

Apparel and Footwear
Lululemon Athletica, Inc. (LULU)
RATING
BUY
PRICE TARGET
\$238.00
from \$317.00
PRICE
\$205.08
52-WEEK RANGE
\$185.95 - \$423.32

We See Gross Margin Risk As "Made Too Much" Product Grows

OUR CALL

We see risk to LULU's Q2 results and FY guidance, given a big acceleration in discounted items online. We're lowering our gross margin/EPS forecasts, and we see risk for a miss-and-cut when they report Q2 results on 9/4 AMC. We're also lowering our price target to \$238 from \$317. So, why aren't we downgrading the stock? We think a lot of this is already in the share price, with a 14x P/E at LULU's lowest level since the 2008 recession. We've also seen an acceleration in online search trends, both in the U.S. and abroad, which could bode well for re-accelerating 2H demand. They have favorable demographic trends, a great brand, no exposure to the challenged U.S. wholesale market, and a cash-rich balance sheet (\$1.3B). If fundamentals can stabilize, we think valuation yields positive medium-term risk/reward, even if the near-term is choppy.

Increased Discounting Online Presents Gross Margin Risk. In recent weeks, we have seen a meaningful increase in the number of items available on the "Made Too Much" section of the website. In late-Winter/early-Spring, the number of SKUs in this section was hovering in the 775-800 range. However, it began steadily climbing in late-April, and as of last weekend there are now more than 1,100 items for sale on Lululemon.com. As a result, we've lowered our Q2 gross margin estimate slightly (to -220bps vs. guidance -200bps) and our 2H gross margin forecast by 50bps. As a result, we now forecast 140bps of gross margin pressure for FY25 (vs. 110bps of erosion previously). This drives our Q2 and FY EPS estimates below guidance: we now forecast Q2 EPS of \$2.84 (vs. guidance \$2.85-\$2.90) and our FY estimate moves down to \$14.12 (vs. guidance \$14.58-\$14.78).

Re-Acceleration Of Online Search Trends Could Be A Positive Sign. Last year, when LULU's U.S. business experienced a meaningful slowdown, we saw a concurrent deceleration in online search trends, reflective of waning brand heat. Encouragingly, Google searches for Lululemon in the U.S. have been positive for the past 6 months, and have accelerated to very strong levels during the summer months. Search growth exceeded 20% in June, accelerated further to nearly 35% in July, and is on track for another month of 30%+ growth in August. Perhaps some of this acceleration is driven by consumers seeking discounts (perhaps learning about the discounts via word-of-mouth). But it may also be a sign that U.S. consumers are re-gravitating to the brand following a few choppy quarters. International Google search trends are also encouraging, particularly considering that the rapid slowdown in International growth in Q1 contributed to the sharply negative stock reaction on the day of earnings. Almost every major International market for LULU (in both EMEA and Asia) saw stronger online search growth in Q2 than Q1, so we could also see a re-acceleration in International growth in Q2.

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KEY DATA

Market Cap (MM)	\$25,627.1
Price (08/28/2025)	\$205.08
52-Week Range	\$185.95 - \$423.32
Shares Outstanding	124.96
Avg. Daily Volume	3,286,330.3

ESTIMATES

FY (Jan)	2024A	2025E	2026E
Rev. (MM)(\$)			
Q1	2,208.9A	2,370.7A	-
Q2	2,371.1A	2,549.3E	-
Previous	-	2,558.9E	-
Q3	2,396.7A	2,527.2E	-
Previous	-	2,558.3E	-
Q4	3,611.5A	3,652.4E	-
Previous	-	3,731.8E	-
Year	10,588.1A	11,099.5E	11,584.2E
Previous	-	11,219.8E	11,800.2E
Growth Rev	10.1%	4.8%	4.4%
FY (Jan)	2024A	2025E	2026E
EPS			
Q1	2.54A	2.60A	-
Q2	3.15A	2.84E	-
Previous	-	2.90E	-
Q3	2.87A	2.79E	-
Previous	-	2.96E	-
Q4	6.14A	5.92E	-
Previous	-	6.31E	-
Year	14.64A	14.12E	14.86E
Previous	-	14.75E	15.85E
Growth	14.6%	NM	5.3%
P/E	14.0x	14.5x	13.8x

At a Glance

OUR INVESTMENT THESIS

The operating environment has become more challenging, but we believe LULU is a strong brand with long-term growth drivers and potential for a product-driven re-acceleration domestically.

