

PROPOSAL

Initial Public Offering for *Lululemon Athletica*

presented by



SECTION 1: Execution Team and Credentials



About Megabank

Megabank (MB) is a major player in the investment banking market. Founded in 1980, MB continues to demonstrate its skill and professional expertise by undertaking many successful IPOs. MB's research analysts are ranked second in the sector. MB has led offers in both the specialty retailer market and the enthusiast market and has managed many comparable IPOs to Lululemon. Some examples include: J. Crew IPO (\$432 M) in June 6 and a follow-on offer June 7 (\$355 M), Under Armour IPO (\$181 M), co-led, in November 2005 and a follow on in May 2006 (\$28M), Coach IPO (\$136 M) in October 2000. For a detailed view of MB's recent trading history see Appendix A.

The following research and trading recommendations are based on on five comparable companies: Under Armour, Zumiez, J. Crew, Urban Outfitters, and Coach. Megabank feels these are very relevant measures when looking not only at the Specialty Retail but also at the High Growth/Enthusiast Industry.

MB plans to write and distribute an IPO prospectus to investors and institutions across North America during road shows and investor meetings. The prospectus will be similar to this Request for Proposal—providing details about the IPO. The nine city road show will have the full backing of MB's Marketing Team. MB understands the substantial role marketing will play in this IPOs success, representing Lululemon's infectious culture and showing investors the power of the brand.



GABY HEBERT

President Corporate Finance & Financial Analyst

Provided comprehensive and transparent valuations of Lululemon by evaluating future performance based on key indicators. Performed multiple valuation models to ensure accuracy. Gaby has been President at Megabank for 3 years and has been a key member in IPOs involving Under Armour and J. Crew. She has been the head authority on this project dedicating 80% of her time.



LOGAN PARKER

Senior Equity Sales Marketing Director

Strengthens demand for Lululemon shares by managing investor expectations and organizing and executing road shows. Logan has been working in retail equity sales at Megabank for 4 years and has over 10 years experience in this field. Logan will be head of Marketing for the IPO if Megabank is chosen; he has dedicated 30% of his time to this project thus far.



DAVID BOOTH

Trading and Equity Advisor & Financial Analyst

Assessed and determined relevant comparable companies, updated and interpreted economic variables effecting initial public offering. David had been an advisor specializing in the apparel industry for 7 years and has been a consultant for Megabank for 5 years, helping with several apparel industry IPOs. David has been a critical part of the valuation process, dedicating 25% of his time.

About Lululemon Athletica

Lululemon is an innovative, high quality athletic apparel retailer that specializes in yoga wear. Lululemon has proven the ability to execute strong store level economics, growth, and positive comparable performance through its differentiated store concepts, world-class management and little competition.

Competitive Positioning: Lululemon has been at the forefront of the yoga trend for nearly the last 10 years. As the incumbent, the company has been able to establish and maintain brand loyalty—a key factor in the development of Lululemon—as competition continues to increase in order to ensure predictable and growing revenue streams.

Selling Points: From a financial perspective, one of Lululemon's biggest assets is its vertical integration of retail stores. By avoiding wholesale distribution, the company is able to reap the benefits of higher profit margins relative to competitors. These profits can then be reinvested in the company in order to ensure Lululemon stays competitive and maintains a high growth rate.

Differentiating Factors: Lululemon's success is very closely related to the yoga trend. While Lululemon has experienced considerable growth since inception, so has yoga. Therefore, as yoga continues to be popular and yoga products continue to be in high demand, Lululemon's products will also continue to be in high demand, unlike competitors who largely rely on marketing and product innovation for sales.

Financial Performance

Lululemon has shown above average revenue growth (44%) and EPS growth (40%) over the past 2 year compared to their market segment and other firms. With strong EBITDA margin (27%) as compared to their market segment Lululemon shows strong profitability compared to its peers. Industry leading margins have been coupled with store productivity. Lululemon's strong performance and continued expected growth potential is not surprising given the growing number of yoga enthusiasts in the U.S. as well as the growth of the sports apparel industry. This growth is supported by favorable health and wellness trends and an increasing societal focus on importance of physical activity. Lululemon has continued to stay in the forefront of the market in terms of improving apparel technology and design. With superior cash on cash returns, YTD store sales, and sales/sq.ft. Lululemon shows robust store level economics. There is also a lot of room from expansion due to high "White Space" of 7.7 times; Lululemon currently has 50 stores with the possibility of expanding to 385. Being part of the specialty retail and enthusiast market Lululemon shows great potential for the future both in terms of growth and profitability.

