

Lululemon Athletica Inc



The Compounding Crew



Why Lululemon?

Easy to understand

Predictable & consistent

No debt & strong financials

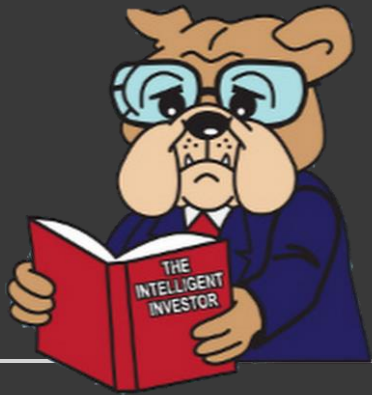
Margin of safety is greater than 20%



Table of Contents

	Presenter	Slide Numbers
Company Overview	Jake Gray	4-7
Revenue Breakdown	Jake Gray	8-18
Interpretation of Financial Statements	Jenna Lindemann	19-33
Management & Capital Allocation	Logan Arciba & Joaquin Rodriguez	34-43
Competitor Analysis	Dylan Swanson	44-56
Economic Moat	Zac Nguyen	57-67
Growth Opportunities	Logan Arciba	68-85
Risk	Joaquin Rodriguez	86-94
Valuation & Conclusion	Dylan Swanson	95-116

Company Overview



Jake Gray



Company Information

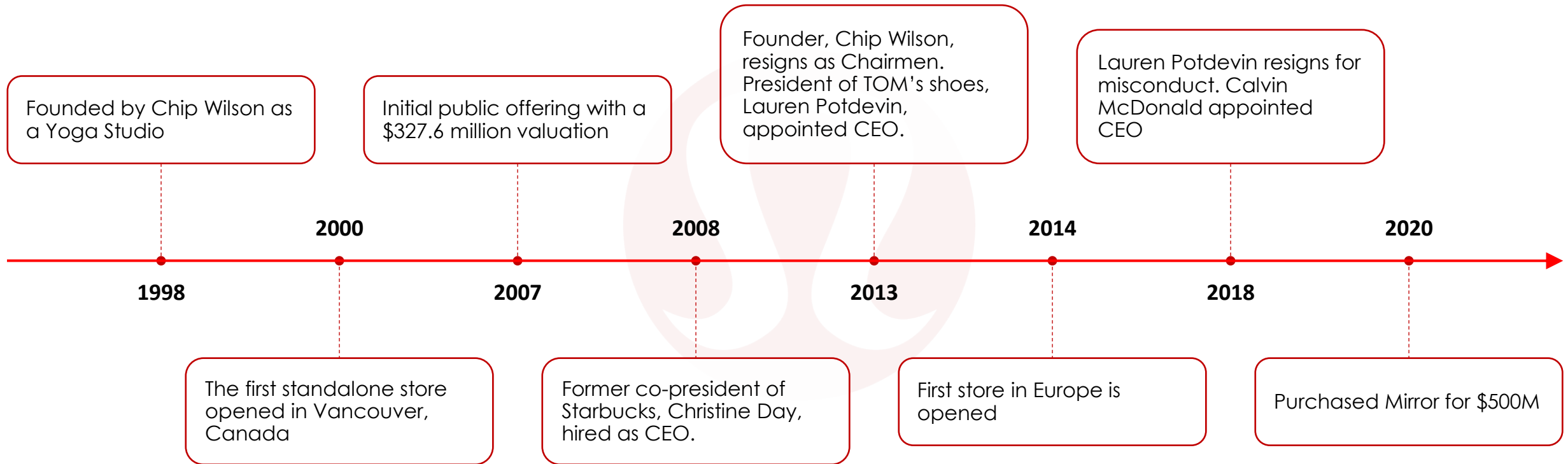
Ticker	NASDAQ:LULU
Market Capitalization	\$37.6 Billion
Employee Count	29,000
Founded In	1998
IPO'd In	2007
Headquarters	Vancouver, Canada
Located In	18 Countries



