



LULULEMON ATHLETICA
INC.

**COMPANY ANALYSIS
& OUTLOOK**

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OVERVIEW OF LULULEMON ATHLETICA INC.



Founded by Chip Wilson in 1998, Lululemon Athletica started as a design studio by day and yoga studio by night in Vancouver, Canada. Today, Lululemon is a yoga-inspired, technical athletic apparel company. Primarily geared toward women, Lululemon's top products include yoga pants, tops, joggers, shorts, yoga mats, water bottles, and other athletic accessories. At their inception, this focus was driven by designing yoga wear for women, and after getting positive feedback from customers and athletes, the company continued to expand their product line for "most other sweaty pursuits for women and men." Today, this means that Lululemon designers are boasted as athletes and "sweat-minded" people who develop the best products for athletic activities. Since its IFO in 2007, Lululemon has rapidly grown into a multi-billion dollar brand. However, Lululemon's vision extends well beyond the gear they sell. As stated in their vision statement, Lululemon strives to create a hub for people to learn and discuss "the physical aspects of healthy living, mindfulness, and living a life of possibility." As such, they integrate fitness studios into their stores and offer online workouts to their customers. These efforts have created a loyal brand following for them to build on for the foreseeable future.

Lululemon currently operates with nearly 500 stores worldwide which serve as the main operating hub for business. They are considered a premium brand, meaning their products are sold exclusively through their stores and are accompanied by a lavish price tag. This has worked in Lululemon's favor, as they have been credited with the rise of the "athleisure" trend within the athletic wear market. As such, Lululemon continually introduces new products and fabrics which increase customer traffic, increase membership in their exclusive preferred member program, and further validates their premium pricing strategy for their brand.



IN THE CONTEXT OF COVID-19

The COVID-19 pandemic has taken the world by storm over the past months and has precipitated an unprecedented economic slowdown and lifestyle interruption. The athletic apparel industry is primarily driven by close social interaction, and Lululemon's core business will undoubtedly suffer financial losses. As we continue to evaluate and project Lululemon's performance, it is important that we contextualize these slowdowns to help us better understand the evolving nature of the athletic apparel industry, and its dependence on resolving the COVID-19 pandemic.

KEY INSIGHTS

- Lululemon Athletica is a leading athletic wear company dominating the athleisure space
- A loyal brand following among women and a booming yoga market have established a strong foundation for them to build from
- With strong financials across the board, Lululemon looks primed for future profitability and growth
- However, Lululemon is missing out on opportunities in the men's and international market
- Given a somewhat controversial history, ensuring quality throughout their supply chain may take time
- COVID-19 will inevitably delay timelines and future growth
- With a strong and focused market presence, Lululemon has established a firm foothold in a dynamic industry that is growing rapidly

