LONG Lululemon Athletica Inc. (NASDAQ: LULU)
Current Price: $203.90
2Y Target Price: $312.86 (Exit: 1/31/2028)
R/R: 5.9x
Implied IRR: 23.1%
Gross Return: 53.4%

Investment Overview

What the Street Misunderstands About Lululemon

- ❑ Street frames Americas' slowdown as brand fatigue, but the major driver has been a changing category mix: denim has taken wallet share from athleisure
- ❑ Street assumes Alo is disrupting Lululemon and taking share of all athleisure, but Alo's growth has been limited to loungewear and is less proven in activewear
- ❑ Street is treating a temporary deceleration in China as structural, while larger opportunity exists beyond Tier 1 cities
- ❑ Consensus is forecasting elevated markdowns as permanent, extrapolating a transient period of promotions
- ❑ Lululemon trades at an unwarranted discount to maturing peers like Nike, despite having best-in-class ROIC and margin quality

Trading Summary

Market Cap	**24.2B**
Close (1/9/2026)	$203.9
Average Volume (3M)	4.4M
52 Week Range	$159.25 – $423.32
TTM P/E	14.8x
Operating Margin (FY24)	23.7%

Investment Thesis

1. Saturation in Denim

- As the mix normalizes back toward office/activewear, Lululemon's comp sales and margin can improve without heroic assumptions
- We believe Lululemon holds an advantage in these categories through technical innovation

2. Pressure From Alo is Overstated

- Alo's momentum is likely less durable given ongoing quality concerns and strategic distractions (ex. luxury bags)
- We see Lululemon's technical differentiation remaining intact in activewear categories, limiting market share loss even if Alo stays visible

3. China Growth Is Undervalued

- Consensus prices China as structural deceleration, but recent trends and Q3 commentary points to relative strength within sector
- We believe Lululemon is still underpenetrated in Tier 2 & Tier 3 cities, providing upside to consensus

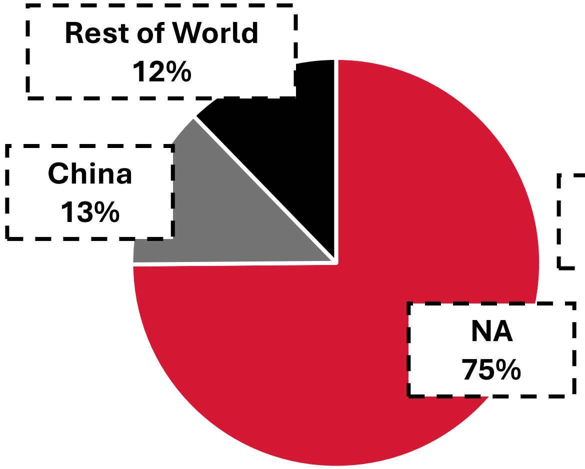
4. A Faster, More Agile Lululemon

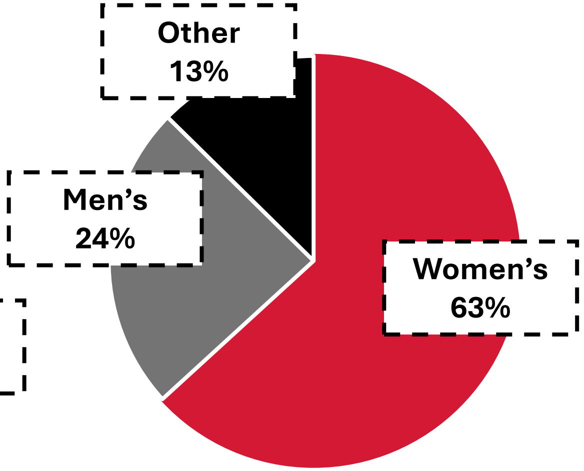
- With higher levels of newness in FY26, inventory and markdown risk should decline
- New store renovations should boost full-price sell-through
- We see new management driving improved execution, and providing call-like upside to current valuation

Sources: Yahoo Finance

Lululemon: The Market Leader in Premium Athleisure

Revenue by Geography & Segment





Why Customers Come Back to Lululemon

Value Proposition

Quality: Premium and innovative technical products that hold up to heavy wear and repeated washing

Comfort: Soft, breathable fabrics make pieces feel effortless all day

Fit: Lululemon's tailoring and fabric engineering create a consistently flattering fit

Product Offerings

Men's

Work | Lounge | Active

3Q25: Men's +8.1% YoY

Women's

Work | Lounge | Active

3Q25: Women's +5.7% YoY

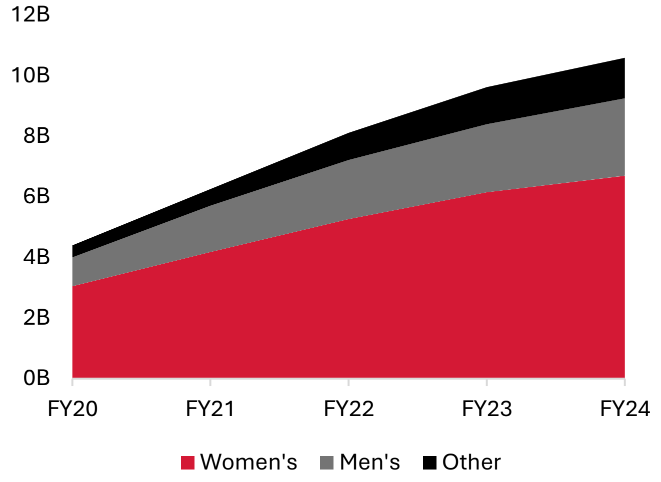
Other

Bags

Footwear

3Q25: Other +12.1% YoY

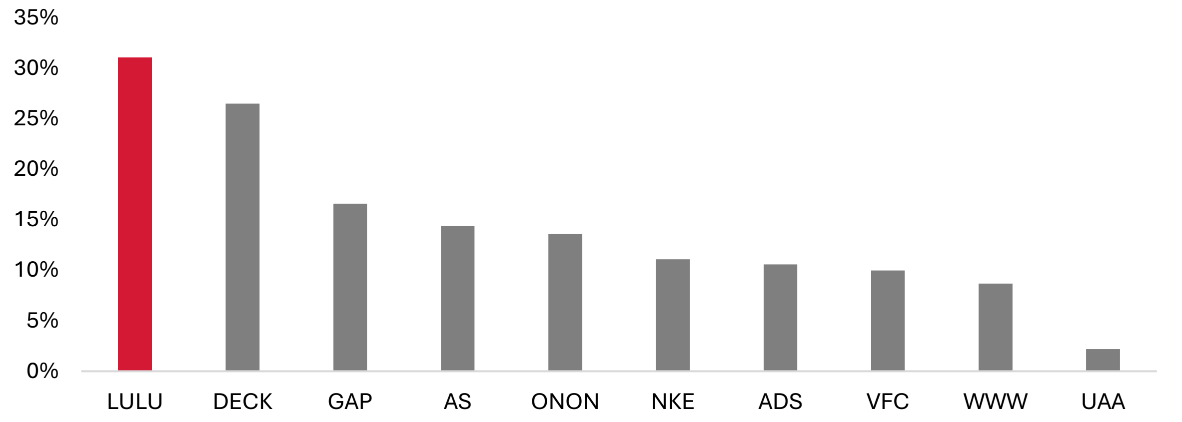
Revenue Mix by Segment



Competitive Landscape

Lululemon Leads the Way

EBITDA Margin of Comps



Innovation Remains Mission Critical in Activewear

"And we have **innovation** behind those categories as well as next year as that is definitely our leading strategy." *3Q25 Earnings*

UNDER ARMOUR

"working to bring **innovation**...back to the center of what we do, which...made Under Armour globally famous" *2Q26 Earnings*

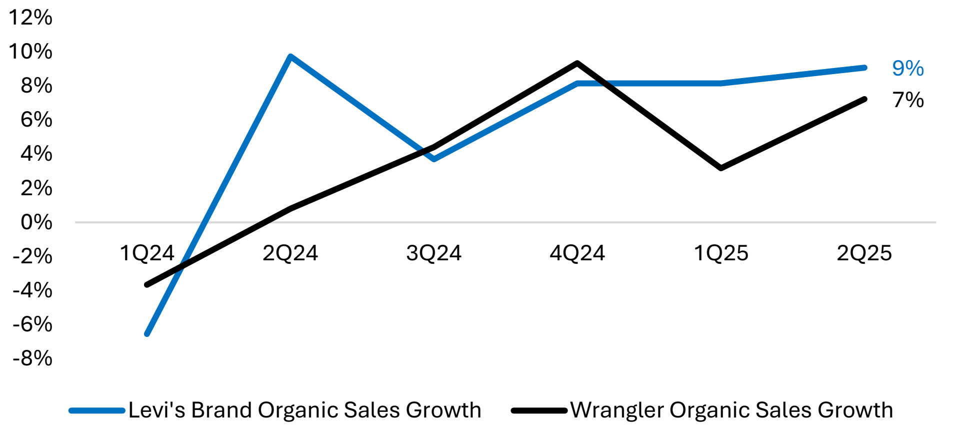
"Athlete-centered **innovation** travels across and through every country and channel to drive growth" *2Q26 Earnings*

DECKERS BRANDS

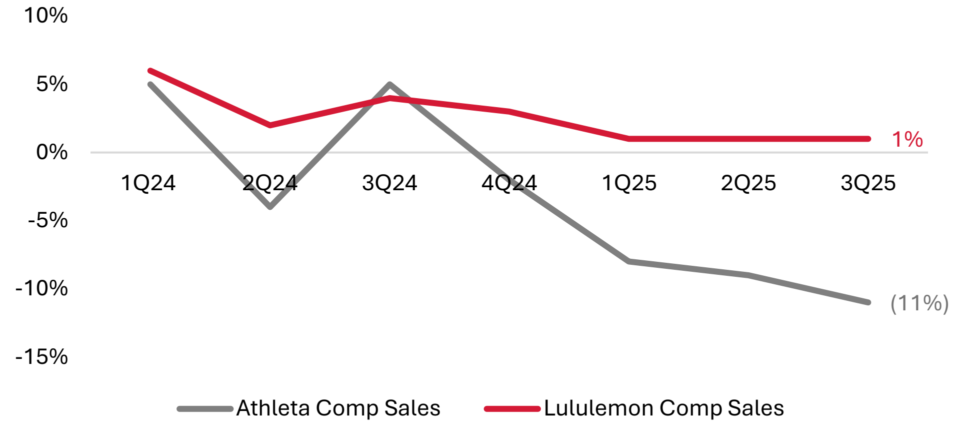
"our teams are executing our strategy and connecting with consumers who are...looking...for **innovation**" *2Q26 Earnings*

Stylistic Trends

Denim Comp Sales



Athleisure Comp Sales



- **Wider and baggier** outfits have been all the rage in recent years
- Wide-legged denim has become **extremely popular**, leading to outsized growth from denim brands like Wrangler and Levi
- Activewear has lost market share

Sources: Forbes, Zara, Needham, Various Company Filings, Various Company Earnings Transcripts

A Lululemon Story

Grassroots Yoga Brand	Expansion Period	Premier Athleisure Brand

CEOs

2008-2013: **Christine Day** quadrupled revenues and tripled store count under her tenure. She focused on building online presence and brand desire.

