



lululemon

(NYSE: LULU)

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“

We have a vision to be the experiential brand that ignites a community of people through sweat, grow, connect

- Lululemon

”

COMPANY SNAPSHOT

Lululemon designs, distributes, and sells athletic apparel and accessories leveraging a moat created by superior performance, style, and sensation

Overview of Business

Lululemon is an athletic apparel company that focuses on developing products that support a healthy lifestyle. Products include shirts, jackets, pants, and footwear. The company works with technically advanced fabrics and leverages vertical marketing strategies to connect with customers using an omni-channel approach. Interactions with customers occur through physical retail locations and increasingly through DTC/online platforms.

Lululemon's main products span four key areas:

Yoga | Run | Train | On the Move

Key Individuals



Calvin McDonald - Chief Executive Officer (CEO)

- Joined Lululemon in 2018
- Previously served five years as CEO of Sephora
- Serves on the board of the Walt Disney Company



Meghan Frank - Chief Financial Officer (CFO)

- Named CFO in 2020
- Previously served as a VP at Ross Stores
- Joined Lululemon in 2016

Market Summary

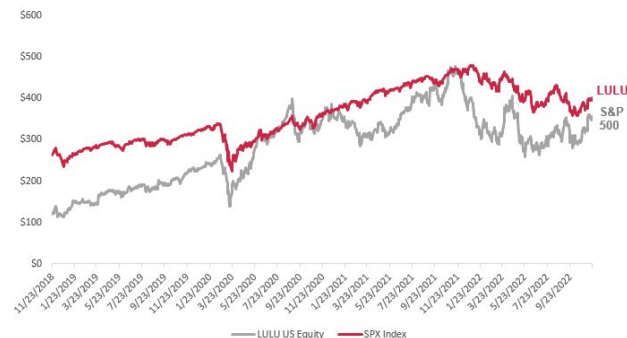
| | |
|---|------------------|
| Price (01/9/23) | 298.66 |
| Nominal Shares Outstanding | 122.4 |
| Market Cap | 38,109.55 |
| + Total Debt and Minority Interest | 1,038.62 |
| - Cash | (352.62) |
| Enterprise Value | 38,795.41 |
| 52-wk High | 410.70 |
| 52-wk Low | 251.51 |
| Avg Daily Volume (3 mo. Daily, mm) | 1.663 |
| Float (%) | 99.67% |
| Short Interest | 2.79% |
| 3-yr Adj. Beta | 1.38 |
| Weighted Average Cost of Capital (WACC) | 9.58% |
| Dividend Yield | 0.0% |

| | |
|------------------------------------|---------|
| TEV / FY '23 Total Revenue | 4.84 x |
| TEV / FY '23 Consensus Adj. EBITDA | 18.16 x |

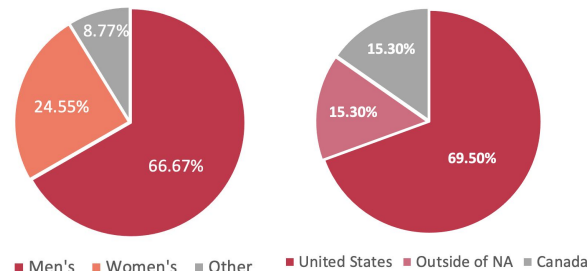
Ownership Summary

| | |
|---------------------------|--------|
| FMR, LLC | 15.00% |
| Vanguard Group, Inc. | 5.76% |
| BlackRock, Inc. | 5.63% |
| Jennison Associates, LLC | 4.00% |
| T Rowe Price Group, Inc. | 3.77% |
| WCM Investment Management | 3.36% |
| Other | 62.48% |

5-yr Stock Price



Segmented Revenue (2022)

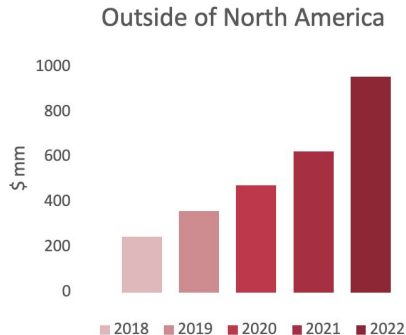


INVESTMENT THESIS

LONG LULU - 5Yr

1. International Growth Opportunities

Currently, 69.5% of Lululemon's revenue comes from the United States with 15.3% and 15.3% coming from Canada and outside of North America respectively. Greater China is a region with high future growth potential where Lululemon's share of the apparel market has increased markedly from .1% in 2016 to 2.5% in 2021. Overall revenue growth rates are strong with revenues outside of North America increasing by 38.53% over the last three years alone. (U.S. 22.51% and Canada 19.08%)



3. New Product Categories



Lululemon recently entered into the shoe business adding products that include specialized shoes made for running (Blissfeel), cross-training (Chargefeel), and strength training (Strongfeel). This marks a substantial opportunity for Lululemon to begin competing for a portion of the enormous global footwear market.

