes. This clarity matters for investors and peers that face similar import cost structures, as it frames the near term margin ceiling and highlights where efficiency gains are most valuable.

Valuation

In our view, LULU has a solid balance sheet that has a favorable impact on the company's cost of capital and a positive impact on the valuation of the company. Neither Moody's nor Standard & Poor's has a credit rating on the company. However, LULU has $1.0 billion in cash and short-term investments on its balance sheet, and no debt.

LULU's forward four-quarter price-cash flow is 11.9x compared to the five-year average of 38.1x (five-year high 80.8x, five-year low 10.2x). The industry average from FactSet of 22.1x. The company trades with a trailing four-quarter price/sales ratio of 2.0x compared to the five-year average of 6.6x (five-year high 12.8x, five-year low 1.8x). The industry average from FactSet of 3.3x. LULU's forward four-quarter

P/E is 14.7x compared to the five-year average of 32.6x (five-year high 72.3x, five-year low 12.3x). The industry average from FactSet of 36.8x. In our opinion, LULU deserves to trade at a premium valuation due to its solid growth potential and financial consistency.

Investment Thesis

We maintain a HOLD rating on Lululemon Athletica as near-term challenges in the U.S. business and leadership uncertainty temper our outlook despite strong international performance and a robust product pipeline.

The U.S. market remains a headwind, with comparable sales declining for consecutive quarters and management acknowledging softer traffic and heightened promotional activity. While initiatives to improve product activation and accelerate innovation are underway, these efforts will take time to influence consumer behavior. The company's plan to increase new style penetration and refresh core franchises is encouraging, but meaningful benefits are expected only in late 2026, leaving North America exposed to competitive pressures and discretionary spending volatility in the interim.

International growth, particularly in China, continues to be a bright spot, supported by strong brand resonance and expanding store footprint. Digital penetration remains high, and margin discipline in Q3 demonstrated the company's ability to partially offset tariff-related costs through pricing actions and vendor negotiations. However, structural cost pressures from tariffs and the removal of the de minimis exemption will weigh on profitability through 2026, even with ongoing efficiency initiatives.

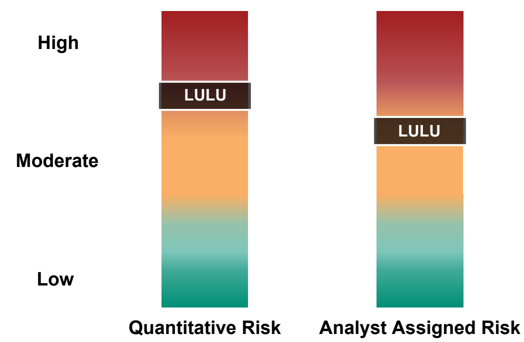
The announced CEO transition adds another layer of uncertainty, in our view. While continuity measures are in place and product decisions for early 2026 are locked, the timing and strategic priorities of the incoming leadership could influence execution risk and investor sentiment.

In our view, LULU retains long-term growth potential through international expansion and innovation, but near-term earnings visibility is constrained by U.S. softness, margin pressure, and leadership change. At approximately 14.7x forward EPS, valuation appears reasonable relative to growth prospects, supporting our HOLD rating until clearer evidence of U.S. stabilization and successful execution under new management emerges.

Risk Profile

Quantitative Risk Profile

The Ameriprise Quantitative Risk Profile (QRP) assigns a risk level for an individual stock that ranges from Low to High. The QRP is based on four factors: Beta, Correlation, Standard Deviation, and Maximum Drawdown, as measured over the past 52 weeks. Two factors, Beta and Correlation, are relative to the S&P 500 Index, while Standard Deviation and Maximum Drawdown are stock-specific. The four factors are equally weighted with their ranking displayed on the color-coded graphic. Stocks with a higher combined score reflect a higher risk profile. Therefore, investors should expect greater volatility relative to the S&P 500 Index, higher share price volatility, and a greater potential maximum drawdown. For a detailed definition of the four factors, please refer to the Quantitative Risk Profile in the disclosure section of this report.



Analyst Risk Profile

The Analyst Risk Profile (ARP) is based on the analyst's knowledge of the company and its sector, including competitive dynamics and end markets, capital structure, management team, capital allocation decisions, future revenue and earnings expectations, and other factors that are reflected in a color-coded risk profile that ranges from Low to High. The analysts' assessment of these and other factors may produce an Analyst Risk Profile that may differ from the Quantitative Risk Profile.

