# lululemon athletica inc.

## 2Q Stacked Moderation & 2H Cut; Mgmt Follow-Up Takes; Remain Neutral

**Neutral**

**LULU, LULU US**
Price (04 Sep 25):$206.09

▼**Price Target (Dec-26):$191.00**
Prior (Dec-26):$224.00

LULU reported 2Q EPS of $3.10 (above Street $2.87) driven by +7% Y/Y revenue growth (= Street), gross margin contraction of -110bps Y/Y to 58.5% (above Street 57.5% / mgmt's 57.6% guide), and SG&A deleverage of -90bps to 37.7% (vs. Street 38.6%), translating to an operating margin of 20.7% (above Street 18.9%). **Digging deeper, 2Q same-store-sales grew +1% c/c (below the Street at +2.4%) primarily driven by negative 3% Americas comps c/c (below Street -0.8%), which sequentially worsened over the course of the quarter despite taking higher than planned markdowns (-60bps headwind vs. mgmt's -20-40bps forecast).**

**Looking ahead,** management **lowered** FY25 EPS to $12.77-$12.97 (-12% below midpoint of prior $14.58-$14.78 guide) based on (i) **lowered** +2-4% reported revenue growth y/y (vs. prior +5-7% guide and Street +5.5%), or +4-6% excluding the lap of the 53[rd] week, and (ii) **lowered** FY25 operating margins to down -390bps to 19.8% (below 22.1% prior & Street 21.6%). **Near-term**, management guided 3Q25 EPS to $2.18-$2.23 (**~24% below the Street at $2.89**) based on +3-4% reported revenue growth Y/Y (vs. Street +6.7%) and operating margins down -560bps Y/Y to 14.9% (vs. Street 18.8%). This implies 4Q EPS of $4.89-$5.04 (~17% below Street $5.98) based on -2.5% reported revenue growth Y/Y (vs. Street 2.5%) and operating margins down -550bps Y/Y to ~23.4% (vs. Street 27.1%).

**Management Follow-Up Takeaways & Model Implications:**

**#1: Latest Product Diagnosis = Merchandise Mix Reset Required Into Spring 2026:** Relative to management initially diagnosing the product assortment issues driving the US business's underperformance as (i) out-of-stocks in smaller sizes (0-4) and in key colors (March '24 diagnosis) and (ii) a Women's product plan that needed more newness across core/Seasonal styles, including color, print, patterns, silhouettes (August '24 diagnosis) - CEO McDonald provided the latest diagnosis as overreliance on a "stale" product playbook across the Casual assortment (40% of mix) w/ core franchises of Scuba, Softstreme & Dance Studio described as "fatiguing the customer", particularly the high-value legacy consumer. **Said differently, CEO McDonald believes product lifecycles have run too long within many core categories, particularly in lounge & social, with a need to not only increase the mix of "newness" 23% today to 35% of the assortment, but redefine "newness" as brand-new innovation/fabrications (w new prints/colors no longer enough to drive conversion).**

On timing, management sees the product assortment reaching the rebalanced mix of 35% newness penetration **entering Spring '26 (1Q26)**, with initial new product launches of *Lounge Full* and *Big Cozy* slated for 2H25 (following the launch of Scuba Waffle on 8/12). **Put together on the assortment rebalance – our work points to the assortment mix shifting from its current state of ~40% core (i.e.**

**Retailing – Department Stores & Specialty Softlines**

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**Key Changes (FYE Jan)**

| | Prev | Cur |
|---|---|---|
| Adj. EPS - 25E ($) | 14.66 | 12.84 |
| Adj. EPS - 26E ($) | 14.65 | 12.33 |

**Quarterly Forecasts (FYE Jan)**

Adj. EPS ($)

| | 2024A | 2025E | 2026E |
|---|---|---|---|
| Q1 | 2.54 | 2.60A | |
| Q2 | 3.15 | 3.10A | |
| Q3 | 2.87 | 2.22 | |
| Q4 | 6.14 | 4.94 | |
| FY | 14.64 | 12.84 | 12.33 |

**Style Exposure**

| | Current | Hist %Rank (1=Top) | | | |
|---|---|---|---|---|---|
| Quant Factors | %Rank | 6M | 1Y | 3Y | 5Y |
| Value | 64 | 83 | 76 | 88 | 91 |
| Growth | 37 | 38 | 28 | 53 | 56 |
| Momentum | 80 | 31 | 81 | 36 | 14 |
| Quality | 2 | 3 | 1 | 5 | 3 |
| Low Vol | 51 | 40 | 27 | 32 | 13 |
| ESGQ | 10 | 11 | 6 | 14 | 1 |