BULL CASE ASSUMPTIONS

In our bull case we assume that they "right the ship" in the U.S. and the macro environment doesn't deteriorate any further, leading to a FY25 earnings beat and a faster re-acceleration of revenues in FY26. In this scenario, we think FY26 EPS power could be ~\$16.00. At a high-teens P/E multiple, the stock would be ~\$300.

BASE CASE ASSUMPTIONS

We're modeling FY25 slightly below current EPS guidance. Next year, we expect LSD comp growth, with some footage growth resulting in MSD consolidated revenue growth. We assume margins decline slightly due to the wrap-around of tariffs, resulting in FY26 EPS power of \$14.75-\$15.00. Our price target of \$238 is based on a 16x P/E on our FY26 EPS estimate of \$14.86.

BEAR CASE ASSUMPTIONS

In our bear case, we assume FY25 comes in even worse than our below-guidance estimate, and generates just flat comp growth next year (negative in North America and positive overseas). Amid slowing sales, we assume discounting increases, and the company experiences ~100bps of EBIT margin erosion next year. In this scenario, FY26 EPS declines to ~\$13.50. At a low-teens P/E multiple, the stock could fall to ~\$175.

COMPANY DESCRIPTION

LULU is a women's focused athleisure brand headquartered in Vancouver, Canada. The products, which also include a growing Men's business, are sold almost entirely via the company's own stores and websites.

PRICE PERFORMANCE



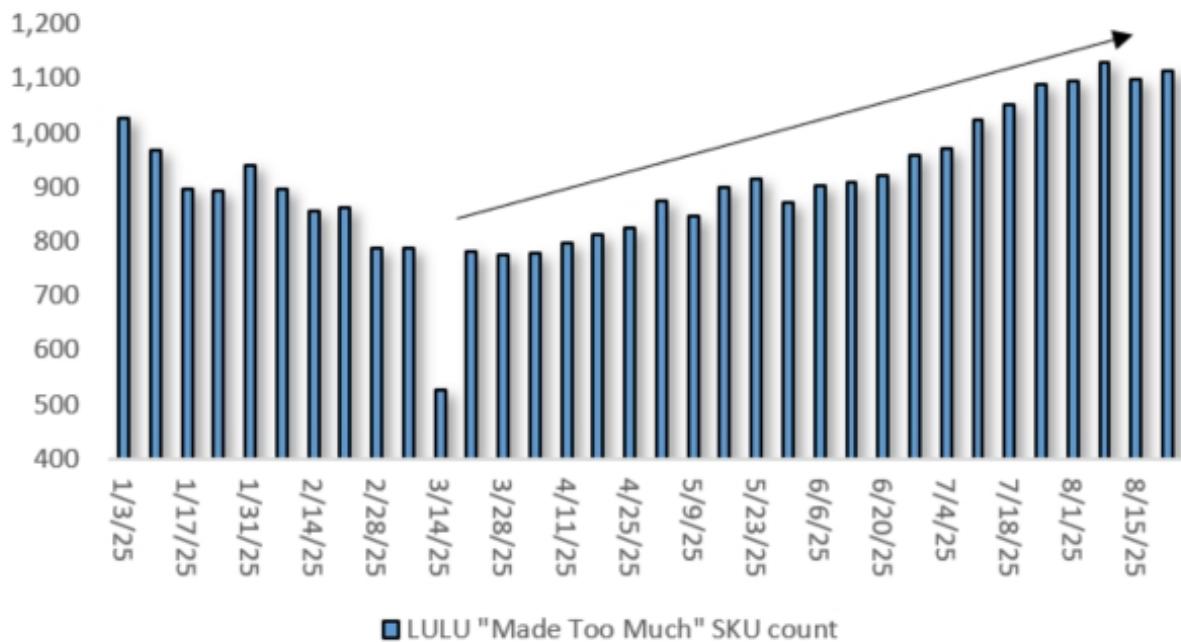
KEY DATA

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Shares Outstanding	124.96
Avg. Daily Volume	3,286,330.3

