

Apparel and Footwear

Lululemon Athletica, Inc. (LULU)

RATING
BUY
PRICE TARGET
\$192.00
from \$238.00
PRICE
\$206.09
52-WEEK RANGE
\$185.95 - \$423.32

New Products Haven't Revived The U.S. This Year, Maybe In '26?

OUR CALL

LULU shares have already had a bad year (-46% vs. SPX +10.5%), and a big guidance cut in Q2 is likely to make matters worse (down ~16% after-market to ~\$173). The product-driven U.S. re-acceleration, which led us to upgrade the stock in January, is struggling to take hold, so we're lowering our FY25E/26E EPS to \$12.87/\$12.20 (from \$14.12/\$14.86) and our PT to \$192 from \$238. We're sticking with our Buy rating for now, as we hope that Q2 was a "clear the deck" event, but we expect it to take time before investors warm up to this name again. In Q2, revenue growth was just shy of guidance (7-8%), though EPS of \$3.10 beat guidance of \$2.85-\$2.90. FY revenue growth guidance was lowered by 300bps to +2-4%, and EPS was cut to \$12.77-\$12.98 (from \$14.58-\$14.78). Q3 was guided to 3%-4% sales growth and EPS \$2.18-\$2.23 (vs. Street +7% and \$2.89).

TOM'S TAKEAWAYS

Tom's Takeaway #1: Americas Business To Undergo Product Reset Following Continued Weakness. Americas comp growth was -3% in Q2, the 6th straight quarter flat-or-negative comps. While consumers have responded well to new styles (mostly around performance product, which is 60% of the mix), they are not responding well to updated seasonal colors, nor the company's more casual offerings (~40% of mix), namely social and lounge products. Management believes they made a mistake by letting product cycles run too long in these categories and as a result the product has become stale and unexciting. As such, the company will be undergoing a full reset in order to deliver more innovative product and at a faster pace. However, they don't expect the results of this action to be felt at least until FY26.

Tom's Takeaway #2: Tariffs A Much Bigger Headwind Than Expected Due To The De Minimis Exemption. Management now expects FY25 gross margins to be down 300bps YoY (vs. -110bps) prior, largely driven by a 180bps incremental headwind from tariffs (now a 220bps headwind post-mitigation). Unexpectedly, the bulk of the margin pressure comes from the elimination of the de minimis exemption, which was not a risk that we believe investors (or analysts) were aware of. Of the 220bps of tariff-related pressure this year, 170bps stems from the elimination of the exemption. Q3 gross margin is expected to be down 410bps YoY, which implies Q4 will be down ~600bps. While they expect some mitigation next year as well, they believe that the net impact to COGS from tariffs will be ~\$320 million, or ~300bps to margins (implying another ~80bps of headwind next year).

Tom's Takeaway #3: Markdowns Creeping Up As Well. In addition to the tariff headwind, elevated inventory levels (+21% in Q2 and expected to be up similar amounts in Q3 and Q4 as well) led to an expectation for incremental markdowns (now planned at a 50bps headwind for the year vs. 10-20bps headwind prior).

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KEY DATA

Market Cap (MM)	\$24,664.9
Price [09/04/2025]	\$206.09
52-Week Range	\$185.95 - \$423.32
Shares Outstanding	119.68
Avg. Daily Volume	3,764,634.8

ESTIMATES

FY (Jan)	2024A	2025E	2026E
Rev. (MM)[\$]			
Q1	2,208.9A	2,370.7A	-
Q2	2,371.1A	2,525.2A	-
Previous	—	2,549.3E	—
Q3	2,396.7A	2,486.5E	-
Previous	—	2,527.2E	—
Q4	3,611.5A	3,541.1E	-
Previous	—	3,652.4E	—
Year	10,588.1A	10,923.5E	11,407.4E
Previous	—	11,099.5E	11,584.2E
Growth Rev	10.1%	3.2%	4.4%
FY (Jan)	2024A	2025E	2026E
EPS			
Q1	2.54A	2.60A	-
Q2	3.15A	3.10A	-
Previous	—	2.84E	—
Q3	2.87A	2.22E	-
Previous	—	2.79E	—
Q4	6.14A	4.98E	-
Previous	—	5.92E	—
Year	14.64A	12.87E	12.20E
Previous	—	14.12E	14.86E
Growth	14.6%	NM	NM
P/E	14.1x	16.0x	16.9x

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 ~\$14.00. At a high-teens P/E multiple, the stock could be ~\$250.

