

lululemon athletica

March 25, 2021

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Company Overview

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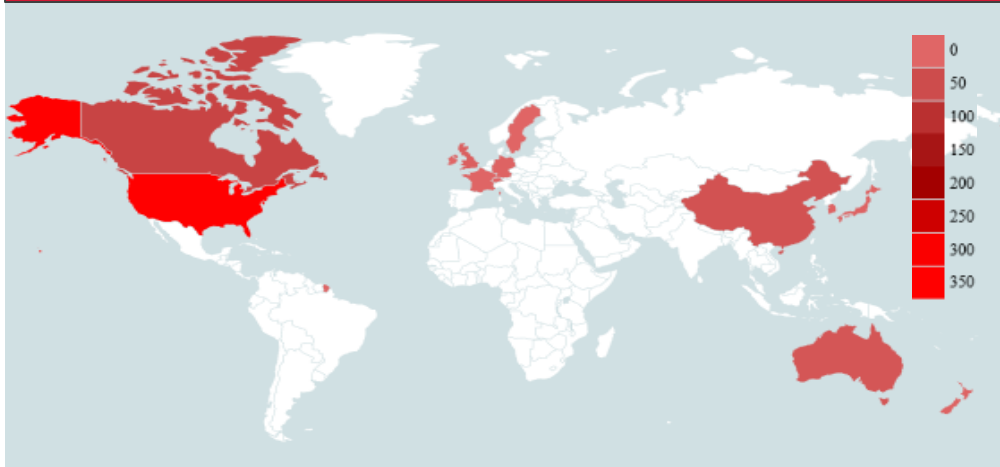
Company Overview



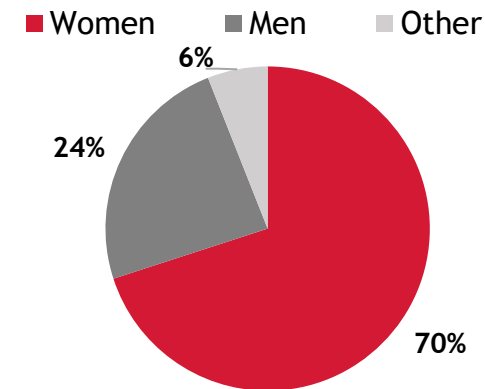
Company Highlights

- Lululemon Athletica designs, distributes and retails athletic apparel for women, men and female youth
- The company operates through two segments, company-operated stores and direct to consumer, and currently operates in 13 countries worldwide
- MIRROR acquisition gives the company a foothold in the home fitness industry and is believed to provide \$150M in short-term revenue

Lululemon Athletica Global Store Count

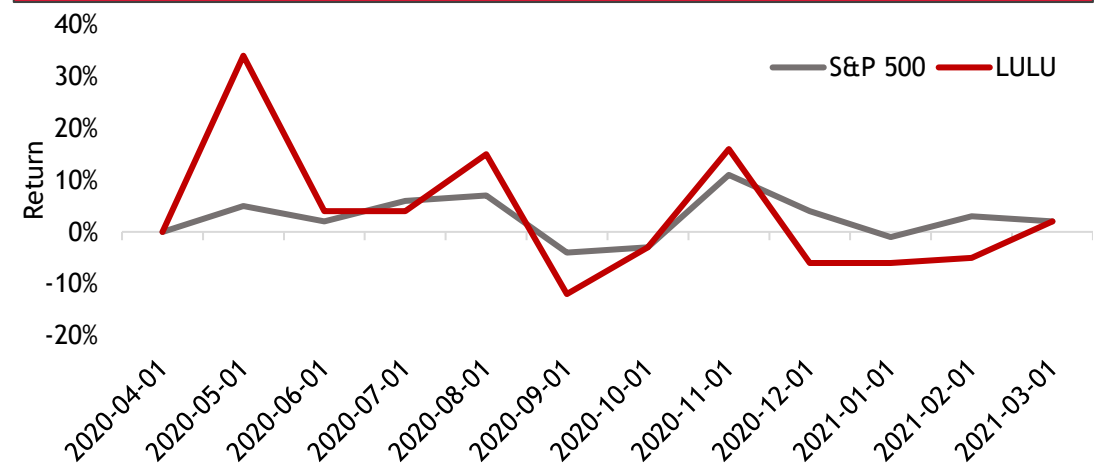


Revenue Segmentation and Key Figures



LULU	
Current Share Price:	\$306.60
Enterprise Value (\$B):	40.22
Market Cap (\$B):	40.24
P/E:	72.45x
EV/EBITDA:	42.53x
EV/REV:	9.88x
Shares Outstanding (M):	125.1

Stock Performance Relative to S&P 500



Brick and Mortar Retail Sales and E-Commerce



Brick and Mortar slowed while E-Commerce soared in 2020

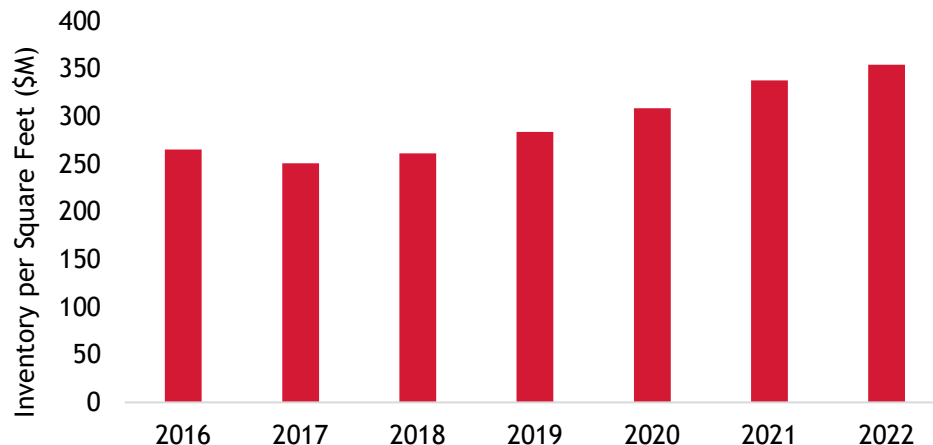
Brick and Mortar Retail

- Retail stores suffered in Q2 of 2020 when they were shut down across the country
- Total net revenue increased by 22% in Q3 but was offset by a decrease in company-operated store net revenue
- Q3 saw only ~80% of stores open with restrictions and limits