52 Week Price Performance

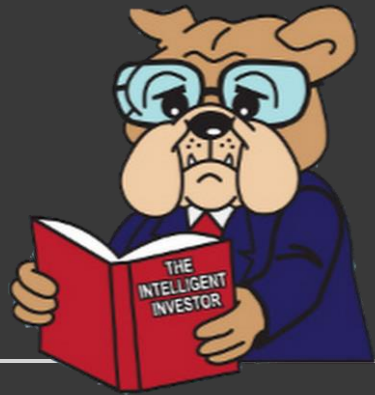


History





Revenue Breakdown



Jake Gray



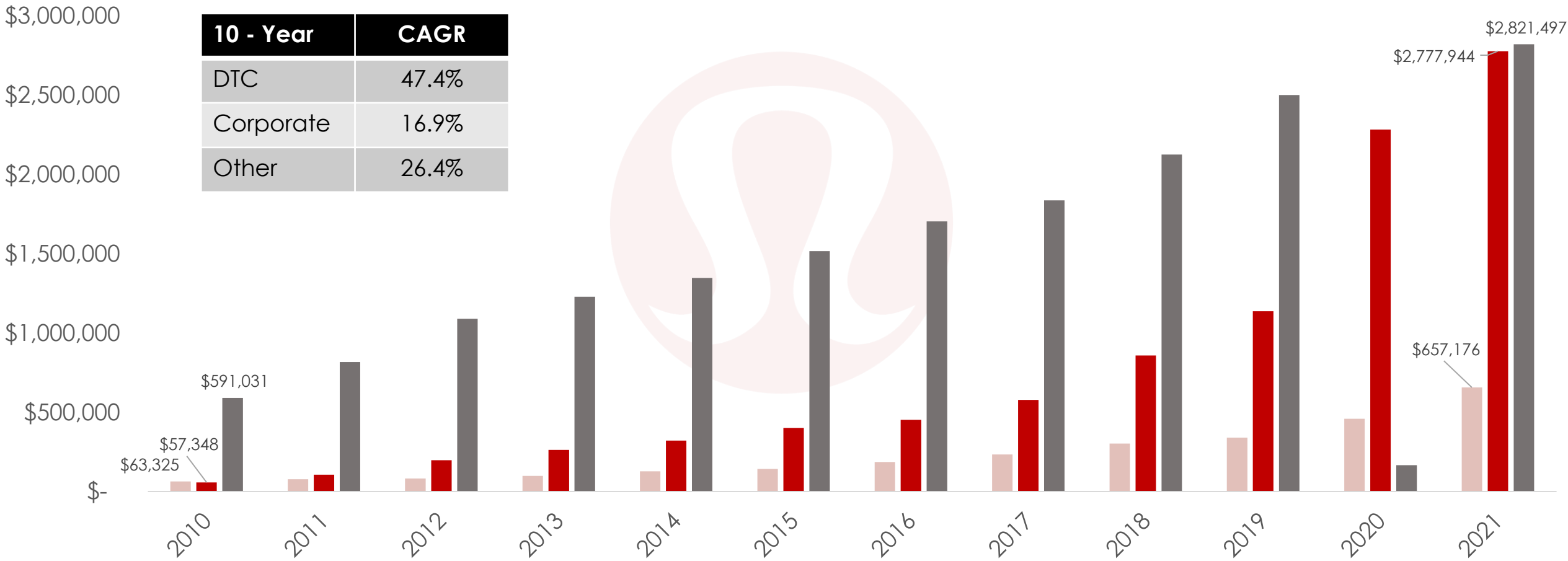
Strategy



