

Equity Research

WELLS FARGO

Price Target Change — September 4, 2025

Retailing, Specialty Softlines, and E-commerce

lululemon athletica, inc.

Out of Alignment; Much Worse Than Feared Print as Outlook Slashed, Lowering Estimates and PT to \$160

Our Call

In a 2Q EPS season that has been fueled by upside/beats, LULU is a clear negative standout - a much worse than feared print highlighted by their largest FY guide-down in 10+ years. Lowering estimates and PT to \$160 (13x FY26 EPS) as pressures mount.

2Q Thoughts. The print was extremely disappointing, and checked every box for the Bears: **1)** US weakness continues/worsens, **2)** China holes showing, **3)** Markdown/inventory issues accelerating and **4)** Tariff (and *de minimus*) headwinds much worse than expected. All in, FY plan was slashed (worst guide down in at least 10+ years) - and given the prolonged markdown risk, tariff pressure and revenue inflection timing (Spring 2026...), buyside likely move to ~\$11.50 next FY (vs. Street \$15.25+ pre-print).

US Issues Worsen. Mgmt was much more forthcoming on issues in the US, acknowledging that they've become too predictable w/ casual merch and staid in their franchises. Underperformance across "lounge" and "social" were noted - stating an overuse of their old playbook not resonating with guests today. LULU believes it also has opps to improve GTM agility and to more quickly test new styles and react to demand. Every part of the process is under review with no inflection assumed until Spring 2026.

Tariffs + De Minimis = Margin Pain. With speculation swirling, LULU spoke to a higher tariff headwind (reciprocals) while the larger negative surprise was the elimination of DM. LULU stated ~65% of US ecomm orders have been filled via DM - and the all in tariff/DM headwind to GM guided to -230bps in 3Q. FY tariff headwind now higher to -220bps (of which DM is -175bps). Notably, the headwind guided this FY wraps to 2026 (\$320M annualized) - which equates to ~\$80M more headwind (or -175bps) in 1H.

Markdowns Miss Plan, Pressure to Linger. Markdowns missed plan in 2Q (*prod margins down YoY in each region w/ US -96bps, China -70bps*). MDs were guided as a headwind in 2Q25 ("slightly higher markdowns") but came in up 60bps. Inventory levels are high (+20%) while product is not resonating - as LULU is planning 3Q/4Q markdowns -80bps each quarter (with no improvement until next Spring, in our view).

China Moving From Green Shoots to Red Flag. China revs were +24% CC (vs guide +25-30%). LULU attributed the miss to signs of macro headwinds in tier one cities and lowered FY guide from 25%+ to 20-25%. We believe LULU is currently running towards the upper end of that range in 3Q to date, or similar trend to 2Q, but believe 4Q comes in at the lower end of the range given the shift of Chinese New Year into Q1. With rising local competition we cont to monitor this once strong region.

Equal Weight
Price Target: \$160.00

Notable Changes				
\$ (Jan)	Current	Prior	% Chg	
Price Target	\$160.00	\$205.00	-22.0%	▼
EPS 2025	12.85	14.15	-9.2%	▼
EPS 2026	12.10	13.90	-12.9%	▼
Rev. (MM) 2025	11.00B	11.09B	-0.7%	▼
Rev. (MM) 2026	11.39B	11.51B	-1.1%	▼

Ticker	LULU
Upside/(Downside) to Target	(22.4)%
Price (09/04/2025)	\$206.09
52 Week Range	\$185.95 - 423.32
Market Cap (MM)	\$24,905
Enterprise Value (MM)	\$22,920
Average Daily Value (MM)	\$800
Dividend Yield	0.0%

\$ (Jan)	Q1	Q2	Q3	Q4	FY
EPS					
2025E	2.60 A	3.10 A	2.25 E	4.91 E	12.85 E
Prior	NC	2.92 E	2.91 E	5.73 E	14.15 E
2026E	2.08 E	2.77 E	2.33 E	4.92 E	12.10 E
Prior	2.41 E	2.74 E	2.88 E	5.88 E	13.90 E

Source: Company Data, Wells Fargo Securities estimates, and Factset.
NA = Not Available, NC = No Change, NE = No Estimate