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

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J.P.Morgan

## Price Performance


| | YTD | 1m | 3m | 12m |
|---|---|---|---|---|
| Abs | -46.1% | 4.9% | -38.5% | -19.3% |
| Rel | -56.6% | 2.2% | -47.4% | -37.1% |

## Company Data

| | |
|---|---|
| Shares O/S (mn) | 126 |
| 52-week range ($) | 423.32-185.95 |
| Market cap ($ mn) | 26,036.59 |
| Exchange rate | 1.00 |
| Free float (%) | 95.2% |
| 3M ADV (mn) | 3.72 |
| 3M ADV ($ mn) | 848.9 |
| Volatility (90 Day) | 52 |
| Index | S&P 500 |
| BBG ANR (Buy \| Hold \| Sell) | 18\|15\|5 |

## Key Metrics (FYE Jan)

| $ in millions | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| **Financial Estimates** | | | | |
| Revenue | 10,588 | 10,920 | 11,511 | 12,220 |
| Adj. EBITDA | 2,952 | 2,618 | 2,502 | 2,558 |
| Adj. EBIT | 2,506 | 2,159 | 2,019 | 2,045 |
| Adj. net income | 1,815 | 1,535 | 1,437 | 1,455 |
| Adj. EPS | 14.64 | 12.84 | 12.33 | 12.71 |
| BBG EPS | 14.36 | 14.44 | 15.34 | - |
| Cashflow from operations | 2,273 | 1,968 | 1,875 | 1,914 |
| FCFF | 1,583 | 1,224 | 1,060 | 1,023 |
| **Margins and Growth** | | | | |
| Revenue Growth Y/Y (%) | 10.1% | 3.1% | 5.4% | 6.2% |
| Gross margin | - | - | - | - |
| EBITDA margin | 27.9% | 24.0% | 21.7% | 20.9% |
| EBIT margin | 23.7% | 19.8% | 17.5% | 16.7% |
| Adj. EPS growth | 14.6% | (12.3%) | (4.0%) | 3.0% |
| **Ratios** | | | | |
| Adj. tax rate | 29.6% | 30.2% | 30.2% | 30.2% |
| Interest cover | - | - | - | - |
| Net debt/Equity | - | - | - | - |
| Net debt/EBITDA | - | - | - | - |
| ROCE | 41.3% | 33.9% | 29.5% | 27.4% |
| ROE | 42.4% | 34.6% | 30.1% | 27.9% |
| **Valuation** | | | | |
| FCFF yield | 6.2% | 5.0% | 4.4% | 4.3% |
| Dividend yield | - | - | - | - |
| EV/Revenue | 2.9 | 2.9 | 2.7 | 2.6 |
| EV/EBITDA | 10.6 | 11.9 | 12.5 | 12.2 |
| Adj. P/E | 14.1 | 16.0 | 16.7 | 16.2 |

## Summary Investment Thesis and Valuation

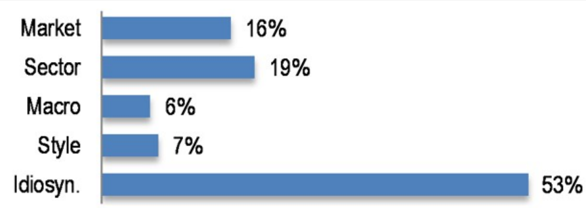
### Investment Thesis

While lululemon remains underpenetrated Internationally relative to peers with a notable opportunity to scale brand awareness, our work points to a normalizing pace of growth in China Mainland & product assortment challenges in the US have driven elevated markdowns & a more moderate revenue growth profile for the business, with higher fixed cost leverage hurdles across ROD and SG&A expenses further constraining multi-year margins. We rate shares of LULU Neutral.

### Valuation

We lower our Dec '26 price target to $191 (vs. $224 prior) based on ~15x our FY27 EPS (in line with Non-Distressed retail peers).