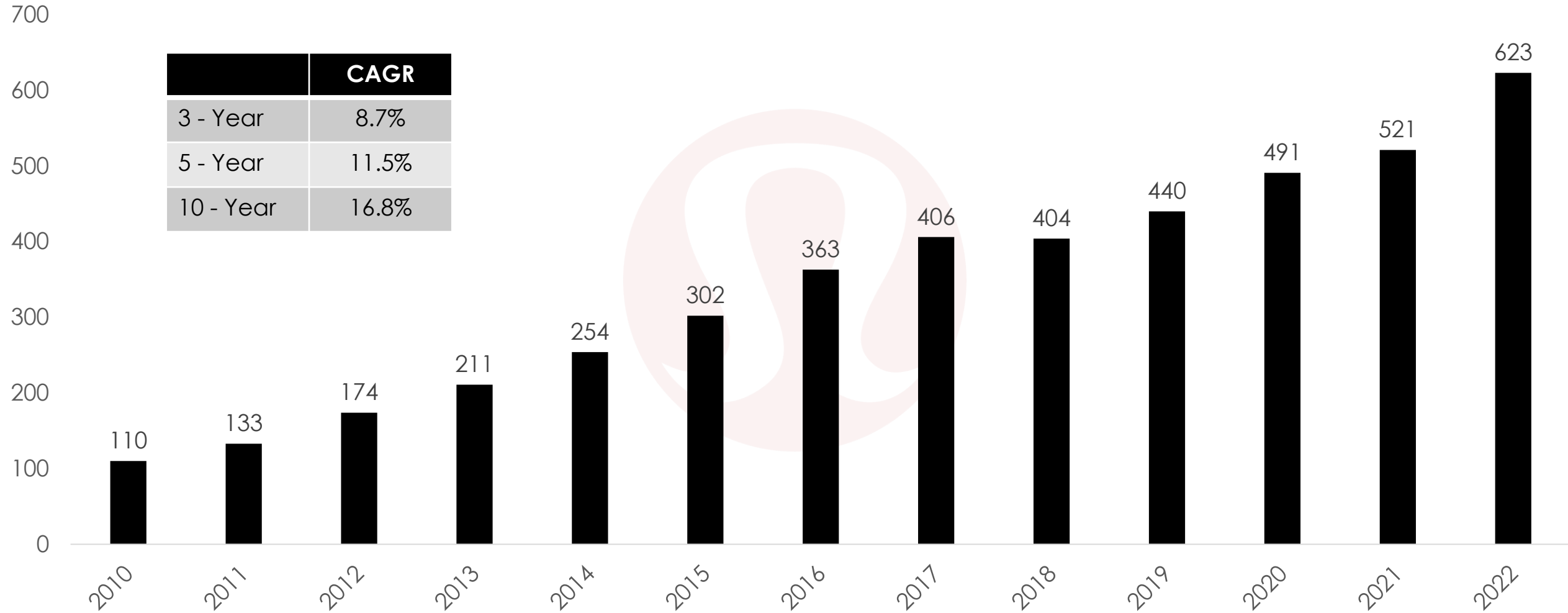
Sales Channel Growth

Other Direct to consumer Corporate-owned stores

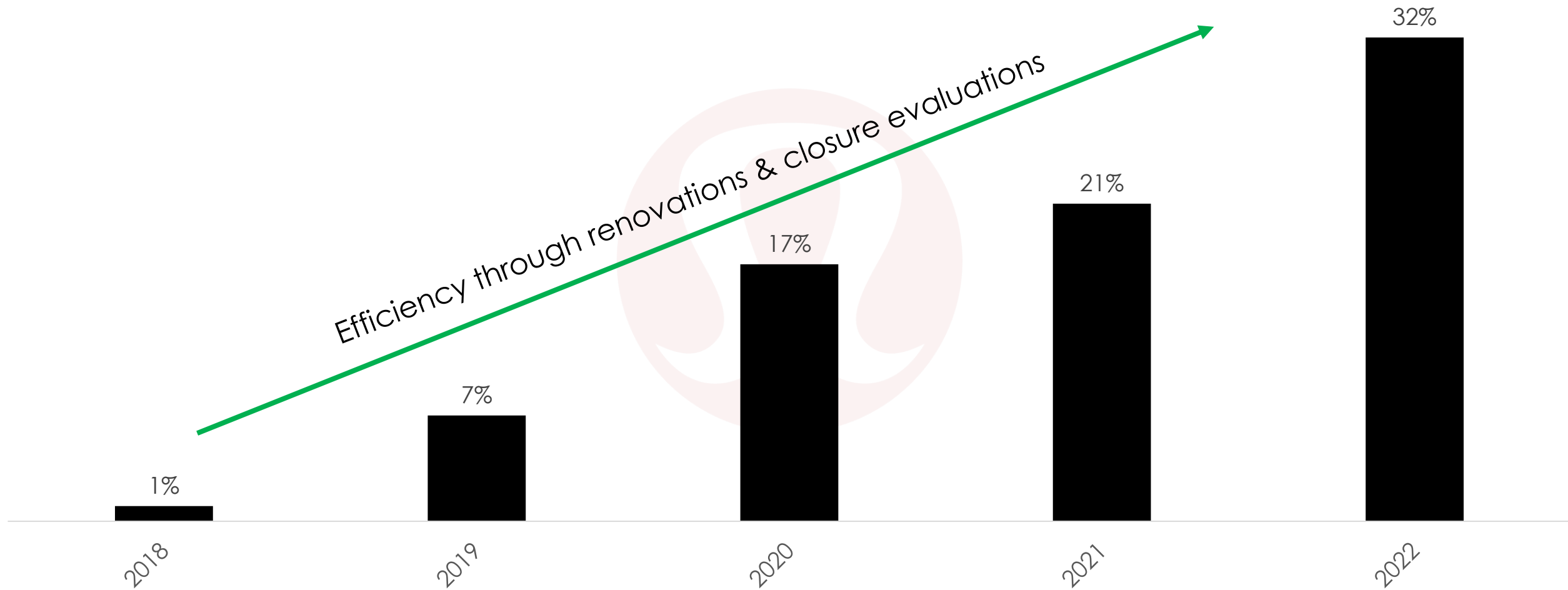
10 - Year	CAGR
DTC	47.4%
Corporate	16.9%
Other	26.4%