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Wells Fargo Express Takeaways

lululemon athletica, inc. (LULU) | Rating: Equal Weight | Price Target: \$160.00

Analyst: Ike Boruchow

Financials

FY (Jan)	2024A	2025E	2026E
ESTIMATES			
EPS			
Q1	2.54 A	2.60 A	2.08 E
Q2	3.15 A	3.10 A	2.77 E
Q3	2.87 A	2.25 E	2.33 E
Q4	6.14 A	4.91 E	4.92 E
AN	14.64 A	12.85 E	12.10 E
Rev. (MM)	10.59B A	11.00B E	11.39B E
EBIT (MM)	2,505.7 A	2,158.0 E	2,017.3 E
EBITDA (MM)	2.95B A	2.65B E	2.55B E
FCF (MM)	1,583.5 A	1,528.7 E	1,278.8 E

WELLS FARGO vs. CONSENSUS

Consensus Estimate	14.01 A	14.40 E	15.29 E
Difference from Consensus		15.2%	15.2%

VALUATION

P/E	14.1x	16.0x	17.0x
EV/Revenue	2.2x	2.1x	2.0x
EV/EBIT	9.1x	10.6x	11.4x
EV/EBITDA	7.8x	8.7x	9.0x
EV/FCF	14.5x	15.0x	17.9x
FCF Yield	6.4%	6.1%	5.1%

Consensus Estimate: EPS; Source: FactSet

Source: Company Data, Wells Fargo Securities estimates, and Factset.

NA = Not Available, NE = No Estimate

Investment Thesis

LULU is an industry leader in an attractive market (athletic apparel). We believe the company has ample white space overseas and will continue to post outsized international growth. However, the slowdown in North America along with an "over earning" P&L are a concern and keep us cautious over the next 12 months. We are Equal Weight rated.

Risk vs. Reward – Upside/Downside Price Target Scenarios



*As of 09/04/25

Source: Wells Fargo Securities, LLC estimates and Factset.

Base Case | \$160.00

Our \$160 price target reflects a 13x FY26E P/E.

We believe a discount to history is warranted given that LULU is dealing with merchandising issues domestically, while operating at record margins as competition around them is heating up while US comps are trending negative with margin pressures growing.

Upside Scenario | \$275.00

Our \$275 Bull Case reflects a 18x P/E on ~\$13.50 in FY26E EPS (*above our forecasts*).

Factors that would contribute to the Bull Case scenario include:

- 1) NA comps re-accelerate with newness back to historical levels and solid reaction to Spring 2026 product
- 2) Tariffs mitigation better than expected
- 3) China momentum continues
- 4) Markdown issues are short-lived as newness improves rapidly and drives engagement

Downside Scenario | \$150.00

Our \$150 Bear Case reflects a 14x P/E on ~\$11.00 in FY26E EPS (*below our forecasts*).

Factors that would contribute to the Bear Case scenario include:

- 1) NA comps remain pressured, as competitive pressures build
- 2) Further product missteps drives GM erosion and pricing pressure, while competition requires more ad spend
- 3) China moving from a point of strength to neutrality
- 4) Tariffs have outsized impact on EBIT

Upcoming Catalysts

- Credit card/traffic data in North America
- Reads out of China

Company Description

Lululemon is a retailer of premium athletic apparel, whose core customer is an affluent and active female. A growing part of LULU's business is its men's and "outside of the gym" product.

