Lululemon Athletica Inc. - Q2 2025 Earnings Call

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Event Participants

Executives 3

Howard Tubin, Calvin McDonald, Meghan Frank

Analysts 11

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Operator Operator

Thank you for standing by. This is the conference operator. Welcome to the lululemon athletica inc. Second Quarter 2024 Results Conference Call. [Operator Instructions] The conference is being recorded.

[Operator Instructions]

I would now like to turn the conference over to Howard Tubin, Vice President, Investor Relations for lululemon athletica. Please go ahead.

Howard Tubin Executive

Thank you, and good afternoon. Welcome to lululemon's Second Quarter Earnings Conference Call. Joining me today to talk about our results are Calvin McDonald, CEO; and Meghan Frank, CFO.

Before we get started, I'd like to take this opportunity to remind you that our remarks today will include forward-looking statements, reflecting management's current forecast of certain aspects of lululemon's future. These statements are based on current information, which we have assessed, but by which its nature is dynamic and subject to rapid and even abrupt changes.

Actual results may differ materially from those contained in or implied by these forward-looking statements due to risks and uncertainties associated with our business, including those we have disclosed in our most recent filings with the SEC, including our annual report on Form 10-K and our quarterly reports on Form 10-Q. Any forward-looking statements that we make on this call are based on assumptions as of today, and we expressly disclaim any obligation or undertaking to update or revise any of these statements as a result of new information or future events.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in our quarterly report on Form 10-Q and in today's earnings press release. In addition, the comparable sales metrics given on today's call are on a constant dollar basis. The press release and accompanying quarterly report on Form 10-Q are available under the Investors section of our website at www.lululemon.com.

Before we begin the call, I'd like to remind our investors to visit our investor site, where you'll find a summary of our key financial and operating statistics for the second quarter as well as our quarterly infographic. Today's call is scheduled for one hour, so please limit yourself to one question at a time to give others the opportunity to have their questions addressed.

And now I'd like to turn the call over to Calvin.

Calvin McDonald Executive

Thank you, Howard. I'm glad you could all join us on the call today to discuss our business in quarter 2 and our revised outlook for the second half of the year. On today's call, I will speak to the strength in our international business. I also will spend time discussing our business in the U.S., including some missed opportunities in women's, our assessment of the root causes, the plans underway to address these in the near term, and the many reasons for our continued optimism regarding our growth potential in the U.S. Next, I will speak to our recent brand campaigns and activations.

Meghan will review our financials, and we will close by taking your questions. So let's get started.

In the second quarter, total revenue increased 7% or 8% in constant currency. By merchandise category, women's increased 6%, men's grew 11%, and accessories increased 7%. Earnings per share increased 18%, driven by strong gross margin, which contributed to a 110 basis point increase in operating margin. In addition, demonstrating our continued confidence in the business, we repurchased $584 million of stock in quarter 2, which brings us to $1.2 billion year-to-date.

Let's now discuss our regional performance, beginning with our international business. In quarter 2, we continued to see strength in our international markets as the lululemon brand resonates with guests around the world. Growing our business outside of North America remains one of our largest opportunities, and we remain on track to quadruple international revenue from 2021 levels by the end of 2026. Momentum remained strong with total international revenue increasing 29% or 31% in constant currency.

By region, our results were as follows: China Mainland increased 34% or 37% in constant currency; Rest of World grew 24% or 27% in constant currency. In China Mainland, our business remained robust in the second quarter as we continue to bring new guests into the brand through our stores and multiple e-commerce platforms. In addition to our innovative product offering and omni operating model, we are acquiring guests through our unique made-to-field positioning, which comes to life through our commitment to movement and community, all of which supports the Healthy China 2030 initiative.

In quarter 2, we built upon the success of our Summer Sweat Games series with our largest activation yet. This year, we expanded the games to more than 70 stores in nearly 40 cities with approximately 10,000 guests signing up to participate. The national finals were held this past weekend in Beijing.

Looking to quarter 3, we will build upon last year's success and bring attention to the World Mental Health Day in October with unique activations across several cities in China Mainland. In addition, we will expand our activations to other markets this fall, including South Korea, Germany, the U.K., and the U.S. This is a great example of how our teams from around the world share ideas and activate global campaigns.

Shifting to our Rest of World segment, where we continue to perform well in both EMEA and APAC. We expanded further in Southeast Asia with the opening of our second store in Thailand and our fourth in Malaysia. And in France, our Paris stores and the lululemon brand overall benefited from the energy and excitement of the Olympics, which I'll speak to in more detail shortly.

Turning to our business in the Americas. Revenue increased 1% or 2% in constant currency. We continued to perform well in Canada with revenue growth of 8% or 11% in constant currency, while revenue in the U.S. was flat. This is a key area of focus for us, and I will now dive deeper into our U.S.

business.