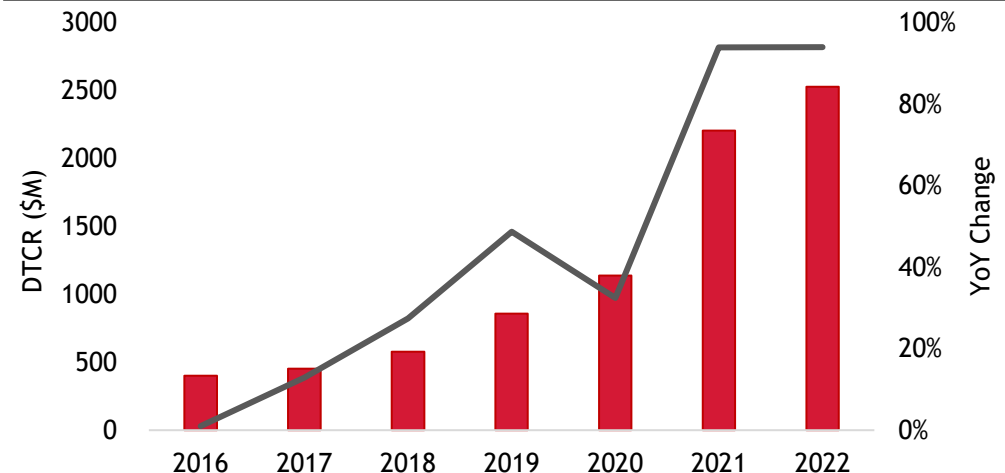
E-Commerce

- 42.8% of total revenue in Q3 was made up of E-Commerce sales compared to 26.9% of total revenue in Q3 2019
- Direct to consumer net revenue increased by 94%
- 2020 Q3 e-commerce grew 93% from Q3 2019
- Digital traffic increased by 67% from Q2

Inventory per Square Feet



Direct to Consumer Revenue



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Global Athletic Apparel Market Outlook

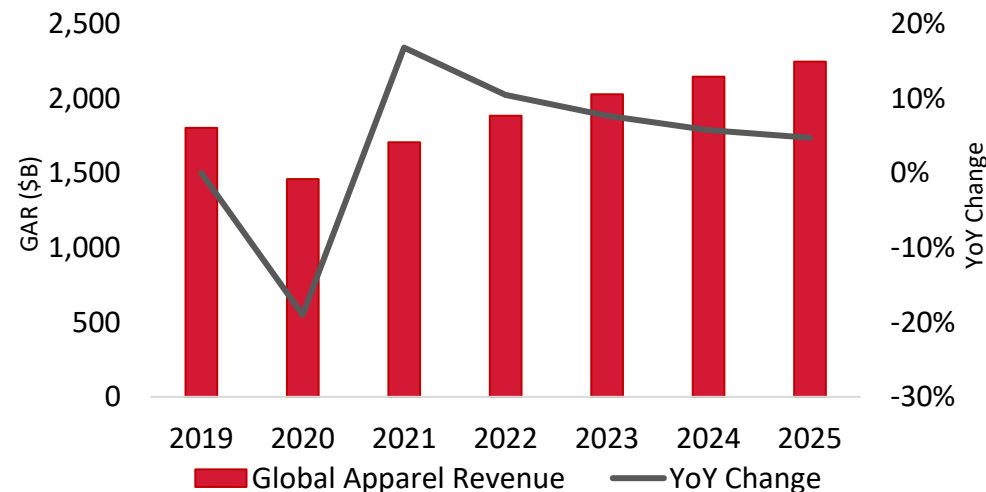


Lululemon will continue to dominate in a growing addressable market for athletic apparel

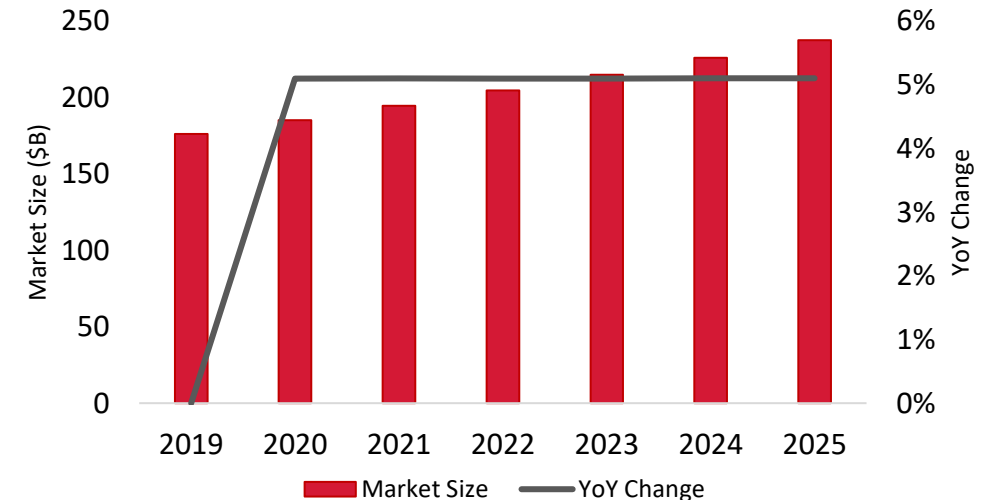
Global Athletic Apparel Forecast

- Growing demand for athletic apparel worldwide will have a positive impact on market growth
- Market is expected to grow to \$248 billion through 2019-2025, CAGR of 5.1% during the forecast period
- Adding more stores in the global athletic apparel market will act as a tailwind for Lululemon as the company will gain foreign exposure