2014-2018: **Laurent Potdevin** rebuilds trust through improved product quality, and company focuses on technical fabrics, fit, and core franchises while beginning to scale beyond yoga and women's.

2018-2025: **Calvin McDonald** makes Lululemon a household name, finding success in new categories like men's and bags. The company more than triples its revenue and achieves great success in China.

2008-2009: **The first major setback** occurs during the **Global Financial Crisis**. Lululemon cuts outlook due to a worsening macroenvironment and weaker Canadian Dollar. Sales slow, and margins compress >400 bps due to elevated promotions and weaker consumer.

2013-2014: **The second major setback** occurs when Lululemon is forced to recall 17% of **yoga pants** because they're **too sheer**. CEO Christine Day resigns. Chairman and founder Chip Wilson is forced to resign due to comments blaming plus sized women for the sheering issues. Premium quality and inclusivity is questioned.

2020-2022: **The third major setback** occurs after Lululemon acquires Mirror during the **at-home fitness** boom in 2020. After sales slow and a shift away from at-home fitness, Lululemon writes down Mirror for a $443M loss in 2022.

2025: **The current setback** occurs as Lululemon Americas growth slows due to a **worsening macroenvironment**, increased competition, tariffs, and lack of innovation. CEO Calvin McDonald **steps down**, margins guided to compress >400bps solely due to tariffs and removal of de minimis in 4Q25.

July 2007: IPOs at $18 per share.

3Q25: New innovation in 2025, improved operational efficiency, and new CEO in 2026 provides bright future of potential catalysts as Lululemon returns to its roots.

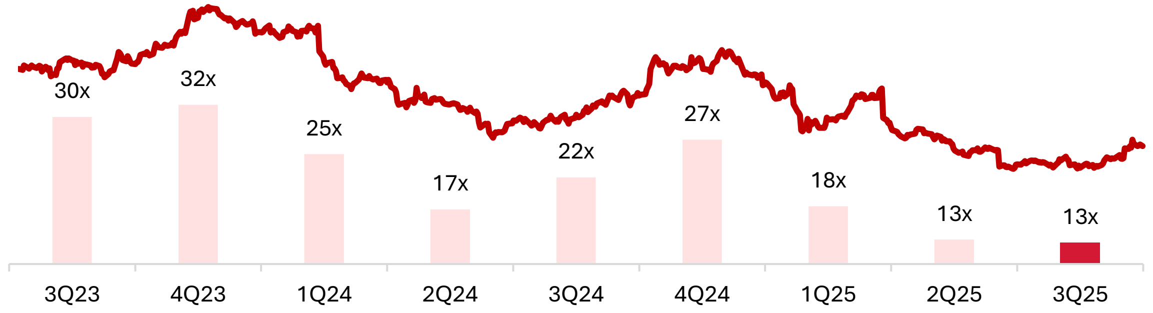
However, Lululemon has overcome all prior setbacks, and we have confidence that it will overcome this one as well.

Sources: Various Company Filings

A Perfect Storm of Tariffs, De Minimis Exemption, and Stalling Innovation

Expectations for Lululemon Have Materially Declined

Stock Performance vs. NTM P/E

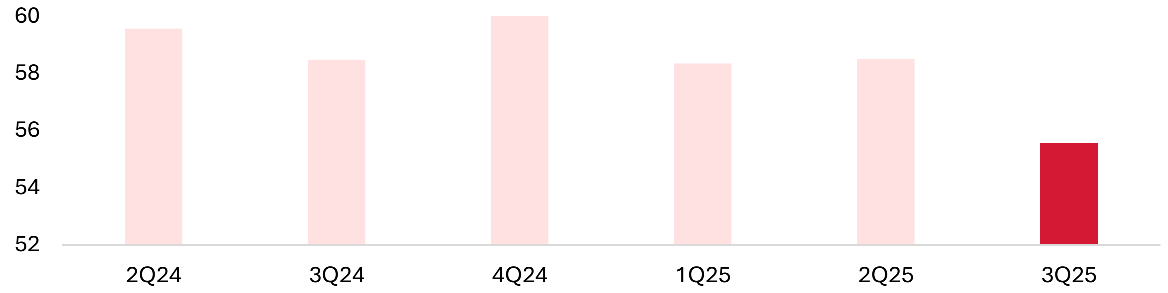


YTD Analyst Downgrades

EVERCORE · J.P.Morgan · BANK OF AMERICA · WB · STIFEL · BAIRD · TRUIST

Margin Has Compressed Significantly

Lululemon Gross Margin



BARCLAYS

"A **confluence of pressure points** are converging including: 1) new tariff impacts related to both higher reciprocal tariff rates and the repeal of the de minimis exemption, 2) product "staleness", 3) sluggish comp sales performance in the U.S., 4) higher spending on foundational investments, 5) deeper use of promotions." (9/4/2025, PT Lowered)

Lackluster Innovation Stalled Growth

Disney Collab (2024)

Unnecessary collabs **deteriorated** the brand image

Success Caused Complacency

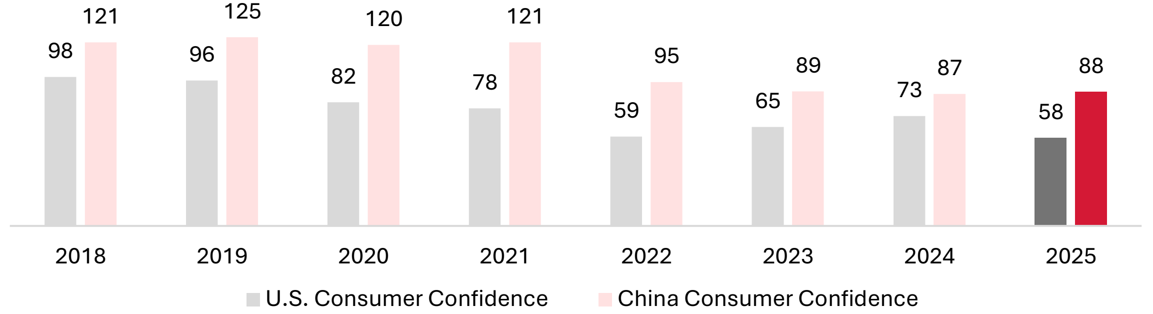
"We have become too predictable within our casual offerings and **missed opportunities** to create new trends." *2Q25 Earnings*

Scuba (2011) | Define (2014) | Align (2015)

Many of the most popular items **debuted years ago**

Management Cites Weaker Macro Environment

Consumer Confidence



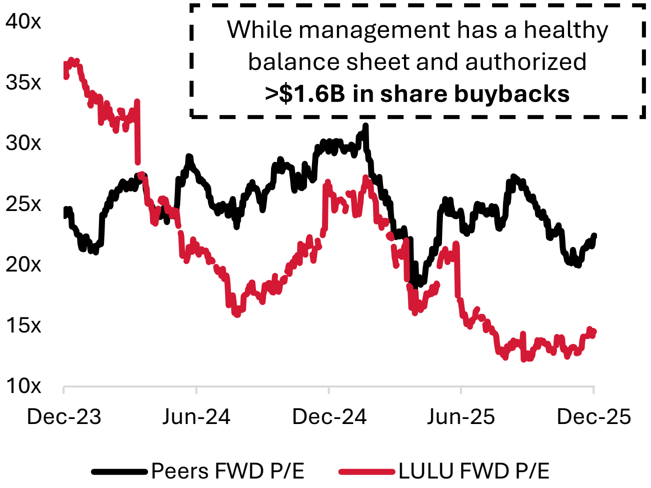
"The overall market for premium athletic wear in the US remains challenging, with declines continuing in quarter two. Consumers are spending less on apparel overall, spending less in performance active wear, and are being **more selective** in their purchases, seeking out **truly new styles.**" *2Q25 Earnings*

Sources: Bloomberg, Company Filings, University of Michigan Consumer Confidence, Federal Reserve Bank of St. Louis, Company Website

Creates a Discount While New Leadership Has Levers to Drive Turnaround

Premium Brand at Trough Multiple

Multiple vs. Peers



Return to Innovation

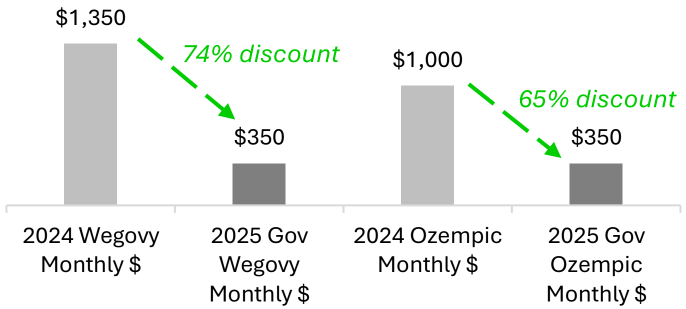
"Our teams have been in the work to **reenergize** our product engine, bring a new energy into our assortment and increase our speed and agility…We are increasing the frequency and breadth of new styles and remain on track to bring **new style penetration to 35%** next spring." *3Q25 Earnings*

Core Categories Getting Much Needed Updates in 2026

Scuba	Swiftly	ABC	Steady State
			

GLP-1 Adoption: Multi-Year Tailwind

GLP-1 Pricing



"In apparel, **spending actually rises 4% to 5%** around six months after [GLP-1] treatment begins…many users…[gravitate] toward fitted, expressive, and **activewear** styles." *PWC*

New Leadership Incoming

ELLIOTT

Elliott Investment Management has taken a >$1B activist position in Lululemon and their CEO of choice is Jane Nielsen.