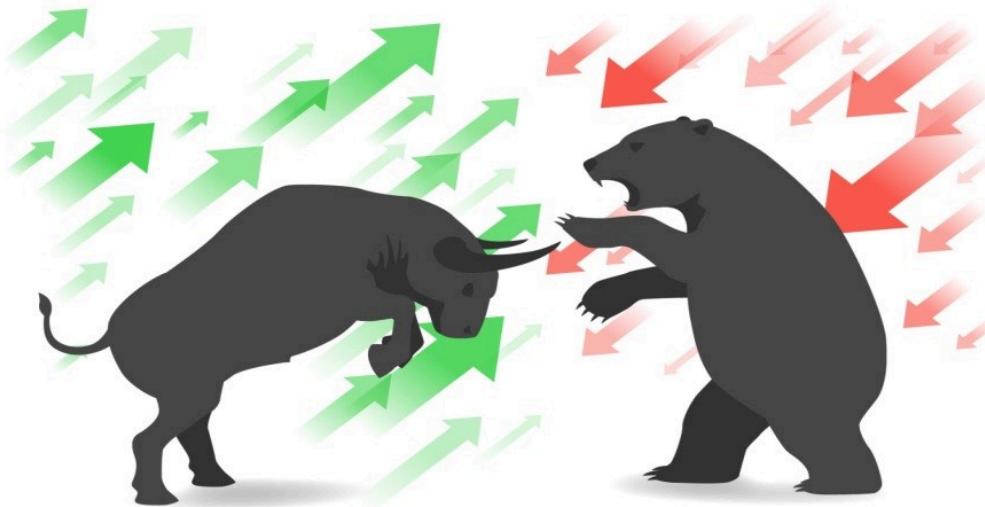
Investment Considerations

1. **Slowing Trends in North America Creating Concern.** Investors continue to focus on the slowdown in North America (NA). LULU's business in NA has been one of the strongest and most consistent in the softlines space over the past 10+ years—with comps averaging 10-15% over that time as the brand took share in a rapidly growing "athleisure" space. However, the brand is in unchartered waters today, unable to comp positive in 12+ months with the US market negative and struggling due to a lack of innovation on core product and increasing competition from new entrants (namely Alo Yoga and Vuori, as well as others). As their highest margin geography, the lack of comp visibility is creating a clear issue for the story.
2. **International Remains a Bright Spot.** While North America slowdown is worrisome, LULU continues to deliver outsized growth in higher-margin overseas regions. China comps, in particular, continue to grow well above average, growing 40% in 2024 and expected to grow at least +LDD over the next few years. Rest of the World was strong, up 27% in FY24, and we expect a +HT low-20s% comp in FY25.
3. **Emerging Competition.** While competition concerns have always surrounded LULU, there are signs that emerging brands are perhaps eating into LULU's dominant position in athleisure. Alo has carved a niche in the premium/fashion segment of ath-leisure and is opening stores at a significant pace. Vuori is a brand that is beginning to take real market share from LULU in regions such as Southern California (where Vuori is headquartered). We also believe Fabletics is re-accelerating growth to the mid to high teens range. Notably many LULU alums have joined competitors in the past several years, driven by: **1)** the changing culture at LULU and **2)** a similar ethos to when LULU was in its early days. Further, the increased competition may force LULU to begin spending heavier on marketing, which could weigh on margins—notably LULU's marketing spend as a % of sales (4-5%) is one of the lowest among brands in our coverage (avg. 8-10%).

The Bull vs. Bear "Tug of War"

Below, we illustrate how we think the buyside is positioning its thesis—detailing the current Bull and Bear arguments on LULU shares.

Exhibit 1 - The Bull vs. Bear "Tug of War"



Source: © iStockphoto.com

The Bull Case....

We believe that investors who are bullish on LULU shares are focused on: **(1)** LULU implements a stringent re-focus on the US market and overhauls virtually every aspect of the business, **(2)** international growth (led by MLC) should enable LULU to continue hitting their top-line algo, **(3)** issues in N. Amer are finally addressed and LULU has already signaled weakness into 2026 - thus lowering the 2H bar; and **(4)** valuation is at all-time lows and creates a compelling risk/reward.

The Bear Case....

On the other hand, investors who are bearish on LULU shares are likely focused on: **(1)** their core NA market continues to under-perform and is undergoing a full strategic review (which will weigh on LULU's industry-leading margins); **(2)** inventory has become an issue with 20%+ growth exiting each of the last two quarters (1Q25, 2Q25), **(3)** the business pushes into international markets with higher operating costs, and investors question the trajectory of markdowns go-forward; and **(4)** competition remains strong, and could pressure margins if LULU needed to ramp their industry-low demand creation dollars (marketing spend).

Financial Outlook

FY25E

Our FY25E EPS estimate of \$12.85 represents EPS down -12% YoY. We project net sales up ~4% on comps up ~1% and +MSD footage growth. We expect GMs to contract ~280bps to 56% and SG&A % to de-lever ~80bps, resulting in an operating margin of 19.6%, down 405bps y/y.