Global Apparel Revenue



Global Sportswear Market Size

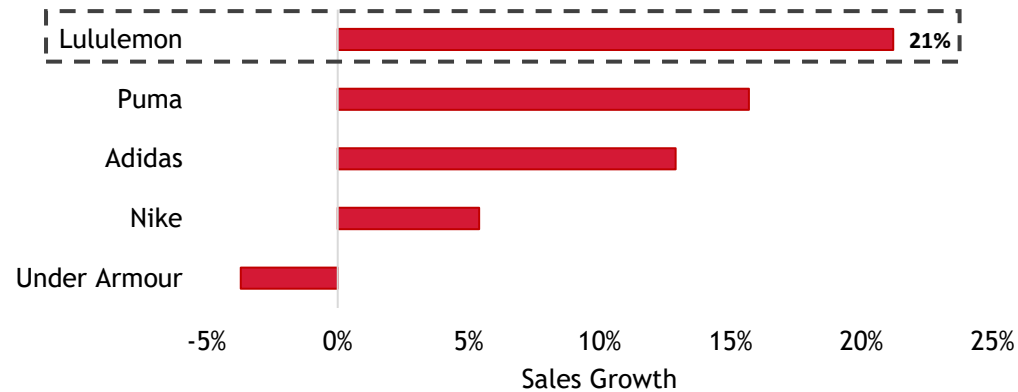


Competitive Positioning

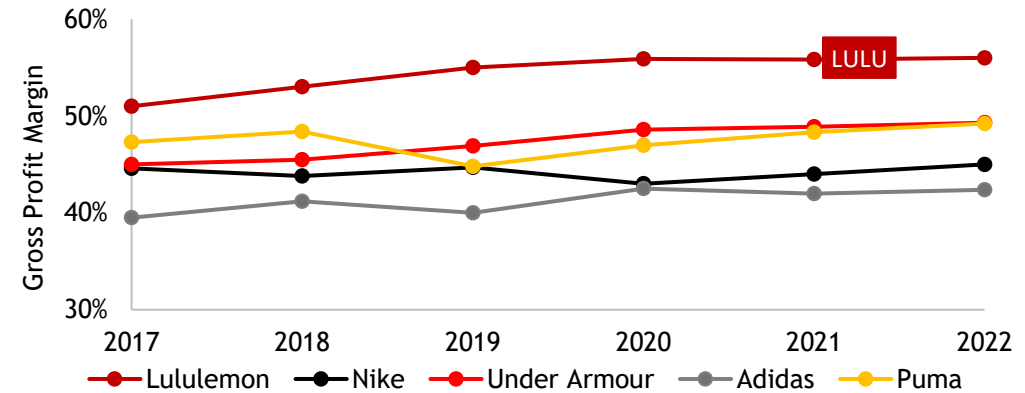


Lululemon continues to maintain a strong position near the top of their comps

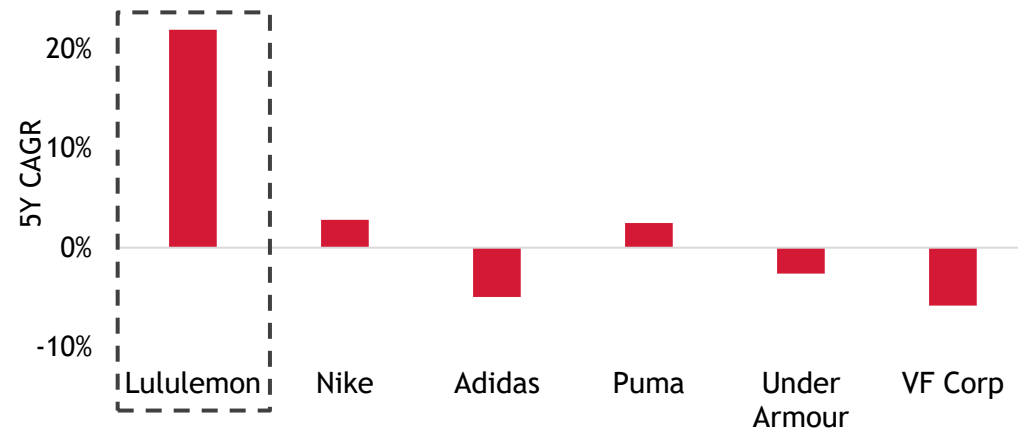
Global Sales Growth of Leading Apparel Companies



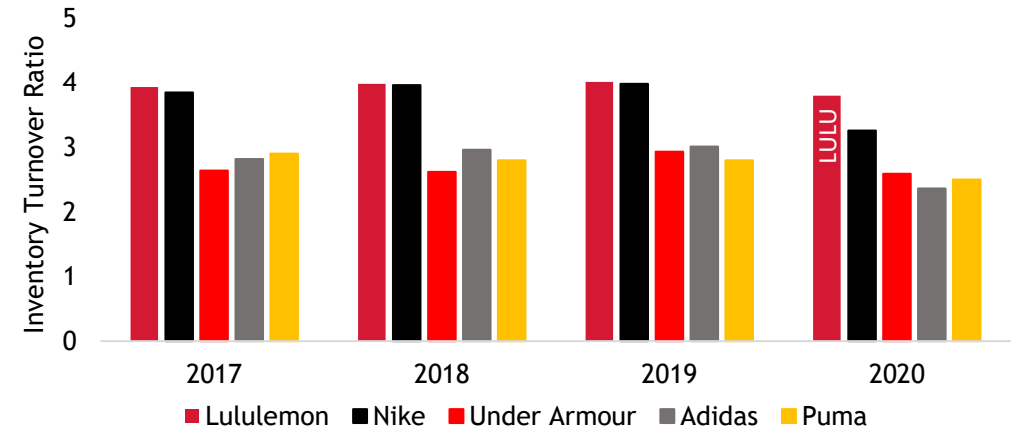
Gross Profit Margin Excellence



5Y CAGR Sales



Inventory Turnover



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Investment Thesis I - Diversification

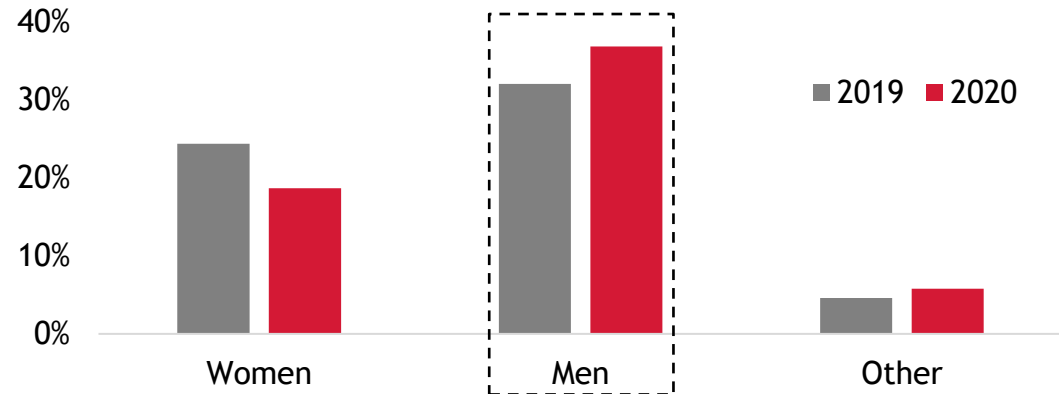


Launched in 2019, Lululemon's Power of Three strategy is beginning to show tangible results

