

Stock Report Date: | Ticker: | Exchange:



Lululemon Athletica Inc

Investment View: Strong Buy | Purchased at Price: 70.90 | Taret Price : 114 | Target Upside: cece%

Stock Graph

Stock Info

Some Title

Q2 Results

The company reported **Q3 FY2025 net revenue growth of 7% year over year to \$2.6 billion**, driven entirely by **strong international performance**, which increased **33%**, while **Americas revenue declined 2%**. Comparable sales rose **1% (or 2% on a constant-currency basis)**, reflecting a **5% decline in the Americas** offset by **18% growth internationally**. Despite top-line growth, **profitability weakened**. Gross profit increased **2% to \$1.4 billion**, but **gross margin contracted 290 basis points to 55.6%**, indicating elevated cost pressures. Operating income declined **11% to \$435.9 million**, with **operating margin compressing 350 basis points to 17.0%**. The effective tax rate increased modestly to **30.5%**, and **diluted EPS declined to \$2.59 from \$2.87** in the prior-year period. During the quarter, the company continued its physical expansion, opening **12 net new company-operated stores**, bringing the total store count to **796**.

FY Guidance

For full-year fiscal 2025, the company expects **net revenue of \$10.96–\$11.05 billion**, representing **reported growth of approximately 4%**, or **5–6% growth excluding the impact of the 53rd week in FY2024**. **Diluted earnings per share are guided to \$12.92–\$13.02**, based on an assumed **effective tax rate of approximately 30%**. Guidance incorporates an estimated **\$210 million reduction in operating income**, net of mitigation efforts, reflecting management’s assumptions around **higher U.S. import tariffs and the elimination of the de minimis exemption**. Mitigation initiatives include **vendor savings and pricing actions**, though management cautioned that results remain sensitive to tariff levels, sourcing savings, consumer demand, and the timing of regulatory changes. The outlook **excludes any potential future share repurchases** and reflects management’s expectations as of the date of the release, with actual results subject to macroeconomic, regulatory, and execution-related uncertainties

Investment Thesis

Company Summary

lululemon athletica inc. is principally a designer, distributor, and retailer of technical athletic apparel, footwear, and accessories. The company offers a comprehensive line of technical athletic apparel, footwear, and accessories marketed under the lululemon brand. Its apparel assortment includes items such as pants, shorts, tops, and jackets designed to support a healthy lifestyle, including athletic activities such as yoga, running, training, and other physical activities. The company also offers apparel designed for being on the move and fitness-inspired use, as well as accessories.

Omnichannel operating model

lululemon operates through an integrated omnichannel model that connects online and in-store operations. Customers can purchase products online or through a digital app and pick them up at a physical store. Store educators are able to access inventory across other locations and arrange for products to be shipped directly to a customer's home or to another store.

E-commerce orders can be fulfilled using inventory from both distribution centers and retail locations, increasing product availability. Customers may return online purchases either online or in-store. All inventory is managed through a single, unified pool, allowing products to be allocated efficiently across distribution centers, retail stores, and online demand.

Omnichannel operating model

lululemon operates in over 25 countries worldwide and organizes its operations into four regional markets: Americas, Mainland China, Asia Pacific (APAC), and Europe and the Middle East (EMEA). For reporting purposes, the company reports three operating segments: Americas, Mainland China, and Rest of World, with Rest of World comprising the APAC and EMEA regions on a combined basis.

The Americas segment represents the company's core business, accounting for approximately 75% of net revenue. The Mainland China market has experienced strong growth, with a sales compound annual growth rate (CAGR) of 37.8% over the past three years.

Strategy

Industry Overview

U.S. Apparel Retail / Specialty Apparel Sub-Industry Outlook (as of End-November 2025)

lululemon operates in the **luxury athletic apparel (athleisure) sector**, a segment that has grown significantly in popularity over the past several years. The company faces competitive pressure from two primary directions. On one side are established athletic brands that offer similar-quality products at lower price points, such as **Nike** and **adidas**. On the other side are newer competitors positioned in the premium segment that offer comparable products at similar price levels, including **Vuori**, **Alo Yoga**, and **Athleta**.

(Source: CNN)

The global athleisure market was estimated at **USD 393.7 billion in 2024** and is expected to reach **USD 902.4 billion by 2033**, reflecting strong long-term growth prospects.

(Source: Yahoo Finance)

US Market

In the United States, the athleisure market generated **USD 93.5 billion in revenue in 2022** and is projected to reach **USD 176.5 billion by 2030**. The U.S. market is expected to grow at a **compound annual growth rate (CAGR) of 8.3% from 2023 to 2030**, with premium athleisure representing a significant portion of this growth.