## Performance Drivers




| Factors | 6M Corr | 1Y Corr |
|---|---|---|
| **Market:** MSCI US | 0.53 | 0.40 |
| **Sect:** Cons Discretionary | 0.29 | 0.48 |
| **Ind:** Cons Dur & Apparel | 0.44 | 0.34 |
| **Macro:** | | |
| Crude Oil | -0.37 | -0.26 |
| US Dollar | 0.22 | 0.19 |
| Economic Surprise | 0.23 | 0.12 |
| **Quant Styles:** | | |
| Size | -0.27 | -0.25 |
| Value | -0.10 | -0.16 |
| Quality | -0.11 | -0.13 |

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

**black leggings), ~40% core-seasonal (i.e. print/colors), ~20% newness to ~40% core, ~25% core-seasonal, and ~35% newness with management noting consumer preferences have now shifted & the consumer is responding less to core-seasonal product interpretations (colors/prints).**

- **Digging Deeper on Mgmt Turnover –** we note several leadership changes across the organization over the trailing 5 years including (i) **the loss of Creative Director Phil Dickinson in May 2023** (replaced by Jonathan Cheung in January '24) & (ii) **the departure of Chief Product Officer Sun Choe in May 2024**, with responsibility of merchandising under Elizabeth Binder (appointed Chief Merchandising Officer in January 2023) reporting into Nikki Neuburger (appointed Chief Brand Officer & Product Activation Officer in January 2020). **Said differently – the creative leadership team across the roles of Creative Director, Chief Merchandising Officer, and Chief Brand Officer - have all experienced turnover post-pandemic.**

**#2: FY25 Revenues Cut to 4-6% Growth Y/Y on US, Canada, and China Deterioration:** Mgmt revised the FY25 revenue growth outlook to 4-6% excluding the 53rd week (vs. +7-8% prior) including expectations by region of Flat to down -1% in Americas (below +LSD-MSD % prior), +20-25% Y/Y growth in China Mainland (below +25-30% prior), and "approximately" +20% growth in Rest of World (vs. 1H25 +16% c/c year-to-date), w/ mgmt noting updated expectations reflect the most recent trends seen across Americas and China Mainland including a challenging macro environment experienced in the US, Canada, and Tier 1 China cities. In addition, mgmt cited the overall market for premium athletic wear in the US remains challenged, with sequential deceleration in the industry growth rate in 2Q led by the consumer, (i) reducing spend across performance activewear and (ii) when motivated to spend, is driven by newness. Breaking down the outlook further by region:

- **US Stacked Revenue Growth Moderates 430bps:** LULU reported a 2Q US revenue decline -0.5% Y/Y (vs. Street Flat), sequentially decelerating -210bps relative to 1Q US revenues +1.7%, **despite a ~200bps easier comparison QoQ.** On the cadence of the quarter, mgmt noted May as the best month of the quarter with a sequential deceleration month-to-month, w/ **July finishing as the softest month of the quarter** (despite July's comparison easier by ~400bps relative to May by our work & in contrast to lateral results across our coverage realizing a +500bps improvement on average in July vs. May). **Into 3Q, management clarified 3QTD (August) trends are roughly in-line w/ the FY25 US revenue guidance of down -1 to -2% Y/Y, implying a continued deceleration in August relative to 2Q's -0.5%. To that point, management's 2H25 US revenue outlook implies at the midpoint a US revenue decline of 3% Y/Y, equating to a ~350bps 2-yr stacked deceleration vs 1H25.**
- **Canada 2Q Deceleration w/ Embedded 2H25 Softness:** Canada revenues grew +1% in 2Q (vs. 1Q +9% c/c) with mgmt noting trends across the Canadian market converged to the challenging macro backdrop experienced in the US, with the consumer increasingly selective in their spend w/ mgmt citing "they are spending less on styles they already have, and spending less overall". **Looking ahead,** management cited Canada 3QTD is tracking below the Canada's FY25 guide of Flat Y/Y revenue growth, with 2H25 Canadian revenues embedded to decelerate to a 3-4% decline Y/Y (< 1H25 revenues +4.7% c/c) to bridge to the full year Flat c/c revenue outlook. On optimizing the Canadian assortment moving forward, CEO McDonald noted "the changes we're making in the US will benefit our business across all the important markets, including Canada."
- **International Revenue Growth Outlook Revised w/ China Tier 1 Slowing:** LULU reported 2Q China revenue growth of +24% Y/Y c/c more/less in-line w/ 1Q's +26% underlying c/c revenue growth (ex. CNY shift headwind). In the region, management cited "*quarter two revenue came in at the low-end of our expectations* ***as we're beginning to see some signs of macro-driven headwinds in Tier-1 cities***." As a result, management revised FY25's outlook for China revenues to grow +20-25% Y/Y (**below** +25-30% Y/Y

prior), noting 3QTD China revenues tracking to the high-end of the full-year +20-25% growth outlook, while 4Q25 revenues are expected to grow at the low-end due to an unfavorable CNY shift. On Rest of World, 2Q revenues grew +19% Y/Y c/c (vs. 1Q +16% Y/Y), with FY25 revenue growth expectations for Rest of World reiterated to grow ~20% Y/Y, with management clarifying no material acceleration is expected in 2H25 ROW revenues (vs. 1H) emphasizing the "approximately" 20% growth rate guidance for the full year.

