

# Lululemon (LULU)

*An Ameriprise Investment Research Group publication*

Sector: Consumer Discretionary

Investment style: Mid Cap Value

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## LULU Reduced to Hold

### Revenue and Earnings

LULU reported Q2 EPS of \$3.10 compared to the consensus estimate of \$2.86 (guidance \$2.85-to-\$2.90). Total revenue was \$2.53 billion compared to the Street projection of \$2.54 billion. Profitability fell with a 110 basis points year/year decline in gross margin. Selling, general & administrative expenses increased by 110 basis points. Inventory increased 20.5% year/year compared to 6.5% sales growth.

### Comparable Store Sales

Comparable store sales grew 1% (consensus +2.2%, +2% last year). For trend comparison purposes, Q1 comps increased 3%, Q4 comps increased 3%, and Q3 comps increased 4%, and Q2 comps increased 2%. Americas comps were down 4% compared to -2% last quarter. International comps grew 15% compared to +6%. China comps grew 17% compared to +7% last quarter. Rest of the World comps grew 12% compared to 6% last quarter.

### Outlook

LULU reduced its fiscal 2025 EPS guidance to \$12.77-to-\$12.97 from \$14.58-to-\$14.78. Management issued Q3 EPS guidance of \$2.18-to-\$2.23.

### Investment Opinion: Hold



### Key Takeaways

- We reduced our rating to HOLD from BUY for LULU due to a weaker outlook.
- Management cut its guidance due to a \$240 million reduction in profit related to the removal of the de minimis exemption, which excludes tariffs on smaller shipments.
- LULU plans to mitigate tariff impact through expense management, modest price increases, and vendor negotiations.
- Looking forward, the company plans to improve innovation by introducing new styles to rejuvenate core categories, especially with its loungewear and social segments.
- LULU also plans to improve supply chain speed to better respond to changing market trends and guest preferences.

### 12-Month Price Chart

09-Sep-2024 to 08-Sep-2025 (Daily)



Source: FactSet Prices

FactSet Consensus Target Price	\$209.15
Prior Day's Closing Price	\$168.10
52 Week Range	\$423.32- \$162.80
Market Capitalization (\$m)	\$19,073.98
Beta Versus the S&P 500	0.95
Book Value Per Share	\$36.89
Trailing 12- Month P/E	12.3x
Forward 12-Month P/E	12.9x
Price/Book	4.6x
Price/Sales	1.8x
Price/Operating Cash Flow	10.5x
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)	2,482	3,576	10,989						
2027	2,458	2,617	2,571	3,719	11,514						

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	FY P/E
2025 (A)	2.54	3.15	2.87	6.14	14.64	28.3x	
2026	2.60 (A)	3.10 (A)	2.23	4.99	13.03	12.9x	
2027	2.21	2.81	2.29	5.26	13.10	12.8x	

A = Actual | Source: FactSet

## 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 \$1.3 billion in cash and short-term investments on its balance sheet, and no debt.

LULU's forward four-quarter price-cash flow is 10.5x 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 1.8x 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 12.7x 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 reduced our rating on LULU from BUY to HOLD due to a weaker outlook. Management cut its guidance, despite reporting above-consensus EPS. The lower guidance reflects a \$240 million reduction in profit related to the removal of the de minimis exemption, which excludes tariffs on smaller shipments.

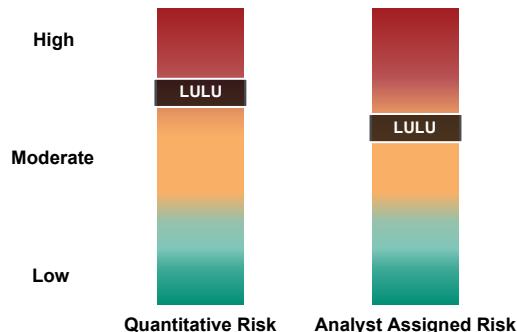
LULU plans to mitigate tariff impact through expense management, modest price increases, and vendor negotiations.

Looking forward, the company plans to improve innovation by introducing new styles to rejuvenate core categories, especially with its loungewear and social segments. LULU also plans to improve supply chain speed to better respond to changing market trends and guest preferences. We believe it could take a few quarters for the company to improve operating performance with better product innovation.