Jane Nielsen "Turnaround Pro"

2016-2025: COO & CFO at Ralph Lauren
- In 2016, sales growth had stalled and net income was down 50% from 2014
- Helped bring Ralph Lauren **back to growth** in 2022, improve EBIT margin by ~20% and share price went to ATH

2011-2016: EVP & CFO at Coach
- In 2014, Coach was reporting negative double-digit same store sales
  - Nielsen told investors that Coach would be positive in 2 years
- By 2016, Coach had reported its **first sales increase in 3 years**

New Board Nominations Offer Important Perspectives

Currently, Lululemon's board (of 10) is made up of 4 members who directly come from a consumer staples background and **no member** with direct experience leading athletic product innovation or athletic marketing **which may explain the current situation.**

Marc Maurer; Ex-CEO On Running
- Joined On in 2013 as COO, and was **"instrumental"** in scaling On into becoming a global innovator in premium sportswear
- We think On is a great example of innovation driving success

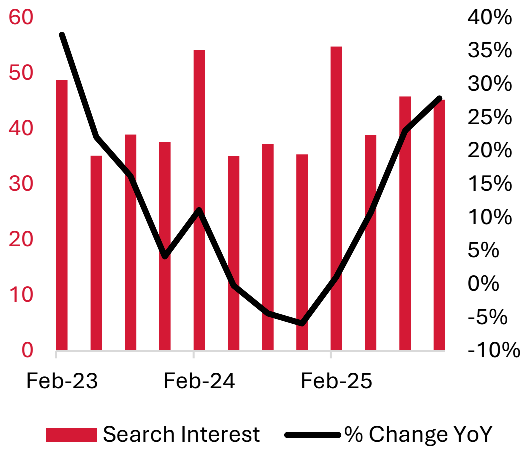
Laura Gentile; Ex-CMO ESPN
- **Key to launching espnW** (women's platform)
- Led ESPN's brand marketing, creating flagship brand campaigns and bringing ESPN to new audiences

Sources: Bloomberg, Various Company Filings, Website, White House Website, PWC, M Squared Capital

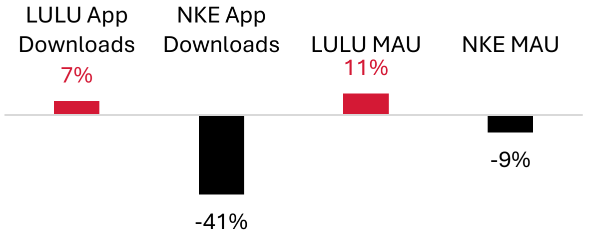
Contrary to Consensus, Brand Heat Is Steadily Improving

Digital Interest Surges

U.S. Lululemon Search Interest



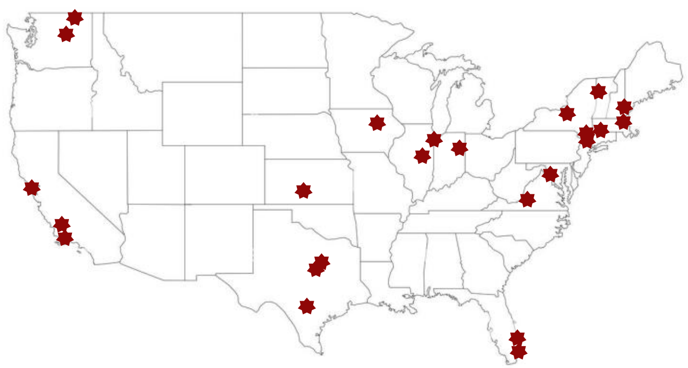
October App Metrics



"**Apps close far more deals** than other online shopping environments and convert **three times more** shoppers than mobile web." *Criteo State of Mobile Commerce Report*

Our Calls Point to Strong Consumer Demand for New Releases

Call Map



n = ~40 Lululemon stores

- We talked to stores across the U.S. to get a better sense of **full-price sell-through** of new products
- These checks came back very **positive,** as stores consistently cited the new product being sold out
- We see a high likelihood that the consumer will resonate with the full release of **Cheung's first full collection** in 1H26

New Releases Show Strong Sellout Online

Polka Flocked Collection (2025)

Completely sold out

Daydrift Collection (2025)

Most popular sizes + colors sold out

AMEX Partnership Provides Substantial Uplift

"Although it's early, we're pleased with the results in the number of new guests…[and] **we're pleased overall with the profitability.**" *3Q25* Earnings

By our calculations, even <70% utilization rate results in significant upside

AMEX Calculation	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
AMEX Platinum Users BOP	1.5M	1.6M	1.8M	2.1M	2.3M	2.4M
Growth Rate	7%	15%	12%	9%	6%	3%
AMEX Platinum Users EOP	1.6M	1.8M	2.1M	2.3M	2.4M	2.5M
Annual Credit	150	300	300	300	300	300
Utilization Rate	60%	61%	62%	63%	64%	65%
% of AMEX Credit Paid by LULU	30%	30%	30%	30%	30%	30%
Net Revenue Uplift	**98M**	**222M**	**255M**	**286M**	**313M**	**332M**

Sources: Bloomberg, Google Trends Data, Company Website, Various Company Filings, Criteo

Street Is Chasing Denim Trend While Its Already Peaking

Consensus View

Markdowns Are Idiosyncratic

Jefferies

"The company is **struggling with sell through** and is resorting to markdowns to clear inventories."

"A disjointed assortment that's failing to convert." (7/9/2025)

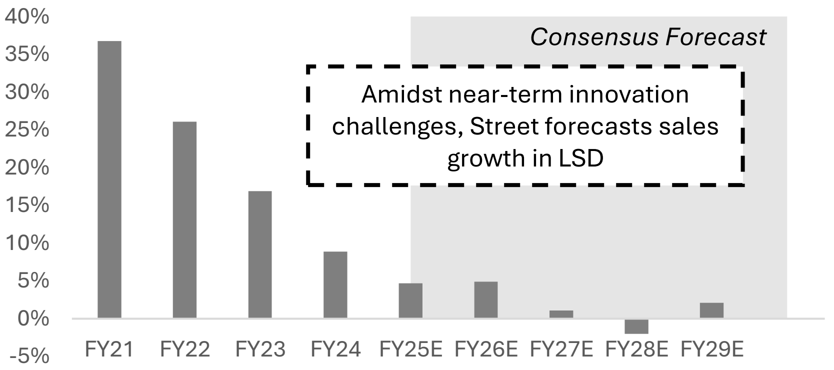
Denim Is the Next Hype Trend

Needham

"'While LULU's faces competition within the athleisure market, we believe they also face a **headwind from female consumers** increasingly diversifying their closets away from athleisure. Specifically, we believe that the industry is in the midst of a strong '**denim cycle**', which could be crowding out demand for leggings. Furthermore, with women's bottoms increasingly becoming baggier, it **further moves the fashion trend away from LULU's "core"** (tight-fitting yoga pants).''
(9/25/2025, Downgrade to Hold)

Lululemon Is Done Growing

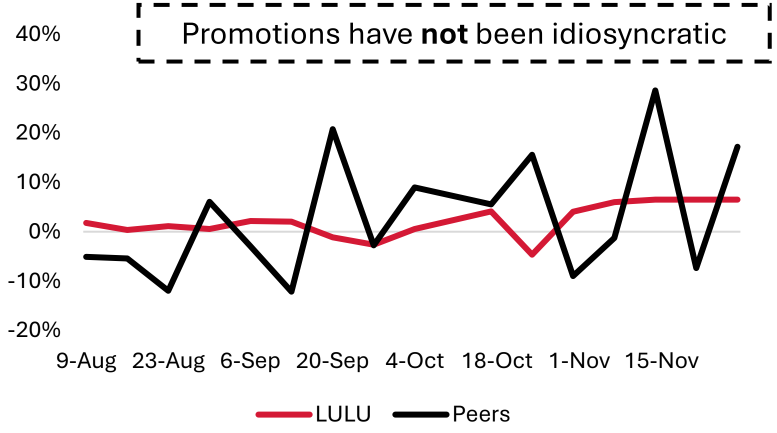
Women's Sales % Change



Our View

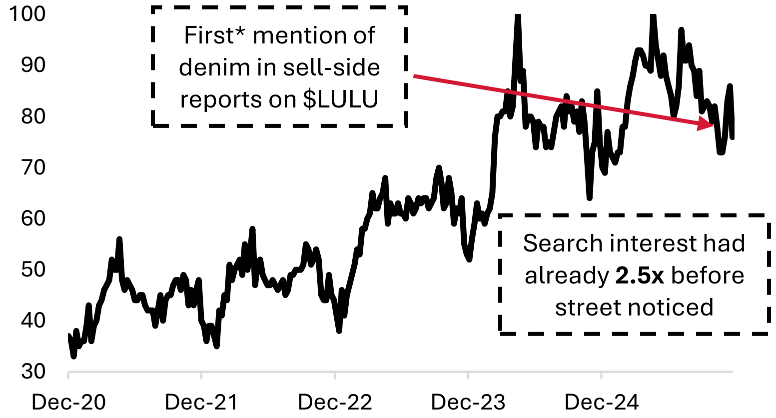
Elevated Discounting in Sector as a Whole

Discounting WoW



Street Already Missed Critical Trend Inflection

Search Interest for Denim



While the Trend Is Changing Again

U.S. Search Interest

	Work Clothes YoY	Legging YoY	Denim YoY
1Q23	(5%)	(7%)	17%
2Q23	(7%)	(2%)	28%
3Q23	(7%)	(5%)	31%
4Q23	(3%)	(11%)	29%
1Q24	(1%)	(10%)	31%
2Q24	2%	(9%)	31%
3Q24	2%	(5%)	24%
4Q24	18%	(6%)	26%
1Q25	10%	(4%)	15%
2Q25	12%	3%	8%
3Q25	21%	18%	9%
4Q25	21%	4%	3%

Sources: Jefferies, Needham, Internal Discounting Data, Google Trends, *Out of research from Barclays, Wells Fargo, Needham, Deutsche Bank, and JP Morgan, Peers: Nike, Vuori, Alo, Athleta, Nike

Consumers Are Going Business Casual

People Are Dressing Up Again (Especially Women)

FERRAGAMO

"North America recorded an **increase in net sales of 15.6%** in Q3 '25, driven by the double-digit performance of the primary DTC channel, registering a strong increase in the average ticket." *3Q25 Earnings*

"We now see **more women** than men than we used to see." *3Q25 Earnings*

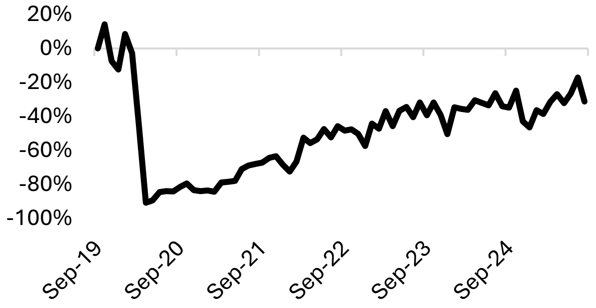
RALPH LAUREN

"**Very, very positive growth in the Americas**, up 9.2%." *3Q25 Earnings*

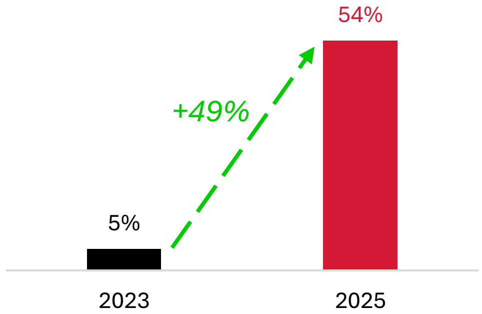
"Our high potential categories, including **women's apparel, outerwear, and handbags**, continue to be **accelerators** for our business. Together these categories **increased strong double digits**, outpacing total company growth in the quarter." *2Q26 Earnings*