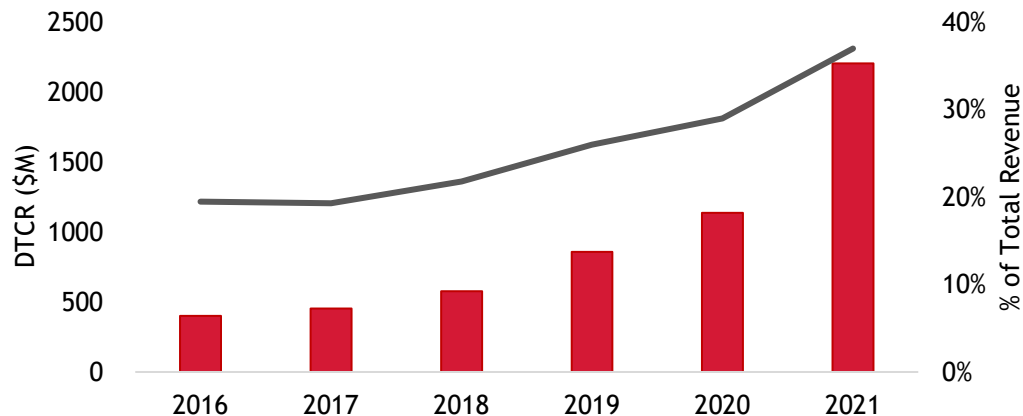
Accelerated Growth Strategy

- Lululemon expects to more than double men's revenue by 2023
- They also expect to more than double digital revenue by 2023
- New customer additions increased by double digits with a surge in new online customers of just over 100%
- Q3 direct-to-consumer revenue is up 93% from 2019 Q3 levels
- Men's apparel is growing rapidly with revenues up 34% YoY
- Men's wear market value is estimated to be \$700B in 2024
- As part of this strategy, Lululemon is also creating a deeper omni-guest experience with multiple channels available to customers such as the MIRROR

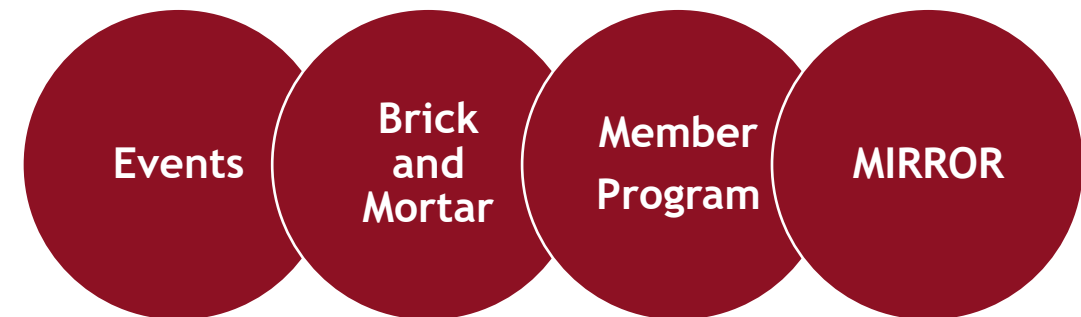
Revenue Growth by Segment



Direct to Consumer Revenue



Omni-Guest Experience



Investment Thesis II - International Expansion

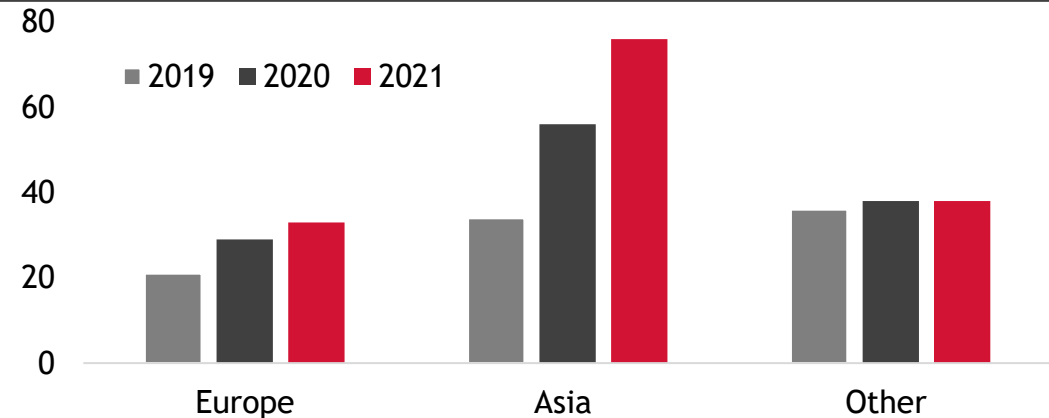


International Expansion continues to propel international revenue with more opportunities for growth

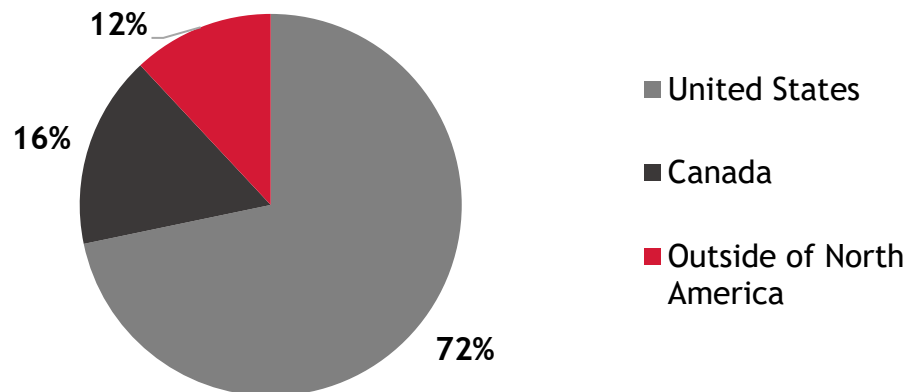
International Expansion Developments

- Lululemon expects to quadruple international revenue by 2023
- Currently on pace to meet and surpass their target growth in 2023
- Out of all continents, there is a larger focus on expansion into Asia and predominantly China
- Brick and mortar is only a portion of this growth with e-commerce also playing a part in increasing revenue with online sites recently launched in parts of Asia
- Over the past year, Lululemon has expanded into 3 new markets, Norway, Netherlands, and Malaysia
- Q3 international revenue has increased 45% from last year