Our brand remains strong in the U.S. market. Traffic was up across both channels, and Google search queries remain positive. Guests are looking for our product, coming into our stores and visiting our e-commerce sites. While we continue to see growth in our men's business, we have experienced a slowdown in women's.

We have improved our in-stocks in smaller sizes through Q2 and are entering Q3 better positioned. As we've analyzed our women's business in more detail, we have determined the most significant factor was a product plan that introduced less newness across core and seasonal styles.

By newness, I'm referring to the seasonal updates we bring into the assortment, typically expressed as color, print, patterns and silhouettes. I'm not referring to our pipeline of innovation, which remains full, and the details of which I will share with you shortly.

As we have learned more, it's become clear to us that this reduced newness, which is below our historical levels and stems from earlier product decisions, has impacted conversion rates given the fewer new options available to our female guests. While this reduction was seen across our women's assortment, it had a more pronounced impact in bottoms and in our online channel. The newness that we had performed well. We simply did not have enough to inspire her to purchase.

As most of you know, we announced changes within our product organization in May of this year. We implemented a new reporting structure in which our Global Creative Director, Jonathan Cheung, reports to me. And our Chief Merchant, Liz Binder, reports to Nikki Neuburger in her expanded role as Chief Brand and Product Activation Officer. Since this shift, Nikki and I have both spent considerable time with the teams, and we are pleased that this new structure puts design and merchandising on equal footing and reestablishes the healthy balance that must exist within a product organization. The teams are working well together and already in action.

Our near-term action plan leverages our capabilities in chase and fast-track design to bring more seasonal newness into our women's assortment as quickly as possible. The teams have been chasing into some of our strong performers, including Align leggings in colors and prints, our gold-zipped Scuba, and Softstreme in new silhouettes and seasonal fabrications. Our fast-track design capability allows us to bring newness into our assortment quicker while also testing and learning from new silhouettes. For 2025, we are fast-tracking several new styles within performance shorts, tops and track suits. We are optimistic that we will begin to see the benefits of these strategies over the upcoming quarters and return to our historical levels of newness no later than spring 2025.

Moving forward, I feel confident that the new structure and relationship between design and merchandising will lead to more ongoing conversations and consistent decision-making. And I'm excited about the newness and innovation that will be flowing into our upcoming product assortments.

While we are disappointed with the recent performance in women's, we see many strengths in our U.S. business. Our store portfolio remains highly productive with significant opportunities ahead. Our industry-leading sales per foot, the success of our new stores and the positive results from our optimization program all underpin our comfort with our Power of Three x2 target of approximately 5% square footage growth annually in the Americas through 2026.

We are only beginning to leverage the power of our membership program, which allows us to engage more deeply with our guests, drive loyalty and increase long-term value. We now have more than 20 million Essential members, and I'll share more in a moment about how we're expanding our offerings. And while we have experienced positive increases across our brand funnel metrics in the market, there is still substantial opportunity to drive unaided brand awareness, introducing lululemon to new guest segments. As you can see, there are many reasons we feel optimistic about our U.S. business and its growth potential.

Let's shift now to our recent and upcoming product innovations. Beginning with men's, the business remains robust, and we continue to gain market share. In quarter 2, we saw strength across the assortment, including Zeroed In, which was launched this past spring and has quickly become a guest favorite and a top 3 performance franchise. Our Pace Breaker, with the positive response to our shorts and our recently launched pant and jacket, is performing very well. Our new ShowZero polo, which virtually eliminates the appearance of sweat, also launched this spring and has resonated well with guests and will benefit from increased inventory commitments this fall and into next year.

And our lounge offering, including Soft Jersey, Steady State and Smooth Spacer, continue to perform well, and we will fuel the momentum with additional styles and deeper inventory buys.

In women's, I'm excited with our product road map for fall, which includes an expansion of our train offering with the introduction of a new performance fabric innovation in a tight and expansion of our Wunder Under franchise offering, our iconic legging in different fabrics, seasonal updates within our line franchise, and an updated version of our Chargefeel footwear style.

And our accessories business also remains positive on top of last year's strong performance. We have diversified into a compelling assortment of bags, including our New Crew and Double-Zip backpacks, and additional styles within the Everywhere franchise, including a backpack and cross-body bag, which is fueling continued momentum in the category.

One of our goals is to solve for the unmet needs of our guests with new and compelling technical innovations, and this will continue to separate us from other brands. With this in mind, I want to touch on Breeze Through, a new product offering this quarter for guests who participate in hot yoga and other heat-intensive workouts. It was a small buy. We viewed this as a test-and-learn. And while guests were excited by the fabric, the design didn't meet their expectations.

Listening to our guests is central to who we are and how we grow our brand, and we took the right step of pausing on sales and look forward to reintroducing the fabric in the future. This decision had a negligible impact on our performance in this quarter.

I'd now like to spend a few minutes speaking about our recent brand campaigns and activations. Increasing brand awareness and consideration remains one of our single biggest opportunities in almost every market in which we operate. So let me highlight a few examples now.