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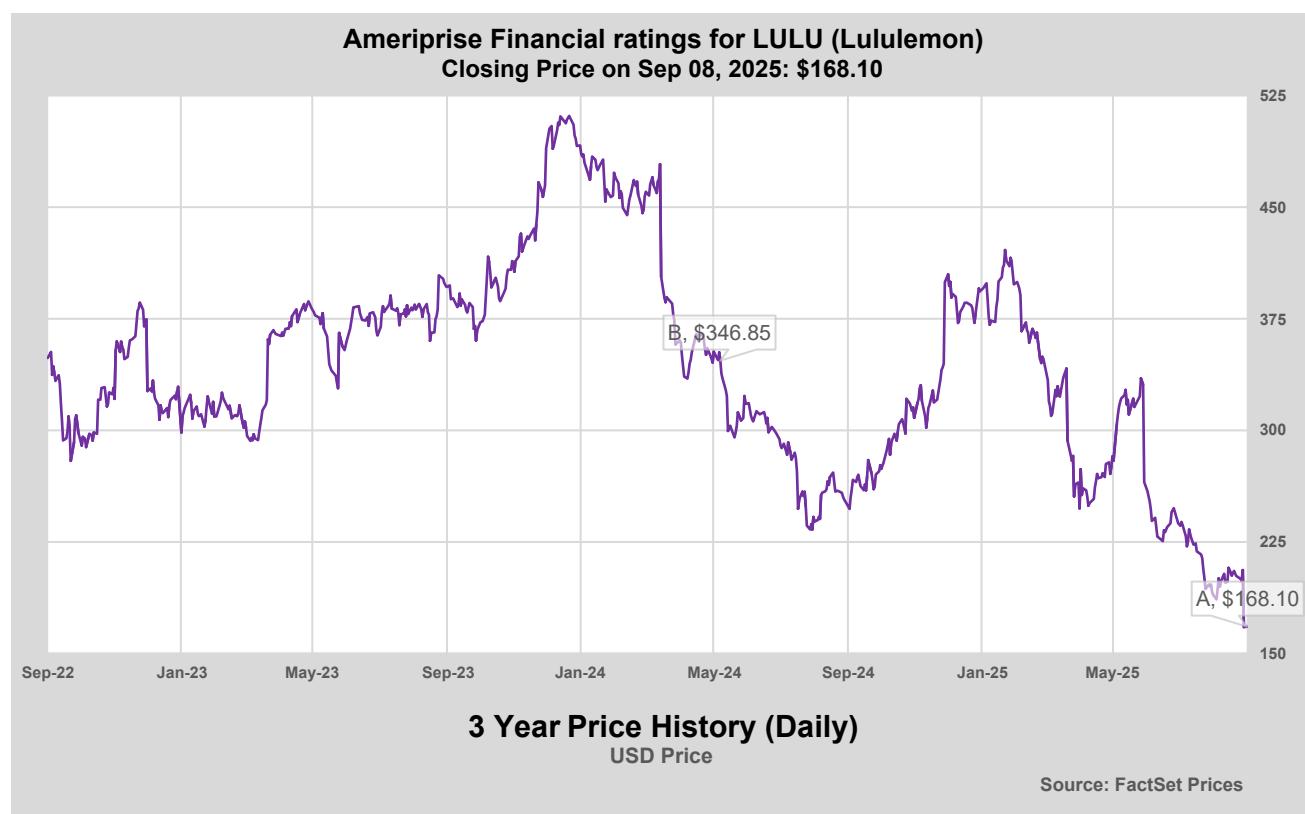
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Date	Action	Recommendation List	Keyword	Closing Price (USD)
<b>A 09/08/2025</b>	<b>Hold</b>	Recommended List	RL	168.10
<b>B 05/15/2024</b>	<b>Added as Buy</b>	Recommended List	RL	346.85

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## Ameriprise equity ratings definitions

**Buy Rating** – The shares are expected to outperform the analyst's benchmark (or blended benchmark) over the next 12 months on a total return basis. We believe the company has healthy business prospects and/or attractive valuation metrics that could result in strong performance versus the benchmark.

**Hold Rating** – The common shares are expected to perform in-line with the analyst's benchmark (or blended benchmark) over the next 12 months on a total return basis. The company has attractive long-term business prospects, but certain near-term issues could result in performance that only matches the benchmark, and shares may be fairly valued at current levels.

Distribution of Recommended List Stock Ratings:

	Count	Percent
BUY	147	87%
HOLD	22	13%
TOTAL	169	100%

## Risk factors

Dividend and interest payments are not guaranteed. The amount of dividend payment, if any, can vary over time and issuers may reduce or eliminate dividends paid on securities in the event of a recession or adverse event affecting a specific industry or issuer. Should a company be unable to pay interest on a timely basis a default may occur and interruption or reduction of interest and principal occur.

Investments in a narrowly focused sector may exhibit higher volatility than investments with broader objectives and is subject to market risk and economic risk.

**Quantitative Risk Profile (QRP) Factor Definitions:**

**Beta:** Beta measures a security or portfolio's volatility relative to an index, in this case, S&P 500 plus non-overlapping Recommended list stocks. If a security has a beta coefficient greater than one, it is considered more volatile. If a security has a beta coefficient of less than one, its price can be expected to rise and fall more slowly.

**Correlation:** Correlation is generally interpreted as the percentage of a stock's price movement that can be explained by movements in a benchmark, in this case, S&P 500 plus non-overlapping Recommended list stocks.

**Standard Deviation (of price):** Standard Deviation is a statistic that measures the dispersion of a set of data relative to its mean. When the data points are further away from the mean, there is a greater deviation from the mean and a higher standard deviation.

**Maximum Drawdown:** Maximum drawdown is the maximum observed loss from a peak to a trough of a portfolio in a given time period.

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