And Going Back to the Office

Office Visits Compared to 2019



% of F100 Companies with RTO



Case Study: ABC Pant

Release of ABC Allowed Lululemon to Gain Market Share in the Office

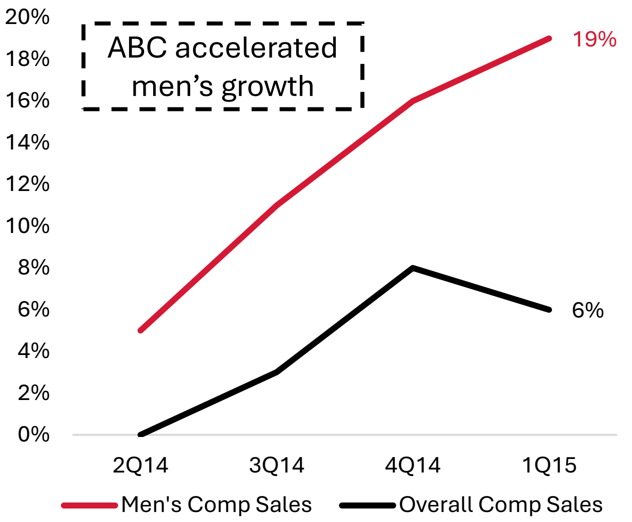
2014

Lululemon releases the **ABC** as a new category in its **men's line**: trousers "for guys who feel constrained in the crotch."

2015

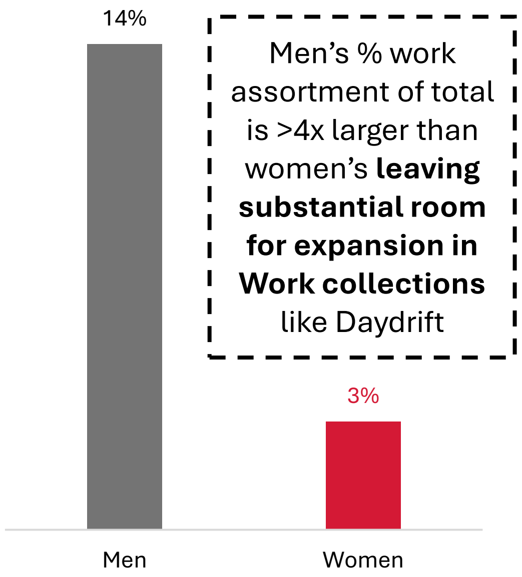
"With men's, we saw continued success with our pant category **anchored** by the popularity of our core ABC pant." *1Q15 Earnings*

Comp Sales After ABC Pant Release



Potential to Replicate ABC Success in Women's Category

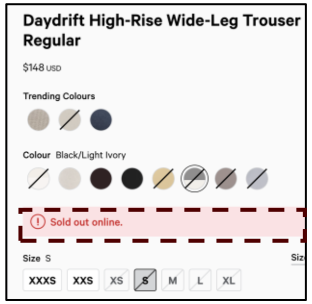
% Work of Total Catalog



Management Is Focusing on Work

"We have additional innovation next year in our men's bottom business updating the ABC and **bringing that silhouette as well for her**" *3Q25 Earnings*

Early Success in Daydrift



"One of our **most popular** items this year has been the Daydrift Trouser" *Lululemon Store Manager*

Sources: Placer AI, Ferragamo/Brunello Cucinelli/Ralph Lauren Earnings Calls, Various Company Filings, Company Website

Alo Fears Are Overblown

Consensus View

Alo Is Cannibalizing Market Share

"'In the case of Alo and Vuori, we think it's noteworthy that **they have similar product assortments** (with their own unique focuses) and price points, demonstrating that they clearly are "fishing in the same pond" as LULU."' (9/25/2025, Downgrade to Hold)

"The **increased competition** may force LULU to begin spending heavier on marketing, which could weigh on margins." (9/4/2025, PT Lowered)

Alo Will Successfully Expand into New Sectors

"Alo has **carved a niche** in the premium/fashion segment of athleisure and is opening stores at a significant pace." (9/4/2025, PT Lowered)

Our View

Quality Doesn't Justify Their Premium Pricing*

% of Reviews that Mention "Pilling"

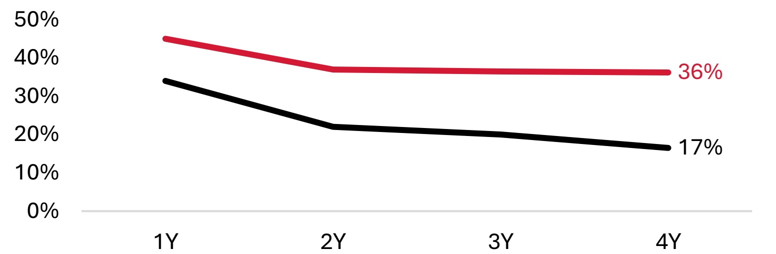
While Lululemon Has Gained Market Share

"And importantly, we have continued to **gain** market share within **performance apparel** even as the **sector has declined**." *2Q25 Earnings*

"In terms of share, in Q1, we did **gain** market share in both the **US adult apparel industry** as well as the **US adult active wear industry**." *1Q25 Earnings*

And Holds Superior Retention Rates

Customer Retention %



Expansion into Luxury Bags Is a Misstep

Alo Disconnect in Pricing vs. Popular Items

Sources: Internal Survey, Wells Fargo, Needham, Alo Website, Company Website, Earnest Analytics, Various Company Filings, *Accolade Hoodie Reviews & Scuba Hoodie Reviews

Overlooked Upside in Mainland China

Consensus View

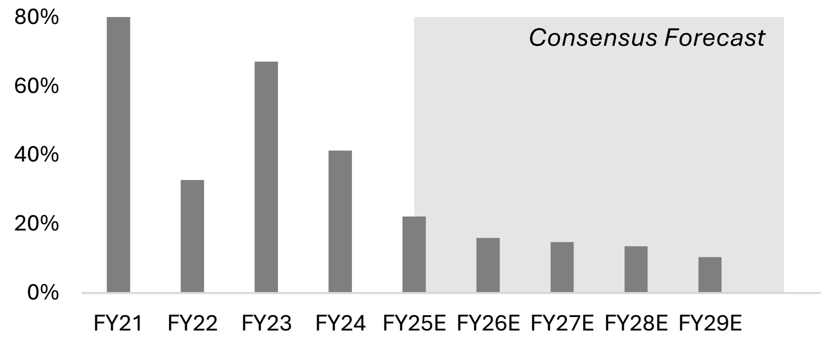
Negative Sentiment in China

"'our work points to a **normalizing pace of growth** in China Mainland…potential moderation, or "normalization" of revenue growth rates in China into FY26"… challenging macro environment experienced in…Tier 1 China cities"' (9/5/2025, PT Lowered)

"In addition, international growth also slowed, with **China comp decelerating** to +8% vs. +27% in 2024. Even adjusting for the timing of Lunar New Year (400 bps headwind to 1Q), the deceleration in 2YR growth is noteworthy." (6/5/2025, PT Lowered)

Models China Deterioration

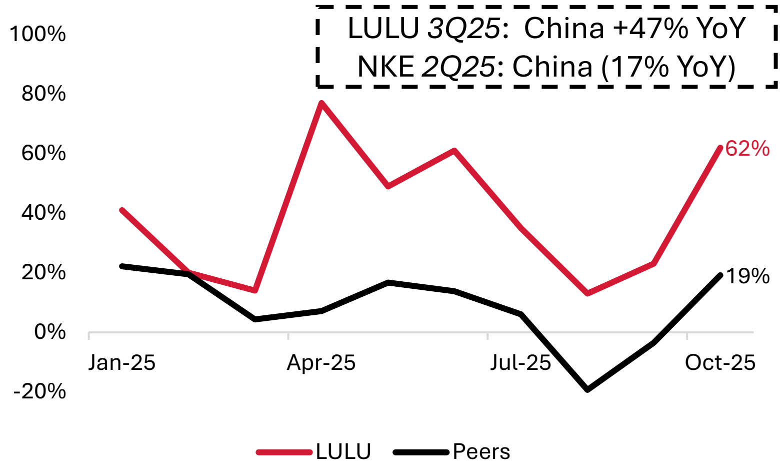
China Sales % Change



Our View

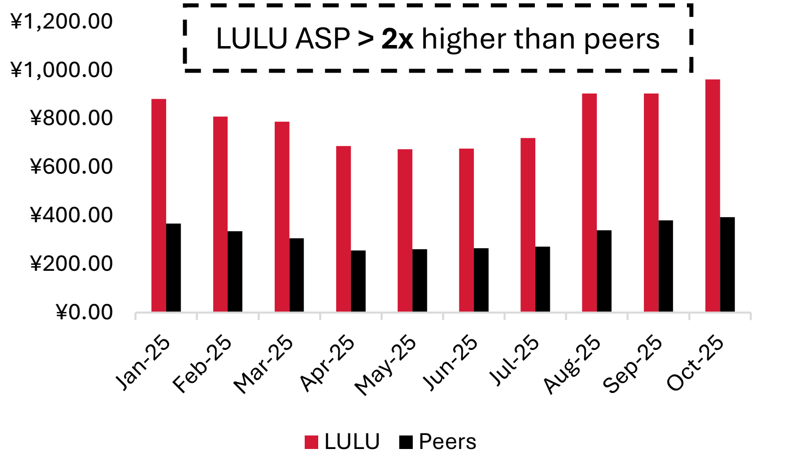
Reaccelerating Sales Growth in China

China Sales Growth



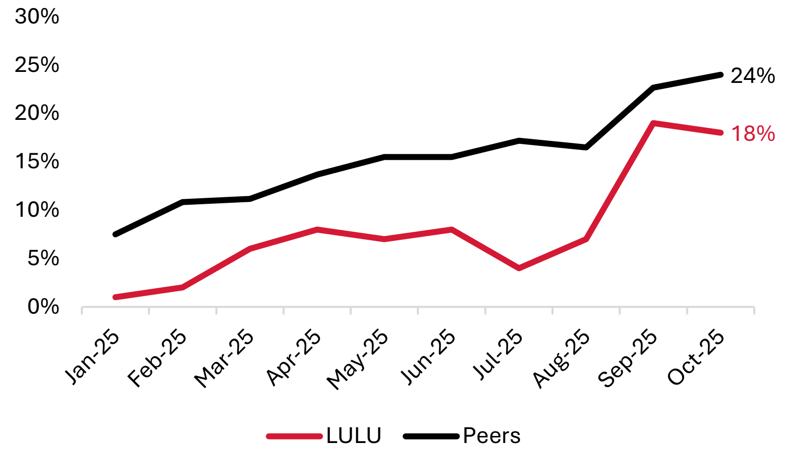
Maintains Best in Class ASP and Prestige