- **Tying back to our 7/22 Downgrade to Neutral & representing a factor to watch –** management continues to target a +Low-30s CAGR Internationally (FY21-26), including a similar Low-30s planned CAGR in China, which implies by our math further potential moderation, or "normalization" of revenue growth rates in China into FY26 to +Low-to-Mid-Teens (< FY25's +20-25% growth outlook) to bridge to the low-30s CAGR. To that end, relative to a +48% CAGR experienced in FY23/24 (vs. FY21), management noted stronger growth was experienced in the first 3 years of the 5-year Investor Day plan in China as the team scaled stores & initial brand awareness investments (w/ 70 China Mainland stores in FY21 more than doubling to 159 doors as of 2Q25 vs. ~200 FY26 Investor Day target), relative to slower growth rates anticipated in the latter years of the 5-yr plan to result in the +Low-30s CAGR target.

**#3: FY25 Gross Margin Lowered From Incremental Tariffs & Incremental Markdowns:** LULU reported 2Q GPM decline of -110bps y/y to 58.5% (above Street 57.5%) inclusive of a (1) -70bps contraction in product margin, including a -60bps headwind from higher markdowns (**doubling** mgmt's -20bps to -40bps 2Q markdown guidance), and a -20bps net headwind associated with tariffs partially offset higher pricing and lower product costs, and +10bps of favorable FX, (2) -40bps of fixed cost deleverage. **Looking ahead**, management **lowered** the FY25 gross margin outlook to decline ~300bps Y/Y to 56.2% (**below** -110bps prior guide & relative to Street -140bps), with the ~190bps delta to prior guidance driven by (i) a -220bps net tariff headwind (vs. -40bps prior) and (ii) a -50bps markdowns headwind (vs. ~10-20bps headwind prior), partially offset by (iii) enterprise wide efforts to mitigate costs (implied ~25bps of savings identified). **Specifically on the cadence of the back half,** management guided 3Q gross margins to decline 410bps Y/Y to 54.4% (**below** Street 56.6%) reflecting a 230bps tariff headwind, ~80bps markdown headwind, and deleverage on fixed costs. This implies 4Q gross margin degradation of ~590bps Y/Y to 54.5% (vs. Street 58.5%), inclusive of a ~470bps net tariff headwind by our estimates, ~60bps markdown headwind, and continued fixed cost deleverage to bridge to the full year outlook.

- **Worth noting on 2026,** management quantified a $320M net tariff impact anticipated, representing an incremental YOY headwind to FY26 from tariffs of $80M, or a ~70bps headwind to gross margins based on current mitigation assumptions. The incremental tariff headwind combined with continued fixed cost deleverage on our +MSD% consolidated revenue growth assumptions *(multi-year DC project investment & ~LDD% implied occupancy leverage point by our math)* translates to FY26 gross margin degradation of 125bps Y/Y to 54.9% on our estimates (below Street 57.6%).
- **Digging Deeper on Markdowns:** 2Q markdowns represented a 60bps headwind Y/Y within gross margin, representing a shortfall relative to management's expectations for 2Q to realize a 20-40bps markdown headwind Y/Y. **Into 2H25, management's guidance embeds an -80bps markdown headwind (worsening relative to 2Q's -60bps drag), with an implied ~50bps markdown headwind anticipated in 4Q to bridge to mgmt's full year ~50bps markdown guidance (below the prior -10-20bps outlook).** Driving the higher markdowns, **management cited higher levels of seasonal clearance**, while the overall markdown & promotional strategy remain unchanged with an intent to clear end-of-season products through stores, online, outlets, and warehouse