BASE CASE ASSUMPTIONS

We're modeling FY25 within current sales and EPS guidance. Next year, we expect flattish comps (down domestically, up internationally), with some footage growth resulting in MSD consolidated revenue growth. We assume margins decline 250bps due to the wrap-around of tariffs, incremental markdown pressure, and fixed-cost deleverage, resulting in FY26 EPS power of \$12.00-\$12.50. Our price target of \$192 is based on a 15x-16x P/E on our FY26 EPS estimate of \$12.20.

BEAR CASE ASSUMPTIONS

In our bear case, we assume FY25 comes in even worse than expected, and generates negative global comp growth next year (-MSD in North America and slightly positive overseas). Amid slowing sales and the wrap-around of tariffs, we assume discounting increases, and the company experiences ~350bps of EBIT margin erosion next year. In this scenario, FY26 EPS declines to below \$11.00. At a low-teens P/E multiple, the stock could fall to ~\$140.

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

Market Cap (MM)	\$24,664.9
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Figure 1 - 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 2Q25	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	2,525.2	2,486.5	3,541.1	10,923.5	11,407.4
<u>Cost of goods sold</u>	<u>1,755.9</u>	<u>1,937.9</u>	<u>2,648.1</u>	<u>3,555.3</u>	<u>3,986.2</u>	<u>933.8</u>	<u>958.9</u>	<u>995.1</u>	<u>1,429.5</u>	<u>4,317.3</u>	<u>987.5</u>	<u>1,048.0</u>	<u>1,133.6</u>	<u>1,615.1</u>	<u>4,784.2</u>	<u>5,212.9</u>
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	1,477.2	1,352.9	1,926.0	6,139.3	6,194.5
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	951.7	981.8	1,094.7	3,971.0	4,214.1
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	1.7	1.7	1.7	6.8	6.8
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	523.8	369.4	829.5	2,161.4	1,973.5
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	553.2	643.5	490.4	952.5	2,639.6	2,547.4
<u>Other income/(expense)</u>	<u>8.3</u>	<u>(0.6)</u>	<u>0.5</u>	<u>4.2</u>	<u>43.1</u>	<u>23.3</u>	<u>18.0</u>	<u>13.7</u>	<u>15.4</u>	<u>70.4</u>	<u>11.8</u>	<u>9.7</u>	<u>9.7</u>	<u>9.7</u>	<u>41.0</u>	<u>41.0</u>
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	533.6	379.2	839.3	2,202.4	2,014.5
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	162.6	115.6	251.8	665.9	604.4
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	370.9	263.5	587.5	1,536.5	1,410.2
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	\$3.10	\$2.22	\$4.98	\$12.87	\$12.20
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	119.6	118.7	117.9	119.2	115.5
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	119.7	118.8	118.0	119.3	115.6
Shares repurchased	1.1	0.4	2.2	1.4	1.5	0.8	1.9	1.6	0.9	5.2	1.4	1.1	1.0	1.0	4.5	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	\$246.91	\$173.00	\$173.00	\$232.89	\$173.00
Total repurchase amount	173.4	63.7	812.5	443.6	554.8	296.9	583.7	408.5	332.2	1,621.3	430.0	278.5	173.0	173.0	1,054.5	865.0
As % of FCF	45%	11%	82%	135%	34%					102%					124%	67%
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%	58.5%	54.4%	54.4%	56.2%	54.3%
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%	37.7%	39.5%	39.9%	36.4%	36.9%
EBIT margin	22.3%	19.3%	22.0%	22.1%	23.2%	19.6%	22.8%	20.5%	28.9%	23.7%	18.5%	20.7%	14.9%	23.4%	19.8%	17.3%
Pretax margin	22.6%	19.3%	22.0%	22.1%	23.6%	20.6%	23.5%	21.0%	29.3%	24.3%	19.0%	21.1%	15.2%	23.7%	20.2%	17.7%
Tax rate	28.1%	27.5%	26.2%	28.1%	28.7%	29.5%	29.6%	30.2%	29.2%	29.6%	30.2%	30.5%	30.5%	30.0%	30.2%	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%	14.7%	10.6%	16.6%	14.1%	12.4%
YoY margin change (bps)																
Gross margin	64	10	170	(151)	240	21	78	39	103	66	62	(106)	(407)	(603)	(302)	(190)
SG&A/sales	(24)	302	(99)	(156)	132	78	(22)	(27)	64	22	163	91	152	(60)	82	59
EBIT margin	88	(304)	267	9	113	(48)	109	68	34	47	(108)	(204)	(562)	(543)	(388)	(249)
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%	1.0%	-0.7%	-2.9%	-0.7%	0.6%
Store comps	10.0%	-38.3%	65.6%	19.0%	9.0%	5.7%	3.9%	2.1%	4.0%	13.0%	-3.3%	-5.0%	-6.0%	-8.9%	-6.4%	-1.6%
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%	9.1%	6.0%	2.0%	5.6%	3.0%
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%	6.5%	3.7%	-1.9%	3.2%	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%	0.6%	2.1%	0.8%	0.8%
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%	6.0%	3.2%	-4.0%	2.4%	3.6%
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%	4.6%	-3.5%	-11.7%	-2.1%	0.9%
SG&A	20.2%	20.6%	38.3%	23.9%	23.2%	12.7%	6.7%	8.0%	15.0%	10.7%	11.9%	9.1%	7.9%	-3.8%	5.5%	6.1%
Operating income	26.0%	-4.4%	61.8%	30.1%	24.7%	7.8%	12.7%	12.5%	14.0%	12.3%	1.4%	-3.0%	-24.7%	-20.4%	-13.7%	-8.7%
Net income	25.4%	-4.6%	64.9%	27.0%	25.9%	10.7%	15.0%	9.7%	11.8%	11.9%	-2.1%	-5.6%	-25.1%	-21.5%	-15.3%	-8.2%
Diluted EPS	28.3%	-4.6%	65.7%	29.2%	26.8%	11.7%	17.2%	13.2%	16.1%	14.6%	2.3%	-1.5%	-22.6%	-18.9%	-12.0%	-5.2%
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%	-4.1%	-3.2%	-3.2%	-3.7%	-3.2%