Average China Activewear ASP



Lower Discounting vs. Peers

% of China Catalog on Discount



Sources: J.P. Morgan, Deutsche Bank, Bloomberg, Peers: Anta, Nike, Adidas, Li-Ning, Maia Activity, Fila

Understated Opportunity Exists in Tier 2 & Tier 3 Chinese Cities

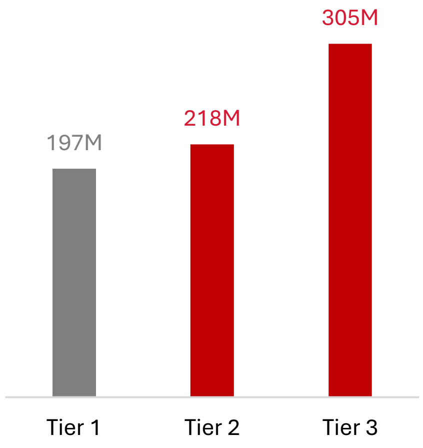
Lululemon Has Only Penetrated Tier 1 Cities

% of Total China Stores by City Tier

"And we're seeing **success across all Tier cities** and...definitely as we enter into Tier-2, Tier-3 deeper, see the business and the brand continue to resonate and perform well." *3Q25 Earnings*

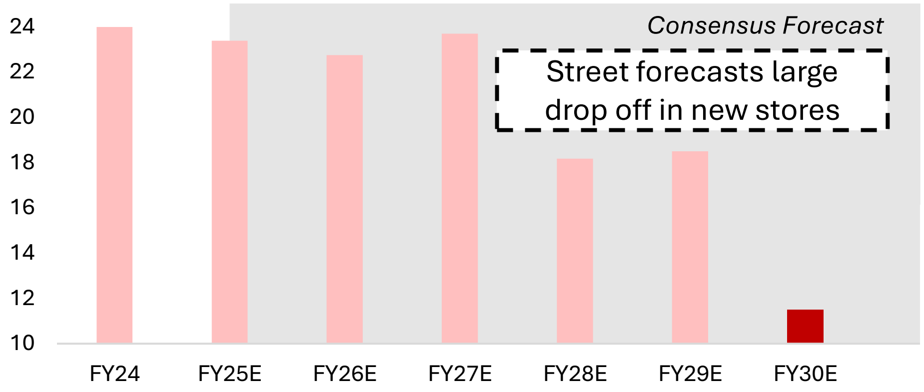
Leaving Significant Opportunity to Expand TAM

Population by City Tier



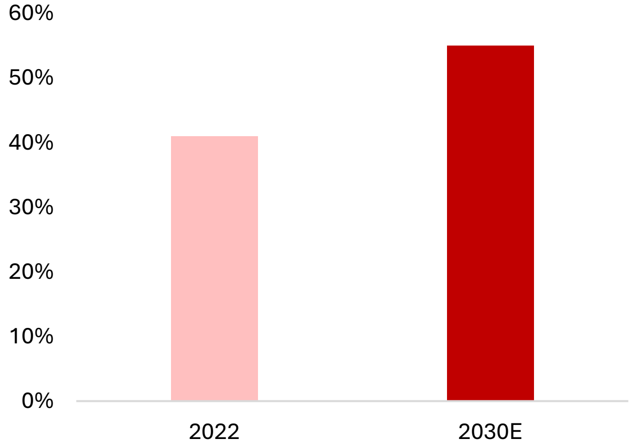
Which Street Does Not Appreciate

China New Store Additions

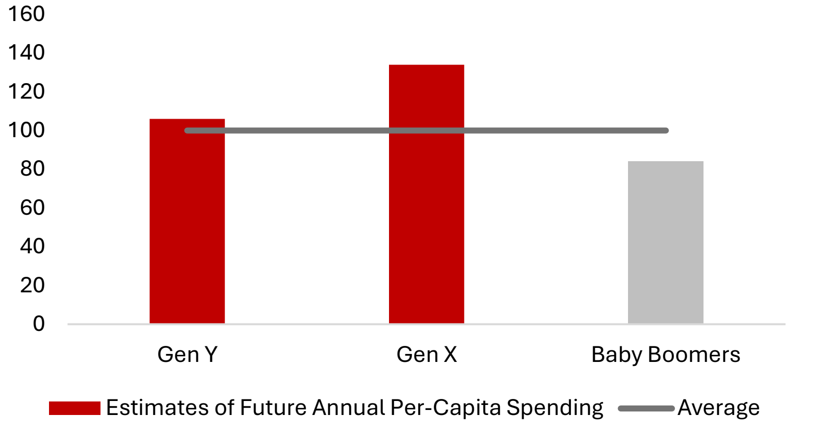


Wealth Is Growing in Tiers 2 & 3, While Young Consumers Spend More on Health

% of Upper Middle Class in Tiers 2 & 3



Future Spend on Health & Wellness (Index)



BOTE Math Shows Upside

China	Current	Potential
Tier 1 Cities		
Total Stores + Outlets	134	197
Total Population	197M	197M
Density(per 1M people)	0.7	1.0
Tier 2/3 Cities		
Total Stores + Outlets	47	262
Total Population	523M	523M
Density(per 1M people)	0.1	0.5
Total Stores	**181**	**459**

U.S. (for reference)	Current
Total Stores + Outlets	398
Total Population	340M
Density(per 1M people)	1.2

Assumptions

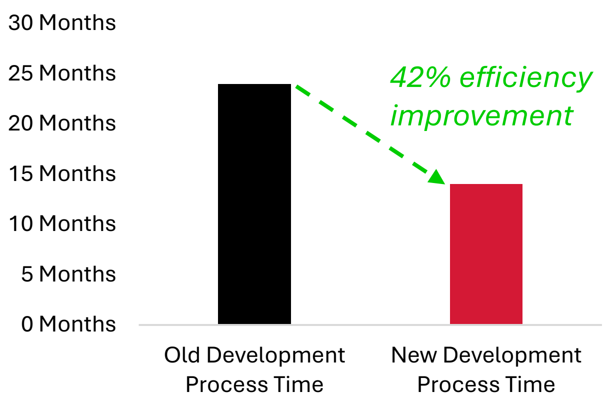
- Even conservatively assuming 0.5 stores per 1M people in the Tier 2/3 cities, we see the **potential >200 new stores** in these lower tier cities
- We see upper-class **expanding rapidly** in these cities, supporting store productivity

Sources: Hurun Report, Company Website, Wikipedia, The Economist, BCG

Improving Efficiency and a New Store Look

Increased Operational Agility

Development Time



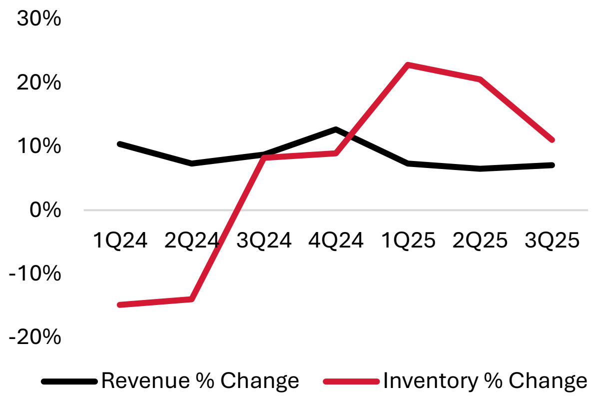
Focusing on Consumer Trends

"We've been **enhancing our speed lanes**. This includes our chase capabilities, which will allow us to get back into select strong performing styles within six to eight weeks and also our **fast-track design process**."
3Q25 Earnings

Which Should Delever Markdown Risk

- Recent increased discounting and elevated inventory have pressured Lululemon's margin and have been a topic of importance for the Street
- We see **improving "chase capabilities"** and the overall more adaptable business helping Lululemon reduce the need for excess inventory, stabilizing their recent elevated promotions, and supporting margin expansion

Revenue vs. Inventory YoY



New Leadership: Andre Maestrini's Store Vision

Old Layout

New Layout

Revamp Americas Store Experience

"If you look at the stores, like the ones in Shanghai, it's an experience... Lululemon stores in the states often look like a **swap meet**. They're packed being judged on sales per square foot...**Andre has a different global approach**. In the Shanghai store, there's a customization station for mats and water bottles, which takes up space"
Former Lululemon Merchandising Executive

Pilot Success

"We have some small tests going on in L.A, Miami. They are very much focused on exactly what you said, curating the stores, de-assorting, taking product out so that we could put focus on the newness, and the guests can see that. And we're **seeing very good results,** and **we're excited and plan to roll that out**."
3Q25 Earnings, Calvin McDonald

Sources: Call Transcripts, Various Company Filings, Bloomberg

Using Forward P/E Multiples, We See 48% Upside

Our Approach

Multiple Bear Case

2027 NTM P/E Multiple	
($ in millions)	Bear
2028 EPS	$16.00
Multiple	10.0x
Implied Share Price	**$160.00**
FDSO	119M
Market Capitalization	**18,976M**
Plus: Debt	0
Less: Cash	1,036M
Enterprise Value	**17,940M**
Implied EBIT multiple	6.2x
Upside/(Downside)	**(21.5%)**
Probability	25.0%

- Lululemon completely falls out of style as innovation stalls indefinitely
- Americas SSS and E-Commerce growth **stays negative through FY28**
- International growth collapses into MSD
- Assumes Lululemon is paying **50% of the total Amex credit**(higher than average of ~30%)
- New China store additions taper to low-teens and Rest of World store additions decrease to HSD by FY28

Multiple Base Case

2027 NTM P/E Multiple	
($ in millions)	Base
2028 EPS	$22.43
Multiple	14.0x
Implied Share Price	**$314.06**
FDSO	119M
Market Capitalization	**37,247M**
Plus: Debt	0
Less: Cash	1,036M
Enterprise Value	**36,211M**
Implied EBIT multiple	12.5x
Upside/(Downside)	**54.0%**
Probability	50.0%

- Americas' growth **stabilizes** in LSD, full-price sell-through improves
- International momentum **continues**, growing in low-teens%
- 14x fwd. P/E at exit, near **average** among peers
- Assumes Lululemon is paying 30% of total Amex credit
- New store additions in China stay in the low-20s and Rest of World store additions decrease to low-teens through FY28

Multiple Bull Case

2027 NTM P/E Multiple	
($ in millions)	Bull
2028 EPS	$25.74
Multiple	18.0x
Implied Share Price	**$463.33**
FDSO	119M
Market Capitalization	**54,951M**
Plus: Debt	0
Less: Cash	1,036M
Enterprise Value	**53,916M**
Implied EBIT multiple	18.7x
Upside/(Downside)	**127.2%**
Probability	25.0%