Financials

Exhibit 2 - LULU Income Statement

(\$ millions except per share amounts, FYE Jan)

	FY23	FY24	1Q25	2Q25	3Q25E	4Q25E	FY25E	1Q26E	2Q26E	3Q26E	4Q26E	FY26E
Net Sales	9,619.3	10,588.1	2,370.7	2,525.2	2,492.3	3,616.2	11,004.3	2,436.3	2,601.0	2,587.2	3,763.4	11,387.8
COGS	3,986.2	4,317.3	987.5	1,048.0	1,136.9	1,675.5	4,848.0	1,109.9	1,125.0	1,178.9	1,734.3	5,148.1
Gross profit	5,633.1	6,270.8	1,383.1	1,477.2	1,355.3	1,940.7	6,156.3	1,326.4	1,476.0	1,408.2	2,029.1	6,239.7
SG&A	3,397.2	3,762.4	942.9	951.7	984.4	1,121.0	4,000.0	981.8	1,014.4	1,021.9	1,204.3	4,222.4
Operating income	2,230.9	2,505.7	438.6	523.8	372.9	822.7	2,158.0	344.6	461.6	386.3	824.8	2,017.3
EBITDA	2,610.3	2,952.2					2,645.4					2,547.2
Other income, net	43.1	70.4	11.8	9.7	10.0	10.0	41.5	8.0	8.0	8.0	8.0	32.0
Income before taxes	2,273.9	2,576.1	450.4	533.6	382.9	832.7	2,199.5	352.6	469.6	394.3	832.8	2,049.3
Taxes	651.6	761.5	135.8	162.6	114.9	249.8	663.2	105.8	140.9	118.3	249.8	614.8
Net Income	1,622.3	1,814.6	314.6	370.9	268.0	582.9	1,536.4	246.8	328.7	276.0	583.0	1,434.5
Non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income attributable to LULU	1,622.3	1,814.6	314.6	370.9	268.0	582.9	1,536.4	246.8	328.7	276.0	583.0	1,434.5
Operating EPS	\$12.77	\$14.64	\$2.60	\$3.10	\$2.25	\$4.91	\$12.85	\$2.08	\$2.77	\$2.33	\$4.92	\$12.10
Diluted shares outstanding	127.1	124.0	120.8	119.7	119.0	118.7	119.6	118.7	118.6	118.5	118.4	118.6
MARGIN ANALYSIS												
Gross Margin	58.6%	59.2%	58.3%	58.5%	54.4%	53.7%	55.9%	54.4%	56.7%	54.4%	53.9%	54.8%
y/y change (bps)	230	70	62	(106)	(410)	(675)	(282)	(390)	(175)	5	25	(130)
SG&A/sales	35.3%	35.5%	39.8%	37.7%	39.5%	31.0%	36.3%	40.3%	39.0%	39.5%	32.0%	37.1%
y/y change (bps)	132	22	163	91	154	(52)	82	53	131	0	100	73
Operating Margin	23.2%	23.7%	18.5%	20.7%	15.0%	22.7%	19.6%	14.1%	17.7%	14.9%	21.9%	17.7%
Pre-Tax Income	23.6%	24.3%	19.0%	21.1%	15.4%	23.0%	20.0%	14.5%	18.1%	15.2%	22.1%	18.0%
Tax Rate	28.7%	29.6%	30.2%	30.5%	30.0%	30.0%	30.1%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income	16.9%	17.1%	13.3%	14.7%	10.8%	16.1%	14.0%	10.1%	12.6%	10.7%	15.5%	12.6%
GROWTH ANALYSIS												
Total Comp (constant-currency)	14.0%	4.0%	1.0%	1.0%	0.4%	2.0%	1.1%	0.2%	0.3%	1.4%	1.8%	0.9%
Total Sales	18.6%	10.1%	7.3%	6.5%	4.0%	0.1%	3.9%	2.8%	3.0%	3.8%	4.1%	3.5%
Gross Profit	23.7%	11.3%	8.5%	4.6%	-3.3%	-11.1%	-1.8%	-4.1%	-0.1%	3.9%	4.6%	1.4%
SG&A	23.2%	10.7%	11.9%	9.1%	8.2%	-1.5%	6.3%	4.1%	6.6%	3.8%	7.4%	5.6%
Operating Income	24.7%	12.3%	1.4%	-3.0%	-24.0%	-21.1%	-13.9%	-21.4%	-11.9%	3.6%	0.3%	-6.5%
Pre-Tax Income	26.8%	13.3%	-1.2%	-4.4%	-24.1%	-21.3%	-14.6%	-21.7%	-12.0%	3.0%	0.0%	-6.8%
Net Income	25.9%	11.9%	-2.1%	-5.6%	-23.8%	-22.1%	-15.3%	-21.5%	-11.4%	3.0%	0.0%	-6.6%
Shares outstanding	-0.7%	-2.4%	-4.3%	-4.1%	-3.1%	-2.6%	-3.6%	-1.8%	-0.9%	-0.4%	-0.3%	-0.8%
EPS	26.8%	14.6%	2.3%	-1.5%	-21.4%	-20.0%	-12.2%	-20.1%	-10.6%	3.4%	0.3%	-5.8%