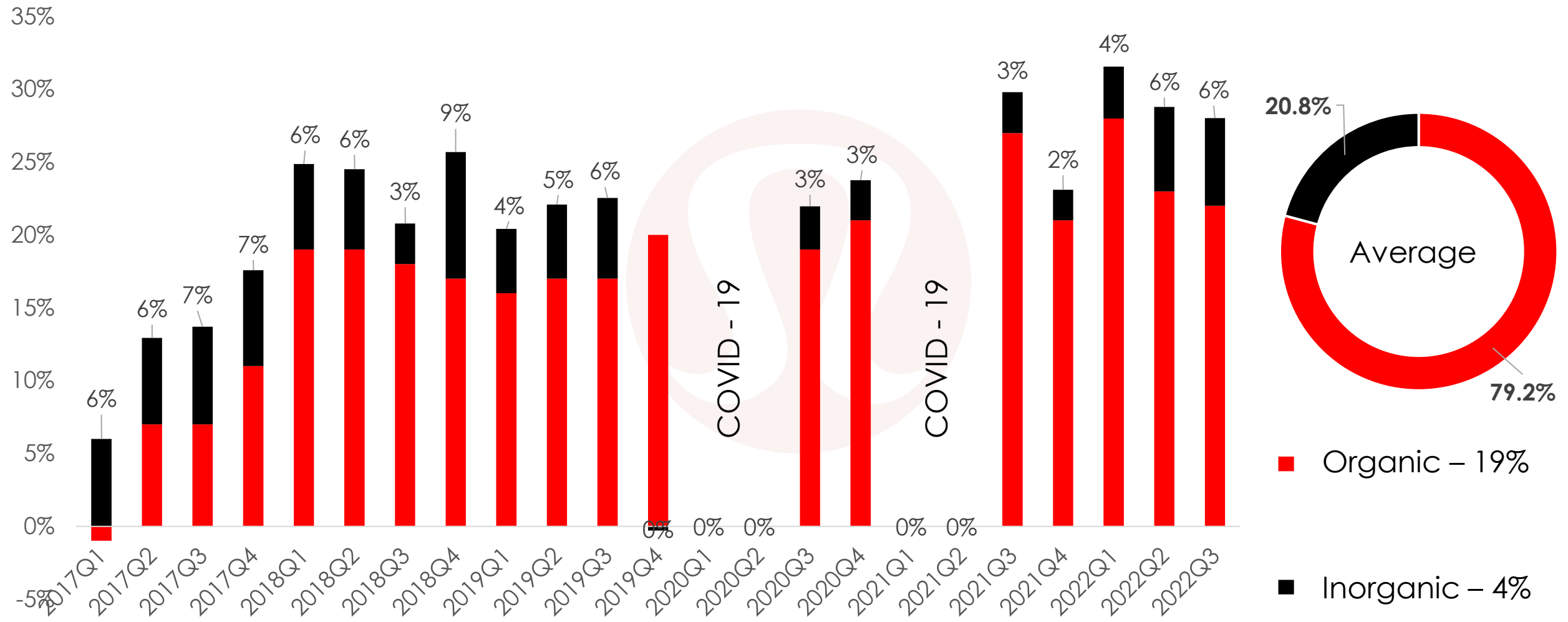
Store Count



Same Store Sales %



Comparable Sales Growth



Product Categories



67% of Sales

25% of Sales

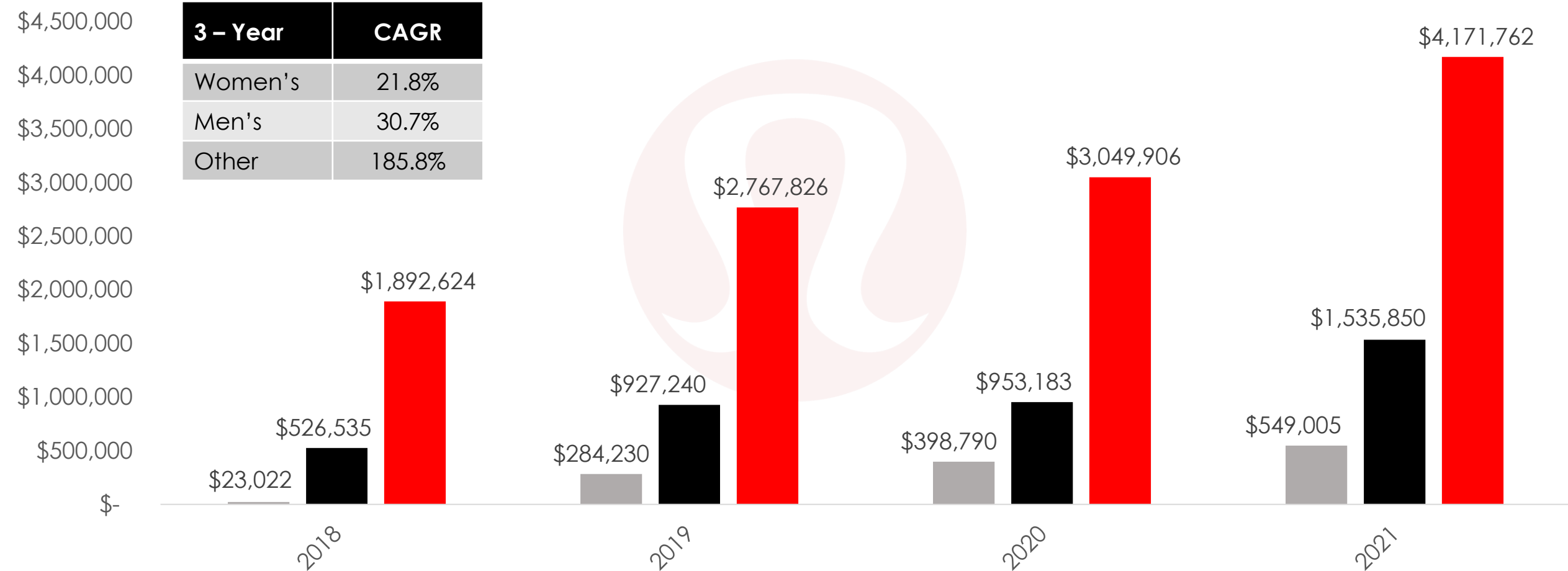
8% of Sales



Category Growth