- Lululemon **reaccelerates** Americas' growth into MSD
- International momentum continues, growing in **mid-teens%**
- 18x fwd. P/E at exit, above average among peers, but still significantly below NKE
- Assumes Lululemon is paying 20% of the total Amex credit
- New store additions in China stay in the mid-20s and Rest of World store additions decrease to mid-teens through FY28

Weighted Price Target

Total Probability-Weighted Returns	
Target Date	1/31/2028
Yrs Until Target	2.06
Expected Value	**$312.86**
Expected IRR	**23.1%**
Gross Return	53.4%

Sensitivity Table

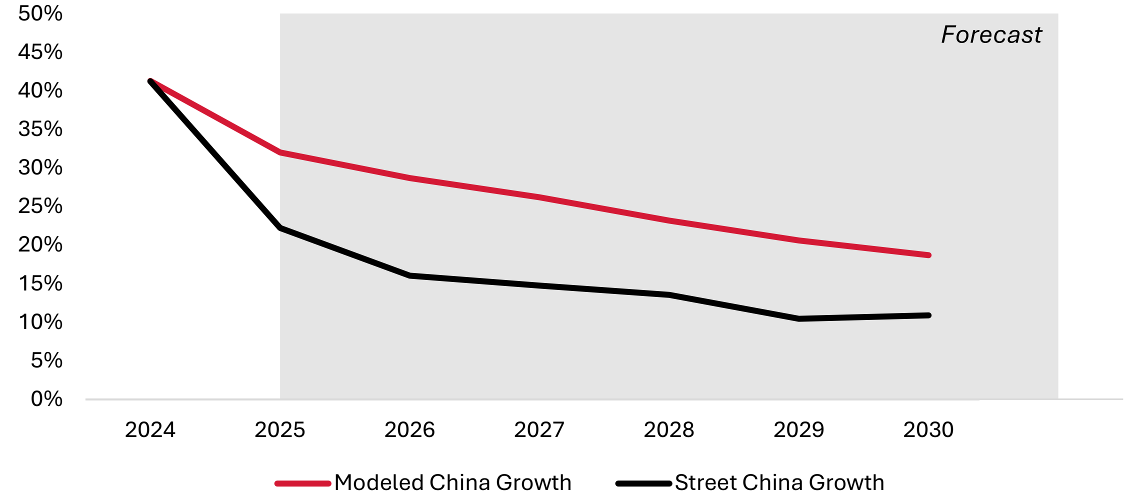
	2027 Fwd. P/E Multiple					
		10.0x	**12.0x**	**14.0x**	**16.0x**	**18.0x**
2028 EPS	**$26.00**	28%	53%	79%	104%	130%
	$23.50	15%	38%	61%	84%	107%
	$21.00	3%	24%	44%	65%	85%
	$18.50	(9%)	9%	27%	45%	63%
	$16.00	(22%)	(6%)	10%	26%	41%

Risk/Reward Skew

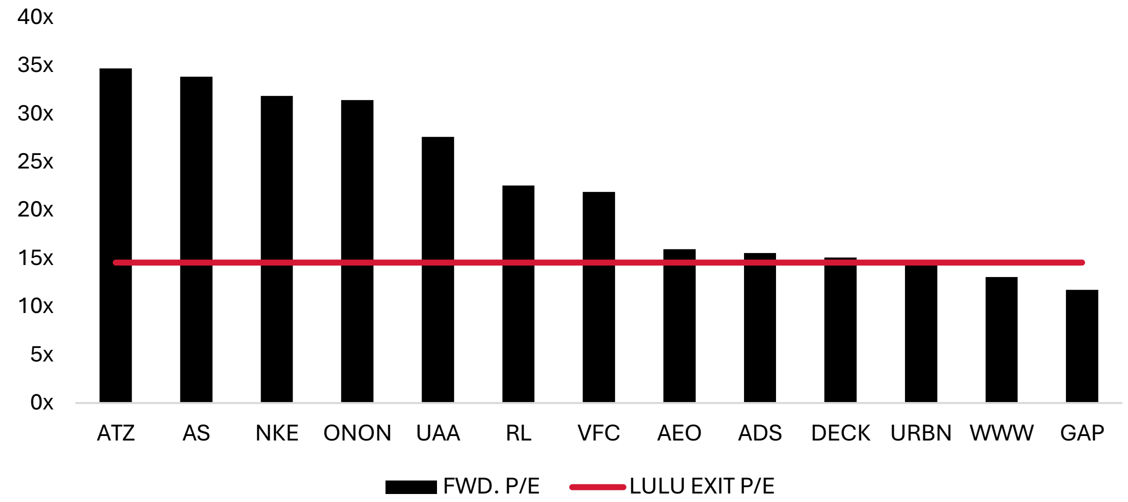
Tactical R/R				
Risk/Reward by end of FY2027				
Price	Reward	Risk	R/R	% move
$250	*85%*	*-36%*	*2.4x*	23%
$240	*93%*	*-33%*	*2.8x*	18%
$230	*102%*	*-30%*	*3.4x*	13%
$219	*111%*	*-27%*	*4.1x*	8%
$209	***121%***	***-24%***	***5.2x***	**3%**
$199	***133%***	***-20%***	***6.8x***	**(2%)**
$189	*145%*	*-15%*	*9.5x*	(7%)
$179	*159%*	*-10%*	*15.3x*	(12%)
$168	*175%*	*-5%*	*34.9x*	(17%)
$158	*193%*	*1%*	*173.8x*	(22%)

Thesis in the Model*

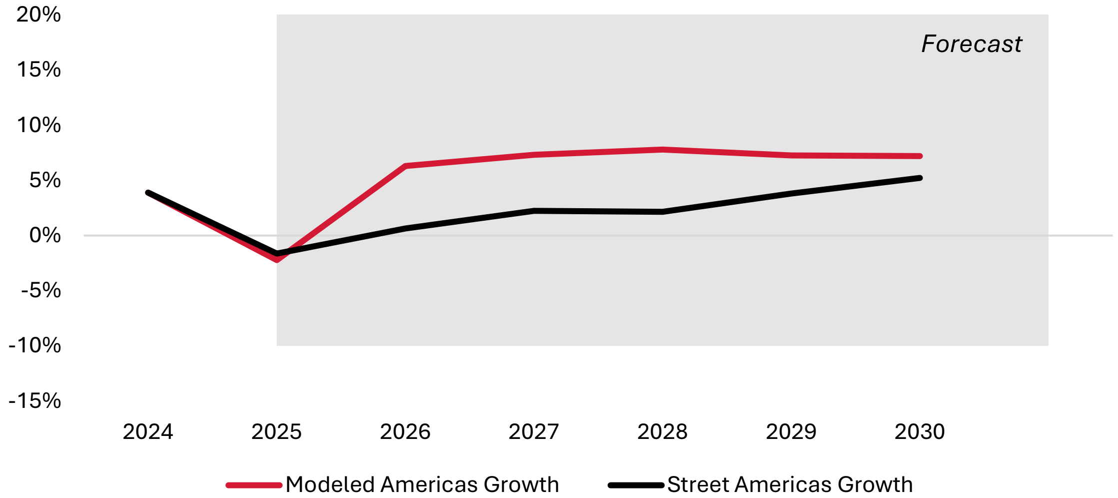
Strength in China Continues



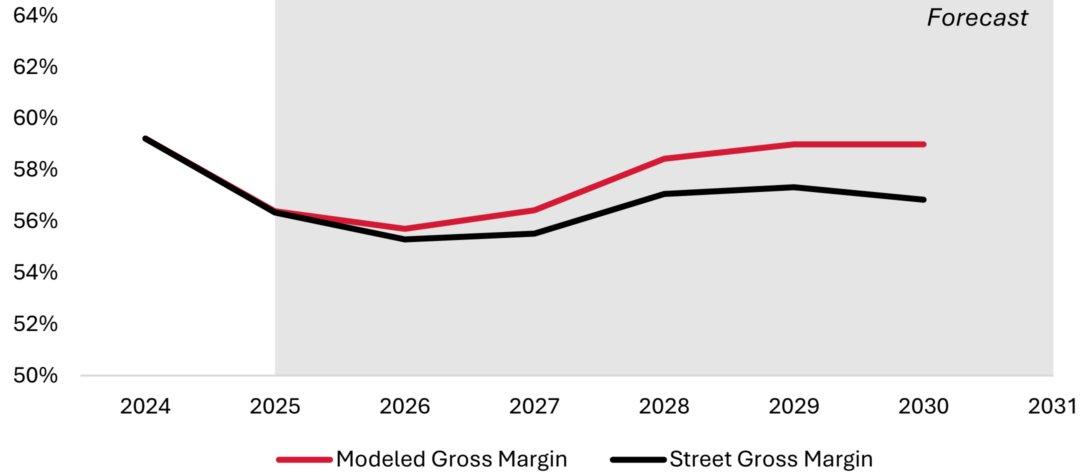
P/E Multiple Justification



Innovation Drives Americas Growth



A Nimbler Business Improves Margins



*Base Case Scenario

Risks & Catalyst Path

Risks to Thesis	Mitigants
Stalling Innovation: Jonathan Cheung's first full new collection release **fails** to appeal to the core consumer in 1H26, leading to continued elevated markdowns, pressuring margins, and EPS.	Channel checks show **improved** sell-through of Cheung's new releases, especially with the Polka-Flock and Daydrift collections. Improving brand heat, elevated store curation, and higher levels of newness give us further conviction.
Competition: Alo Yoga continues its meteoric expansion and **successfully expands** into activewear, **further eroding** Lululemon's market share of athleisure.	Structural quality issues will **dissuade repeat customers** as seen through Alo's substantially worse retention rates. We believe Lululemon's technical **differentiation** remains intact when compared to Alo in activewear.
International Growth Slows: Mainland China momentum **decelerates**, with comparable sales slowing and increased discounting. Lululemon fails to successfully expand into Tier 2 & Tier 3 cities.	Alt-data remains positive, and core styles are still **underpenetrated** internationally while the brand continues to resonate with customers in Tier 2 & Tier 3 cities, leaving **significant runway** for Lululemon.
Denim Is Here to Stay: The mix does **not normalize** back towards leggings and office wear, as interest for denim and baggy clothing **continues to accelerate**, moving the trend away from Lululemon's tight leggings and fitted apparel.	Search data shows **clear inflection** towards office wear and leggings, while more formal peers are **experiencing strong growth**. 3Q25 earnings call indicates that management is focusing on work clothing for women in 2026.