Risk & Mitigation

Lululemon's products are very focused on young to middle-aged women who practice yoga. In order to mitigate this risk, Lululemon needs to market its clothing to all athletics, which would help it enter the \$40 plus billion sports apparel industry in the US alone. In addition, Lululemon would need to continue to innovate and add to their product line. Lululemon also needs to put more emphasis on its male apparel department, by hiring more male associates and brand ambassadors.

Lululemon must be able to meet growth projections through its ability to enter new markets and build in beneficial retail locations, while marketing to the correct crowd. If Lululemon fails to meet projections, they will need to reassess their capital structure in order to keep a positive relationship with investors.

Lululemon Valuation: \$926,000,000

Using two valuation methods (Discounted Free Cash Flow and Multiples Approach) Lululemon's Enterprise Value has been estimated to be between \$770,000,000 and \$1,100,000,000—the base valuation holds at \$926,000,000 (See Appendix C- this appendix includes the valuations a a few alternative methods as reference). The two valuation methods yield similar valuations, additionally with a PEG Ratio of .94. Therefore, we are confident that is this an equitable valuation of Lululemon. We have used the EV/Sales and EV/EBITDA for the Multiples Approach, along with the PEG Ratio and used the the Profit Margin as an indicator for the DCF Method.

DCF Valuation (See Appendix B for Assumptions and full Income Statement Valuation)

Discount Rate	FY2007	FY2008	FY2009	FY2010	FY2011	Terminal Value
10.00%	3,771,963	9,390,494	22,729,005	36,883,098	52,498,456	990,803,886
10.50%	3,771,963	9,348,003	22,523,778	36,384,684	51,554,688	904,016,826
11.0%	3,771,963	9,305,895	22,321,318	35,895,211	50,632,032	828,598,774
11.50%	3,771,963	9,264,165	22,121,575	35,414,478	49,729,925	762,528,191
12.00%	3,771,963	9,222,807	21,924,502	34,942,291	48,847,820	704,233,280

Valuation

10.00%	\$1,116,076,902
10.50%	\$1,027,599,942
Base: 11.00%	\$950,525,193
11.50%	\$882,830,298
12.00%	\$822,942,662

Multiples Valuation (See Appendix B For Sales Forecast and Competitor Information)

Company	Multiple Weight	EV/Sales		EV/EBITDA	
		2007E	2008E	2007E	2008E
Under Armour	0.35	4.3x	3.4x	26.0x	20.3x
Zumiez	0.075	2.5x	2.1x	16.3x	13.3x
J. Crew	0.075	2.3x	1.9x	16.8x	12.2x
Urban Outfitters	0.2	2.7x	2.2x	17.3x	10.7x
Coach	0.3	5.8x	4.9x	14.2x	11.8x
Weighted Average		4.1x	3.4x	19.3x	14.7x
Lululemon		Sales		EBITDA	
		202,102,124	277,850,824	45,327,920	64,431,565
Implied EV of Lululemon		837,713,303	944,692,802	874,942,167	946,982,930

Valuation

Add: 20%	\$1,081,299,361
Add: 10%	\$991,191,080
Base: Average	\$901,082,800
Less: 10%	\$810,974,520
Less: 20%	\$720,866,240

SHARE ISSUANCE

Expected Value		Share Price				
Number of Shares Issued		75,000,000	70,000,000	65,000,000	60,000,000	55,000,000
Add: 20%	\$1,098,688,131	\$14.65	\$15.70	\$16.90	\$18.31	\$19.98
Add: 10%	\$1,009,395,511	\$13.46	\$14.42	\$15.53	\$16.82	\$18.35
Base Valuation	\$925,803,997	\$12.34	\$13.23	\$14.24	\$15.43	\$16.83
Less: 10%	\$846,902,409	\$11.29	\$12.10	\$13.03	\$14.12	\$15.40
Less: 20%	\$771,904,451	\$10.29	\$11.03	\$11.88	\$12.87	\$14.03

Share Price: \$14.15

Shares Issued: 65,000,000

Using the value range obtained, there are options as to how many shares to offer in the primary offering. Megabank recommends an initial offering of 65,000,000 shares, minimum of 43,700,000 shares will be retained by directors, officers, and major shareholders or 67% primary ownership. The equity raised by primary offering of 3,500,000 shares to the public will raise \$49,875,000, assuming a share price of \$14.25 (this is a conservative share price in order to encourage initial demand). The secondary offering will be of 17,800,000 shares which will raise \$253,65,000 for a total raised of \$303,535,000.