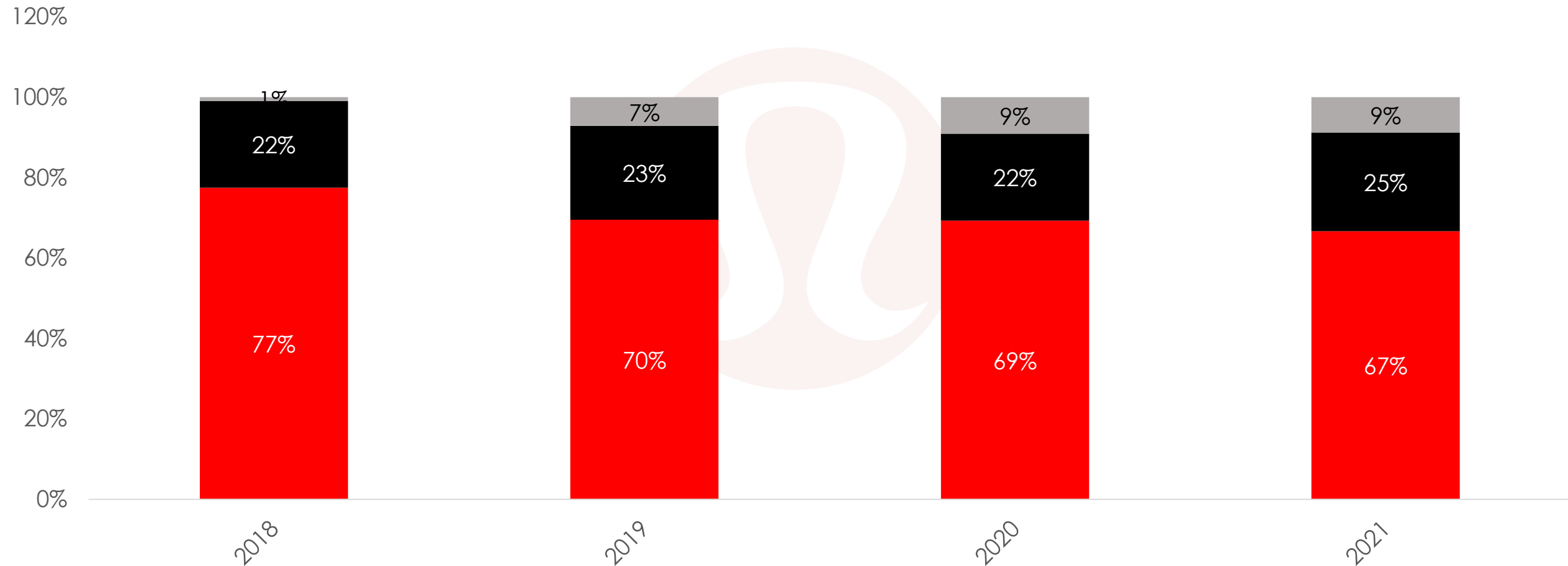
■ Other ■ Men's ■ Women's

3 - Year	CAGR
Women's	21.8%
Men's	30.7%
Other	185.8%



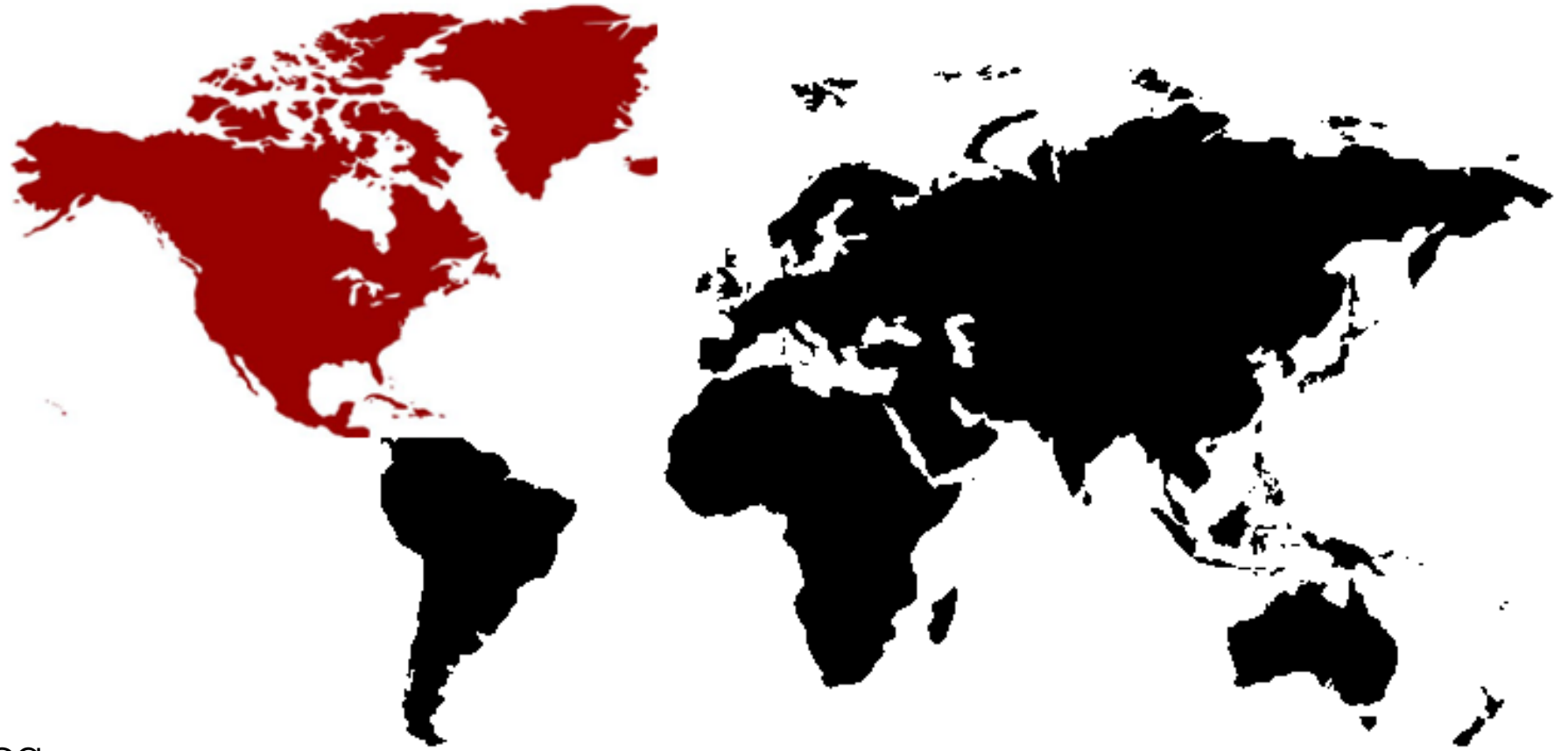
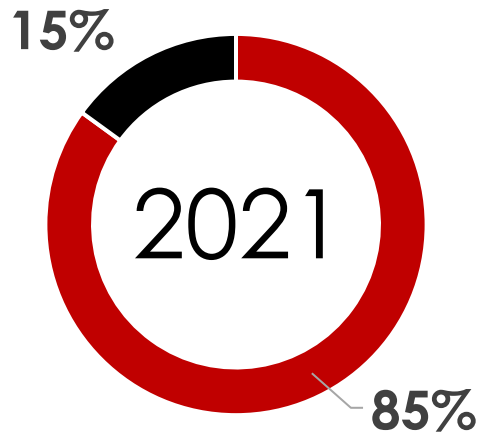
Category Mix