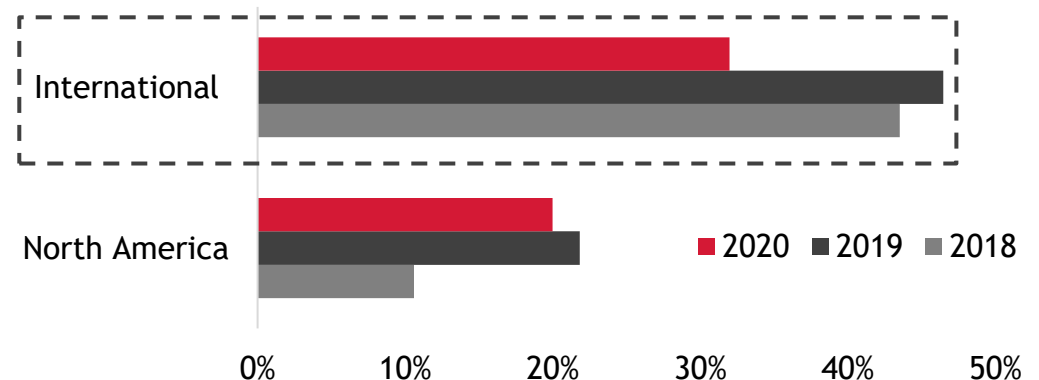
International Store Growth



Revenue by Geography



Revenue Growth by Region



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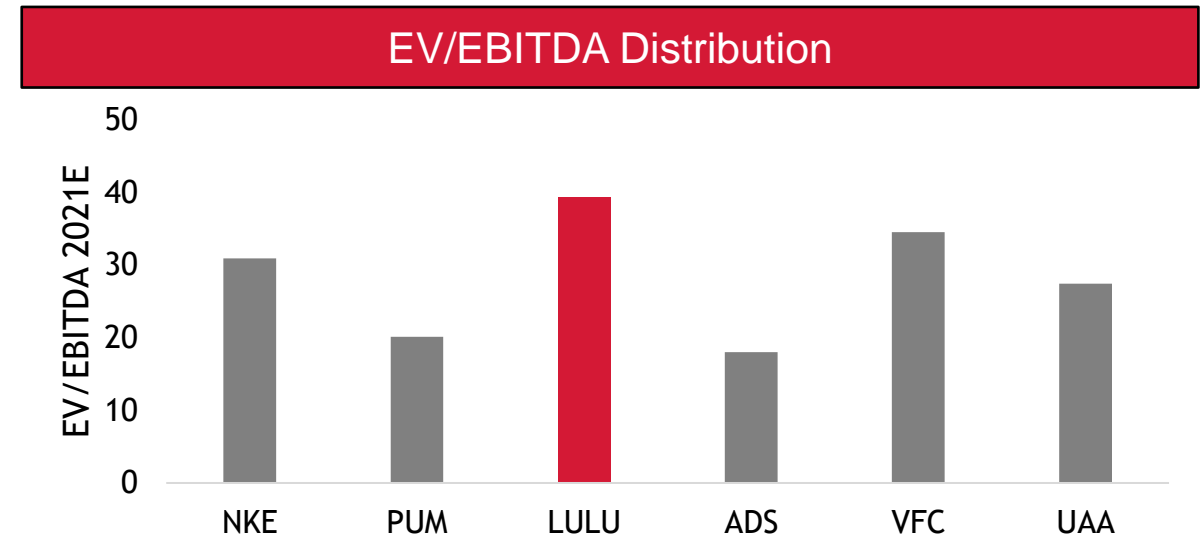
Recommendation

Comparables Table



Company	Ticker	Share Price (\$USD)	Market Cap (\$M)	EV (\$M)	P/E	EV/EBITDA 2021E	EV/Sales 2021E	Debt / Equity	Revenue Growth YoY
Lululemon	LULU	308.71	40,237	40,529	70.3x	39.2x	9.4x	0.38	21.01%
Nike Inc	NKE	137.49	216,752	217,074	62.2x	30.9x	5.1x	1.62	-15.05%
Puma SE	PUM	105.3	15,891	16,554	167.9x	20.1x	2.4x	0.68	-4.87%
Adidas AG	ADS	336.35	67,410	69,341	131.1x	18.0x	3.1x	0.68	-16.06%
VF Corp	VFC	81.14	31,784	35,229	81.5x	34.5x	2.7x	1.55	-4.38%
Under Armour Inc	UAA	23.43	9,620	10,108	-	27.4x	2.1x	23.43	2.02%
Bear (First Quartile)		66.71	14,323	14,942	66.3x	19.6x	2.3x	0.60	-15.55
Base (Median)		121.40	36,010	37,879	81.5x	29.2x	2.9x	0.94	-4.87
Bull (Third Quartile)		315.62	104,745	106,274	149.5x	35.7x	6.2x	1.57	-1.18

	EV / EBITDA		
	Bear	Base	Bull
EBITDA 2021E	1382.2	1382.2	1382.2
EV/EBITDA 2021E	19.6x	29.2x	35.7x
Enterprise Value	27,084	40,332	49,288
Less: Debt	(773.5)	(773.5)	(773.5)
Add: Cash	1,093.5	1,093.5	1,093.5
Equity Value	27,404	40,652	49,609
Shares Outstanding	125.1	125.1	125.1
Equity Value per Share	\$219.06	\$324.96	\$396.55
Market Premium to Fair Value	(29.0%)	5.5%	28.5%