As I mentioned earlier, we continue to offer many benefits to members of our free Essentials program. In early June, we hosted a members-only weekend at Peloton Studios New York. This exclusive sold-out event featured live classes, a 5K run, sessions with our Peloton ambassadors and a wrap-up party.

We also launched partner perks for members. We partnered with 12 brands, including Oura and Barry's, that offer our members exclusive perks and benefits. And the early feedback from guests has been very positive. These strategies illustrate just a few of the ways we engage with our guests beyond a simple purchase transaction by offering exclusive experiences and benefits and helping them feel their best, all of which drives and deepens loyalty.

Our partnership with the Canadian Olympic and Paralympic teams came to life with the games in Paris and continues for the next several days during the Paralympics. As a Canadian, I'm incredibly proud of our athletes and how our brands showed up during the games. Through our partnership, we outfit athletes for their off-field activities, and the lululemon brand clearly benefit from the podium time the team achieved and the exposure during the opening and closing ceremonies.

We further leveraged our partnership with a pop-up shop in Canada House and by offering our Team Canada collection in our nearby stores in Paris, across Canada in both stores and e-commerce, and in the U.S. through our e-commerce channel. This partnership is a great example of how we are elevating the lululemon brand on the world stage by associating with elite athletes, gaining significant earned media and growing brand awareness globally.

Another area of focus for us is back-to-school. Bringing younger guests and particularly men into the brand remains an opportunity as we increase awareness regarding the versatility of our merchandise and the breadth of our offering. Football players DK Metcalf and Odell Beckham Jr. star in this year's campaign in North America, and it features our loungewear offering for both men and women and our cityverse sneaker.

Before I hand it over to Meghan to discuss our financials, let me share our high-level thinking on our guidance for the remainder of the year. For quarter 3 and the full year, excluding the 53rd week, we expect revenue growth of 6% to 7%, relatively in line with quarter 2 performance. Our full year revenue guidance acknowledges the uncertainty around the shorter holiday shopping season and the U.S. election in quarter 4. Our teams remain focused on the actions I detailed for you.

We plan for our penetration of newness to improve in the second half of 2024, and we expect to be back to our historical levels of newness as we start 2025.

While you can see our focus on the U.S., other aspects of our business remain strong, and we are committed to delivering on our Power of Three x2 target of doubling revenue from $6.25 billion in '21 to $12.5 billion in '26. Using our revised guidance for this year, our 3-year revenue growth CAGR from '21 through '24 is 19%, ahead of the 15% CAGR we laid out in our plan.

I'm excited with our new leadership structure, driving product direction for '25 and our future pipeline of innovation. I feel optimistic we can accelerate growth in our U.S. women's business while continuing to deliver strong performance in men's and international.

Meghan, over to you.

Meghan Frank Executive

Thanks, Calvin. While revenue in Q2 remained strong in all of our international regions in Canada, the U.S. business was softer for the reasons Calvin just detailed. Earnings per share exceeded our expectations, driven predominantly by strong gross margin. Markdowns were flat versus the prior year and better than expected.

And when looking at expenses, we continue to manage the business prudently while protecting key investments for the long term.

Let me now share the details of Q2 performance. For Q2, total net revenue rose 7% to $2.4 billion and constant dollar comparable sales increased 3%. Within our regions, results were as follows. Americas revenue increased 1% or 2% in constant currency. Comparable sales declined 2%.

China Mainland revenue increased 34% or 37% in constant currency, with comparable sales increasing 23%. And in our Rest of World segment, revenue grew by 24% or 27% in constant currency, with comparable sales increasing by 20%.

In our store channel, total sales increased 11%, and we ended the quarter with 721 stores globally. Square footage increased 14% versus last year, driven by the addition of 49 net new lululemon stores since Q2 of 2023. During the quarter, we opened 10 net new stores and completed 6 optimizations.

In our digital channel, revenues increased 2% and contributed $900 million of top line or 38% of total revenue. And by category, men's revenue increased 11% versus last year and women's increased 6%, while accessories grew 7%.

Gross profit for the second quarter was $1.4 billion or 59.6% of net revenue compared to 58.8% of net revenue in Q2 2023. The gross profit rate in Q2 increased 80 basis points, significantly better than our guidance and was driven primarily by the following: a 130 basis point increase in product margin, driven primarily by favorable IMU from lower product costs; markdowns were flat year-over-year and better than expected; 30 basis points of net de-leverage on fixed costs; and 20 basis points of unfavorable impact from foreign exchange. I would also note that our pause on the sale of Breeze Through had a negligible impact on gross margin in the quarter.

Relative to our guidance, which was a decline in gross margin of 100 to 110 basis points, the upside was driven predominantly by prudent management of fixed expenses within gross margin, favorable mix and lower-than-expected markdowns.