REVENUE BREAKDOWN

	Shares	Equity Value (\$14.25/Share)	Percent Ownership
Primary Offering	3,500,000	\$49,875,000	5.38%
Secondary Offering	17,800,000	\$253,650,000	27.38%
Total Offering	21,300,000	\$303,525,000	32.77%
Equity Retained	43,700,000	\$622,725,000	67.23%
Total Existing Equity	65,000,000	\$926,250,000	100.00%

FINANCIAL DRIVERS

Our recommendation is based on an average valuation obtained using the multiple method and discounted cash flow method. Using a weighted average of comparable companies from the specialty retail and high growth industries, the valuation was mostly based on Under Armour's performance, as it is the most comparable company. Relevant drivers in this valuation include sales growth, number of retail stores, changes in efficiency, changes in operations methods and costs, and changes in relevant discount rates. The power of the Lululemon brand and its growth prospects allow institutional demand to reach 25x the number of shares being sold at the time of offering.

PEER GROUP

We decided to use a weighted multiples approach as we found some comparable to be more relevant for valuation than other. The relative weights were determined based on firm that had similar multiples (based on multiples found using the DCF valuation) and based on product category and firm structure.

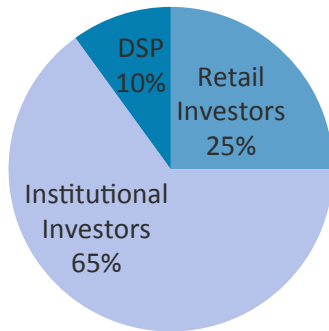
TRANSACTION OVERVIEW

(See Appendix D full IPO Timeline)

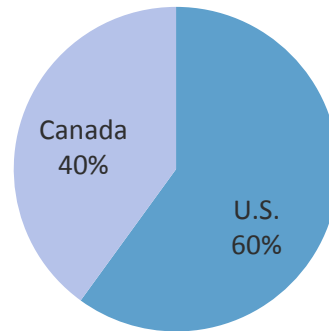
Trade Date	July 1, 2007
Ticker/ Exchange	'LULU' / NASDAQ & TSX
Offer Size	\$770 M-\$1100 M
Offer Price	\$14.25 CAN
Offer Structure	5.38% Primary (3.5 M Shares) 27.38% Secondary (17.8 M Shares)

DEAL PLACEMENT

Retail



Geographic Distribution



RESTRICTIONS ON FUTURE SALES

In the first 25 days following the IPO, none of the 43.7M shares will be allowed to be sold in order to decrease volatility of shares during the SEC's mandatory "quiet" period—a time period in which no earnings reports or forecasts are allowed to be produced for the company. A lock-up provision shall be put in place that prevents the sale of these 43.7M shares for the first 6 months of trading, unless an owner of these shares is willing to pay break-up/termination fees for a sale. This 6 month time period will initially help to reduce volatility of share prices when the stock is still new through limiting fluctuations supply. If we see market stability prior to end of this period the lock up could be lifted early.

SYNDICATE MAKE-UP

	Management Share	Underwriting Share	Sales Share
Lead Book Runners			
Megabank	60%	35%	30%
Goldman Sachs	40%	25%	30%
Co-Managers			
Bank of America	0%	10%	15%
RBC Capital Markets	0%	10%	15%
Scotiabank Global	0%	10%	5%
JP Chase Morgan	0%	10%	5%

COMMISSION

Total Commission: \$22,000,000 (7% of Equity Raised)

Megabank Commission: \$7,500,000 (2% of Equity Raised)

ROAD SHOW

There will be a nine city road show with 15 group meetings and 50 one-on-one meetings. MB plans to write and distribute an IPO prospectus to investors and institutions across North America during these road shows and meetings. The prospectus will communicate details about the IPO to investors. Megabank plans to incorporate Lululemon's culture and show investors first hand the power of the brand, which is one of Lululemon's strongest selling points.

