

Apparel and Footwear
Lululemon Athletica, Inc. (LULU)

RATING	PRICE TARGET	PRICE	52-WEEK RANGE
HOLD	NA	\$187.01	\$159.25 - \$423.32

Visibility Remains Low Amid U.S. Struggles And CEO Transition Announcement

OUR CALL

Q3 wasn't as bad as feared (driving shares up in the 12/11 after-market), but U.S. revenue and margin trends remain challenged, keeping us sidelined. Furthermore, with the announced departure of CEO Calvin McDonald at the end of January, the outlook for the business has likely become cloudier. Our FY25/26 EPS forecasts move slightly higher on the Q3 beat (now \$13.02/\$12.54 vs. \$12.87/\$12.20 prior), but we're awaiting greater clarity around fundamental stabilization. For the quarter itself, global comps of +2% (slightly above consensus +1%) and EPS of \$2.59 beat guidance of \$2.18-\$2.23. However, the Q4 guide was mostly below expectations, with revenue down 1%-3% vs. Street at -1%, and EPS of \$4.66-\$4.76 vs. Street at \$4.94.

TOM'S TAKEAWAYS

Tom's Takeaway #1: CEO Change Adds To The Uncertainty. Mr. McDonald, who has served as CEO since 2018, had quite a successful tenure as CEO, despite recent struggles domestically, as revenue and EPS each more-than-tripled during his 7 full years at the helm. While the brand's recent struggles in the U.S. may necessitate a new viewpoint, the transition does add to the uncertainty in the name, in our view. C-suite executives in our space usually like to "reset numbers" upon taking the seat, so we'd be concerned about a conservative initial FY26 outlook when the company next reports earnings.

Tom's Takeaway #2: U.S. Remains Challenged, Though Black Friday Was Solid. The Americas comped -5%, down sequentially from Q2's -3%, with regional gross margin down 510bps YoY (tariffs plus markdowns plus deleverage). On the bright side, management was pleased with performance during Black Friday week, even considering the fact that loyalty members got early access to discounts ahead of the week. However, traffic has pulled back since then. LULU is using this Holiday period to clear excess inventory and as such, believes it will be in a good position starting Q1, where management also expects that the impact of new products will begin to be felt (new style penetration expected to be 35% next spring). While trends remain challenged domestically, International comped a strong +18% driven by Mainland China comped up 25%. QTD, LULU noted a strong 11/11 selling period, but a later Lunar New Year will push some sales out of Q4 and into Q1.

Tom's Takeaway #3: Margin Pressure Likely to Persist Through 2026. Gross margin was down 290bps in Q3, which was better than guidance for down 410bps. For Q4, the company expects gross margin to be down 580bps, of which 410bps comes from tariffs/removal of de minimis exemption and 100bps comes from markdowns. This, combined with higher-than-normal marketing expense as the company looks to drive traffic, results in a Q4 EBIT margin that is expected to be down 680bps YoY. Regarding the margin outlook for FY26, management expects the "negatives to outweigh the positives" which suggests pressure will continue next year.

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KEY DATA

Market Cap (MM)	\$22,170.4
Price (12/11/2025)	\$187.01
52-Week Range	\$159.25 - \$423.32
Shares Outstanding	118.55
Avg. Daily Volume	3,541,370.0

ESTIMATES

FY (Jan)	2025E	2026E	2027E
Rev. (MM)(\$)			
Q1	2,370.7A	2,519.2E	-
Q2	2,525.2A	2,642.9E	-
Q3	2,565.9A	2,723.2E	-
Previous	2,486.5E	-	-
Q4	3,562.3E	3,761.2E	-
Previous	3,541.1E	-	-
Year	11,024.1E	11,646.5E	12,228.6E
Previous	10,923.5E	11,407.4E	-
Growth Rev	4.1%	5.6%	5.0%
FY (Jan)	2025E	2026E	2027E
EPS			
Q1	2.60A	2.19E	-
Q2	3.10A	2.70E	-
Q3	2.59A	2.61E	-
Previous	2.22E	-	-
Q4	4.76E	5.07E	-
Previous	4.98E	-	-
Year	13.02E	12.54E	13.72E
Previous	12.87E	12.20E	-
Growth	NM	NM	9.4%
P/E	14.4x	14.9x	13.6x

At a Glance

OUR INVESTMENT THESIS

LULU is a strong brand with long-term growth drivers, but the operating environment has become more challenging.

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 FY27 EPS power could be ~\$15.00. At a high-teens P/E multiple, the stock could be ~\$270.

BASE CASE ASSUMPTIONS

We're modeling FY25 within current sales and EPS guidance. Next year, we expect slightly positive comps (down domestically, up internationally), with some footage growth resulting in MSD consolidated revenue growth. We assume margins decline 200-250bps due to the wrap-around of tariffs, incremental markdown pressure, and fixed-cost deleverage, resulting in FY26 EPS power of ~\$12.50. With slight margin recovery in FY27 and slight comp sales acceleration, we think LULU can resume EPS growth, to the \$13.50-\$14.00 range. The stock is currently trading at ~15x our FY26 EPS forecast of \$12.54.