Moving to SG&A. Our approach continues to be grounded and prudently managing our expenses while also continuing to strategically invest in our long-term growth opportunities. SG&A expenses were approximately $872 million or 36.8% of net revenue compared to 37% of net revenue for the same period last year. Foreign exchange contributed 10 basis points of de-leverage. Overall, the 20 basis points of leverage in the quarter was below our guidance of 40 to 60 basis points and resulted from the lower-than-expected top line.

Operating income for the quarter was approximately $540 million or 22.8% of net revenue compared to 21.7% of net revenue in Q2 2023. Tax expense for the quarter was $165.3 million or 29.6% of pretax earnings compared to an effective tax rate of 29.8% a year ago. Net income for the quarter was $393 million or $3.15 per diluted share compared to $2.68 for the second quarter of 2023.

Capital expenditures were approximately $145 million for the quarter compared to approximately $146 million in the second quarter last year. Q2 spend relates primarily to investments that support business growth, including our multiyear distribution center project, store capital for new locations, relocations and renovations, and technology investments.

Turning to our balance sheet highlights. We ended the quarter with $1.6 billion in cash and cash equivalents. Inventory declined 14%, in line with our expectations, with units declining in the mid-single-digit range. We repurchased nearly 1.9 million in shares in Q2 at an average price of $310. Year-to-date, we've repurchased approximately $1.2 billion of stock.

Share repurchases remain our preferred method to return cash to shareholders. And currently, we have approximately $1 billion remaining on our repurchase program.

Let me now share our detailed guidance outlook for the remainder of the year. At the highest level, we are assuming that revenue trends in the second half of the year remain fairly consistent with Q2, when excluding the 53rd week and the impact of a shorter holiday shopping season in Q4. I would also note that our pause on the sale of Breeze Through had a negligible impact on our revenue and gross margin guidance for the year.

We feel optimistic with the work our teams are doing to improve the newness we offer within our U.S. women's assortment. But we continue to acknowledge the uncertainties in the macro environment and plan the business prudently.

Starting with the full year 2024. We now expect revenue to be in the range $10.375 billion to $10.475 billion. This range represents growth of 8% to 9% relative to 2023. Excluding the 53rd week that we have in the fourth quarter of 2024, we expect revenue to grow 6% to 7%. Also relating to Q4, we are assuming a negative impact of approximately 3 percentage points resulting from a shorter holiday shopping season relative to last year.

We continue to expect to open 35 to 40 net new company-operated stores in 2024 and complete approximately 40 co-located optimizations. This will contribute to overall square footage growth in the low double digits. Our new store openings in 2024 will include 5 to 10 stores in the Americas with the rest in our international markets, primarily in China Mainland.

For the full year, we now expect gross margin to be approximately 20 basis points below our adjusted gross margin in 2023, due prominently to de-leverage on fixed costs associated with lower forecasted sales and an increase in freight costs relative to our prior estimates. We continue to expect markdowns to be relatively flat with last year.

Turning now to SG&A for the full year. We now expect it to be approximately flat versus 2023. We are prudently managing our expenses while continuing to invest strategically into our Power of Three x2 roadmap, including investments in marketing and brand building aimed at increasing our awareness and acquiring new guests, investments to support our international growth and market expansion, and continued investment in technology infrastructure and data analytics capabilities.

When looking at operating margin for the full year 2024, we now expect a decrease of 10 to 20 basis points versus adjusted operating margin in 2023, which expanded 110 basis points versus 2022. For the full year 2024, we expect our effective tax rate to be approximately 30%. For the fiscal year 2024, we now expect diluted earnings per share in the range of $13.95 to $14.15 versus adjusted EPS of $12.77 in 2023. Our EPS guidance excludes the impact of any future share repurchases but does include the impact of our repurchases year-to-date.

From looking at inventory, we expect dollar inventory to increase in the mid-teens in Q3 as we begin to anniversary last year's declines. We continue to expect capital expenditures to be approximately $670 million to $690 million for 2024. This spend relates to investments to support business growth, including a continuation of our multiyear distribution center project, store capital for new locations, relocations and renovations and technology investments. Shifting now to Q3. We expect revenue in the range of $2.34 billion to $2.365 billion, representing growth of 6% to 7%.

We expect to open 14 net new company-operated stores in Q3. We expect gross margin in Q3 to decrease 50 to 60 basis points relative to Q3 2023. The decrease will be driven predominantly by de-leverage on fixed costs and our ongoing investment in our multiyear distribution center project. We expect product margin to be relatively flat with last year, inclusive of approximately 60 basis points of higher freight costs. We expect markdowns to be relatively flat with Q3 2023.

In Q3, we expect our SG&A rate to leverage by 40 to 50 basis points relative to Q3 2023. This will be driven predominantly by leverage on top line and ongoing prudent expense management. When looking at operating margin for Q3, we expect de-leverage of approximately 10 to 20 basis points. Turning to EPS. We expect earnings per share in the third quarter to be in the range of $2.68 to $2.73 versus adjusted EPS of $2.53 a year ago.