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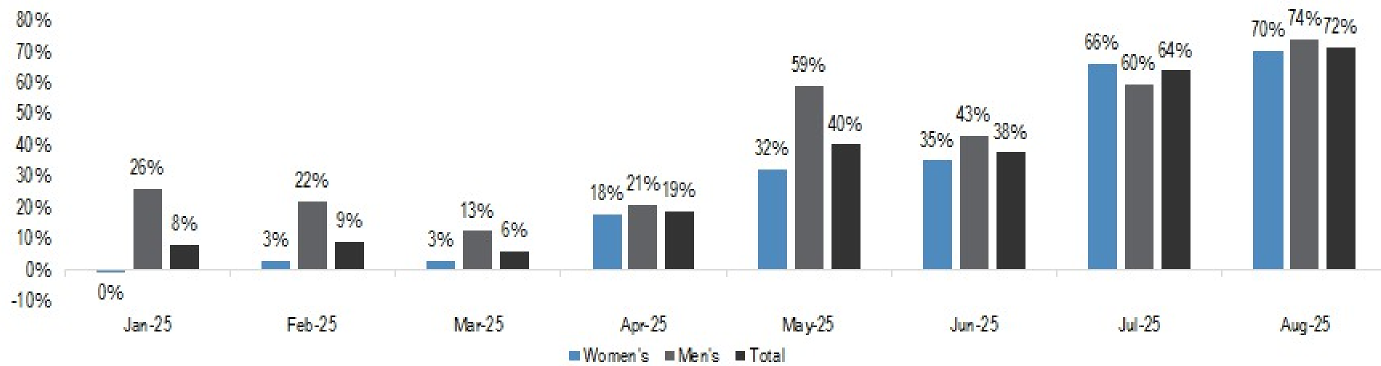
sales. **To that end on seasonal clearance, our proprietary SKU scrape shows a +72% increase YOY in Women's/Men's "We Made Too Much" SKUs listed digitally in August/3QTD (worsening relative to July +64%, June +38%, May +40% & 1Q +13%) supporting in our view management's higher markdown expectations in 3Q & the full year (= Key Flag in our 7/22 Downgrade to Neutral).**

- Taking this a step further, 2Q inventories increased +21% Y/Y to $1.7B, w/ inventory units +13% Y/Y, with expectations for inventory units to increase +LDD% in 3Q relative to management's forward revenue guidance of +3-4% in 3Q. To that end, management noted expectations inventories to be in a healthier position exiting the year into FY26 stating "*as we look out to next year, we aim to manage our inventory in-line with sales trends, and we would expect our inventory growth on a unit basis to moderate beginning in Q1 2026*."

**Figure 1: "We Made Too Much" Women's/Men's SKU Count Sequentially Builds to +72% 3QTD Growth > 2Q +47%**




Source: J.P. Morgan.

**#4: FY25 Operating Margin Outlook Reduced to Below 20% w/ Further FY26 Deleverage:** Management lowered FY25's operating margin outlook to decline -390bps to 19.8% (vs. -160bps decline to ~22.1% prior guidance), with ~190bps of the negative revision associated with a lowered gross margin outlook to 56.2% (vs. 58.1% prior) and ~35bps associated with SG&A expenses (80-90bps of deleverage now anticipated vs. 50bps deleverage anticipated prior). Regarding the modest increase in SG&A deleverage (vs. prior), management cited headwinds from the lower topline growth outlook, FX headwinds, and ongoing investments into the Power of 3x2 plan (including investments to support market growth, international expansion, and continued investments in technology), which are more than offsetting "several enterprise-wide cost-savings initiatives". **Said differently, management's SG&A expense outlook calling for ~80-90bps of deleverage on the +2-4% reported revenue growth outlook implies an 11.5% fixed cost leverage hurdle (with ~LDD% similarly implied on occupancy expenses by our math), constraining forward bottom-line flow-through on single-digit revenue growth. In addition, we note SG&A expenses in FY25 have favorably benefited by the reversal of incentive compensation accruals (quantified as a ~60bps tailwind to 2Q25 results), with our work pointing to an IC headwind to FY26 results on a more normalized topline growth plan. Put together, we are modeling FY26 operating margin degradation of 220bps Y/Y to 17.5% (vs. Street 21.1%) driven by gross margin degradation of -125bps Y/Y (largely tariff-driven) and SG&A deleverage of 85bps Y/Y, with our 17.5% operating margin profile ~480bps below LULU's pre-pandemic 22.3% profile.**

**Model Implications**: We lower FY25 EPS to $12.84 (vs. Street $14.35) and FY26 EPS to $12.33 (vs. Street $15.25). **Remain Neutral lowering our Dec '26 price target to $191 based on 15x our FY27 EPS.**