■ Women's ■ Men's ■ Other



Geographies

Revenue

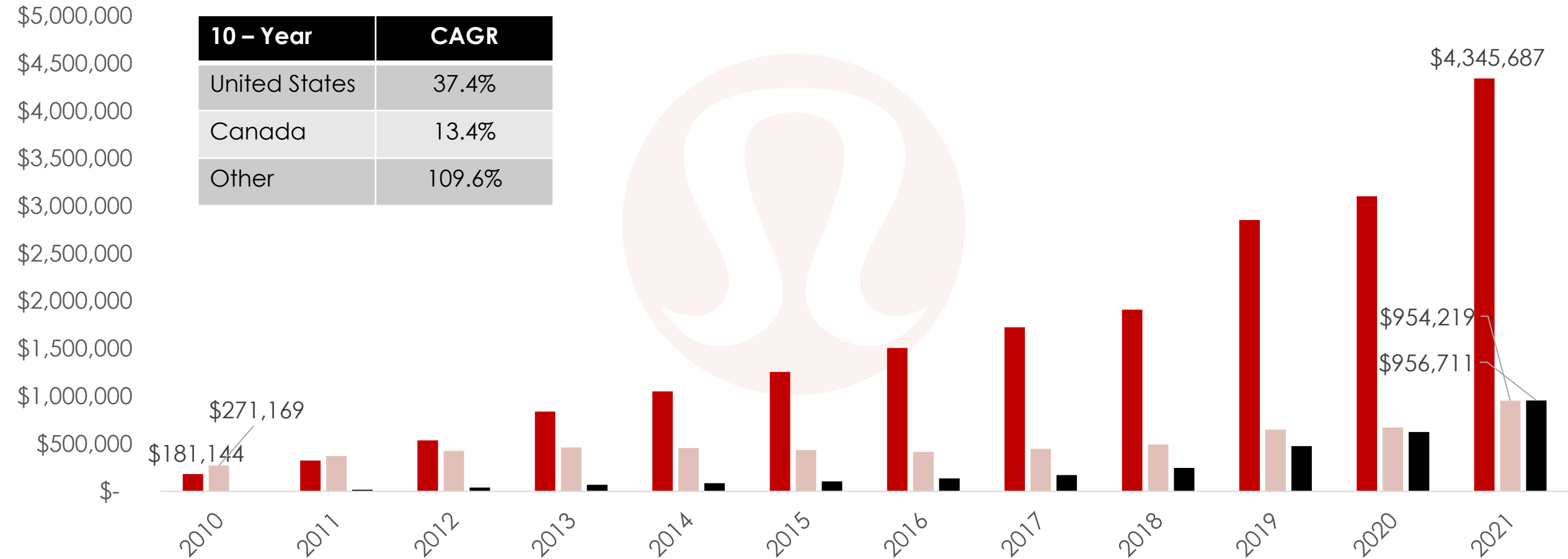


- North America
- Outside North America

Geographical Growth

■ United States ■ Canada ■ Other

10 – Year	CAGR
United States	37.4%
Canada	13.4%
Other	109.6%



Interpretation of Financial statements



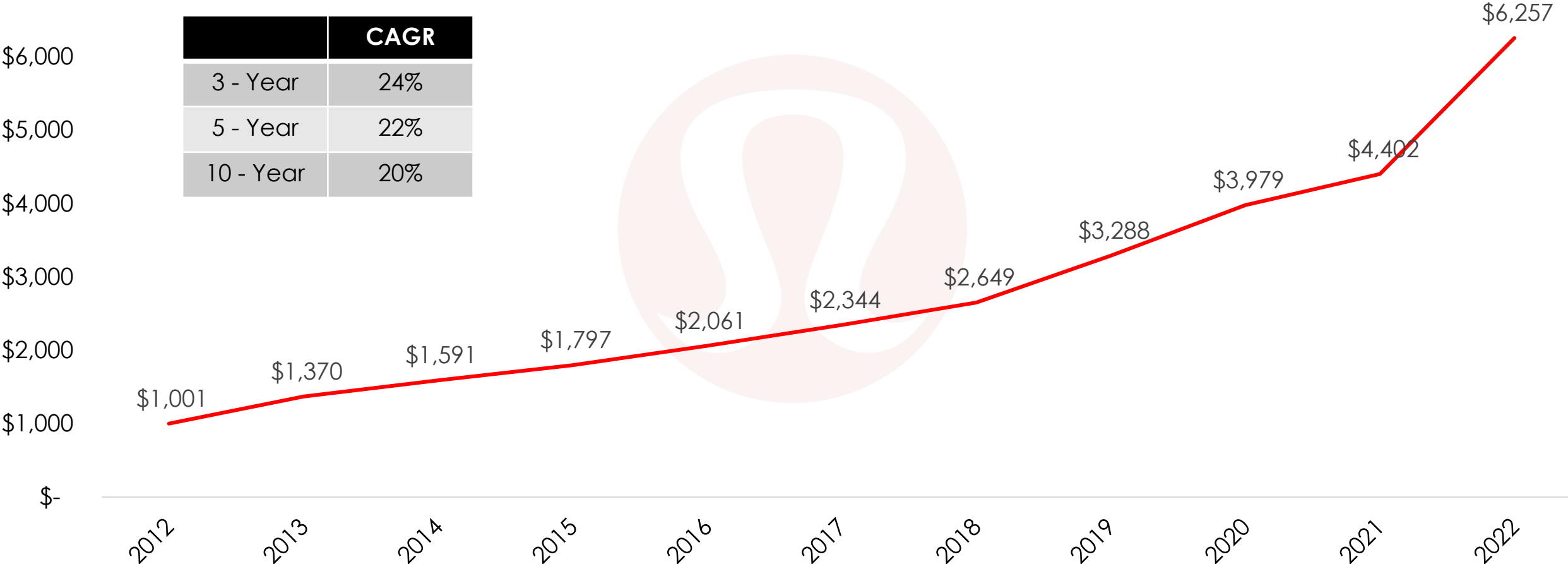
Jenna Lindeman



Revenue

In Millions

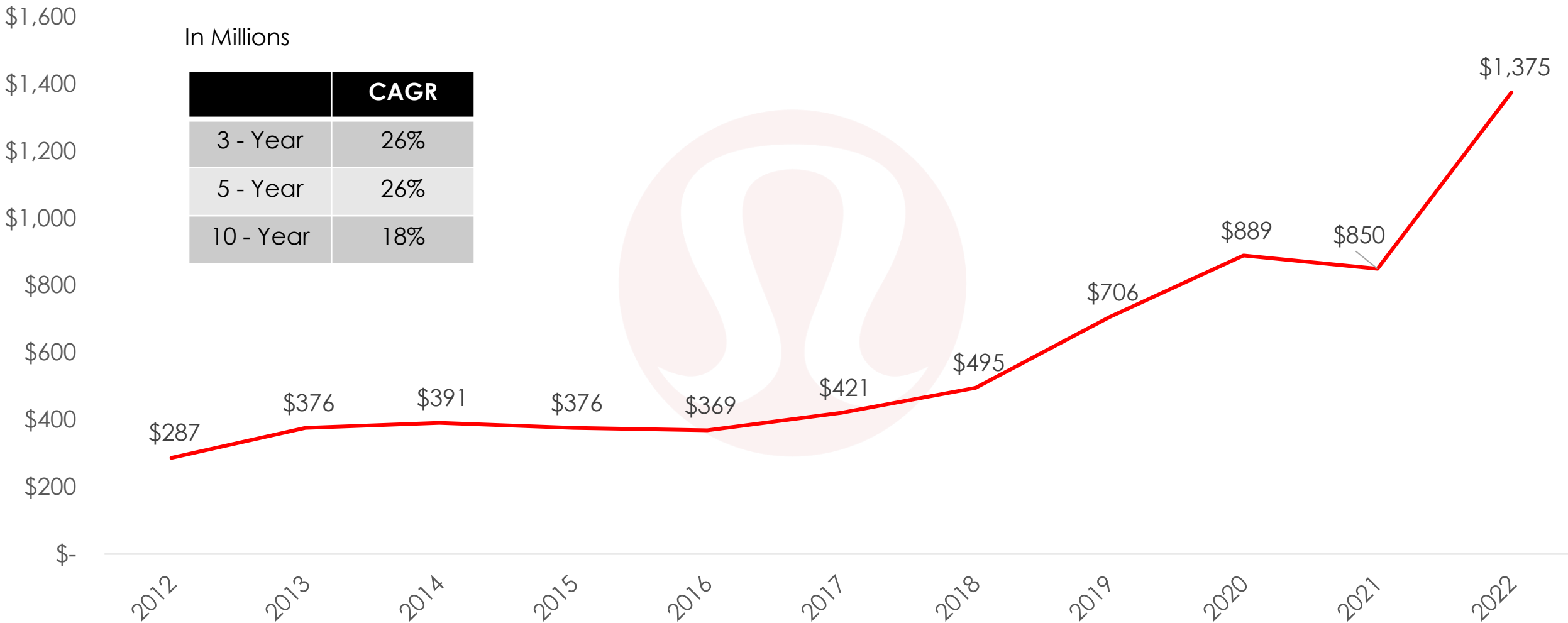
	CAGR
3 - Year	24%
5 - Year	22%
10 - Year	20%