City	Date
Calgary	June 13
Toronto	June 15
Montreal	June 16
New York	June 18
Chicago	June 19
San Francisco	June 21
Las Vegas	June 22
Seattle	June 23
Vancouver	June 26

APPENDIX



A MB ACTIVITY WITH COMPARABLE COMPANIES

Companies		Offers Handled by Megabank	Research Recommendation	Trading of Shares	
				% Trading	Rank
Specialty Retail Comparable					
Chicos			Neutral	2%	18
Citi Trends			Not Covered	4%	12
Coldwater Creek			Not Covered	2%	16
J. Crew	06/06- IPO \$432M 01/07- Follow-On \$355		Buy	7%	5
Urban Outfitters			Neutral	5%	8
Zumiez			Not Covered	2%	15
High Growth/Enthusiast Comparable					
Bare Escentuals	09/06- IPO \$405M 03/07- Follow-On \$476		Buy	11%	3
Chipotle			Buy	2%	13
Coach	10/00- IPO \$136M		Neutral	3%	14
Crocs Inc.			Not Covered	5%	6
Starbucks			Neutral	8%	5
Tim Hortons	03/06- IPO \$772M		Buy	11%	3
Under Armour	11/05- Co-led IPO \$181M 05/05- Follow-On \$284M		Buy	7%	5
Volcom			Not Covered	2%	14
Whole Foods			Buy	8%	4

B DCF VALUATION ASSUMPTIONS

Retail Store Sales Assumptions till 2007:

- 1) Retail sales per store were determined using an average per store sales of 2004-2006. Existing store sales were forecasted to grow at 6% annually for years 2007-2008
- 2) Royalties and Fees revenue declined 10% per year
- 3) Other revenue experienced a 10% growth per year

Income Statement & FCF Assumptions:

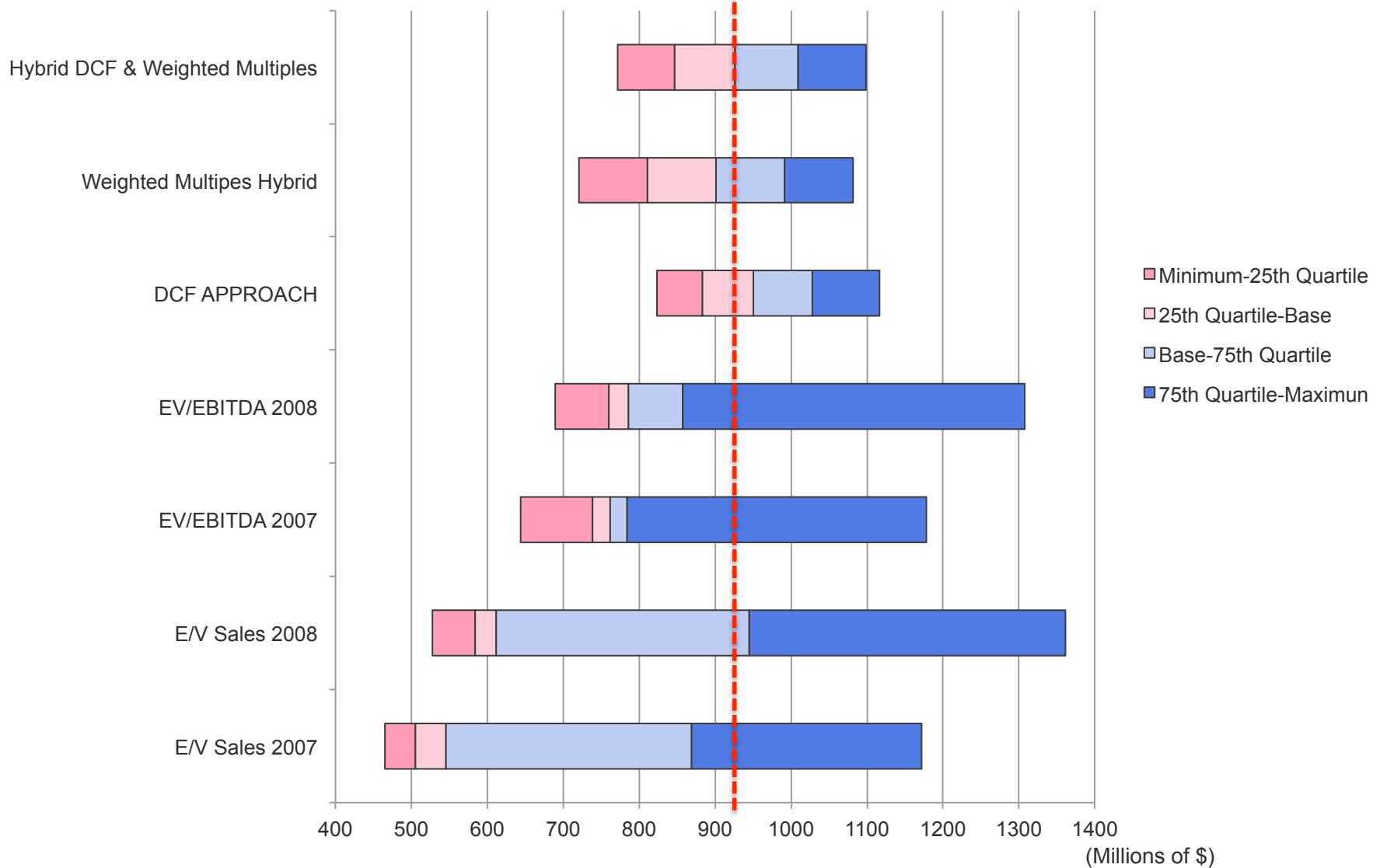
- 1) Net sales continued to grow at a more aggressive rate with expansion of brand at 40% in 2009, 30% in 2010 and 2011 and 25% in 2012
- 2) Gross margin will improve at 100bps for 2007, followed by 50bps there after for 2008
- 3) SG&A will increase by 200pbs in 2007 followed by 50 bps there after for 2008
- 4) Operational Income % of Sales will remain constant at 16%
- 5) Tax rate will be approximately 30%
- 6) Depreciation will be approximately 40% of Capital Expenditures per year, Cap Ex will decrease by 5 Million a year till it remains constant at 5M a year