We expect our effective tax rate in Q3 to be approximately 30%. And with that, I will turn it back over to Calvin.

Calvin McDonald Executive

Thanks, Meghan. lululemon remains a strong and healthy brand, and we have shown our ability to responsibly manage the business while seizing the many growth opportunities in front of us. We have a strong track record, and we will continue to work to deliver for our shareholders, for our employees and for our guests. Challenges are a natural part of accelerated growth, and I feel confident about emerging stronger from this period as we innovate for and inspire our guests. In closing, I want to thank our leaders and our people for their passion and dedication to our brand and our business, both during this past quarter and with all that's ahead.

Thank you for joining us today. We will now take your questions. Operator?

Operator Operator

[Operator Instructions] The first question comes from Matthew Boss with JPMorgan.

Matthew Boss Analyst

Great. I appreciate all the color, Calvin. Maybe larger picture, what do you see as the revenue growth algorithm in North America once the dust settles? And I think you talked about color, sizing, some near-term execution, and I think you cited all of this as more or less optimal on the women's side by the spring. So maybe what do you see as the right revenue growth algorithm in North America once the dust has settled?

And then what guardrails have you put into place to drive greater consistency over time in the region?

Meghan Frank Executive

Matt, so in terms of how we view North America growth over time, we're still committed to our Power of Three x2 plan, which had North America low double-digit growth. What I would share where -- it's too soon to put a fine point on 2025. But what I would share is that we'll obviously be up against an easier comparison this year. And we still are excited about the long-term growth opportunity we have in that market, particularly in terms of U.S. in terms of brand awareness.

So we have continue to protect investments that are aimed at building into that long-term opportunity.

Calvin McDonald Executive

Yes, Matt, in terms of the second part, the new product organization definitely sets a new balance between, as I mentioned, design and merchandising, which is going to lead to more creative conversations and outcomes. And I've been in these meetings with the teams and already, we're seeing the benefit of the new working relationships. And definitely, clarity around the ratio of newness tied to our product plans are a key part of that conversation, and excited about the road map ahead to deliver on those and the opportunities we see in product and delivering on our guest needs.

Matthew Boss Analyst

Great. And then Meghan, maybe just a follow-up. If you could just speak to your comfort with inventory on hand today exiting the quarter. And maybe just touch on markdowns relative to plan in the second quarter or any change for the back half.

Meghan Frank Executive

Yes. So in terms of inventory, we came in with inventory down 14%. It was in line with expectations. And just a reminder, we're lapping some increases the last couple of years in terms of inventory, with churn still slightly slower than history. As we move into the second half of the year, we do expect inventory to be in the mid-teens at the end of Q3 and a similar growth rate, slightly higher as we end the year.

I would say in terms of comfort with inventory, pleased with where we came in, in line with expectations. The opportunity would be in composition and that mixture that Calvin described in terms of newness, which the team is adjusting now. And then in terms of markdowns, we did come in favorable relative to our expectations in Q2. So we did expect to see markdowns similar -- slightly below what we saw in Q1. We were up 50 basis points year-over-year in Q1.

We expected slightly lower in Q2. We did come in flat year-over-year. And that was really driven by strong sell-throughs on seasonal, which is where we really take markdowns just to clear seasonal goods. When we look at the second half of the year, Q3 markdowns, I'd expect relatively in line with last year and then Q4 slightly under last year, and we're still expecting flat markdowns for the full year.

Operator Operator

The next question comes from Alex Straton with Morgan Stanley.

Alexandra Straton Analyst

Just on the revised full year guidance and where it's coming out of, it feels like that's mostly concentrated in the fourth quarter. Is that right? Or did your view on the third quarter change as well? And if you could just walk us through the puts and takes for looks like almost a $0.50 reduction, that would be very helpful.

Meghan Frank Executive

Thanks, Alex. I would say the -- our view on the relationship between Q3 and Q4 have not changed. I would say, we are guiding the second half in line essentially with the trend we're seeing in Q2. Q4 is adjusted for the shorter holiday selling period and days between Thanksgiving and Christmas, which we estimate at about a 3-point impact as well as the macroeconomic environment and the election in Q4. So the relationship with the 2 quarters has not changed, but we have lowered our outlook on the aggregate water line for the second half.

Alexandra Straton Analyst

Got it. Maybe just one for Calvin. How much do you attribute sort of the revenue shortcoming in the quarter versus your expectation to like your own mistakes versus the macro? There's been a lot of discussion of kind of a weakening consumer, so just curious your thoughts on that.

Calvin McDonald Executive

I definitely see this as an opportunity based on decisions that we made that are within our control and being addressed. As I alluded to, it's across the globe. It really is focused to our U.S. women's business and the gap in newness that we brought across color, print and silhouettes. The newness we had sold very well.

Guest was coming in, traffic was positive across all channels, and the opportunity was in conversion. So I see that as an opportunity that they were there with intent to spend, and there was a noticeable reduction in those historical levels of newness. So those were the product decisions that we made earlier in the new teams in action. And as I alluded to the chase, but definitely, I think majority is within our control.