INCREASED DISCOUNTING ONLINE PRESENTS GROSS MARGIN RISK

LULU has always been a predominantly full-price brand, though they do clear out excess product via the "Made Too Much" section of their website. In recent weeks, we have seen a meaningful increase in the number of items available on the "Made Too Much" section of the website. In late-Winter/early-Spring, the number of SKUs in this section was hovering in the 775-800 range. However, it began steadily climbing in late-April, and as of last weekend there are now more than 1,100 items for sale on Lululemon.com. Though we unfortunately do not have YoY figures (since we joined Needham less than a year ago and began our tracking in October 2024), we believe this is an elevated level of discounting. To frame it up, in the post-Holiday clearance period early-January, the website peaked at 1,027 clearance SKUs. Thus, the total number of discounted SKUs is currently higher than it was during the traditional post-Holiday clearance period in January.

Figure 1 - The Number Of Discounted Items On LULU's Website Has Been Steadily Climbing



Source: Lululemon.com's "Made Too Much" section and Needham & Co.

Admittedly, when the company reported Q1 results in early-June, they did call for a "modest increase" in markdowns in Q2 and for the FY. However, given the rapid rise in "Made Too Much" product on the website, we do think it's possible that the level of markdowns was more intense than management expected. As a result, we've lowered our Q2 gross margin estimate slightly (to -220bps vs. guidance -200bps) and our 2H gross margin forecast by 50bps. As a result, we now forecast 140bps of gross margin pressure for FY25 (vs. 110bps of erosion previously). This drives our Q2 and FY EPS estimates below guidance: we now forecast Q2 EPS of \$2.84 (vs. guidance \$2.85-\$2.90) and our FY estimate moves down to \$14.12 (vs. guidance \$14.58-\$14.78).

Figure 2 - Lower Gross Margin Forecasts Have Taken Our EPS Estimates Lower

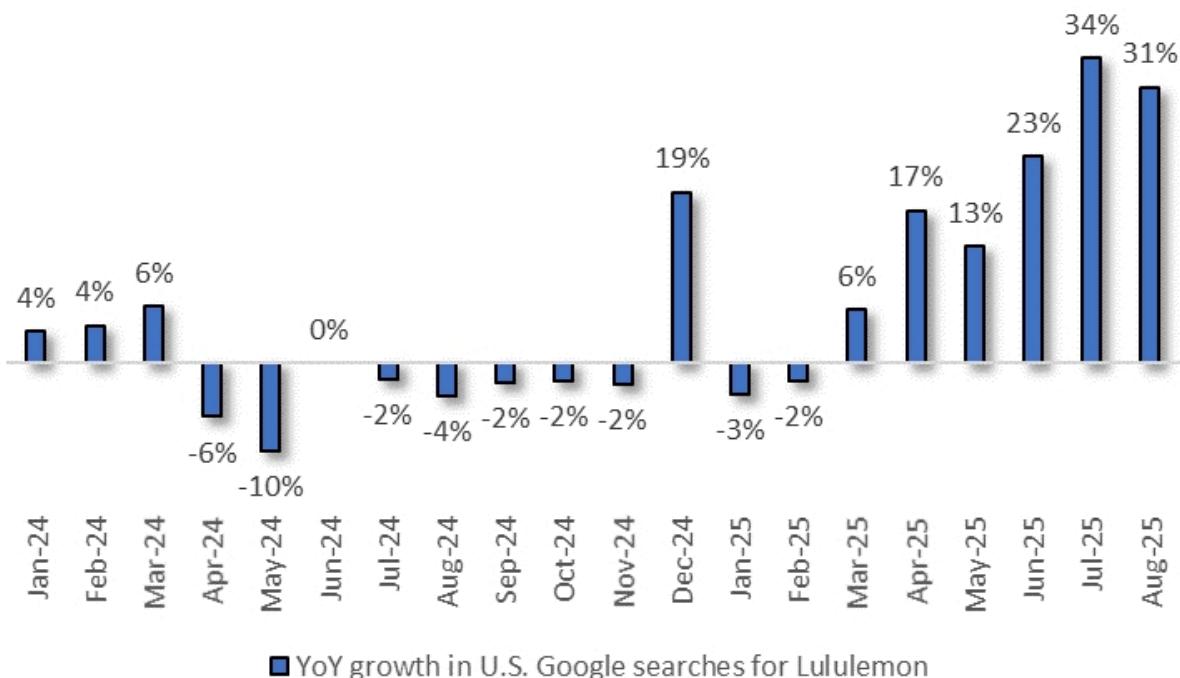
<u>YoY change in gross margin</u>	<u>2Q25</u>	<u>3Q25</u>	<u>4Q25</u>	<u>FY25</u>
Prior estimate	-200bps	-160bps	-120bps	-110bps
Current estimate	-220bps	-210bps	-170bps	-140bps
<u>Diluted EPS</u>	<u>2Q25</u>	<u>3Q25</u>	<u>4Q25</u>	<u>FY25</u>
Prior estimate	\$2.90	\$2.96	\$6.31	\$14.75
Current estimate	\$2.84	\$2.79	\$5.92	\$14.12