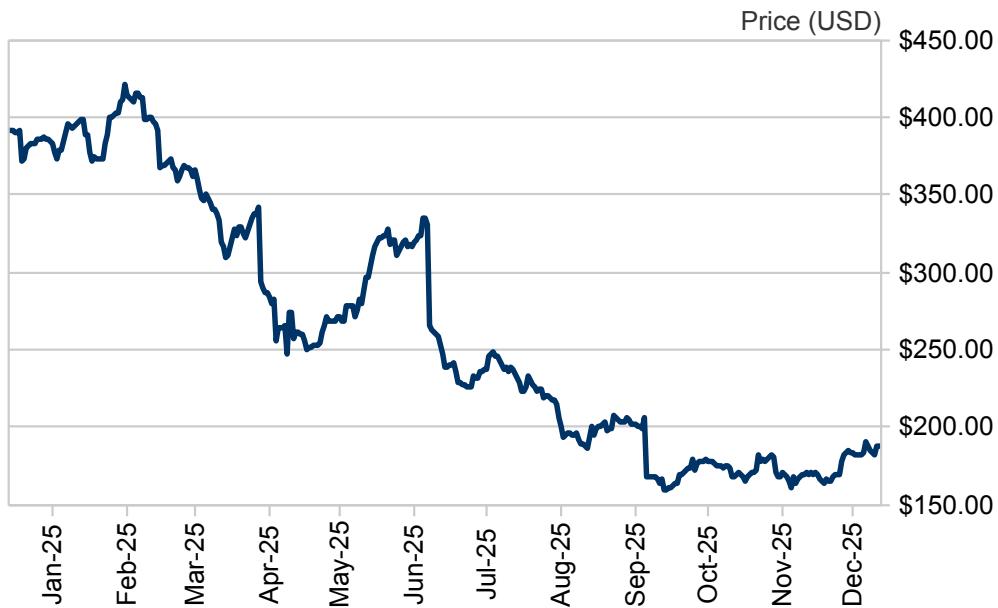
BEAR CASE ASSUMPTIONS

In our bear case, we assume FY25 comes in 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. Assuming the company continues to struggle into FY27, EPS power could fall further to \$10.00. At a low-teens P/E multiple, the stock could fall to ~\$130.