DCF Assumptions:

- 1) Terminal Value growth rate will be #% annually
- 2) Base discount rate will be 11% estimated using CAPM=WACC (because unlevered firm). Taking historical returns from 1928-2006, average S&P500 returns of 11.77%, 10 year risk free Bond rate of 5.2%, unlevered apparel Beta of .86. Using CAPM. We get 10.85% and round for simplification.

MEGABANK

C VALUATION RANGE



D IPO TIMELINE

Key Action	Date
Request for Proposal Requested	March 1
Request for Proposal Submitted	March 21
Organizational/ Kick-off Meeting	March 23
Due Diligence and S-1 Drafting	March 24- Mid April
Research Analyst Meeting	Mid April
2006 Audited financials Completed	Mid April
File S-1 Registration Statement	April 23
Initial SEC Review	Week of April 23-May 21
Close Books on First Quarter 2007	Mid-May
Respond to SEC Comments	Week of May 28-June 11
Auditors Complete Review of First Quarter 2007 Financials	Week of May 28
Incorporate First Quarter 2007 Results into S-1	Week of May 28
File Updated Prospectus	Week of June 4
Sales Force Dry Run	June 11-12
Roadshow	June 13-26
Pricing	June 27
Close	July 1

E LULULEMON CULTURE



stress is related to what you do to the earth
99% of all illness **you do to yourself**
 do not use cleaning chemicals on your kitchen surfaces
 someone will inevitably make a sandwich on your counter
life is full of setbacks
 sunscreens absorbed into the skin might be worse for you than sunshine. get the right amount of sunshine. then ask strategic questions
do one thing a day that scares you
 don't trust that an old age pension will be sufficient
creativity is maximized when you are living in the moment
your outlook on life is a direct reflection of how much you like yourself
a daily hit of athletic-induced endorphins gives you the power to make better decisions, helps you be at peace with yourself, and offsets stress
most should never give way to that which matters the least
the pursuit of happiness is the source of all unhappiness
observe a plant before and after watering and relate these benefits to your body and brain
breathe deeply
 and appreciate the moment living in the moment could be the meaning of life.
this is not your practice life.
this is all there is
 the perfect tomatoes you'd need up
 children are the organ of life. just like you did not know what an organ was before you had one, you won't know how great children are until you have them.
10-15 friends allows for real relationships
sweat once a day to regenerate your skin
live near the ocean and inhale the pure salt air (that's how you can convince yourself to do it)
have a high income.com temp. - better - early death
that which matters the most
effectiveness is predicted by replacing the words "with" "without" and "try" with "I will"
commitment is complicated. each family has slightly different definitions of every word. an agreement is an agreement only family pays for the expense. no agreement and a deal only family pays for the expense.
listen listen listen
 then ask strategic questions
visualize your eventual demise. it can have an amazing effect on how you live in this moment.
choose a positive thought every day
you are using this word too many times
the world moves at such a rapid rate that waiting to implement changes will leave you two steps behind
do it now, do it now, do it now!
jealousy works the opposite way you want it to
have you waited up two days in a row unemployed? change your life
dance, sing, floss and travel