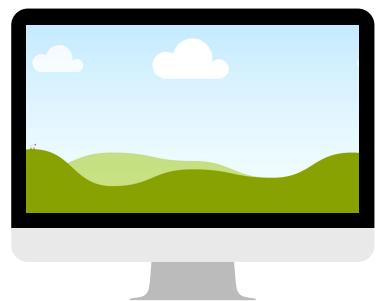
**LULULEMON IS IN
STRONG POSITION FOR
FUTURE SUCCESS AND
PROFITABILITY**



**190% 5-year
growth in Net
Sales**



**2.91 Current
Ratio**



**32% Growth in
Direct to
Consumer Sales
last year**

HISTORICAL PERFORMANCE

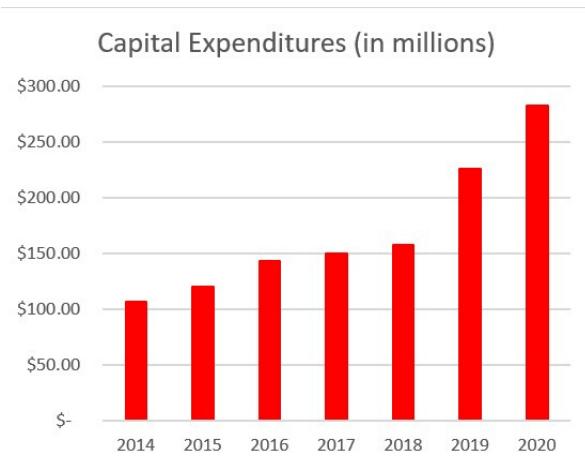
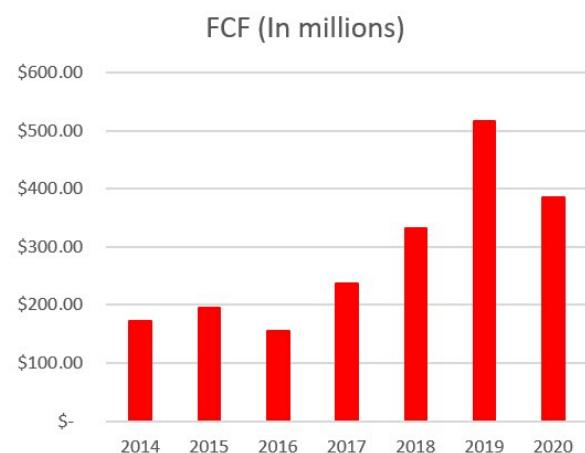
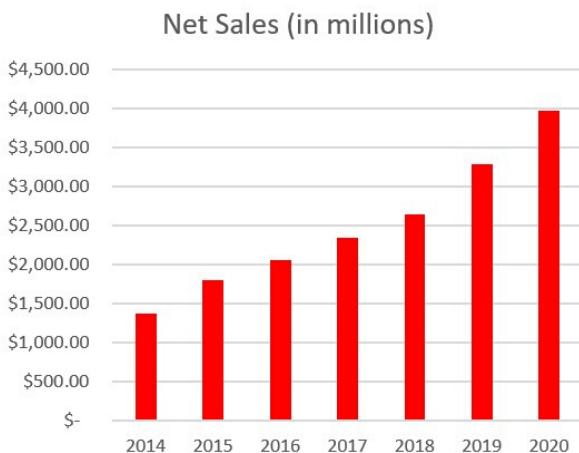
A quick look at Lululemon's financial data

Since its initial public offering in July of 2007, Lululemon Athletica has published and filed its financial statements with the SEC. These statements enable business executives to make informed corporate decisions and give investors insight into the firm's financial position. The maintenance of these statements are of utmost importance, especially for a company as big as Lululemon. In order to focus our analysis, we have aggregated key financial figures from Lululemon's annual reports.

LULULEMON ATHLETICA INC. (in millions)

	2014	2015	2016	2017	2018	2019	2020
Net Sales							
Company-operated Stores	\$ 1,229.00	\$ 1,348.23	\$ 1,516.32	\$ 1,704.36	\$ 1,837.07	\$ 2,126.36	\$ 2,501.07
Direct to Consumer	\$ 263.08	\$ 321.18	\$ 401.53	\$ 453.29	\$ 577.59	\$ 858.86	\$ 1,137.82
Other	\$ 99.11	\$ 127.81	\$ 142.68	\$ 186.75	\$ 234.53	\$ 303.10	\$ 340.41
Total Net Sales	\$ 1,591.19	\$ 1,797.21	\$ 2,060.52	\$ 2,344.39	\$ 2,649.18	\$ 3,288.32	\$ 3,979.30
Capital Expenditures							
Company-operated Stores	\$ 60.23	\$ 76.89	\$ 85.76	\$ 75.30	\$ 80.24	\$ 129.16	\$ 171.50
Direct to Consumer	\$ 5.95	\$ 9.95	\$ 8.28	\$ 11.46	\$ 19.93	\$ 6.42	\$ 15.81
Other	\$ 40.22	\$ 32.89	\$ 49.45	\$ 62.75	\$ 57.70	\$ 90.23	\$ 95.74
Total Capital Expenditures	\$ 106.41	\$ 119.73	\$ 143.49	\$ 149.51	\$ 157.86	\$ 225.81	\$ 283.05
Gross Profit	\$ 840.08	\$ 914.18	\$ 997.17	\$ 1,199.62	\$ 1,398.79	\$ 1,816.29	\$ 2,223.39
Operating Cash Flow	\$ 278.34	\$ 314.45	\$ 298.74	\$ 386.39	\$ 489.34	\$ 742.78	\$ 669.32
FCF	\$ 171.93	\$ 194.72	\$ 155.25	\$ 236.88	\$ 331.47	\$ 516.97	\$ 386.27
Net Income	\$ 279.55	\$ 239.03	\$ 266.05	\$ 303.38	\$ 258.66	\$ 483.80	\$ 645.60
Retained Earnings	\$ 923.82	\$ 1,020.62	\$ 1,019.52	\$ 1,294.21	\$ 1,455.00	\$ 1,346.89	\$ 1,820.64
Total Assets	\$ 1,252.39	\$ 1,296.21	\$ 1,314.08	\$ 1,657.54	\$ 1,998.48	\$ 2,084.71	\$ 3,281.35
Total Liabilities	\$ 155.71	\$ 206.65	\$ 286.60	\$ 297.57	\$ 401.52	\$ 638.74	\$ 1,329.14
Total Shareholders Equity	\$ 1,096.68	\$ 1,089.57	\$ 1,027.48	\$ 1,359.97	\$ 1,596.96	\$ 1,445.98	\$ 1,952.22