Operating Income

In Millions

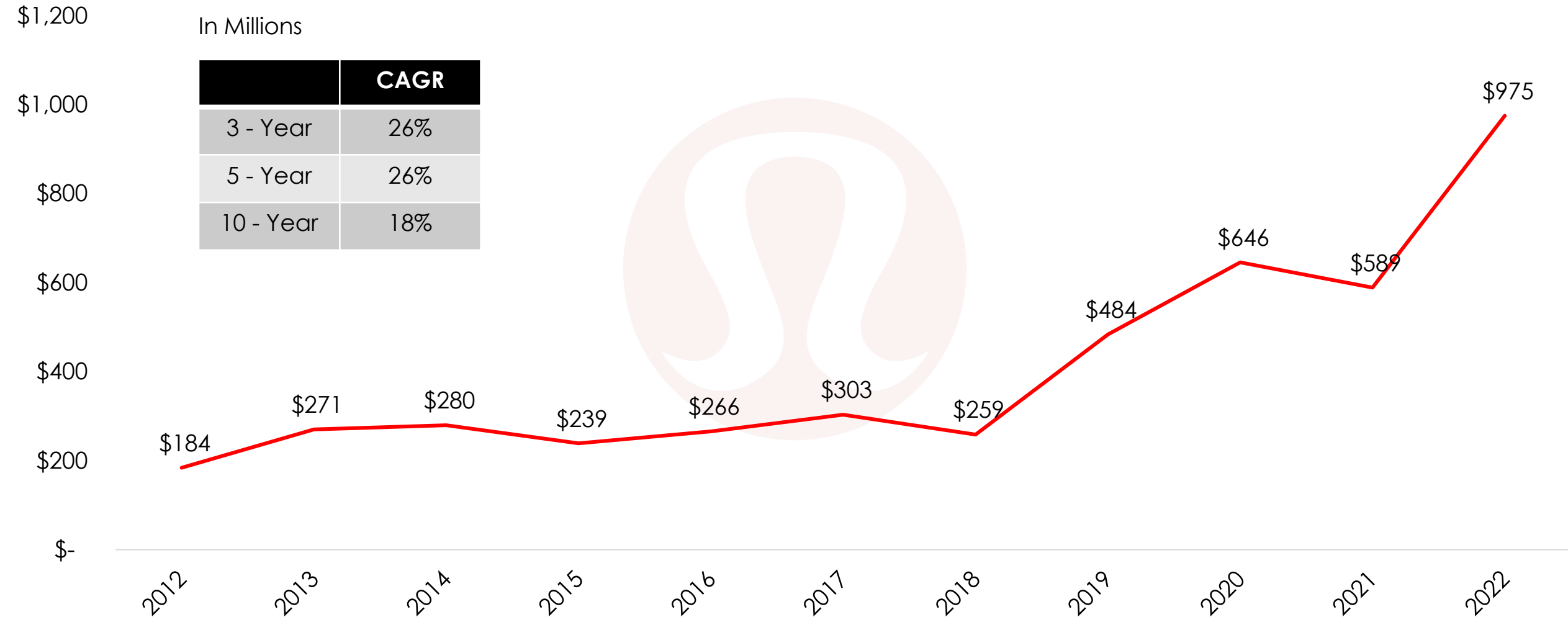
	CAGR
3 - Year	26%
5 - Year	26%
10 - Year	18%



Net Income

In Millions

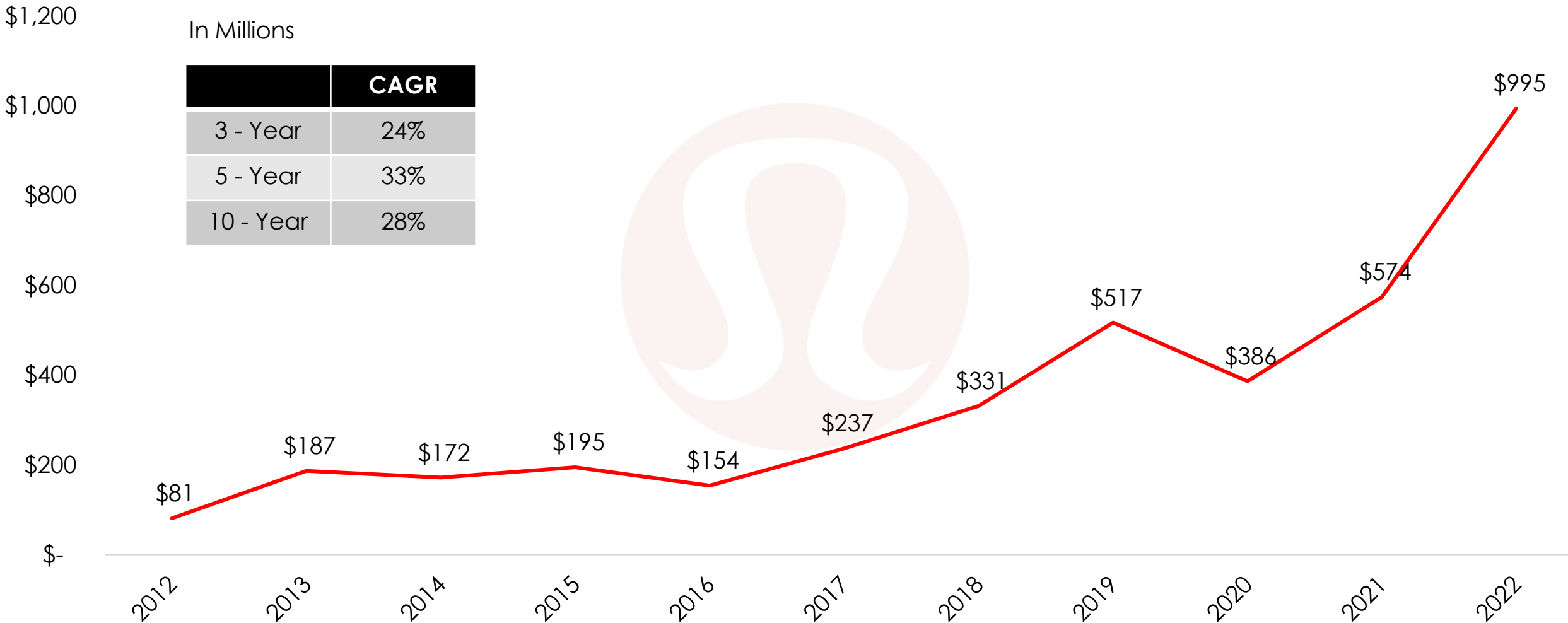
	CAGR
3 - Year	26%
5 - Year	26%
10 - Year	18%