Source: Needham & Co. estimates

RE-ACCELERATION OF ONLINE SEARCH TRENDS COULD BE A POSITIVE SIGN

Last year, when LULU's U.S. business experienced a meaningful slowdown, we saw a concurrent deceleration in online search trends, reflective of waning brand heat. Between April 2024 and February 2025, YoY searches for Lululemon on Google (U.S. only) were negative YoY in 9 of the 11 months, with the only positive month being December (which corresponded with a strong Holiday season for the brand). Encouragingly, Google searches for Lululemon in the U.S. have been positive for the past 6 months, and have accelerated to very strong levels during the summer months. Search growth exceeded 20% in June, accelerated further to nearly 35% in July, and is on track for another month of 30%+ growth in August. Perhaps some of this acceleration is driven by consumers seeking discounts (perhaps learning about the discounts via word-of-mouth). But it may also be a sign that U.S. consumers are re-gravitating to the brand following a few choppy quarters.

Figure 3 - Online Searches For Lululemon In The U.S. Have Been Strong Of Late



Source: Google Trends and Needham & Co.

International Google search trends are also encouraging, particularly considering that the rapid slowdown in International growth in Q1 contributed to the sharply negative stock reaction on the day of earnings. Starting with mainland China, Google search trends have usually tracked comp growth fairly well. For example, during FY24, China's quarterly comp growth ranged from +23% to +33%, while Google search growth ranged from 24%-44%. In Q1, when China comps slowed all the way to +8%, Google searches likewise slowed to a similar level (+7%). During Q2, China search trends re-accelerated to +13%, and if China begins comping double-digits again, we think it could improve sentiment in the stock.

Additionally, almost every other major market for the Lululemon brand saw accelerating Google search growth in Q2 vs. Q1. The company's 3 largest countries in EMEA (U.K., Germany, and France) all saw stronger search growth in Q2 than Q1, and growth was exceptionally strong in France (searches nearly doubled YoY) and Germany (up almost 80% YoY). In Asia ex-Mainland China, almost every major country saw an acceleration from Q1 to Q2, with the exception of Japan (a slight deceleration to +6% vs. Q1's +7%). Thus, after the "Rest of World" segment, which is comprised of EMEA and Asia ex-Mainland China, decelerated rapidly in Q1 (to +7% from +17% in Q4), we think it is possible that the segment could have re-accelerated in Q2.