Catalyst Path

FY2026 (Short-Term)

- **Newness Adoption:** Designer Jonathan Cheung's spring release has strong full-price sell through in Americas
- **China Momentum:** Lululemon demonstrates continued strength in China, and plans for further expansion into Tier 2 & Tier 3
- **Markdowns Normalize:** inventory growth slows relative to revenue growth, and gross margin stabilizes

FY2027 (Mid-Term)

- **Category Mix Normalizes:** Leggings and business casual regain share as denim heat normalizes
- **Consumer Confidence:** Consumer improves, customers trade up to more premium items
- **Brand Prestige:** New management focuses on improving brand desirability and satisfying core consumer

FY2028+ (Long-Term)

- **Tariffs Call-Option:** Political leadership lightens tariff environment, supporting margin recovery
- **Buybacks:** Management utilizes the strong balance sheet to continue to buyback a sizable number of shares, driving EPS growth
- **Brand Awareness:** Increases brand awareness in Europe and other underpenetrated areas

Appendix

"The product has to be better. If it isn't, the customer won't come back." - Wilson

Leadership Transition Timeline

December 2025: Elliot Investment Management has built a more than $1 billion stake in Lululemon

- Elliot has been working with formal Ralph Lauren CFO and COO Jane Nielsen, as a potential candidate
- **Stock rose ~6%** post-announcement; positive sentiment

December 2025: CEO Calvin McDonald announces he will step down on January 31st, 2026

- McDonald helped Lululemon **triple** their revenues to $10B
- However, he caught criticism for the **acquisition** of **Mirror** and **lackluster Americas** growth

August 2018: Calvin McDonald joins Lululemon after 5 years as CEO of Americas for Sephora

- Under McDonald, Lululemon began the **"Power of Three"** and **"Power of Three x2"** which focused on product innovation, guest experience, and international expansion

January 2014: Laurent Potdevin steps in as CEO

- Potdevin's website relaunch and store re-organization **led** Lululemon out of a 2-year slump
- Drove 14% revenue growth in 2016 by **optimizing** supply chain efficiency
- Set a 5-year **$4B+** revenue target with $1B each from international expansion, men's category, and e-commerce

Lululemon Management

Meghan Frank, CFO, Interim CEO

- Applauded for demonstrating **adaptability** during COVID pandemic
- 20+ years of **finance experience** within the retail sector, including senior roles at Ross, J. Crew

André Maestrini, CCO, Interim CEO

- **Quadrupled international revenues** while overseeing EMEA, APAC, and China Mainland
- Previously led global adidas Sport strategy and P&L, growing the segment to €8.9B in revenue

Nikki Neuburger, CBPAO

- Former Global Head of Marketing for Uber Eats
- Led Nike Running marketing where she **spearheaded** the launch of Breaking 2, Nike's most successful live running execution ever

X-Factor

Chip Wilson, Founder

- High-profile, vocal Lululemon shareholder, drawing public attention (and criticism) for **strong opinions** about the brand and leadership
- Partial owner of Amer Sports

Board of Directors Summary

Board of Directors

Martha Morfitt, Executive Chair

- Former CEO of Airborne and CNS Companies
- Led brand and division roles at Pillsbury

David Mussafer, Lead Director

- Managing partner at Advent International with decades of private equity leadership

Calvin McDonald, CEO

- Former CEO of Sephora Americas, delivering sustained double-digit growth

Shane Grant, Director

- Senior leadership at Danone, including Group Deputy CEO and CEO Americas
- 20 years at Coca-Cola

Kathryn Henry, Director

- Former CIO, logistics and distribution at lululemon
- Leadership at Gap and Levi

Teri List, Director

- Former CFO of Gap and DICK's Sporting Goods
- Extensive public company board experience

Alison Loehnis, Director

- Former interim CEO and president of Yoox Net-a-Porter

Isabel Mahe, Director

- Senior technology leadership at Apple, including Greater China operations

Jon McNeill, Director

- CEO of DVx Ventures
- Former president of Tesla and COO of Lyft

Emily White, Director

- President of Anthos Capital, former Snap COO and Meta executive

Board of Directors Summary

Board of Directors Timeline

Director	Year Joined	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Chip Wilson	1998	X	X	X	X	X	X	X												
Steven Collins	2005	X							X	X	X									
Rhoda Pitcher	2005	X	X	X	X	X	X	X	X	X										
David Mussafer	**2005**	X	X						X	X	X	X	X	X	X	X	X	X	X	X
Thomas Stemberg	2005	X	X	X	X	X	X	X	X											
Michael Casey	2007	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
RoAnn Costin	2007	X	X	X	X	X	X	X	X	X										
R. Brad Martin	2007	X	X	X	X	X														
Christine Day	2008		X	X	X	X	X													
Marti Morfitt	**2008**		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Emily White	**2011**					X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Jerry Stritzke	2012						X													
William Glenn	2012						X	X	X	X										
Robert Bensoussan	2013						X	X	X	X	X	X	X							
Laurent Potdevin	2014							X	X	X	X									
Kathryn Henry	**2016**									X	X	X	X	X	X	X	X	X	X	X
Jon McNeill	**2016**									X	X	X	X	X	X	X	X	X	X	X
Glenn Murphy	2017										X	X	X	X	X	X	X			
Tricia Glynn	2017											X	X	X	X					
Calvin McDonald	**2018**												X	X	X	X	X	X	X	X
Stephanie Ferris	2019													X	X	X				
Kourtney Gibson	2020														X	X	X			
Alison Loehnis	**2022**															X	X	X	X	X
Isabel Mahe	**2022**																X	X	X	X
Shane Grant	**2023**																	X	X	X
Teri List	**2024**																	X	X	X

Sources: M Squared Capital

Comps Universe

Ticker	Name	Mkt Cap	EV	EV/EBITDA	P/E	NTM P/E	ROIC
LULU US Equity	LULULEMON ATHLETICA INC	$25324M	$26051M	9x	15x	17x	30%
AS US Equity	AMER SPORTS INC	$21401M	$22935M	21x	56x	33x	6%
DECK US Equity	DECKERS OUTDOOR CORP	$15662M	$14598M	11x	16x	16x	36%
ADS GR Equity	ADIDAS AG	$34352M	$39168M	11x	24x	15x	9%
UAA US Equity	UNDER ARMOUR INC-CLASS A	$2382M	$3886M	10x	181x	33x	4%
NKE US Equity	NIKE INC -CL B	$96743M	$99680M	26x	38x	32x	13%
VFC US Equity	VF CORP	$7607M	$12979M	9x	22x	21x	5%
ONON US Equity	ON HOLDING AG-CLASS A	$16191M	$16015M	27x	52x	30x	12%
WWW US Equity	WOLVERINE WORLD WIDE INC	$1539M	$2242M	11x	16x	13x	8%
GAP US Equity	GAP INC/THE	$10060M	$13059M	8x	12x	12x	9%
ANF US Equity	ABERCROMBIE & FITCH CO-CL A	$5909M	$6423M	5x	11x	13x	24%
ATZ CN Equity	ARITZIA INC-SUBORDINATE VOTI	$10132M	$10589M	25x	54x	35x	11%
AEO US Equity	AMERICAN EAGLE OUTFITTERS	$4779M	$6637M	12x	22x	18x	11%
RL US Equity	RALPH LAUREN CORP	$22026M	$23253M	17x	25x	22x	15%
URBN US Equity	URBAN OUTFITTERS INC	$7243M	$7464M	11x	16x	14x	11%
Median		**$10132M**	**$13059M**	**11x**	**22x**	**18x**	**11%**

Cases

Americas Cases	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25E	FY'26E	FY'27E	FY'28E	FY'29E	FY'30E
E-Commerce Growth %(Excluding AMEX)		20%	32%	10%	0%	(3%)	3%	4%	4%	4%	4%
Bear						(4%)	(1%)	(1%)	(1%)	(1%)	(1%)
Base						(3%)	3%	4%	4%	4%	4%
Bull						(2%)	5%	6%	6%	6%	6%
SSS % Growth		49%	20%	6%	3%	(5%)	4%	3%	4%	3%	3%
Bear						(7%)	(2%)	(2%)	(2%)	(2%)	(2%)
Base						(5%)	4%	3%	4%	3%	3%
Bull						(3%)	6%	4%	5%	5%	5%
# of New Stores		10	32	19	24	10	10	6	6	5	5
Bear						9	8	3	3	3	3
Base						10	10	6	6	5	5
Bull						11	12	7	7	7	7

China Cases	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25E	FY'26E	FY'27E	FY'28E	FY'29E	FY'30E
E-Commerce Growth %			36%	64%	36%	24%	18%	16%	14%	14%	12%
Bear						22%	14%	12%	8%	4%	0%
Base						24%	18%	16%	14%	14%	12%
Bull						28%	24%	22%	22%	18%	18%
SSS % Growth			24%	39%	29%	18%	15%	14%	12%	11%	11%
Bear						15%	12%	10%	8%	4%	0%
Base						18%	15%	14%	12%	11%	11%
Bull						20%	17%	15%	14%	14%	14%
# of New Stores		31	31	10	24	23	23	24	22	22	20
Bear						21	18	17	15	12	10
Base						23	23	24	22	22	20
Bull						25	26	27	25	25	25

Cases

Rest of World Cases	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25E	FY'26E	FY'27E	FY'28E	FY'29E	FY'30E
E-Commerce Growth %			41%	40%	22%	24%	20%	16%	14%	14%	12%
Bear						22%	16%	12%	8%	4%	0%
Base						24%	20%	16%	14%	14%	12%
Bull						28%	26%	24%	24%	22%	22%
SSS % Growth			16%	30%	21%	16%	15%	13%	13%	12%	12%
Bear						14%	10%	8%	6%	4%	0%
Base						16%	15%	13%	13%	12%	12%
Bull						18%	17%	17%	16%	15%	15%
# of New Stores			17	12	8	10	12	13	13	13	13
Bear						8	8	7	7	7	7
Base						10	12	13	13	13	13
Bull						12	14	15	15	15	15

COGS Build	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25E	FY'26E	FY'27E	FY'28E	FY'29E	FY'30E
% of AMEX Credit Paid by LULU						30%	30%	30%	30%	30%	30%
Bear						50%	50%	50%	50%	50%	50%
Base						30%	30%	30%	30%	30%	30%
Bull						20%	20%	20%	20%	20%	20%
COGS % of Revenue						44%	44%	44%	42%	41%	41%
Bear						44%	45%	44%	44%	44%	44%
Base						44%	44%	44%	42%	41%	41%
Bull						43%	44%	43%	41%	40%	40%

Model Cover

Lululemon (LULU), Summary

NYSE: LULU - FYE January 31st Ended, - in Millions except per unit and per share data

Capitalization Table	Book
	1/10/2026
LULU Share Price	**$203.90**
FDSO	118.6
Market Capitalization	**24,182.5**
(+) Debt	1,762.8
(-) Cash and cash equivalents	1,035.9
(+) Preferred shares	-
(+/-) Other items	-
Enterprise Value	**24,909.5**