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)	\$22,170.4
Price (12/11/2025)	\$187.01
52-Week Range	\$159.25 - \$423.32
Shares Outstanding	118.55
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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 3Q25	Jan 4Q25E	Jan FY25E	Apr 1Q26E	Jul 2Q26E	Oct 3Q26E	Jan 4Q26E	Jan FY26E	Jan FY27E
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	2,565.9	3,562.3	11,024.1	2,519.2	2,642.9	2,723.2	3,761.2	11,646.5	12,228.6
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	1,048.0	1,140.0	1,618.4	4,794.0	1,125.5	1,175.8	1,231.9	1,706.2	5,239.4	5,440.1
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	1,477.2	1,425.9	1,943.9	6,230.1	1,393.7	1,467.1	1,491.3	2,055.0	6,407.1	6,788.5
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	988.3	1,149.9	4,032.7	1,033.6	1,024.4	1,067.2	1,230.8	4,356.1	4,601.2
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	1.8	1.8	6.9	1.8	1.8	1.8	1.8	7.1	7.1
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	435.9	792.2	2,190.6	358.3	440.9	422.3	822.4	2,043.9	2,180.2
EBITDA	1,051.0	1,035.3	1,599.0	2,080.9	2,670.3	528.4	643.8	604.3	1,175.8	2,952.2	553.2	643.5	563.3	922.2	2,682.3	489.3	573.9	557.3	959.4	2,579.9	2,769.8
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	9.7	5.9	7.0	34.4	7.0	7.0	7.0	28.0	28.0	28.0
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	533.6	441.7	799.2	2,224.9	365.3	447.9	429.3	829.4	2,071.9	2,208.2
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	134.9	239.8	673.2	109.6	134.4	128.8	248.8	621.6	662.5
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	306.8	559.5	1,551.8	255.7	313.5	300.5	580.6	1,450.3	1,545.7
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	\$3.10	\$2.59	\$4.76	\$13.02	\$2.19	\$2.70	\$2.61	\$5.07	\$12.54	\$13.72
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	118.5	117.5	119.1	116.7	115.9	115.1	114.3	115.5	112.5
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	118.6	117.6	119.2	116.8	116.0	115.2	114.4	115.6	112.6
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	1.0	1.0	1.0	1.0	4.0	4.0
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	\$189.00	\$189.00	\$239.95	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00
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	189.0	189.0	1,086.5	200.0	200.0	200.0	200.0	800.0	800.0
As % of FCF	45%	11%	82%	135%	34%					102%					120%					62%	53%
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%	56.6%	54.6%	56.5%	55.3%	55.5%	54.8%	54.6%	55.0%	55.5%
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%	38.5%	32.3%	36.6%	41.0%	38.8%	39.2%	32.7%	37.4%	37.6%
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%	17.0%	22.2%	19.9%	14.2%	16.7%	15.5%	21.9%	17.5%	17.8%
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%	17.2%	22.4%	20.2%	14.5%	16.9%	15.8%	22.1%	17.8%	18.1%
Taxrate	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%	30.3%	30.3%	30.0%	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%	14.7%	12.0%	15.7%	14.1%	10.2%	11.9%	11.0%	15.4%	12.5%	12.6%
YoY margin change (bps)																					
Gross margin	64	10	170	(151)	240	21	78	39	103	66	62	(106)	(291)	(585)	(271)	(302)	(299)	(81)	7	(150)	50
SG&A/sales	(24)	302	(99)	(156)	132	78	(22)	(27)	64	22	163	91	55	76	105	126	107	68	45	82	22
EBIT margin	88	(304)	267	9	113	(48)	109	68	34	47	(108)	(204)	(349)	(662)	(379)	(428)	(406)	(148)	(37)	(232)	28
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%	2.0%	-2.3%	0.1%	0.2%	0.6%	2.2%	3.2%	1.7%	2.6%
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%	-6.5%	-9.8%	-6.9%	-1.3%	-0.5%	1.4%	2.1%	0.79%	2.3%
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%	12.9%	4.0%	7.8%	2.0%	2.0%	3.0%	4.0%	2.8%	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%	7.1%	-1.4%	4.1%	6.3%	4.7%	6.1%	5.6%	5.0%	
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%	1.4%	0.4%	1.6%	0.3%	0.2%	0.5%	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%	6.0%	7.0%	-2.7%	3.7%	4.7%	4.4%	5.9%	5.4%	5.1%	5.0%
53rd Week impact	-1.6%					0.0%	0.0%	0.0%	5.0%	1.7%	0.0%	0.0%	0.0%	-4.6%	-1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
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%	1.7%	-10.9%	-0.6%	0.8%	-0.7%	4.6%	5.7%	2.8%	6.0%
SG&A	20.2%	20.6%	38.3%	23.9%	23.2%	12.7%	6.7%	8.0%	15.0%	10.7%	11.9%	9.1%	8.6%	1.0%	7.2%	9.6%	7.6%	8.0%	7.0%	8.0%	5.6%
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%	-11.2%	-24.0%	-12.6%	-18.3%	-15.8%	-3.1%	3.8%	-6.7%	6.7%
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%	-12.8%	-25.2%	-14.5%	-18.7%	-15.5%	-2.1%	3.8%	-6.5%	6.6%
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%	-9.7%	-22.5%	-11.0%	-15.9%	-12.8%	0.7%	6.7%	-3.7%	9.4%
Diluted shares outstanding	-2.3%	-0.1%	-0.4%	-1.7%	-0.9%	-1.9%	-3.1%	-3.7%	-4.3%	-4.1%	-3.5%	-3.9%	-3.3%	-3.0%	-2.8%	-2.7%	-3.0%	-2.6%	-3.0%	-2.6%	

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

VALUATION (PRICE TARGET: NA)

LULU shares are currently trading at ~15x our FY26 EPS estimate of \$12.54.

POTENTIAL UPSIDE DRIVERS

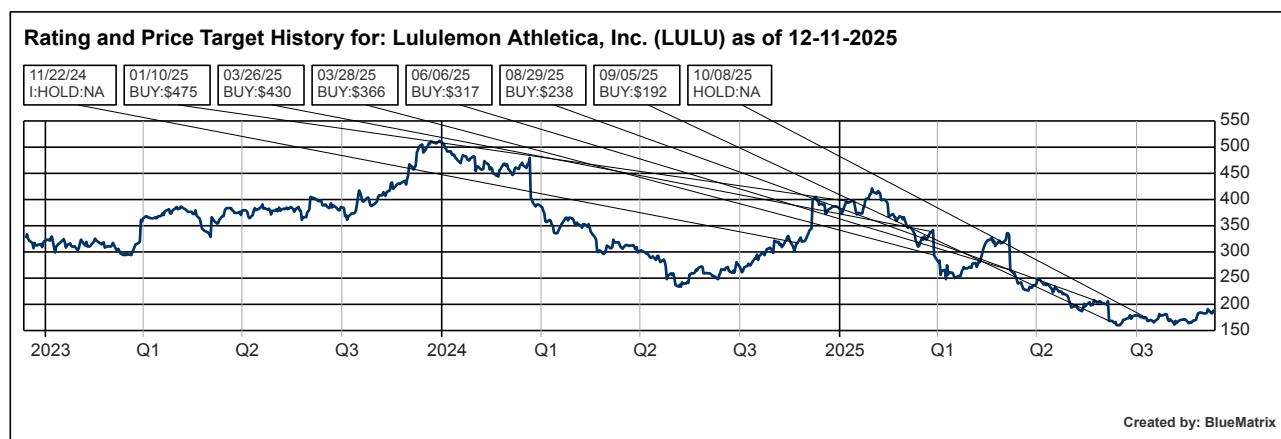
Potential upside drivers for LULU include:

- 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 (~70%) 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

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Restricted	0	0

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