Increased competition and consumer's trading down to lower priced products is a key risk factor that could impact the LULU's overall market share. Moreover, rising input costs, inflated labor expenses, and growing property costs add to the company's risk factors. Changes in management could also impact the company's performance significantly. A downturn in consumer spending could cause households to cut back on apparel purchases, leading to a decline in revenue. Similarly, potential pandemics, geopolitical risks like wars or changes in government, and industry regulations could disrupt the company's operations and overall business performance. As with any company, factors like higher taxes, rising interest rates, and currency volatility can adversely affect profits. The company faces the risk of potential product recalls, which not only result in lost revenue but also cause reputational damage. Changing consumer tastes or needs could have a negative impact on the company's revenue, which requires innovative new product development.

Company Profile

(Sourced from FactSet) lululemon athletica, Inc. engages in the business of designing, distributing, and retailing technical athletic apparel, footwear, and accessories. It operates through the following segments: Company-Operated Stores, Direct to Consumer, and Other. The company was founded by Dennis James Wilson in 1998 and is headquartered in Vancouver, Canada.

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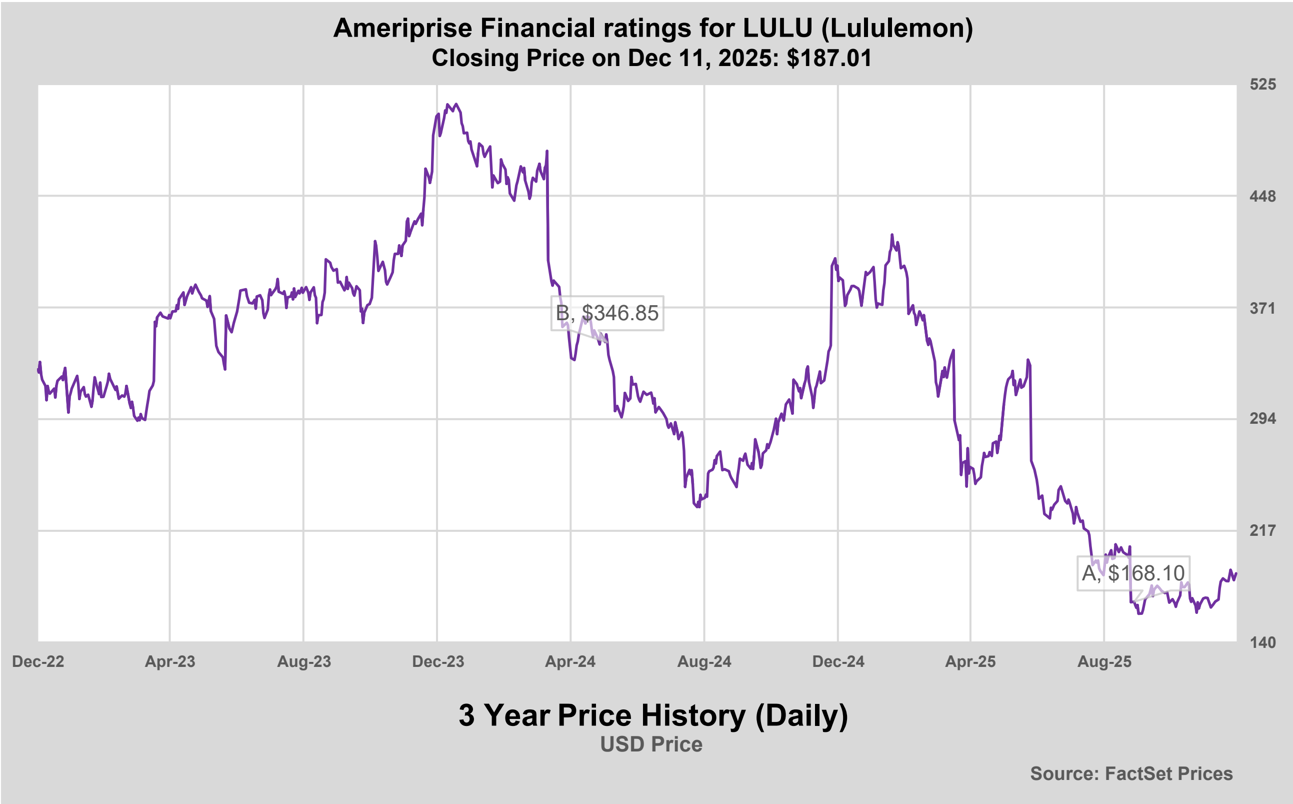

	Date	Action	Recommendation List	Keyword	Closing Price (USD)
A	**09/08/2025**	**Hold**	Recommended List	RL	168.10
B	**05/15/2024**	**Added as Buy**	Recommended List	RL	346.85

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Distribution of Recommended List Stock Ratings:

	Count	Percent
BUY	152	89%
HOLD	18	11%
TOTAL	170	100%

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