(Source: Grand View Research)

US-Macro

- Macroeconomic conditions continued to pressure discretionary consumer spending toward the end of 2025, though the impact remains uneven across income groups. The University of Michigan Consumer Sentiment Index stood at **52.9 in December 2025**, slightly above November levels but still well below pre-pandemic norms, signaling ongoing consumer caution. Lower- and middle-income households remain most affected, while higher-income consumers—lululemon's core demographic—have shown greater resilience.
- Inflation trends improved modestly into year-end. According to the U.S. Bureau of Labor Statistics, **core CPI for November 2025 was 2.6%**.
- Cost pressures remain elevated across the apparel industry due to higher tariff rates implemented earlier in 2025 and continued labor and input cost inflation in major Asian sourcing regions. While global supply chains have largely normalized, these structural pressures limit margin expansion. For lululemon, cost inflation represents a near-term margin headwind, although the company has historically mitigated these pressures through selective pricing, product mix, and supply chain efficiencies.
- Labor market conditions softened further by year-end. U.S. unemployment reached approximately **4.2% in December 2025**, up from **3.7% in early 2024**, while long-term unemployment remained elevated at roughly **1.9 million individuals**. Although the labor market remains relatively stable, this trend suggests slower discretionary spending growth into 2026.

Chinese Market

China's athleisure market has expanded rapidly, supported by urbanization, rising disposable incomes, and an increasing focus on health and wellbeing. Athleisure, which combines athletic functionality with everyday wear, has become a mainstream category, particularly among urban consumers. The broader Chinese sportswear market was projected to reach approximately **USD 82.8 billion by 2024**, while the yoga apparel segment alone is expected to reach **USD 3 billion by 2028**, growing at a CAGR of over **9%**.

Consumer Behavior and Preferences

- Chinese consumers typically purchase athleisure products every **three to six months** and exhibit notable price sensitivity, with most spending **under USD 55 per purchase**. Comfort is the most important purchase factor, followed by price and design. Despite this price sensitivity, demand for premium athleisure continues to grow in **Tier 1 and Tier 2 cities**, where consumers have higher disposable incomes. Athleisure has become integrated into daily life, with over **two-thirds of consumers** wearing it regularly beyond exercise. There is also a strong preference for domestic brands, reflecting increased confidence in local product quality and fit.

Channels and Omnichannel Retail

- Physical stores remain the primary purchasing channel, followed closely by e-commerce platforms. Consumers value the ability to touch and assess comfort in-store, while online channels support convenience and price comparison. Successful brands typically operate strong direct-to-consumer (DTC) models that integrate offline stores, brand websites, and major Chinese e-commerce platforms such as **Tmall** and **JD.com**.

Product and Design Trends

- Chinese consumers favor simple, modern designs with bright or bold colors, alongside functional features associated with professional sports. Popular categories include ball-sport-related apparel (e.g., basketball and soccer), running, and outdoor sports. Fabric performance is critical, with expectations for softness, elasticity, breathability, moisture-wicking, and body-enhancing fits tailored to Asian body types.

Competitive Landscape

- The Chinese athleisure market includes both global and domestic competitors. lululemon operates in the premium segment, leveraging community-based marketing, immersive in-store experiences, and strong brand identity, and has experienced rapid revenue growth in China. In contrast, domestic brand **Maia Active** competes through more affordable pricing, Asian-specific fits, and strong digital and social-media engagement, supported by its acquisition by **Anta Sports**. This dynamic highlights a broader trend in which global brands succeed through premium positioning, while domestic brands gain share through localization and value.

Outlook

China's athleisure market is expected to continue growing, supported by lifestyle changes, increased fitness participation, and ongoing omnichannel retail development. Brands that balance functionality, comfort, localized design, and community engagement while offering a clear value proposition are best positioned for continued success.

Main Competitors

- Alo Yoga is a **premium activewear and lifestyle brand** positioned at the intersection of performance, fashion, and wellness, targeting **affluent, style-conscious consumers**. The brand operates **~100+ company-owned stores globally**, concentrated in **major U.S. metropolitan areas** with a growing international presence, and maintains a strong **direct-to-consumer digital channel** that supports high brand engagement and margins.
- Vuori is a **performance-lifestyle activewear brand** focused on versatility, comfort, and sustainability, targeting **young professionals and active adults**. The company operates **~50–60 stores**, primarily in the **United States**, with locations concentrated in **coastal and lifestyle-oriented markets**, complemented by a rapidly growing DTC business that represents the majority of sales.
- Maia Active is a **China-based women's activewear brand** focused on fit, functionality, and inclusive sizing for **Asian female consumers**. The brand operates **dozens of stores across major Chinese cities** and maintains a strong **online presence through domestic e-commerce platforms**, positioning it as a leading local competitor in China's premium women's activewear segment.
- Athleta, a subsidiary of **Gap Inc.**, is a **women's performance and lifestyle apparel brand** emphasizing inclusivity, sustainability, and wellness. The brand operates **~250 stores**, primarily in the **United States**, with a smaller international footprint, and targets **adult women** seeking functional yet stylish activewear across fitness, work, and everyday use.
- Nike is a **global athletic apparel and footwear leader** with unmatched brand scale, innovation capabilities, and marketing reach. The company operates **~1,000+ Nike-owned retail locations worldwide**, with a significant presence across **North America, Europe, and Asia**, supported by a vast wholesale network and robust digital ecosystem. Nike targets a broad demographic spanning **elite athletes to everyday consumers**, positioning it as a dominant competitor across performance and lifestyle categories.

Operations

Valuation