



Company Overview

lululemon athletica inc. designs and sells premium athletic apparel, footwear, and accessories under the lululemon brand, monetizing primarily through a direct-to-consumer model that combines company-operated stores with digital (country-specific websites and a mobile app), supplemented by outlets, limited wholesale/co-branded distribution, and re-commerce.

Differentiated View

By late June, after the company warned of tariffs and softer demand, the stock had already fallen into the low-\$230s range. At \$230, LULU was no longer priced like a premium growth compounding because it was roughly 15-16x the company's FY2025 EPS guide of \$14.95-\$15.15 and roughly 6x book value (\$4.324B stockholders' equity, 115.5M shares), which sits between classic "growth" and "value" on headline multiples. The Street still largely treated LULU as a growth-stock debate like whether management can re-accelerate via the long-term plan to double men's and digital and scale international sales while also discounting risks from domestic competition and policy-driven cost pressure. My view is that after the multiple compression, the next leg of returns does not require the market to underwrite a new "growth engine" in men's/footwear or a heroic China trajectory; it requires investors to reprice LULU as a high-quality, cash-generative core women's franchise where recurring assortment newness and a normalization in macro confidence/traffic are sufficient to move the stock back toward a fair GARP multiple, due to the brand's day-to-day relevance in its core customer and the financial durability implied by those mid-teens earnings multiples are already doing most of the heavy lifting.

Sector Thesis

The Street underestimates how quickly LULU's U.S. demand can stabilize because it is treating recent product staleness as brand decay, even as the company is visibly re-accelerating innovation in core franchises and retains unusually measurable consumer stickiness that can re-rate revenue without requiring heroic China/menswear outcomes.

- a. **LULU's stickiness is real, measurable, and monetizable:** U.S. "brand equity" (LULU's Essential Membership reached ~28M members) gives the company a direct channel to convert loyal users when product newness improves rather than relying solely on broad-based traffic recovery.
- b. **Newness is tangible in named franchises:** 2025 pipeline includes explicit franchise-level innovation in women's core leggings (e.g., Align No Line launched as a redesign that removes a long-standing consumer pain point (center seam) and drew unusually positive early consumer coverage immediately after release), indicating "hit potential" is returning even if financial impact lags the first drop.
- c. **Cadence and operating system support follow-through:** Management has explicitly highlighted a strong product pipeline and increasing speed of innovation (including 36 new product innovations), framing the recent weakness as a "SKU set" problem that can be repaired with cadence.

At ~mid-2025 lows, LULU is being valued like a structurally broken growth stock even though its current valuation stack (EV/EBITDA at high-single-digits and P/B at mid-single-digits) is consistent with a high-quality cash-generative franchise and sits far below its own multi-year average earnings multiple.

- a. **Absolute undervaluation vs. quality** LULU's EV/EBITDA around ~8-9x implies the market is paying a non-premium multiple for a business that historically earned premium valuation because of brand pricing power and margin profile.

- b. **Relative undervaluation vs. its own history** LULU's LTM P/E around the mid-teens is dramatically below its 2021–2025 average P/E (roughly 50x), so multiple mean-reversion alone can drive substantial upside if the business merely stabilizes.

Macro Thesis

Lululemon has twice demonstrated a recovery pattern of acknowledging the product issue, changing product/leadership accountability, and reinvesting in assortment innovation quickly. After which consumer trust and comps normalized within roughly one year, making the current drawdown likely a trough-to-normalization setup.

- a. **2013 “quality failure” cycle:** LULU pulled ~17% of women’s pants inventory for being too sheer, disclosed a roughly \$12–17m near-term revenue hit, and replaced key product leadership (the CPO exited and the CEO later announced departure), after which the product returned, showing that decisive accountability plus remediation can arrest a brand shock.
- b. **2017 “assortment not resonating” cycle:** management attributed weakness to an assortment lacking depth and color and the stock dropped over 20% in response, but subsequent quarters showed comps returning (e.g., Q2 FY2017 total comparable sales +7% and comparable store sales +2%), illustrating that product correction can flow through to comps within a few quarters.

Key Metrics:

EV / EBITDA	Forward P/E	3-Year Anticipated EPS CAGR	Operating Margin	ROIC
9.0x	15.7x	19%	23.7%	28%

Valuation and Model Drivers

As of early June 24th, 2025, LULU is trading around \$230/share: FY2024 revenue was ~\$10.6bn with ~23.7% operating margin, and the equity traded at just ~15.7x trailing EPS (\$14.67) and ~9x EV/EBITDA (including leases). **My valuation framework is a triangulation:**

- i. 22x normalized earnings multiple on FY2024 EPS supports ~\$323
- ii. 12.5x normalized EV/EBITDA multiple supports ~\$319
- iii. DCF that assumes mid-to-high single-digit top-line growth and an FCF margin rebuild into the mid-teens supports ~\$320-\$325, while reverse-DCF indicates the market price implicitly discounts a structurally lower cash-generation profile (roughly ~10-11% FCF margin) and/or persistently weaker growth

The key model drivers are therefore not “hero growth”, but (1) margin normalization versus a depressed near-term product cycle, (2) cash-flow conversion returning toward historical levels, and (3) multiple mean reversion from a trough valuation once execution stabilizes.

Catalysts

- **July 2025 (in-market evidence)** If Align No Line sustains strong full-price sell-through after its May 13, 2025 launch, it is the cleanest near-term proof that “newness” is translating into demand without incremental discounting.
- **July-August 2025 (newness cadence)** If Glow Up as a new women’s training franchise successfully broadens via additional styles and holds customer engagement, investors should start underwriting an improving U.S. product cycle rather than a broken brand.
- **Late summer 2025 (quarterly print and guide update)** The next earnings release is the first high-stakes checkpoint for whether U.S. trends are stabilizing and whether the company’s tariff mitigation is containing gross-margin pressure.

- **Sep–Nov 2025 (Holiday setup)** If LULU enters holiday with a cleaner inventory posture and higher “hit rate”, the market typically re-prices specialty retail before the quarter is fully reported as the holiday margin mix is the earnings fulcrum.

Risks

- **Core demand deterioration in the U.S.** if store traffic weakness in the Americas persists (management/press noted pressured demand amid economic uncertainty) and comps stay negative, the bull case “brand is stale instead of broken” fails, and the market will keep treating the business as ex-growth.
- **Merchandising doesn’t re-accelerate** if new lines still fail to produce “hits” at scale and the company has to lean harder on promotions to move units, the valuation upside from “quality/newness recovery” is delayed and the multiple can compress further even if revenue is stable.
- **Policy / supply chain cost shock** if tariffs remain higher for longer (or increase) while lululemon cannot offset via price, sourcing, and vendor negotiations, earnings power resets down again especially given its disclosed exposure, which would likely keep the stock trapped at “low multiple” levels.