FINANCIAL PERFORMANCE

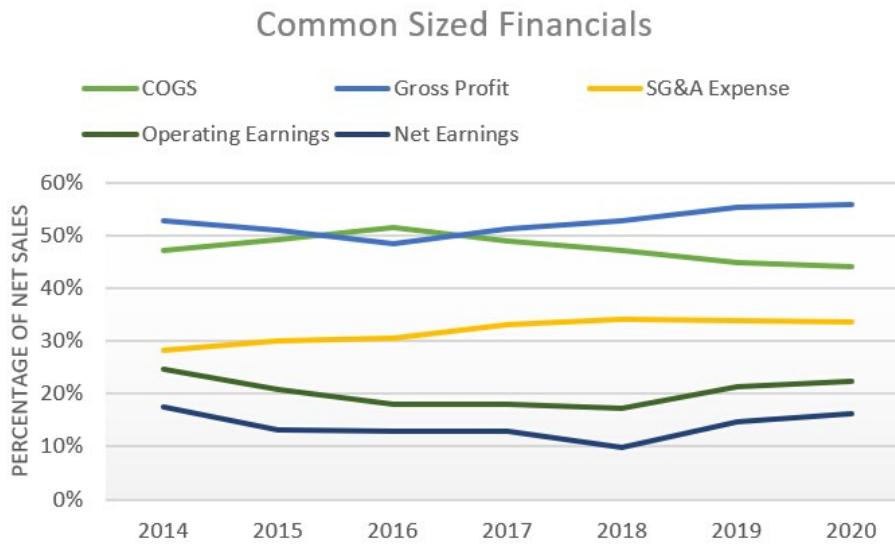


As reflected in the graphs above, Lululemon has seen considerable growth in their core operations over the past few years (190% growth since 2014). Much of this growth is driven by their "community based marketing" approach to developing and improving their brand awareness. Furthermore, the trending popularity of the health and wellness sector has seen the sports apparel industry grow rapidly, fueled by affluent customers and million-dollar endorsement deals with celebrities. Compounded with their prominence in yoga, Lululemon was primed to capitalize on the growing trend in the dynamic, fast-paced sports apparel industry. As a result, Lululemon has built a loyal following for their premium brand.

"THIS IS YOGA." - LULULEMON AD CAMPAIGN (2017)

With their mass popularity reaching new levels, Lululemon launched a new ad campaign in 2017 to reconnect the brand with their yoga grassroots. They also began to shift their attention abroad and developing their direct to consumer sales, as evidenced by their 79% increase in capital expenditures in the last 2 years. Lululemon has seen their international stores increase by 43% since 2017, as they look to expand beyond North America and establish themselves as a global sports brand. Lululemon has also seen their direct to consumer sales grow from \$577 million in 2017 to over \$1.1 billion in 2019 (a 97% increase). As COVID-19 continues to show the importance of remote business, Lululemon's investment in developing their online presence and community-based marketing initiatives has proven great returns and holds promise for the future.