Discounted Cash Flow



Free Cash Flow	2017A 01/28/2018	2018A 02/03/2019	2019A 02/02/2020	2020E 03/30/2021	2021E 02/02/2022	2022E 02/02/2023	2023E 02/02/2024	2024E 02/02/2025
EBITDA	564.0	828.2	1050.9	1,059.6	1,382.2	1,716.6	2,032.7	2,411.4
EBIT	456.0	705.8	889.1	880.3	1,183.8	1,497.5	1,790.8	2,147.2
EBIAT (NOPAT)	256.5	477.3	639.6	633.9	852.4	1,078.2	1,289.4	1,546.0
Add: Depreciation and Amortization				179.3	198.3	219.1	241.9	264.3
Add: Stock-Based Compensation				51.0	61.9	74.3	87.7	102.5
Add: Deferred Income Taxes				31.8	32.1	32.4	32.7	33.0
Add: Changes in Net Working Capital				(51.3)	(37.6)	(44.2)	(53.0)	(52.9)
Unlevered CFO				844.5	1,107.2	1,359.8	1,598.7	1,892.9
Less: Capital Expenditures				(157.9)	(225.8)	(283.0)	(302.8)	(324.0)
Unlevered FCF				686.6	881.4	1,076.8	1,295.9	1,568.9
PV of Unlevered FCF				684.3	790.9	870.1	942.9	1,027.9

Revenue Assumptions	2020E 03/30/2021	2021E 02/02/2022	2022E 02/02/2023	2023E 02/02/2024	2024E 02/02/2025
Company Operated Stores					
Bear Case	-5.1%	16.2%	15.1%	15.1%	12.9%
Base Case	-2.6%	18.7%	17.6%	17.6%	15.4%
Bull Case	-0.1%	21.2%	20.1%	20.1%	17.9%
Direct to Consumer					
Bear Case	43.0%	26.0%	23.0%	23.0%	23.0%
Base Case	45.0%	28.0%	25.0%	20.0%	20.0%
Bull Case	47.0%	30.0%	27.0%	27.0%	27.0%

Other Assumptions	2020E 03/30/2021	2021E 02/02/2022	2022E 02/02/2023	2023E 02/02/2024	2024E 02/02/2025
Gross Profit Margin					
Bear Case	57.0%	57.5%	57.8%	57.8%	58.1%
Base Case	56.0%	56.5%	56.8%	56.8%	57.1%
Bull Case	55.0%	55.5%	55.8%	55.8%	56.1%
CapEx as a % of revenue					
Bear Case	8.0%	8.0%	8.0%	8.0%	8.0%
Base Case	7.0%	7.0%	7.0%	7.0%	7.0%
Bull Case	6.0%	6.0%	6.0%	6.0%	6.0%

Discounted Cash Flow



Exit EBITDA Multiple Approach	
Terminal Year EBITDA	2,411.4
Terminal Value EBITDA Multiple	29.2x
Terminal Value	70,366.0
Present Value of Terminal Value	46,101.3
Present Value of Stage 1 Cash Flows	4,316.0
Enterprise Value	50,417.2

WACC	
Cost of Debt	2.3%
Tax Rate	28.0%
After-Tax Cost of Debt	1.6%
Risk-Free Rate	1.7%
Beta	1.35
Market Risk Premium	6.8%
Cost of Equity	10.9%
Market Value of Equity	16,381.8
Equity Weight	102.0%
Net Debt	(320.0)
Debt Weight	-2.0%
WACC	11.1%

Fair Value per Share	Exit EBITDA
Enterprise Value	50,417.2
Less: Net Debt	(320.0)
Equity Value	50,737.2
Diluted Shares	131.0
Equity Value per Share	\$387.46
Market Premium (Discount) to Fair Value	26.05%

Company Overview

Industry Analysis

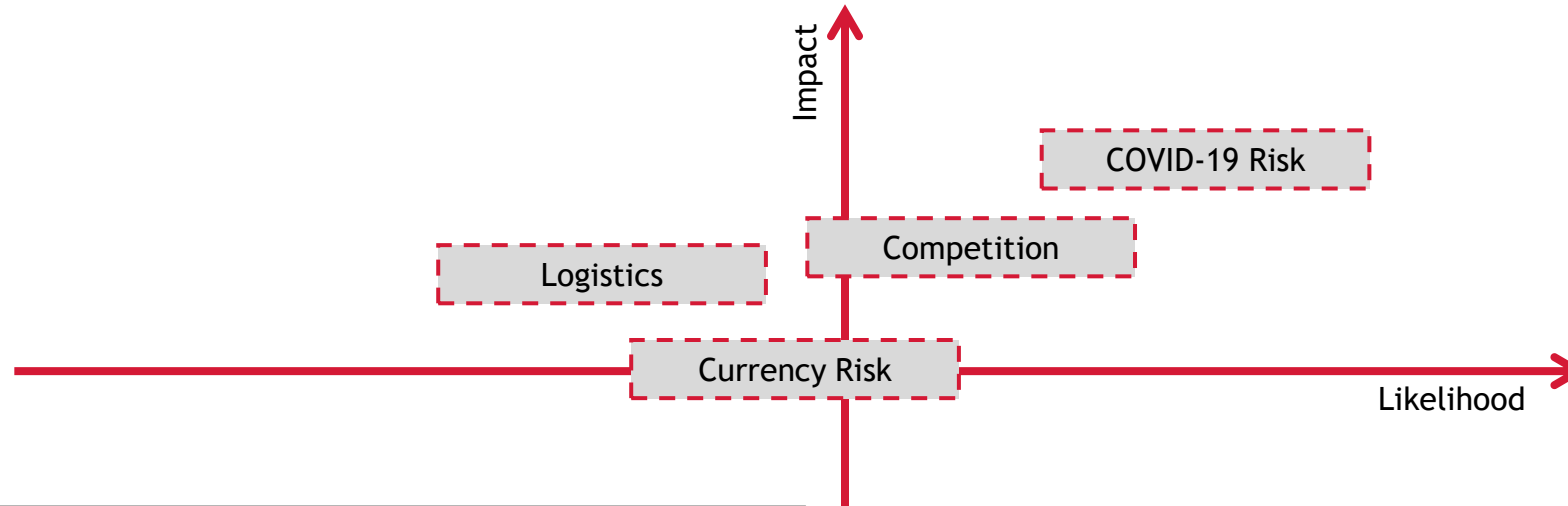
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Risks, Mitigations and Catalysts



Mitigations

Direct to Consumer: To mitigate COVID-19 impacts, Lulu has increased their direct-to-consumer operations which increased 94%

Hedging: The Company currently hedges against changes in the Canadian to U.S. dollar exchange rate and changes in the Chinese Yuan to U.S. dollar exchange rate using forward currency contracts

Diversification: Diversified streams of revenue across multiple segments include an increase in men's clothing, yoga and fitness, that will help Lulu keep up with the industry and grow

Established Supply Chain: Proven supply chain and manufacturing capabilities ensures that shipping/air freights troubles will not impact operations