Source: Company Reports and Wells Fargo Securities LLC, Estimates

Investment Thesis, Valuation and Risks

lululemon athletica, inc. (LULU)

Investment Thesis

LULU is an industry leader in an attractive market (athletic apparel). We believe the company has ample white space overseas and will continue to post outsized international growth. However, the slowdown in North America along with an "over earning" P&L are a concern and keep us cautious over the next 12 months. We are Equal Weight rated.

Target Price Valuation for LULU: \$160.00 from \$205.00

Our \$160 price target reflects a 13x FY26E P/E.

We believe a discount to history is warranted given that LULU is dealing with merchandising issues domestically, while operating at record margins as competition around them is heating up while US comps are trending negative with margin pressures growing.

Risks to Our Price Target and Rating for LULU

Upside risks **(1)** SSS accelerate; **(2)** North America slowdown is not as drastic as expected, and **(3)** international growth (particulary in China) is better than expected.

Downside risks **(1)** increasing competition within athleisure market; **(2)** slowing comps, and **(3)** international growth stalls

Companies Mentioned in Report

Company Name	Ticker	Last Price (09/04/25)	Rating
lululemon athletica, inc.	LULU	\$206.09	Equal Weight

Source: Wells Fargo Securities LLC Estimates, FactSet

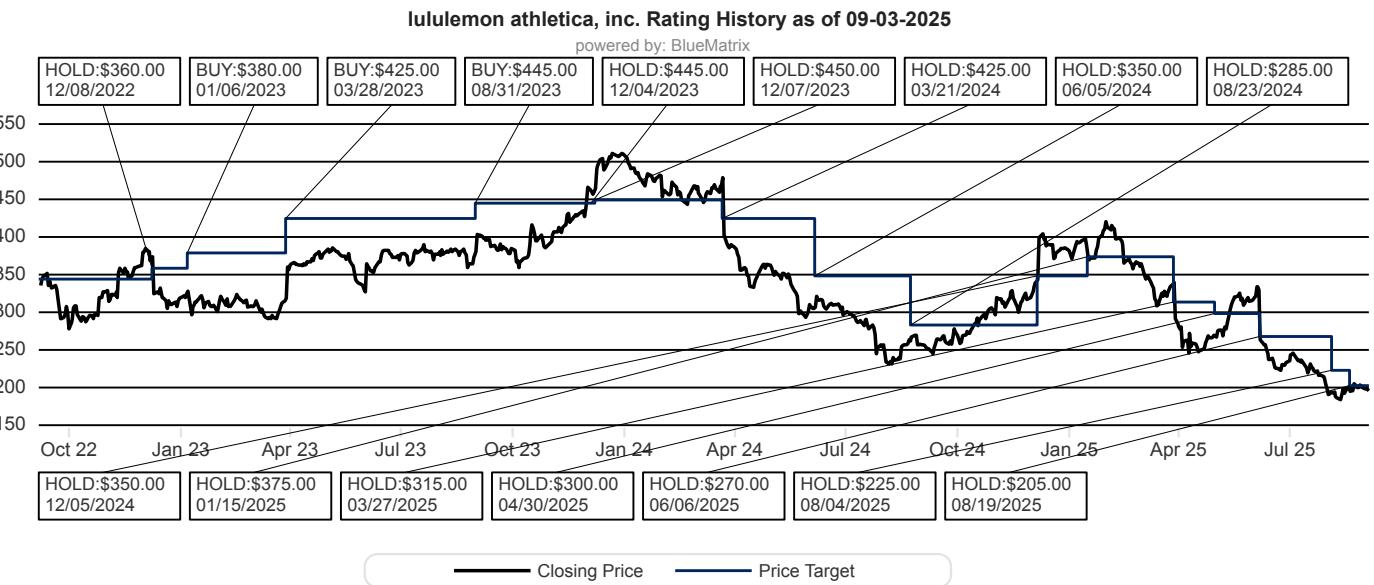
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