Trading Statistics	
3M ADV	4,400,000
$mm Movement Per Day	897.2
Shares (Insiders)	8.5
% float	7%
Shares (Public)	105.3
% float	93%
Shares Outstanding	**113.8**
Shares Sold Short (m)	8.4
% short	7.4%
Days to Cover (3M ADV)	**1.9**

Technical Statistics		
1Y Beta		1.3
Current Price		$203.90
52 Week High		$423.32
% of 52-Wk High		48%
52 Week Low		$159.25
% of 52-Wk Low		128%
# Sell-side Analysts		36.0
Median Price Target		$225.6
% upside/(downside)		*10.6%*
Average Rating		2.1
	# Score	# of Ratings
Strong Buy	4	1
Buy	3	2
Hold	2	31
Sell	1	2

Financial Summary

	Historical					Internal					Street				
	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25E	FY'26E	FY'27E	FY'28E	FY'29E	FY'25E	FY'26E	FY'27E	FY'28E	FY'29E
Total Revenue	4,402	6,257	8,111	9,619	10,588	11,162	12,468	13,976	15,665	17,474	11,047	11,449	11,449	12,063	12,665
% Change		42%	30%	19%	10%	5%	12%	12%	12%	12%	4%	4%	4%	5%	11%
vs. Street						105 bps	890 bps	2207 bps	2986 bps	3798 bps					
Gross Profit	2,464	3,609	4,492	5,609	6,271	6,296	6,946	7,887	9,153	10,310	6,178	6,331	6,331	6,698	7,227
% Margin	56%	58%	55%	58%	59%	56%	56%	56%	58%	59%	56%	55%	55%	56%	57%
% Change		46%	24%	25%	12%	0%	10%	14%	16%	13%	(1%)	2%	2%	6%	14%
vs. Street						84 bps	75 bps	205 bps	523 bps	339 bps					
Operating Income	820	1,333	1,328	2,133	2,506	2,299	2,486	2,891	3,557	4,071	2,158	2,093	2,093	2,222	2,393
% Margin	19%	21%	16%	22%	24%	21%	20%	21%	23%	23%	20%	18%	18%	18%	19%
% Change		63%	(0%)	61%	17%	(8%)	8%	16%	23%	14%	(14%)	(3%)	(3%)	6%	14%
vs. Street						546 bps	903 bps	1311 bps	2327 bps	2328 bps					
EPS	$4.50	$7.49	$6.68	$12.20	$14.64	$13.20	$14.66	$17.50	$22.43	$26.69	$12.93	$13.01	$13.01	$13.81	$16.60
% Change		66%	(11%)	83%	20%	(10%)	11%	19%	28%	19%	(12%)	1%	1%	6%	28%
vs. Street						205 bps	1265 bps	3454 bps	6244 bps	6080 bps					
EV/Revenue	5.7x	4.0x	3.1x	2.6x	2.4x	2.2x	2.0x	1.8x	1.6x	1.4x	2.3x	2.2x	2.2x	2.1x	2.0x
Fwd EV/EBIT	30.4x	18.7x	18.8x	11.7x	9.9x	10.8x	10.0x	8.6x	7.0x	6.1x	11.5x	11.9x	11.9x	11.2x	10.4x
Fwd P/E	45.3x	27.2x	30.5x	16.7x	13.9x	15.5x	13.9x	11.6x	9.1x	**7.6x**	15.8x	15.7x	15.7x	14.8x	**12.3x**

2027 NTM P/E Multiple

($ in millions)	**Downside**	**Base**	**Upside**
2028 EPS	$16.00	$22.43	$25.74
Multiple	10.0x	14.0x	18.0x
Implied Share Price	**$160.00**	**$314.06**	**$463.33**
`	114M	114M	114M
Market Capitalization	**18,198**	**35,719**	**52,697**
Plus: Debt	1,763	1,763	1,763
Less: Cash	1,036	1,036	1,036
Enterprise Value	**18,925**	**36,446**	**53,424**
Implied EBIT multiple	6.5x	12.6x	18.5x
% Gross Return	(21.5)%	54.0%	127.2%
Probability	25.0%	50.0%	25.0%

Tactical R/R

Risk/Reward by end of FY2027

Price	Reward	Risk	R/R	% move
$250	*85%*	*-36%*	*2.4x*	23%
$240	*93%*	*-33%*	*2.8x*	18%
$230	*102%*	*-30%*	*3.4x*	13%
$219	*111%*	*-27%*	*4.1x*	8%
$209	***121%***	***-24%***	***5.2x***	**3%**
$199	***133%***	***-20%***	***6.8x***	**(2%)**
$189	*145%*	*-15%*	*9.5x*	(7%)
$179	*159%*	*-10%*	*15.3x*	(12%)
$168	*175%*	*-5%*	*34.9x*	(17%)
$158	*193%*	*1%*	*173.8x*	(22%)

Total Probability-Weighted Returns

Target Date	1/31/2028
Yrs Until Target	2.06
Expected Value	**$312.86**
Expected IRR	**23.1%**
Gross Return	53.4%

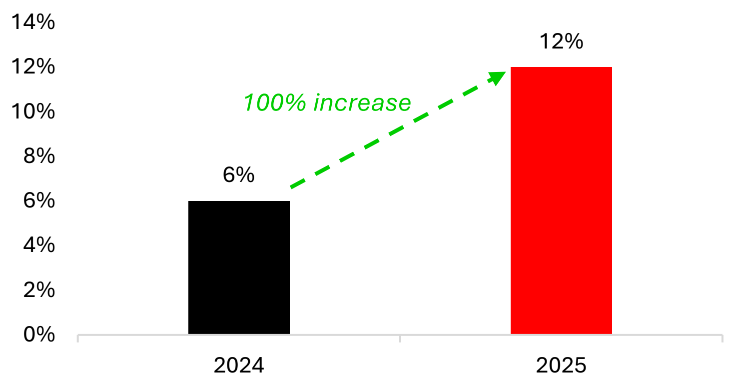
Scenario Overview

Bear Case	Base Case	Bull Case
• Americas SSS and E-Commerce assumptions are tortured and **stays negative through FY28** • Assumes International SSS and E-Commerce growth **collapses to MSD growth by FY28** • 10x fwd. P/E at exit, one of the **lowest multiples among all apparel peers** • Assumes Lululemon is paying **50% of the total Amex credit**(higher than average of ~30%) • Assumes COGS remains at **44-45%** through FY28 • New China store additions taper down to low-teens and Rest of World store additions decrease to HSD by FY28	• Americas SSS and E-Commerce stabilizes in **LSD** • International SSS momentum continues, growing in the low-teens% • International E-Commerce growth continues in the **mid-teens%** • **14x** fwd. P/E at exit • Assumes Lululemon is paying 30% of the total Amex credit • Assumes COGS improves to 42% through FY28, **back to near FY24 levels** • New store additions in China stay in the low-20s and Rest of World store additions decrease to low-teens through FY28	• Americas SSS and E-Commerce reaccelerates to **MSD** • International SSS momentum continues, growing in the mid-teens% • International E-Commerce growth continues in the **high-teens%** • **18x** fwd. P/E at exit, still **substantially cheaper** than Nike (27x fwd. P/E) • Assumes Lululemon is paying 20% of the total Amex credit • Assumes COGS improves to 41% through FY29, **back to FY24 levels** • New store additions in China stay in the mid-20s and Rest of World store additions decrease to mid-teens through FY28
FY2028 EPS: $16.00 **Fwd. P/E Multiple: 10x** **Implied Share Price: $160.00**	**FY2028 EPS: $22.43** **Fwd. P/E Multiple: 14x** **Implied Share Price: $314.06**	**FY2029 EPS: $25.74** **Fwd. P/E Multiple: 18x** **Implied Share Price: $463.33**

Early Innings of Health and Wellness

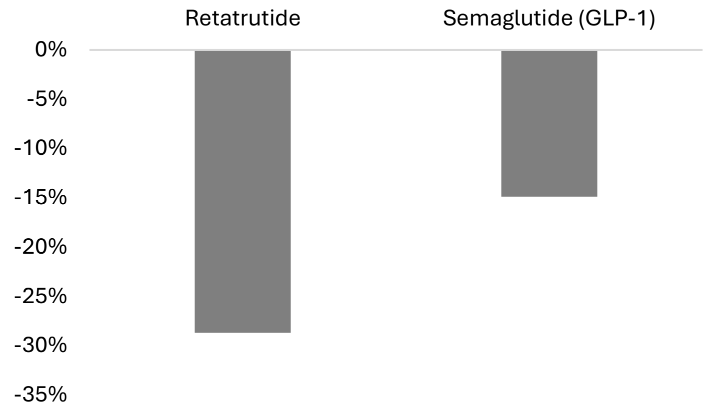
GLP-1 and Retatrutide

Adults on GLP-1



- The amount of **adults utilizing GLP-1 has doubled** while the drug has gotten even more accessible
- We believe this **expands Lululemon's TAM** substantially, especially as these users begin to buy new clothes to fit their new body type

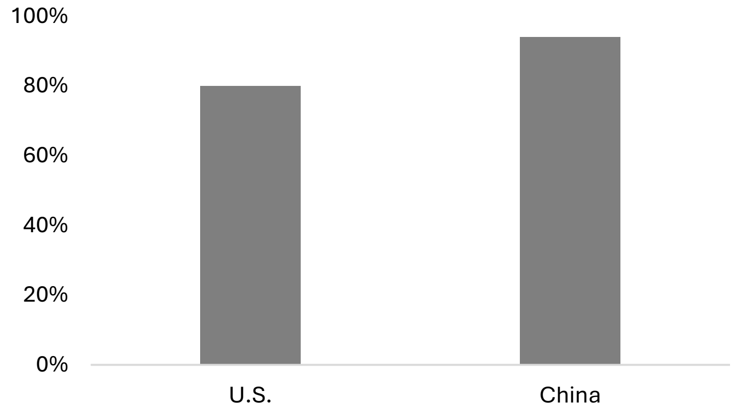
Average % Weight Loss Reduction



- Additionally, new weight loss shot retatrutide is showing very impressive results in reducing weight
- **Retatrutide's** expected launch in 2027 could provide **further uplift** to Lululemon

Health and Wellness Is a High Priority for Young People and Continuing to Grow in Mindshare

% Highly Prioritize Wellness



- **Wellness** continues to be a **top priority** across the world
- This phenomena is especially **driving sportswear sales** in China(+9%) vs. overall flat market

Lululemon Align 10th anniversary event in China

- Lululemon is in a great position for this **long-term shift towards wellness** as it is already associated with health and wellness
- New changes to store curation and more **community-focused events** will further **increase consumer engagement**

Sources: KFF, PubMed, PR Newswire, McKinsey