- **Boss' 2Q P/L Breakdown:** LULU reported 2Q revenue growth +7% Y/Y (Street +7.3%), including International revenues +22% Y/Y and Americas revenues +1% on a reported basis. Importantly by category, (i) Women's grew +4.8% Y/Y (vs. 1Q +7.0%), (ii) Men's grew +6.3% (vs. 4Q +7.7%), and (iii) Other/Accessories grew +14.9% (vs. 1Q +8.5%). **On margins**, LULU reported 2Q GPM decline of -110bps y/y to 58.5% (above Street 57.5%) driven by (1) -70bps contraction in product margin due to (i) -80bps from higher markdowns, tariffs and other costs, partially offset by higher pricing and lower product costs, and (ii) +10bps of favorable FX, (2) -40bps of fixed cost deleverage. On expenses, 2Q SG&A $s increased +9.0% y/y, equating to deleverage of -90bps (vs Street 190bps) driven by (i) -110bps deleverage from our operating channel costs, and (ii) -40bps deleverage on D&A, partially offset by (iii) -60bps of leverage from corporate SG&A expenses driven by a reversal of stock-based compensation expense, translating to 20.7% EBIT margins (vs. Street 18.9%).
- **Balance Sheet Snapshot:** LULU ended 2Q with cash & cash equivalents of $1.3B (1Q $1.2B) and no LT debt with $393.2M available under revolving credit facilities (1Q $393.4M). On stores - LULU opened 14 net new stores in 2Q , equating to 784 company-operated stores at 2Q-end. For 2025, mgmt sees net new store openings at the high-end of the 40-45 range w/ 15 stores in the Americas (including ~half in Mexico) & and the remaining internationally with the majority in China, equating to a +10% increase in square footage. On shareholder returns in 2Q, LULU repurchased 1.1M shares for a total cost of $278.5M. On CapEx, mgmt lowered the outlook to $700-720M (vs. $740-760M prior) to support store expansion, DC investments, and technology investments.

**Figure 2: 2Q25 P/L Review**

| $ in Millions (except per share) | Actual | JPMe | Consensus |
|---|---|---|---|
| Revenue | $2,525 | $2,579 | $2,543 |
| Gross Profit | $1,477 | $1,482 | $1,436 |
| Operating Income | $524 | $490 | $481 |
| Net Income | $371 | $351 | $344 |
| Shares Outstanding (M) | 120 | 120 | 120 |
| **EPS** | **$3.10** | **$2.92** | **$2.87** |
| **Margins and Growth** | | | |
| **Total Comparable SSS** | **1.0%** | **2.0%** | **2.4%** |
| Revenue Growth | 6.5% | 8.8% | 7.2% |
| Gross Margin | 58.5% | 57.5% | 56.5% |
| SG&A Rate | 37.8% | 38.5% | 37.6% |
| EBIT Margin | 20.7% | 19.0% | 18.9% |
| Tax Rate | 30.5% | 30.0% | 30.0% |

Source: Company reports and J.P. Morgan estimates, Consensus Metrix.

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# Investment Thesis, Valuation and Risks

## lululemon athletica inc. *(Neutral; Price Target: $191.00)*

**Investment Thesis**

While lululemon remains underpenetrated Internationally relative to peers with a notable opportunity to scale brand awareness, our work points to a normalizing pace of growth in China Mainland & product assortment challenges in the US have driven elevated markdowns & a more moderate revenue growth profile for the business, with higher fixed cost leverage hurdles across ROD and SG&A expenses further constraining multi-year margins. We rate shares of LULU Neutral.

**Valuation**

We lower our Dec '26 price target to $191 (vs. $224 prior) based on ~15x our FY27 EPS (in line with Non-Distressed retail peers).

**Risks to Rating and Price Target**

While LULU has a substantial sq. ft. growth opportunity both domestically and internationally, this comes with risk given the execution and focus needed to efficiently open low-double-digit square footage growth while supporting comp growth through product innovation. In addition, the economic climate, particularly the employment picture, can affect consumer spending and the sportswear industry. A greater-than-expected downturn in household spending could cause sales trends to decelerate below our current assumptions, rendering our estimates too high. Roughly 40% of the company's revenues are generated outside of the United States, w/ downside risk to our price target if the USD strengthens further & upside risk to our price target if the US and China Mainland accelerate to faster growth vs. our model.

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# lululemon athletica inc.: Summary of Financials