Operator Operator

The next question comes from Paul Lejuez with Citi.

Paul Lejuez Analyst

Can you talk about how the quarter progressed in -- as you move through by region? What the exit rates were? Any comments on quarter to date? And are there any pockets of higher inventory? Just curious how you handle the whole Breeze Through, where did that product go, any financial impact in the back half?

Meghan Frank Executive

Thanks, Paul. So in terms of Q2, our May trend relatively in line with what we experienced in Q1 and then a softer business performance in June and July, with July being slightly above June. We haven't given any color by region within that. But I would say in terms of quarter-to-date, we don't break down quarter-to-date performance by month. But -- and given what we experienced in Q2, the macroeconomic uncertainty in the second half of the year, we feel our guide at 6% to 7% is appropriate at this time.

And then in terms of inventory, again, comfortable with the overall level. Breeze Through, really negligible impact, a small test-and-learn, and not a material financial impact.

Operator Operator

The next question comes from Michael Binetti with Evercore.

Michael Binetti Analyst

I guess, maybe one for each. Meghan, can you just walk us through how the mechanics of the P&L work? I know you do a lot of scenario planning so that you could keep the EBIT margins for the total company positive, while we have this slower near-term run rate in the U.S. And then Calvin, just some of the comments you made earlier, example, I'm wondering if you could give us an example of how design and merchandising teams are previously not on that equal footing that you think you're on now and how that impacted the strategy in the consumer's eyes. Maybe just some of what prompted you to make some of the changes in the org chart that you did.

Meghan Frank Executive

So in terms of P&L management, we're obviously closely monitoring business. We do run multiple scenarios. Our intention is to stay agile based on the way business is unfolding. As we're looking at this year and our revenue outlook, we are continuing to invest behind international performance, key to our long-term strategy in an area of our business that's currently performing well. And then as I mentioned, we also do see long-term opportunity.

Our outlook has not changed on long-term opportunity in terms of brand awareness, globally but also within North America. So we've continued to put -- protect investments in that long-term brand building.

At the same time, we're looking for efficiency opportunities across the P&L and discretionary spend buckets as well as slowing down where that makes sense in terms of our capabilities road mapping go forward, all in line with our Power of Three x2 plan. So feel like we're well positioned as we navigate this year with the right balance of navigating the short term while protecting investments in our long term.

Calvin McDonald Executive

And Michael, in terms of your question, as you know, the previous structure, both design and merchandising rolled up to a single leader. And that product organization had served us well as a high-growth company. We have a 24% CAGR over the last 5 years, from '18 to '23, to $10 billion in revenue. But as we look forward, we saw it as an opportunity to reset and take a different approach in what the new org does by having a stronger balance between design and merch, which will lead to more creative conversations and outcomes and in those conversations and the meetings I will have.

So where am I seeing the difference in balance? You will see it executed in creation of some product, challenging of the ratio between newness and core in the assortment and just the relationship between those 2 teams in terms of what's being created and how we're mixing it into the assortment and then bringing to market.

So also with this change, we're seeing a much tighter relationship in the brand/marketing organization with merchandising, which is really the whole sell side of the business being under one leader where before, it was a hand-off. Those conversations are happening much sooner and aligned in terms of where we see the opportunity, aligning it to what we're buying deep into, and then creating plans for that demand creation earlier in the process. So I think there's really 3 benefits that are coming out of it on the brand to merchandising sell side as well as design and seeing it in terms of just the creation of product and that ratio mix across the assortment that the guest has been looking for and excited to bring.

Operator Operator

The next question comes from Janine Stichter with BTIG.

Janine Hoffman Stichter Analyst

A couple of questions on the product innovation for the back half. I guess, first on Breeze Through, it seems to us that the consumer really liked the fabric. They just weren't in love with the fit. What's the time line for getting that back with some new fits and silhouettes? And then any parameters you can help provide around some of these new launches coming in the back half?

It seems like the launch in training, it seems like that will be pretty big. Just how to think about that in terms of the size and potential impact?

Calvin McDonald Executive

Thanks, Janine. In terms of Breeze Through and the fabric, you're right. We're really excited about the guest response, not just in North America but actually internationally, in particular, in our APAC market, where this fabric was really designed, as I shared, for hot yoga. But we see it as versatility in high humid environments for a variety of activities. So it is a very unique, exciting new fabric for us.

And the team's in work to bring it back in either a style that the guest already knows with the new fabric versus the sharper design lines that it was introduced in. So we got the read we wanted in that the fabric, which is the real innovation behind it, landed and resonated very well. And they're working on being able to bring that back to market. You won't see it in '24 and not calling it for '25, but know that that's a priority to the team, but they're equally looking on all the other innovation and creating as well. So you alluded to a lot is happening within our train category.