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

VALUATION (PRICE TARGET: \$192.00)

Our price target of \$192 is based on a 15x-16x P/E on our FY26 EPS estimate of \$12.20.

POTENTIAL UPSIDE DRIVERS

Potential upside drivers for LULU include:

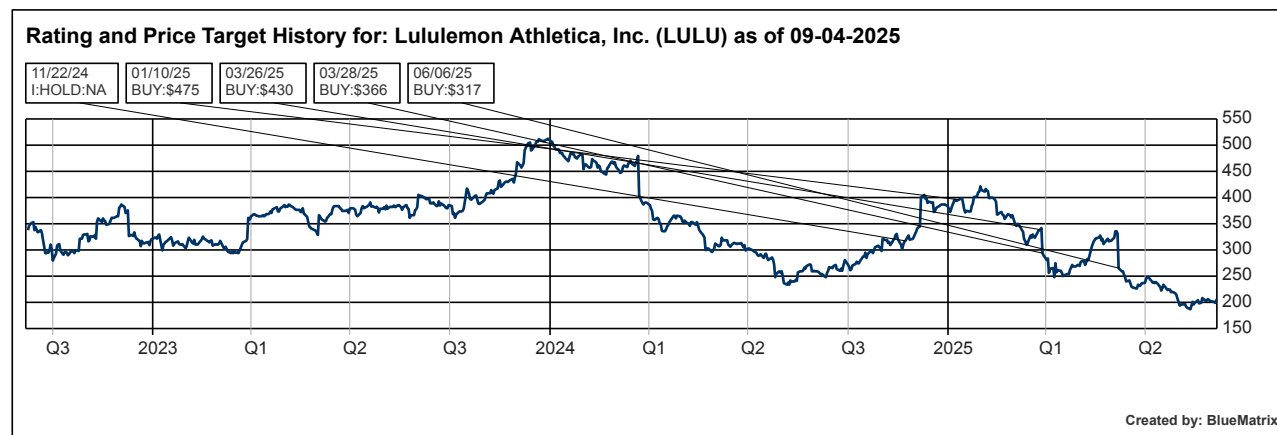
- A potential reversal of recent declines in U.S. store comps, as they roll out new product innovations and face easier compares.
- The men's business is a huge opportunity for the company, as it is less than 25% of LULU's sales, but over 50% of the athletic industry.
- The company still generates most 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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Underperform	< 1	0
Rating Suspended	0	0
Restricted	< 1	0

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The Firm, at the time of publication, makes a market in the subject company Lululemon Athletica, Inc. .

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