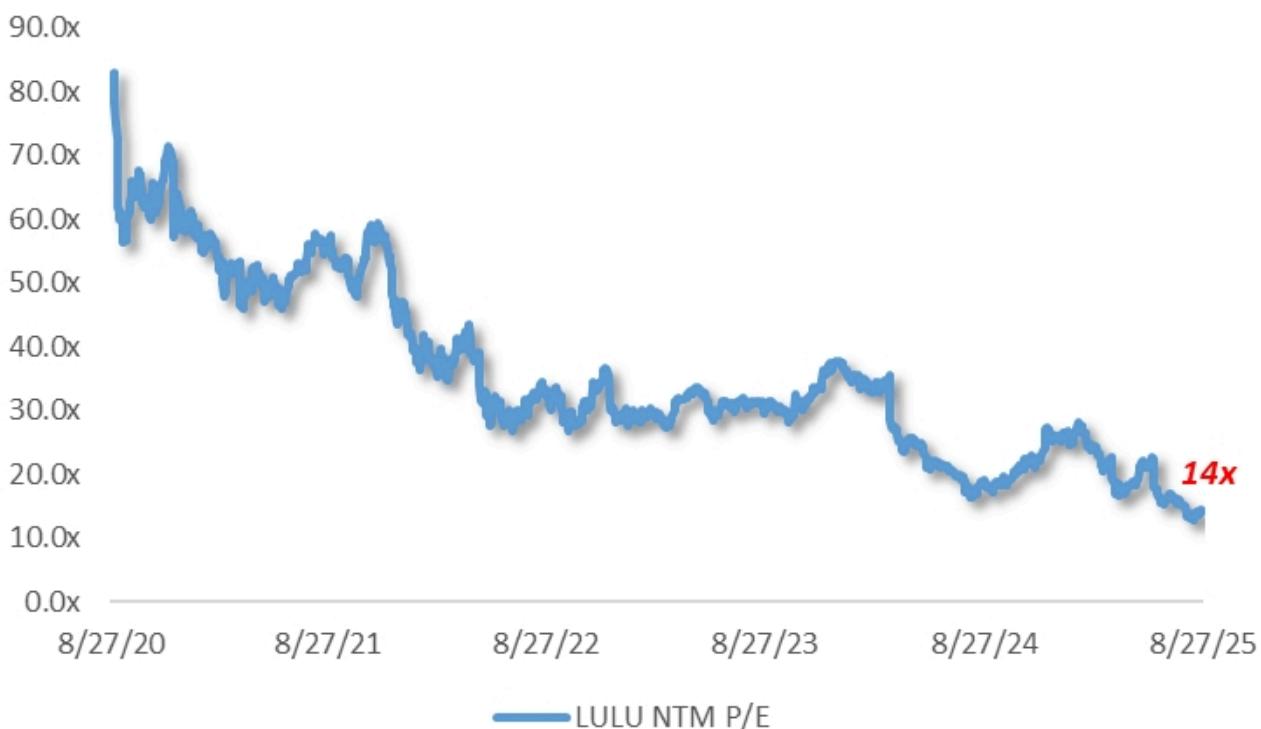
Figure 4 - Almost Every Major International Market For LULU Saw Accelerating Online Search Trends In Q2

	Google searches for Lululemon YoY									
	Mainland China	Germany	France	Hong Kong	Australia	Korea	Taiwan	U.K.	Japan	
1Q25	7%	47%	85%	3%	-3%	-2%	19%	36%	7%	
2Q25	13%	79%	98%	13%	6%	6%	23%	37%	6%	
Delta	+600bps	+3,200bps	+1,300bps	+1,000bps	+900bps	+800bps	+400bps	+100bps	-100bps	

Source: Google Trends and Needham & Co.

THE STOCK IS THE CHEAPEST IT'S BEEN IN A LONG TIME

LULU shares are down almost 50% YTD (vs. SPX +10%), making it one of the most pressured names in our coverage this year. As a result, shares are trading at ~14x consensus NTM earnings, and a few weeks ago it touched at ~13x consensus EPS. The last time the stock traded at this low a P/E multiple was during the 2008/2009 financial crisis, when the company was obviously a lot smaller than it is today (and had much less "proof of concept" at the time). Over the past 5 and 10 years, the stock's average P/E has been ~35x, and over the past years it's been ~26x. Obviously, the company has less growth potential today than it did a few years ago, but we still think that a low-teens multiple for a company this high-quality is overly negative.

Figure 5 - LULU's Valuation Multiple Has Compressed Significantly

Source: FactSet and Needham & Co.