KEY METRICS



Current Ratio

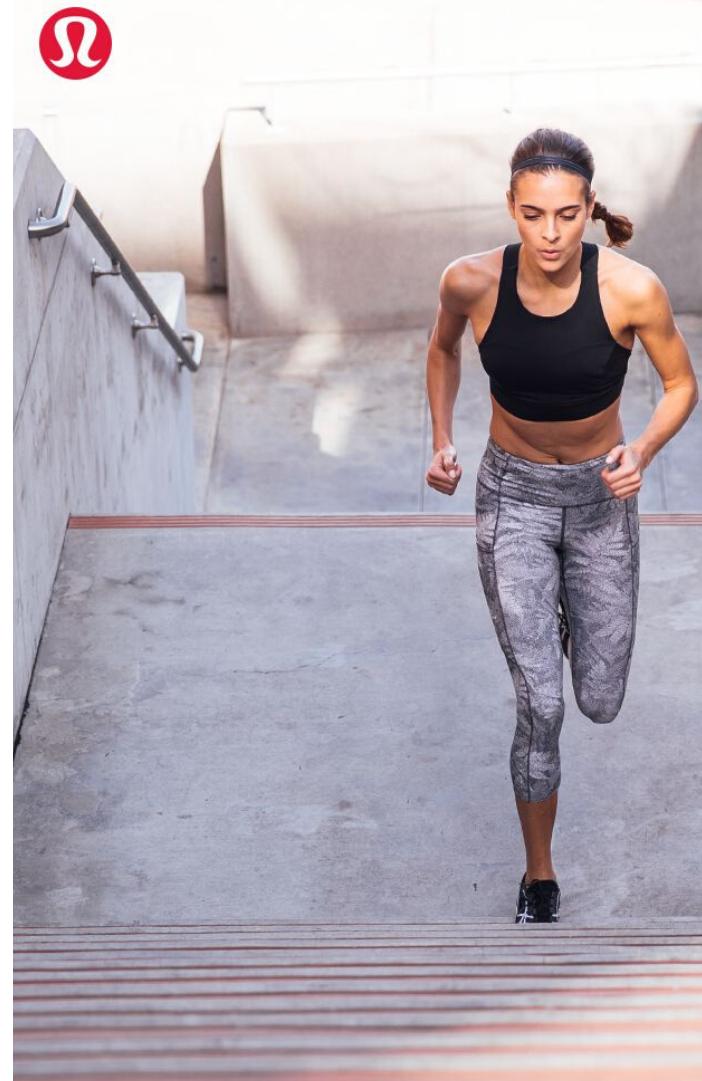
With a 5-year average of 3.91, Lululemon boasts a very strong liquidity position, and with a measure of 2.91 as of January 31, 2020, their liquidity measure is 28.2% higher than that of the Consumer Cyclical sector. Although Lululemon clearly excels in this key area, it is also important to consider that Lululemon may not be utilizing their current assets as efficiently as possible or are not maximizing their short-term financing potential. However, in the wake of COVID-19, this may prove to be more valuable than initially realized.

Return on Equity (ROE)

Finishing with 38% ROE at the end of the 2019 fiscal year, Lululemon recorded a company record for return on equity, indicating that the firm has been able to maximize their total assets to increase profit. With a net 117% 3-year increase in ROE and a sub 0.7 debt-to-equity ratio, Lululemon seems primed to continue maximizing their profit generation without incurring substantial debt.