2. Partnership Expansion

Lululemon has been expanding its partnerships with large U.S. universities to offer exclusive, co-branded athletic apparel (often with custom pantone colors to match school colors). After the enormous success of its inaugural launch at the University of Michigan in Fall 2021, it has since expanded to include the University of Texas, Penn State University, University of Alabama, University of Florida, and Boston College. These partnerships have often garnered large social media attention leading to strong demand and quickly sold out products. Lululemon has also partnered with Olympic organizations such as the Canadian national team.



4. ESG Leader in many Categories

| Financial Materiality Scores ESG SCORE » | | | |
|--|-------|-----------|--------------|
| | Score | 2Y Change | Vs Peers |
| Environmental | 5.76 | +5.43 | Leading |
| Social | 2.04 | +0.48 | Above Median |
| Governance | 7.27 | +0.14 | Leading |

Lululemon is a leader among peers when it comes to key ESG metrics regarding the Environment and Governance. The company also recently announced that it is going to begin participating in resale markets ("Lululemon Like New") allowing it to tap into the circular economy and the large \$30 billion dollar second-hand apparel market. This serves to bolster the company's reputation among consumers and position it within socially responsible purchasing preferences. The company also has plans to begin sourcing 75% of its polyester from recycled sources and 100% of its cotton from responsible sources by 2025.

VALUATION

Investors see Lululemon as an apparel business with athleisure and brand momentum, but do not fully value its future growth opportunities

Variant View

1. Revenue growth likely to remain aggressive

- The market is underselling Lululemon's ability to maintain its robust growth trajectory resulting from partnership expansion, new SKUs, and international growth opportunities

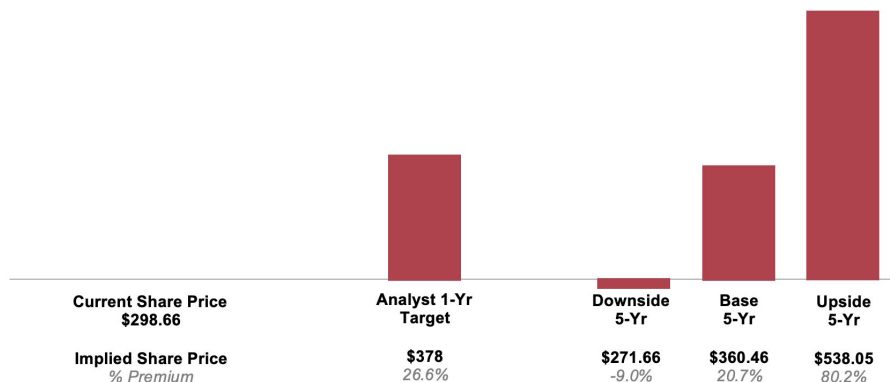
2. Increased brand reputation/awareness

- Social media/digital marketing increased with TikTok via partnerships
- Increasingly ESG focused alignment of corporate values

Trading Multiples

| | EV / EBITDA | P / FCF | P / E |
|------------------|--------------|--------------|--------------|
| Adidas | 10.0x | N/A | 33.33 |
| Nike | 24.9x | 111.9 | 35.86 |
| Lululemon | 22.6x | 461.8 | 34.67 |

Discounted Cash Flow (DCF)



Valuation Assumptions:

| | | | |
|--------------------------------|-------|-----------------------------|-------|
| Revenue Growth (5-Yr CAGR) | 14.7% | Net Working Capital | 9.9% |
| Terminal Multiple (LTM EBITDA) | 20.7x | Depreciation & Amortization | 3.6% |
| CapEx | 6.8% | Tax Rate | 32.0% |

RISKS AND MITIGANTS

We believe that Lululemon is still an attractive investment when considering downside risks

| Risks | Mitigants |
|-------------------------|---|
| Increasing Competition | <ul style="list-style-type: none">• Lululemon's grassroots community marketing may be more reliable/durable long term• IP - recognizable marks remain a strong distinguishing factor• Increasing brand awareness/reputation through social media |
| Recession | <ul style="list-style-type: none">• Continued focus on operating margin will be required for Lululemon to offset inflationary pressures/labor cost increases• New and innovative product development will be required for Lululemon to maintain and increase its sales/profitability |
| Unrealized M&A Success | <ul style="list-style-type: none">• "Mirror, mirror on the wall, was this the best decision of all?"• In-home subscription model vs in-store fitness studio experience• Robust omni-channel growth plan should drive business• Mirror's specialized hardware and software may be difficult to replicate and includes key technical personnel• DTC expansion may be a countervailing force to in-store risks |
| Supply Chain Disruption | <ul style="list-style-type: none">• Continued global supply chain disruption and volatility from recrudescences of COVID-19 outbreaks across the globe• Continuing to develop strong relationships with suppliers that have shared values and robust ethical standards• Following local guidances and prioritising health and safety across the entire distribution channel |