| Income Statement - Annual | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Revenue** | **9,619** | **10,588** | **10,920** | **11,511** | **12,220** |
| COGS | (3,986) | (4,317) | (4,785) | (5,189) | (5,561) |
| **Gross profit** | **-** | **-** | **-** | **-** | **-** |
| SG&A | (3,402) | (3,765) | (3,976) | (4,304) | (4,614) |
| **Adj. EBITDA** | **2,610** | **2,952** | **2,618** | **2,502** | **2,558** |
| D&A | (379) | (447) | (459) | (483) | (513) |
| **Adj. EBIT** | **2,231** | **2,506** | **2,159** | **2,019** | **2,045** |
| Net Interest | 43 | 70 | 41 | 41 | 41 |
| **Adj. PBT** | **2,274** | **2,576** | **2,200** | **2,060** | **2,086** |
| Tax | (652) | (761) | (665) | (623) | (631) |
| Minority Interest | 0 | - | - | - | - |
| **Adj. Net Income** | **1,622** | **1,815** | **1,535** | **1,437** | **1,455** |
| | | | | | |
| Reported EPS | 12.77 | 14.64 | 12.84 | 12.33 | 12.71 |
| **Adj. EPS** | **12.77** | **14.64** | **12.84** | **12.33** | **12.71** |
| **DPS** | **-** | **-** | **-** | **-** | **-** |
| Payout ratio | - | - | - | - | - |
| Shares outstanding | 127 | 124 | 120 | 117 | 115 |
| Same Store Sales Growth | - | - | - | - | - |

| Balance Sheet & Cash Flow Statement | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Cash and cash equivalents | 2,244 | 1,984 | 1,900 | 1,960 | 1,983 |
| Accounts receivable | 125 | 182 | 182 | 182 | 182 |
| Inventories | 1,324 | 1,442 | 1,487 | 1,568 | 1,664 |
| Other current assets | 368 | 372 | 383 | 404 | 429 |
| **Current assets** | **4,061** | **3,980** | **3,953** | **4,114** | **4,259** |
| PP&E | 1,546 | 1,781 | 2,066 | 2,397 | 2,775 |
| LT investments | - | - | - | - | - |
| Other non current assets | 1,486 | 1,842 | 1,842 | 1,842 | 1,842 |
| **Total assets** | **7,092** | **7,603** | **7,861** | **8,354** | **8,876** |
| | | | | | |
| Short term borrowings | - | - | - | - | - |
| Payables | 348 | 271 | 280 | 295 | 313 |
| Other short term liabilities | 1,283 | 1,568 | 1,591 | 1,632 | 1,681 |
| **Current liabilities** | **1,631** | **1,840** | **1,871** | **1,927** | **1,995** |
| Long-term debt | - | - | - | - | - |
| Other long term liabilities | 1,229 | 1,440 | 1,440 | 1,440 | 1,440 |
| **Total liabilities** | **2,860** | **3,279** | **3,311** | **3,367** | **3,434** |
| Shareholders' equity | 4,232 | 4,324 | 4,550 | 4,987 | 5,442 |
| Minority interests | - | - | - | - | - |
| **Total liabilities & equity** | **7,092** | **7,603** | **7,861** | **8,354** | **8,876** |
| **BVPS** | **-** | **-** | **-** | **-** | **-** |
| *y/y Growth* | - | - | - | - | - |
| Net debt/(cash) | - | - | - | - | - |
| | | | | | |
| **Cash flow from operating activities** | **2,296** | **2,273** | **1,968** | **1,875** | **1,914** |
| o/w Depreciation & amortization | 379 | 447 | 0 | 0 | 0 |
| o/w Changes in working capital | 1,669 | (22) | (25) | (45) | (54) |
| **Cash flow from investing activities** | **(654)** | **(798)** | **(744)** | **(815)** | **(892)** |
| o/w Capital expenditure | (652) | (689) | (744) | (815) | (892) |
| *as % of sales* | *6.8%* | *6.5%* | *6.8%* | *7.1%* | *7.3%* |
| **Cash flow from financing activities** | **(549)** | **(1,653)** | **(1,309)** | **(1,000)** | **(1,000)** |
| o/w Dividends paid | 0 | 0 | 0 | 0 | 0 |
| o/w Net debt issued/(repaid) | 0 | 0 | 0 | 0 | 0 |
| **Net change in cash** | **1,089** | **(260)** | **(84)** | **60** | **23** |
| **Adj. Free cash flow to firm** | **1,644** | **1,583** | **1,224** | **1,060** | **1,023** |
| *y/y Growth* | *401.6%* | *(3.7%)* | *(22.7%)* | *(13.4%)* | *(3.5%)* |