Common Size Ratios

Common sizing contextualizes the rising expenses that have accompanied Lululemon's explosive growth in the past 5 years. This is done by writing those costs as a percentage of net sales during their respective period. As seen in the figure to the left, Lululemon has been able to maintain a fairly consistent percentage of administrative costs (SG&A) while increasing gross profit, operating earnings, and net earnings. Coupled with the steady decrease in Cost of Goods Sold (COGS), Lululemon holds great promise in managing their future growth and increasing profitability.





GROWTH OPPORTUNITIES

A SUMMARY OF THE AREAS LULULEMON CAN LOOK TO EXPAND.

Although Lululemon has found great success as a yoga-centered sports apparel company, the company still has many opportunities for growth as they look to further establish their brand. Currently, despite carrying and developing products for men, Lululemon does not hold the same appeal within the men's market as they do with women. Improving their marketability to men with high profile athletes and further expanding their product line may be a first step to capitalize on this opportunity.

Another area Lululemon can look to grow is by building their brand outside of yoga. Lululemon has recently invested in MIRROR, a company that produces an interactive fitness mirror. This aligns directly with their community-based marketing approach and gives Lululemon the perfect opportunity to build their brand awareness beyond yoga.

Lastly, Lululemon commercial presence online is a huge opportunity for revenue growth. The COVID-19 pandemic has proven that online accessibility is invaluable in maintaining and driving business. Furthermore, competitor Nike has recently acquired predictive analytics company Celect to bolster their direct to consumer sales. By further investing in direct to consumer sales, Lululemon can improve their sales and stay competitive in the industry.

CURRENT WEAKNESSES AND RISK FACTORS

Lululemon continues to build on their success year after year, and like any other business, they have challenges which must be addressed to ensure future growth. In terms of performance abroad, Lululemon cannot boast the same brand following and foothold as they have in North America. In comparison to competitors like Nike and Adidas, this is a severe deficiency for Lululemon. Further market research and investment is needed to ensure that they minimize the risk of being rejected by international consumers while increasing revenue and brand appeal in the international market. However, this may prove difficult given founder Chip Wilson's history.

Lululemon is also no stranger to lapses in product quality. The most notable instance dates back to 2013 when Lululemon had to recall 17% of its most popular yoga pants because of poor design making the material too sheer. Most recently in 2015, Lululemon had to recall over 300,000 women's tops because of drawstrings injuries. The sports apparel industry demands retailers to be innovative while delivering lasting quality. For Lululemon, this is a major concern to be addressed.



OUTSIDE FACTORS

As they operate in the dynamic and fast-paced sports apparel industry, Lululemon must be cognizant of external variables to stay proactive and maintain success. Like any company that outsources operations, Lululemon must account for the lack of control over their supply and manufacturing partners. In October 2019, reports emerged concerning the exploitation of Lululemon factory workers in Bangladesh. Furthermore, these factories are often directly responsible for manufacturing defects and other mishaps. In an industry that is predicated on positive brand image, Lululemon must carefully navigate these areas as they continue expanding operations.

Another outside factor that heavily influences Lululemon's success is the sports apparel industry at large. By nature, the athletic wear industry is heavily based on dynamic cultural trends. Further complicated by competitors' deep resources and low barriers to entry, Lululemon must always be wary of potential substitute products and changing consumer preferences. To stay ahead, constant innovation and market analysis is a necessity to stay ahead.

POSSIBLE FINANCIAL DISTRESS

OUTLINING POTENTIAL SCENARIOS WHERE LULULEMON COULD ENTER FINANCIAL DISTRESS.

With a very strong financial position and a debt-to-equity ratio of 0.38 as of January, 2020, Lululemon is at minimal risk for bankruptcy. In fact, they have little-to-no long-term debt on their financial records. However with the rise of COVID-19, Lululemon may be forced to take on more debt than normal. Given Lululemon's strong liquidity position, there is no major concern that Lululemon will face financial distress. However, it is something to keep in mind as the economy slowly recovers.

Additionally, Lululemon may fall into financial hardship if they do not stay proactive. Maintaining positive brand image and meeting dynamic consumer preferences are key to success in the sports apparel industry. Failure to accurately predict consumer demand or resolve public relation issues would substantially decrease revenue.