Figure 6 - LULU Income Statement

	Jan FY19	Jan FY20	Jan FY21	Jan FY22	Jan FY23	Apr 1Q24	Jul 2Q24	Oct 3Q24	Jan 4Q24	Jan FY24	Apr 1Q25	Jul 2Q25E	Oct 3Q25E	Jan 4Q25E	Jan FY25E	Jan FY26E
Net revenues	3,979.3	4,401.9	6,256.6	8,110.5	9,619.3	2,208.9	2,371.1	2,396.7	3,611.5	10,588.1	2,370.7	2,549.3	2,527.2	3,652.4	11,099.5	11,584.2
Cost of goods sold	1,755.9	1,937.9	2,648.1	3,555.3	3,986.2	933.8	958.9	995.1	1,429.5	4,317.3	987.5	1,086.5	1,103.0	1,509.3	4,686.3	4,914.1
Gross profit	2,223.4	2,464.0	3,608.6	4,555.3	5,633.1	1,275.1	1,412.2	1,401.6	2,182.0	6,270.8	1,383.1	1,462.8	1,424.2	2,143.1	6,413.2	6,670.1
Selling, general and administrative	1,334.3	1,609.0	2,225.0	2,757.4	3,397.2	842.4	872.0	909.8	1,138.2	3,762.4	942.9	985.3	959.1	1,149.3	4,036.5	4,246.7
Amortization of intangible assets	0.0	5.2	8.8	8.8	5.0	0.0	0.0	1.1	1.6	2.7	1.6	1.6	1.6	6.5	6.5	6.5
Income from operations	889.1	849.8	1,374.7	1,789.1	2,230.9	432.6	540.2	490.7	1,042.2	2,505.7	438.6	475.8	463.5	992.1	2,370.1	2,416.9
EBITDA	1,051.0	1,035.3	1,599.0	2,080.9	2,610.3	528.4	643.8	604.3	1,175.8	2,952.2	916.2	1,048.9	1,151.2	1,817.3	2,847.6	2,989.9
Other income/(expense)	8.3	(0.6)	0.5	4.2	43.1	23.3	18.0	13.7	15.4	70.4	11.8	11.5	12.0	12.0	47.3	47.0
Pretax income	897.4	849.2	1,375.3	1,793.2	2,273.9	455.9	558.2	504.4	1,057.5	2,576.1	450.4	487.3	475.5	1,004.1	2,417.4	2,463.9
Income tax expense	251.8	233.6	360.0	504.3	651.6	134.5	165.3	152.5	309.1	761.5	135.8	146.2	142.7	301.2	725.9	739.2
Net income to common	645.6	615.6	1,015.3	1,289.0	1,622.3	321.4	392.9	351.9	748.4	1,814.6	314.6	341.1	332.9	702.9	1,691.5	1,724.7
Diluted earnings per share	\$4.93	\$4.70	\$7.79	\$10.07	\$12.77	\$2.54	\$3.15	\$2.87	\$6.14	\$14.64	\$2.60	\$2.84	\$2.79	\$5.92	\$14.12	\$14.86
Basic shares outstanding	130.4	130.3	129.8	127.7	126.7	126.0	124.7	122.7	121.7	123.8	120.6	119.7	119.0	118.3	119.4	115.7
Diluted shares outstanding	131.0	130.9	130.3	128.0	127.0	126.3	124.9	122.8	121.9	124.0	120.8	120.1	119.4	118.7	119.8	116.0
Shares repurchased	1.1	0.4	2.2	1.4	1.5	0.8	1.9	1.6	0.9	5.2	1.4	1.0	1.0	1.0	4.4	5.0
Average repurchase price	\$164.26	\$172.68	\$369.16	\$317.89	\$374.42	\$395.22	\$310.11	\$255.31	\$354.15	\$313.51	\$307.14	\$200.00	\$200.00	\$200.00	\$234.09	\$200.00
As % of FCF	45%	63.7	812.5	443.6	554.8	296.9	583.7	408.5	332.2	1,621.3	430.0	200.0	200.0	200.0	1,030.0	1,000.0