We have the Wunder Under, which is a known silhouette style that we're bringing with some new fabrics that we're excited about. We do have a new performance trained legging coming at the end of the year, which equally is innovative, and we'll get a read on it. But as I shared, we introduce these, we adjust. It is a new innovation in fabric. We're very excited about it, and we'll get the guests' read, but we'll introduce that.

And then we have some seasonal updates, which is a big part of the newness, which has been missing in the first half. It's newness on our core styles that the guests resonate so much with. And we're seeing a lot of seasonal updates to our #1 franchise being Align. So there's a lot of newness coming in as well as innovation on top of some known silhouettes and franchises that we're excited about.

Operator Operator

The next question comes from Lorraine Hutchinson with Bank of America.

Lorraine Maikis Analyst

I know you said that it won't be until spring 2025 to get back to the historic levels of newness. But can you ramp that at all in the second half by accelerating orders? And does the guidance include any benefit from accelerating newness in the women's assortment in the coming quarters?

Calvin McDonald Executive

In terms of the action plan that we put in place and the teams have been working on that, as I alluded to, I think coming out of Q1, we saw some opportunity. The learning in Q2 was the missed opportunity in silhouettes, which was new news for us, as we continue to analyze the business. And the teams have, through that action plan of chase, have been pulling forward and going into deeper on inventory that had been purchased, that we're seeing the guests respond well to as well as fast-tracking some designs. The chasing into will sequentially get stronger, and we will see that improve through Q3 into Q4. As I alluded to, I think spring '25, we know we'll be at our historical levels of newness as a mix of assortment.

And it will sequentially get better through the back half of this year, and I'll let Meghan speak in terms of the tie to guidance.

Meghan Frank Executive

So in terms of guidance, we did guide the second half in line with Q2 when adjusting for that shorter holiday selling period. So I would say we don't have any meaningful impact from newness in the second half of the year.

Operator Operator

The next question comes from Dana Telsey with Telsey Group.

Dana Telsey Analyst

As you think about your inventory positioning for the back half of the year, how do you break apart the third quarter and the fourth quarter? And with the Breeze Through, which was a small launch that you talked about, Calvin, is there any markdowns or any resets on the inventory numbers or gross margin impact of taking that down and eliminating it?

Meghan Frank Executive

Thanks, Dana. So in terms of inventory in Q3, we're expecting a mid-teens increase in Q4 at or slightly above that level and feel well positioned as we move into the second half of the year. As Calvin mentioned, we will be ramping newness as we move throughout that second half period and be back at historical levels by spring 2025. In terms of Breeze Through, it's a very small test-and-learn, so an immaterial negligible impact on both Q2 and then our guidance for the balance of the year. So nothing notable there.

Operator Operator

The next question comes from Brooke Roach with Goldman Sachs.

Brooke Roach Analyst

Calvin, I was hoping you could speak to the trends that you saw in your U.S. women's business by demographic or consumer type. Has the change in conversion that you've seen year-to-date over-indexed to any one age group or household income? And as you look to increase the level of newness over the next few quarters, do you see any specific opportunities to adapt your marketing and membership organization to better serve customers by demographic?

Calvin McDonald Executive

Thanks, Brooke. In terms of the guest profile, nothing meaningful in that we continue to grow our new guest base and continue to do it across the age demographics that we have been growing. What we did see in the conversion missed opportunity, a lot was with our existing guests across those age demographics where the guest who knows our brand, who's come in and was looking for that newness to add to their already owned collection of lululemon. And the gap in newness, on color of those core items, on pattern and trim, newness to those core items or to some of the new silhouettes that we just add and introduced around to style around those core, those gaps is where we saw that missed opportunity. So she's still spending, visiting.

We just missed the opportunity in that full conversion from what we've seen and directly linked to decisions we made and missed in that newness and opportunity. But still growing on the guest base, still growing across the age demographic and, as I alluded to, in opportunity.

Going forward, from a marketing perspective, because we still see very good engagement, low unaided awareness, we're definitely marketing and continue to go after that. And as the product mix gets stronger in our women's as a percentage of newness, we know that conversion is what we'll be looking at and engaging that guest in terms of their spend. But I alluded to the current men's campaign or lounge campaign, really, it's for both him and her, we're very pleased with the early results. It starts to really increase in terms of exposure in through September. But early indication, particular in men's where we have those new franchises of Soft Jersey, Smooth Cover, Steady State, he's responding very well to it.

So we're going to continue to drive top-of-funnel, drive that unaided brand awareness. And we know that the strength of bringing in the newness will be the biggest lever for us, and we'll continue to increase that throughout the back half of this year and into next.

Operator Operator

The next question comes from Mark Altschwager with Baird.

Mark Altschwager Analyst

I was hoping you could provide a bit more perspective on China. Clearly, some -- still very strong growth rates there, but I think about a 10-point comp slowdown against an easier comparison. How should we think about sustainable comp growth rates there? I think others have talked about some more macro consumer pressure because you're feeling that as well. Any color on what's going on in stores and digital?