Catalysts

MIRROR Acquisition: The nearly invisible gym takes up less than 2 feet of space and can be used in workout areas and home gyms. This acquisition gives Lululemon a foothold in the fitness industry

COVID-19 vaccine: The release of an effective Covid-19 vaccine will reduce threats of store and economy closures. Guidelines will be eased resulting in less strict entrant capacities while reducing the risk of an economic downturn

Stimulus: Lululemon may see a potential sales increase if consumers allocate a portion of their stimulus checks into discretionary retail spending

International Recovery: Lululemon may surpass international forecasts with a quicker economic recovery in Europe and other international locations

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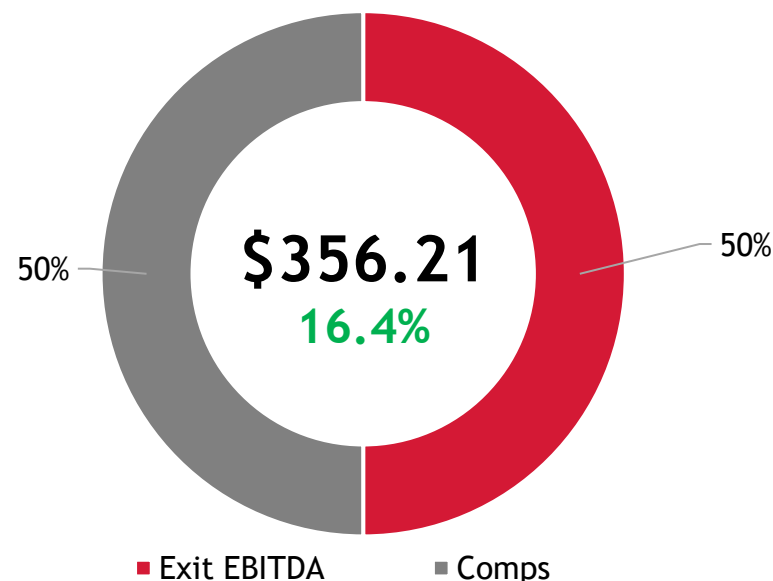


The Consumer Sector recommends a BUY with a target price of \$356.21

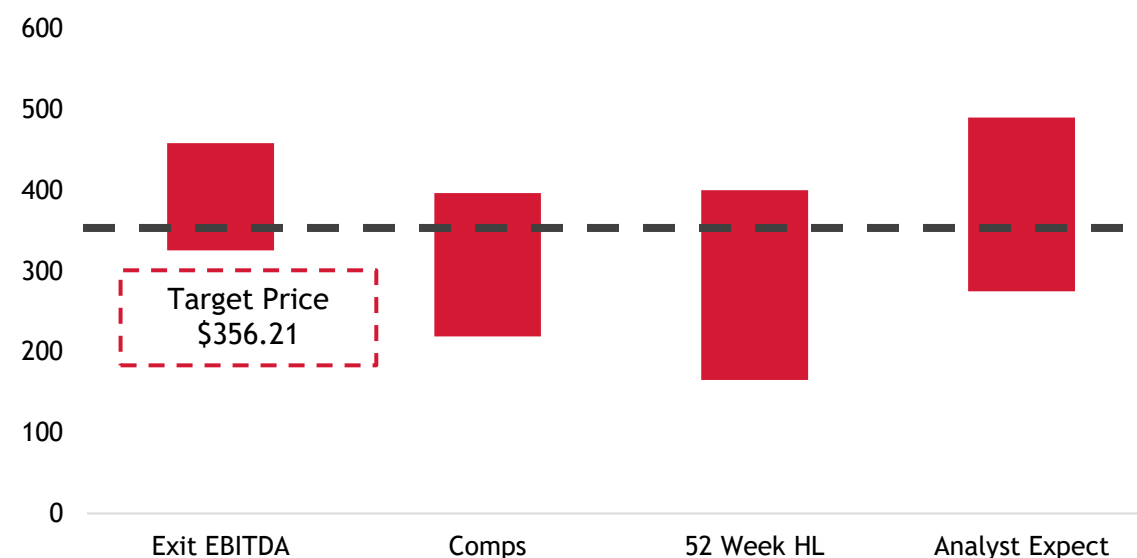
Recommendation Summary

We believe Lululemon is a good investment opportunity. They have established themselves as an industry leader in their market space and continue to dominate the female addressable market for athleisure. With their accelerated growth strategy, Lululemon will also continue to rapidly gain market share for men's apparel, as well as home fitness thanks to MIRROR. Expansion into international markets coupled with increasing return from direct-to-consumer channels represents a strong future for the company. We believe that Lululemon is currently priced under fair value with our target at \$356.21.

Implied Price



Football Field



Appendix

DCF Sensitivity and Net Debt Calculation



Exit EBITDA Approach

		EBITDA Multiple				
		28.2x	28.7x	29.2x	29.7x	30.2x
W A C C	9.6%	395.19	401.55	407.91	414.28	420.64
	10.1%	388.32	394.56	400.81	407.06	413.30
	10.6%	381.60	387.73	393.87	400.00	406.13
	11.1%	375.03	381.05	387.46	393.10	399.12
	11.6%	368.61	374.52	380.44	386.35	392.26
	12.1%	362.33	368.13	373.94	379.75	385.56
	12.6%	356.18	361.89	367.59	373.30	379.00

Net Debt	
Cash and Cash Equivalents	1093.5
Debt	773.5
Net Debt	(320.0)

Share Price Cases			
Exit Type	Bear	Base	Bull
Exit EBITDA	\$325.65	\$387.46	\$458.24

Condensed Income Statement



Lululemon Athletica Inc (LULU US)