MARGINS																
Gross margin	55.9%	56.0%	57.7%	56.2%	58.6%	57.7%	59.6%	58.5%	60.4%	59.2%	58.3%	57.4%	56.4%	58.7%	57.8%	57.6%
SG&A/sales	33.5%	36.6%	35.6%	34.0%	35.3%	38.1%	36.8%	38.0%	31.5%	35.5%	39.8%	38.6%	37.9%	31.5%	36.4%	36.7%
EBIT margin	22.3%	19.3%	22.0%	22.1%	23.2%	19.6%	22.8%	20.5%	28.9%	23.7%	18.5%	18.7%	18.3%	27.2%	21.4%	20.9%
Pretax margin	22.6%	19.3%	22.0%	22.1%	23.6%	20.6%	23.5%	21.0%	29.3%	24.3%	19.0%	19.1%	18.8%	27.5%	21.8%	21.3%
Tax rate	28.1%	27.5%	26.2%	28.1%	28.7%	29.5%	29.6%	30.2%	29.2%	29.6%	30.2%	30.0%	30.0%	30.0%	30.0%	30.0%
Net margin	16.2%	14.0%	16.2%	15.9%	16.9%	14.6%	16.6%	14.7%	20.7%	17.1%	13.3%	13.4%	13.2%	19.2%	15.2%	14.9%
YoY margin change (bps)																
Gross margin	64	10	170	(151)	240	21	78	39	100	66	60	(218)	(213)	(174)	(145)	(20)
SG&A/sales	(24)	302	(99)	(156)	132	78	(22)	(27)	64	22	163	188	(1)	(5)	83	29
EBIT margin	88	(304)	267	9	113	(48)	109	68	34	47	(108)	(412)	(213)	(169)	(231)	(49)
GROWTH METRICS																
Total comps (constant-FX)	18.0%	6.3%	35.0%	28.0%	14.0%	7.0%	3.0%	3.0%	4.0%	4.0%	1.0%	1.5%	1.5%	1.2%	1.3%	1.4%
Store comps	10.0%	-38.3%	65.6%	19.0%	9.0%	5.7%	3.9%	2.1%	4.0%	13.0%	-3.3%	-0.3%	-1.3%	-3.4%	-2.3%	-1.8%
E-commerce comps	35.0%	101.0%	20.0%	35.0%	17.0%	8.5%	1.9%	4.0%	4.0%	5.0%	6.1%	4.0%	5.0%	5.0%	5.0%	5.0%
Net revenue growth	21.0%	10.6%	42.1%	29.6%	18.6%	10.4%	7.3%	8.7%	12.7%	10.1%	7.3%	7.5%	5.4%	1.1%	4.8%	4.4%
FX impact	-0.8%	0.2%	2.2%	-2.4%	-1.1%	-0.6%	-0.7%	0.7%	-1.3%	-0.6%	-0.7%	0.5%	-0.1%	1.3%	0.4%	0.0%
Constant-FX growth	21.8%	10.4%	40.0%	32.0%	19.7%	11.0%	8.0%	8.0%	14.0%	10.6%	8.0%	7.0%	5.5%	-0.1%	4.4%	4.4%
53rd Week impact	-1.6%					0.0%	0.0%	0.0%	5.0%	1.7%	0.0%	0.0%	0.0%	-4.4%	-1.5%	
Gross profit	22.4%	10.8%	46.5%	26.2%	23.7%	10.8%	8.8%	9.5%	14.6%	11.3%	8.5%	3.6%	1.6%	-1.8%	2.3%	4.0%
SG&A	20.2%	20.6%	38.3%	23.9%	23.2%	12.7%	6.7%	8.0%	15.0%	10.7%	11.9%	13.0%	5.4%	1.0%	7.3%	5.2%
Operating income	26.0%	-4.4%	61.8%	30.1%	24.7%	7.8%	12.7%	12.5%	14.0%	12.3%	1.4%	-11.9%	-5.5%	-4.8%	-5.4%	2.0%
Net income	25.4%	-4.6%	64.9%	27.0%	25.9%	10.7%	15.0%	9.7%	11.8%	11.9%	-2.1%	-13.2%	-5.4%	-6.1%	-6.8%	2.0%
Diluted EPS	28.3%	-4.6%	65.7%	29.2%	26.8%	11.7%	17.2%	13.2%	16.1%	14.6%	2.3%	-9.8%	-2.7%	-3.6%	-3.5%	5.3%
Diluted shares outstanding	-2.3%	-0.1%	-0.4%	-1.7%	-0.8%	-0.9%	-1.9%	-3.1%	-3.7%	-2.4%	-4.3%	-3.8%	-2.7%	-2.6%	-3.4%	-3.1%