Maybe just more broadly, how you're planning comp growth by region for the remainder of the year?

Meghan Frank Executive

Thanks, Mark. So we did still see very strong growth in China in Q2, so up 37% on a constant currency basis. The variance between Q1 and Q2 growth rates, the biggest factor would have been the shift in Chinese New Year, so we had that in Q1 2024. In 2022, it was in Q4, so it's not comparable. So still really healthy growth there across both channels.

And we haven't broken out our forward-looking guide by region, but I would say still outsized growth in international and China being the key driver there.

Calvin McDonald Executive

Yes. And I'll just add, we remain excited about the potential for lululemon in Mainland China. While we're keeping an eye on the macro environment in the region, our business remains strong. And we believe several factors will continue to benefit us. One, it is still a small size relative to the market with a store base of 132 on the Mainland at the end of the quarter.

We take a very localized approach to the brand, building relationships through local fitness instructors, influencers, some very unique events that are building awareness in the community on the back of our unique positioning, grounded in wellness in the positioning of the product. So we're monitoring it, have not seen any material impact to the business. And I do believe it's because we're very early in our growth there and see a lot of continuous success across the Tier 1, Tier 2 into Tier 3 cities where we've been opening, testing and seeing very good response.

Operator Operator

The next question comes from Rick Patel with Raymond James.

Rakesh Patel Analyst

A question on the performance of core products. You called out a lack of inventory for certain styles and sizes entering the year. Did the same headwinds intensify in the second quarter? Or did you see new headwinds related to other products? Just some clarity there would be great.

And then secondly, you're still seeing good growth for accessories. How should we think about the outlook there?

Calvin McDonald Executive

Thanks, Rick. In terms of the shift from Q1 to Q2 and the learning, color, print and pattern continues to be an opportunity for us. And we think of those through a couple of ways in which we execute it. One is core styles and adding it through updates through color, print, silhouettes, fabric extensions. That has been a great driver for us to keep our guests engaged and keep adding to the lululemon products for them as well as seasonal new silhouettes and styles.

And I would say the shift from Q1 to Q2 is -- the gap in that, as a percentage historically, was greater in Q2 than in Q1 and was really the notable difference between the 2 quarters. Sorry, Rick. And on accessories, I think we've chatted about this before, Everywhere Belt Bag was a very strong driver for us in the last few years. And we've cycled over some of the peaks of that volume, but it continues to be a big driver. And as you mentioned, overall accessories in the quarter grew 7%, and the team continues to introduce new styles, both within the Everywhere Belt Bag franchise but new styles from our backpack collection to some travel bags to totes to the cactus leather introduction this week that the guests responded very well too.

So we continue to be very excited about our accessories business. It's small percentage of our overall mix at 10%, but definitely a significant opportunity. We're about 1% of market share, and we see opportunity to continue to grow that meaningfully moving forward. And the team is doing it through creating very innovative products, and the guests continue to respond very well to it in North America as well as globally. So excited about the product creation and what's coming.

Howard Tubin Executive

Operator, we'll take one more question.

Operator Operator

The last question comes from John Kernan with TD Cowen.

John Kernan Analyst

Meghan, I think a big fear of price into the valuation of the company right now is the gross margin rate has peaked and your SG&A rate may need to move higher. How would you address those fears given the competitive environment in the category right now?

Meghan Frank Executive

Yes. So I think we continue to see strength in both gross margin and SG&A. This year, with our revenue growth guide at 8% to 9% and then 6% to 7%, excluding the 53rd week, we're still delivering gross margin relatively in line with 2023 and as well as approximately flat SG&A. Our operating margin, still very strong, 100 basis points above our 2020 results so after 2 years. So we're really focused on driving into that bottom line and optimizing the bottom line.

We're still committed to our Power of Three x2 plan for modest operating margin expansion over the 5-year period. I think too soon to put a fine point on the outer years, but certainly have runway in front of us in terms of, most importantly, revenue, but also looking at growth and efficiencies across our P&L, and we'll continue to keep you updated.

John Kernan Analyst

Understood. And then Calvin, maybe a follow-up for you. Has your core customer in women's changed over the years? It seems like it's a more diverse cohort. Are they more challenging to plan and allocate for in terms of sizing and color?

And what are you learning in some of the -- surrounding some of the new customers you've acquired?

Calvin McDonald Executive

Yes. We continue to acquire across all of our -- if you want to slice it through age demographic, I think I've mentioned in the past. Across different age demographics, we continue to acquire new guests across all of them. Alluded to the shift in our sizing profile earlier, I think the team is doing a good job in adjusting to that. We saw improvements through Q2 and really are entering Q3 with a better mix of sizing across our profile.

We're going to continue to adjust. But I wouldn't say there's any macro shift that we're behind on now, and we continue to recruit and acquire guests across that, which means really across the age and the size profile.

Operator Operator

That's all the time we have for questions today. Thank you for joining the call, and have a nice day.