In Millions of USD 12 Months Ending	FY 2017 01/28/2018	FY 2018 02/03/2019	FY 2019 02/02/2020	FY 2020E 03/03/2021	FY 2021E 03/30/2022	FY 2022E 03/30/2023	FY 2023E 03/30/2024	FY 2024E 03/30/2025
Income Statement								
Revenue	2,649.2	3,288.3	3,979.3	4,446.2	5,405.7	6,482.7	7,653.2	9,029.2
- Cost of goods sold	(1,250.4)	(1,472.0)	(1,755.9)	(1,956.3)	(2,351.5)	(2,800.5)	(3,306.2)	(3,873.5)
Gross Profit	1,398.8	1,816.3	2,223.4	2,489.9	3,054.2	3,682.1	4,347.0	5,155.7
- Selling, general, & admin expense	(904.3)	(1,110.5)	(1,334.3)	(1,609.5)	(1,870.4)	(2,184.7)	(2,556.2)	(2,988.7)
- Asset impairment and restructuring	(38.5)	—	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income (EBIT)	456.0	705.8	889.1	880.3	1,183.8	1,497.5	1,790.8	2,167.0
+ Other income	4.0	9.4	8.3	9.6	11.6	13.9	16.5	19.4
Income Before Income Taxes	460.0	715.2	897.4	889.9	1,195.5	1,511.4	1,807.3	2,186.4
- Income tax expense	(201.3)	(231.5)	(251.8)	(249.2)	(334.7)	(423.2)	(506.0)	(612.2)
Net Income	258.7	483.7	645.6	640.7	860.7	1,088.2	1,301.3	1,574.2
+ Depreciation & amortization	108.0	122.4	161.8	179.3	198.3	219.1	241.9	266.8
EBITDA	564.0	828.2	1,050.9	1,059.6	1,382.2	1,716.6	2,032.7	2,433.8
+ Stock based compensation	17.6	28.6	45.6	51.0	61.9	74.3	87.7	103.5
Adjusted EBITDA	581.6	856.8	1,096.5	1,110.6	1,444.1	1,790.9	2,120.4	2,537.2

Extra Notes



Company Operated Store Revenue Schedule								
In Millions of USD	FY 2017	FY 2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E
12 Months Ending	01/28/2018	02/03/2019	02/02/2020	03/03/2021	03/30/2022	03/30/2023	03/30/2024	03/30/2025
Revenue, company operated stores	1837.1	2126.4	2501.1	2435.5	2889.8	3398.4	3996.5	4613.5
Total stores	397	440	491	515	556	601	649	688
Growth		10.8%	11.6%	4.9%	8.0%	8.0%	8.0%	6.0%
Total square feet (millions)	1.20	1.33	1.54	1.52	1.72	1.92	2.15	2.39
Growth		11.5%	15.2%	-1.0%	13.0%	12.0%	12.0%	11.0%
Average square footage per store	3012	3030	3127	2951	3088	3202	3321	3478
Growth		0.6%	3.2%	-5.6%	4.6%	3.7%	3.7%	4.7%
Average sales per square foot (thousand)	1554	1579	1657	1602	1682	1767	1855	1929
Growth		1.6%	4.9%	-3.3%	5.0%	5.0%	5.0%	4.0%

Property, Plant, and Equipment								
In Millions of USD	FY 2017	FY 2018	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E
12 Months Ending	01/28/2018	02/03/2019	02/02/2020	03/03/2021	03/30/2022	03/30/2023	03/30/2024	03/30/2025
Beginning of period		473.6	567.2	671.7	795.2	920.9	1048.5	1177.5
Plus: Capital Expenditures	157.9	225.8	283.0	302.8	324.0	346.7	371.0	396.9
Less: Depreciation	(108.2)	(122.5)	(161.9)	(179.3)	(198.3)	(219.1)	(241.9)	(266.8)
End of period	473.6	567.2	671.7	795.2	920.9	1048.5	1177.5	1307.7
CapEx as a % of revenue	6.0%	6.9%	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%
D&A related to PPE as a % of CapEx	68.5%	54.3%	57.2%	59.2%	61.2%	63.2%	65.2%	67.2%

Management



Senior Management



Calvin McDonald - Chief Executive Officer

- ✓ CEO and Director since August 2018
- ✓ Prior to joining Lululemon, Calvin served as the CEO of Sephora Inc from his last position as CEO of Sears Canada



Meghan Frank - Chief Financial Officer

- ✓ Became first female CFO for Lululemon in November 2020
- ✓ Frank first joined Lululemon in 2016 as SVP of financial planning and analysis



Julie Averill - Chief Technology Officer

- ✓ CTO and Executive Vice President since 2017 as CTO
- ✓ Prior to joining Lululemon, Averill served as REI's first CIO, and spent over a decade at Nordstrom in IT

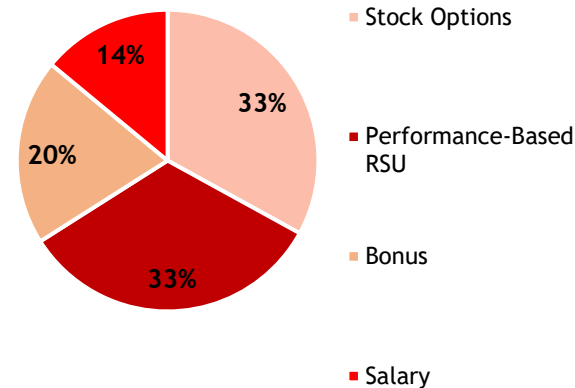


Michelle Choe - Chief Product Officer

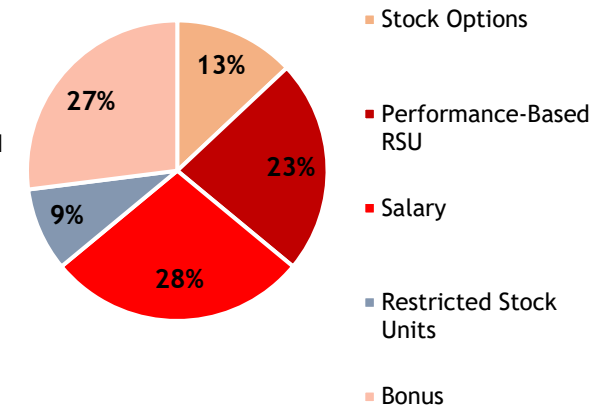
- ✓ CPO since September 2018
- ✓ First joined Lululemon in 2016 as the Senior Vice President, Global Merchandising from Marc Jacobs

Management Compensation Structure

Chief Executive Officer



Other Executive Officers



Base Salary: Provides base level of earnings throughout the year; considers a number of factors including responsibilities, experience, and historical performance

Annual Cash Incentive: Rewards the achievement of financial, operational and strategic goals, as well as individual annual performance objectives

Long-Term Incentives: Awarded in (1) stock options (2) performance-based RSUs and (3) RSU awards

MIRROR



MIRROR unlocks
the ecosystem
of our omni
assets to create
new sweatlife
experiences