Source: Company reports and Needham & Co. estimates. Line items in \$millions

VALUATION (PRICE TARGET: \$238.00)

Our price target of \$238 is based on a 16x P/E on our FY26 EPS estimate of \$14.86.

POTENTIAL UPSIDE DRIVERS

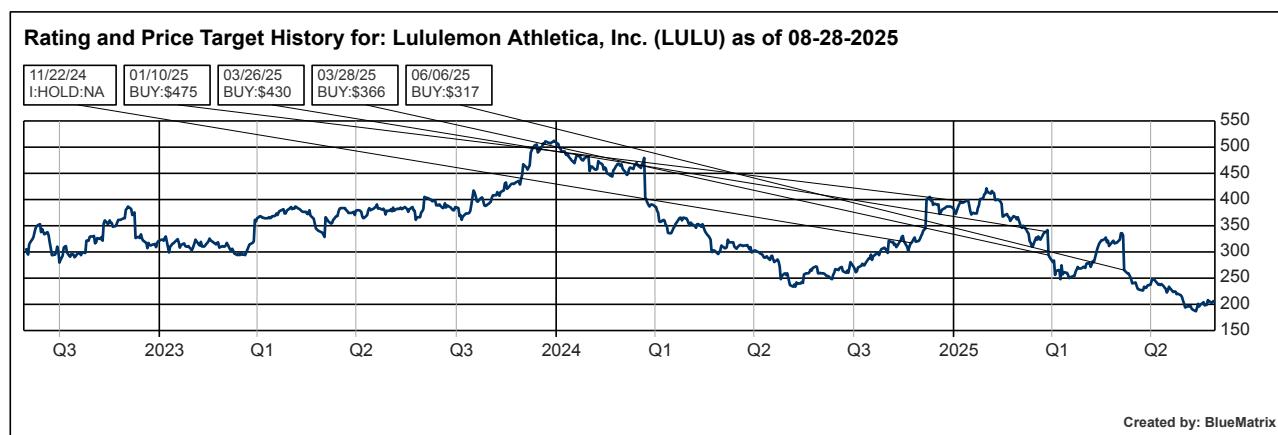
Potential upside drivers for LULU include:

- A potential reversal of recent declines in U.S. store comps, as they roll out new product innovations and face easier compares.
- The men's business is a huge opportunity for the company, as it is less than 25% of LULU's sales, but over 50% of the athletic industry.
- The company still generates most of their revenue in North America (~75%) presenting a major opportunity for international growth.

RISKS TO TARGET**LULU**

Potential downside risks to LULU shares include:

- The company faces competitive threats from up-and-coming brands such as Alo and Vuori.
- The company lost Chief Product Officer Sun Choe last year, which could have a negative impact on the product assortment going forward.
- The company's elevated margin structure could come under pressure if LULU need to discount their goods more or if they need to invest more heavily to drive top-line growth.



ANALYST CERTIFICATION

I, Tom Nikic hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I, also certify that I, have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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	% of companies under coverage with this rating	% for which investment banking services have been provided for in the past 12 months
Buy	74	16
Hold	26	3
Underperform	< 1	0
Rating Suspended	0	0
Restricted	< 1	0

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Buy: A security, which at the time the rating is instituted, we expect to outperform the average total return of the broader market over the next 12 months.

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Underperform: A security, which at the time the rating is instituted, we expect to underperform the average total return of the broader market over the next 12 months.

Rating Suspended: We have suspended the rating and/or price target, if any, for this security, because there is not a sufficient fundamental basis for determining a rating or price target. The previous rating and price target, if any, are no longer in effect and should not be relied upon.

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