| Income Statement - Quarterly | 1Q25A | 2Q25A | 3Q25E | 4Q25E |
|---|---|---|---|---|
| **Revenue** | **2,371A** | **2,525A** | **2,492** | **3,532** |
| COGS | (988)A | (1,048)A | (1,138) | (1,612) |
| **Gross profit** | **-** | **-** | **-** | **-** |
| SG&A | (945)A | (953)A | (984) | (1,094) |
| **Adj. EBITDA** | **553A** | **638A** | **485** | **941** |
| D&A | (115)A | (115)A | (115) | (115) |
| **Adj. EBIT** | **439A** | **524A** | **371** | **826** |
| Net Interest | 12A | 10A | 10 | 10 |
| **Adj. PBT** | **450A** | **534A** | **380** | **836** |
| Tax | (136)A | (163)A | (116) | (251) |
| Minority Interest | - | - | - | - |
| **Adj. Net Income** | **315A** | **371A** | **264** | **585** |
| | | | | |
| Reported EPS | 2.60A | 3.10A | 2.22 | 4.94 |
| **Adj. EPS** | **2.60A** | **3.10A** | **2.22** | **4.94** |
| **DPS** | **-** | **-** | **-** | **-** |
| Payout ratio | - | - | - | - |
| Shares outstanding | 121A | 120A | 119 | 118 |
| Same Store Sales Growth | - | - | - | - |

| Ratio Analysis | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Gross margin | - | - | - | - | - |
| EBITDA margin | 27.1% | 27.9% | 24.0% | 21.7% | 20.9% |
| EBIT margin | 23.2% | 23.7% | 19.8% | 17.5% | 16.7% |
| Net profit margin | 16.9% | 17.1% | 14.1% | 12.5% | 11.9% |
| | | | | | |
| ROE | 44.0% | 42.4% | 34.6% | 30.1% | 27.9% |
| ROA | 25.6% | 24.7% | 19.8% | 17.7% | 16.9% |
| ROCE | 43.1% | 41.3% | 33.9% | 29.5% | 27.4% |
| SG&A/Sales | 35.4% | 35.6% | 36.4% | 37.4% | 37.8% |
| Net debt/equity | - | - | - | - | - |
| | | | | | |
| P/E (x) | 16.1 | 14.1 | 16.0 | 16.7 | 16.2 |
| P/BV (x) | - | - | - | - | - |
| EV/EBITDA (x) | 12.0 | 10.6 | 11.9 | 12.5 | 12.2 |
| Dividend Yield | - | - | - | - | - |
| | | | | | |
| Sales/Assets (x) | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 |
| Interest cover (x) | - | - | - | - | - |
| Operating leverage | 132.8% | 122.3% | (441.0%) | (120.2%) | 21.3% |
| | | | | | |
| Revenue y/y Growth | 18.6% | 10.1% | 3.1% | 5.4% | 6.2% |
| EBITDA y/y Growth | 25.4% | 13.1% | (11.3%) | (4.4%) | 2.3% |
| EBIT y/y Growth | 24.7% | 12.3% | (13.8%) | (6.5%) | 1.3% |
| Tax rate | 28.7% | 29.6% | 30.2% | 30.2% | 30.2% |
| Adj. Net Income y/y Growth | 25.9% | 11.8% | (15.4%) | (6.4%) | 1.3% |
| EPS y/y Growth | 26.8% | 14.6% | (12.3%) | (4.0%) | 3.0% |
| DPS y/y Growth | - | - | - | - | - |
| | | | | | |
| Store Count | - | - | - | - | - |
| Sales per Store | - | - | - | - | - |
| Total Square Footage | - | - | - | - | - |
| Sales per sq foot | - | - | - | - | - |

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Jan. o/w - out of which

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Initiated coverage Nov 13, 2013. All share prices are as of market close on the previous business day.

| Date | Rating | Price ($) | Price Target ($) |
|---|---|---|---|
| 16-Sep-22 | OW | 338.60 | 464 |
| 25-Oct-22 | OW | 297.68 | 413 |
| 09-Dec-22 | OW | 374.51 | 440 |
| 22-Mar-23 | OW | 298.81 | 430 |
| 31-Jul-23 | OW | 377.96 | 487 |
| 31-Aug-23 | OW | 376.73 | 489 |
| 08-Dec-23 | OW | 464.67 | 500 |
| 04-Jan-24 | OW | 498.02 | 531 |
| 22-Mar-24 | OW | 478.84 | 509 |
| 06-Jun-24 | OW | 308.27 | 457 |
| 25-Jul-24 | OW | 272.06 | 338 |
| 05-Dec-24 | OW | 342.27 | 425 |
| 08-Jan-25 | OW | 393.46 | 428 |
| 16-Jan-25 | OW | 376.66 | 437 |
| 28-Mar-25 | OW | 341.53 | 391 |
| 14-Apr-25 | OW | 261.03 | 389 |
| 06-Jun-25 | OW | 330.78 | 303 |
| 22-Jul-25 | N | 223.21 | 224 |

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|---|---|---|---|
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