Free Cash Flow

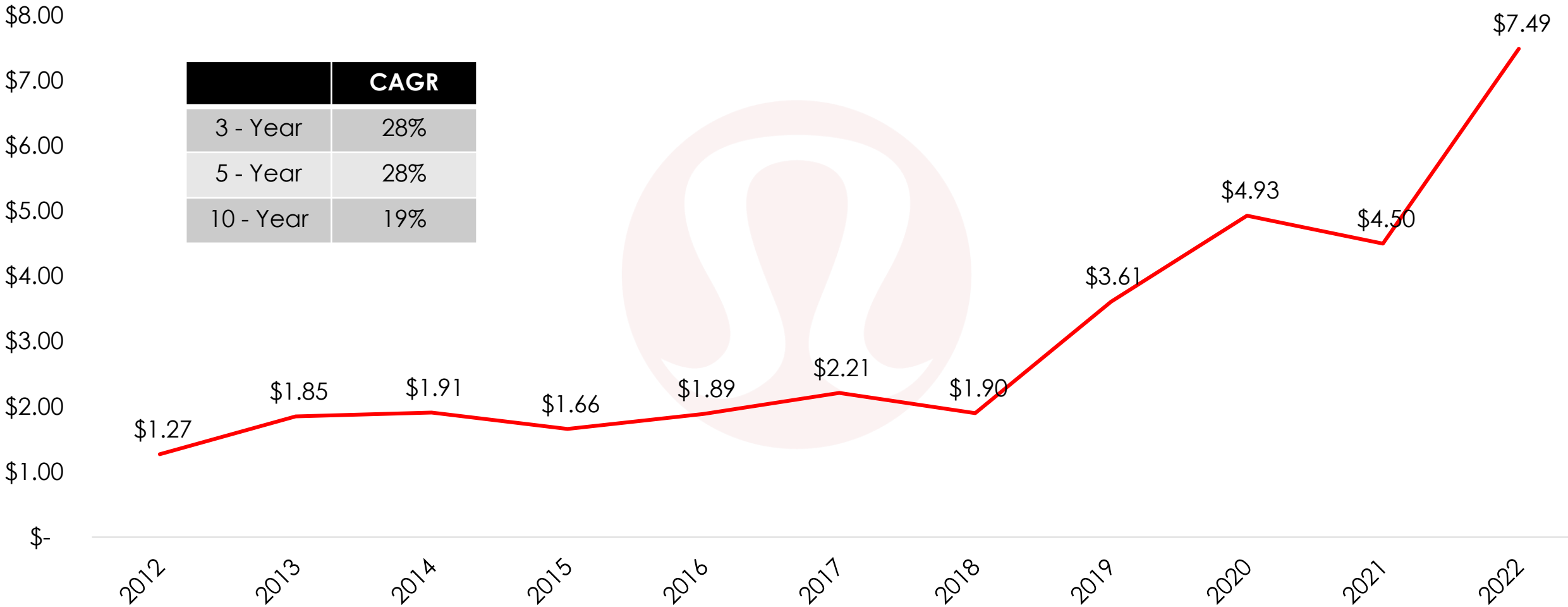
In Millions

	CAGR
3 - Year	24%
5 - Year	33%
10 - Year	28%

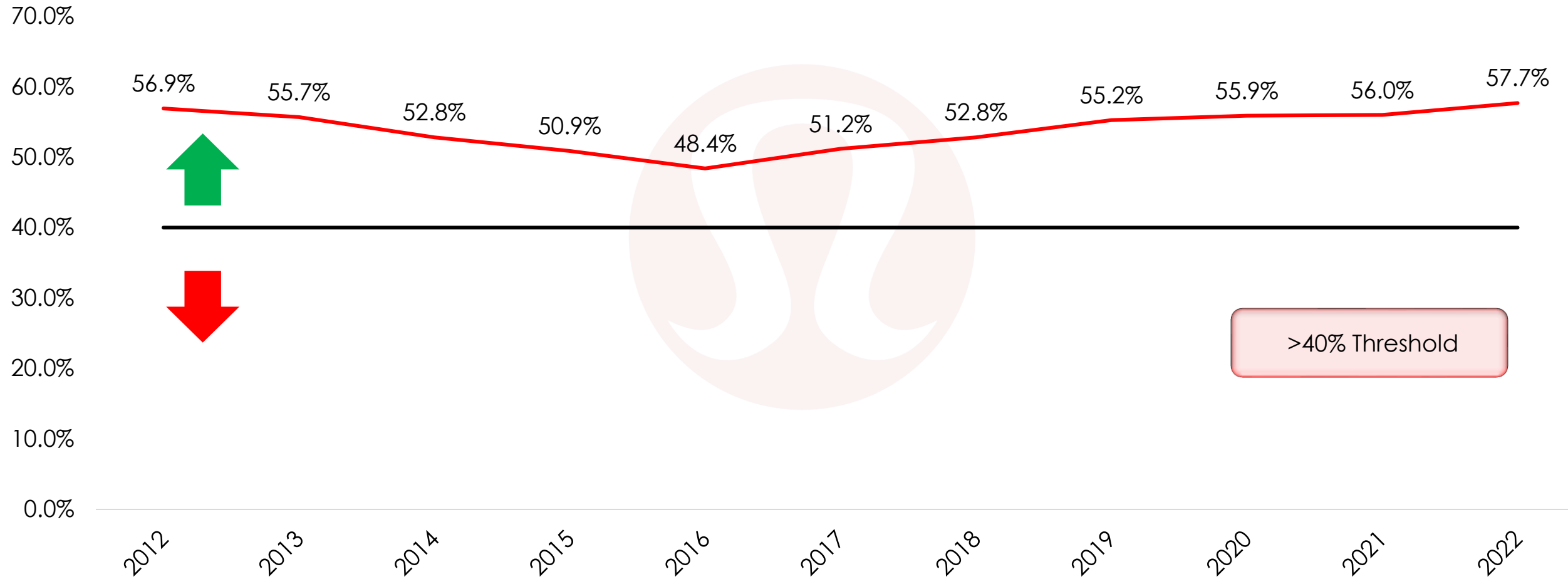


Earnings Per Share

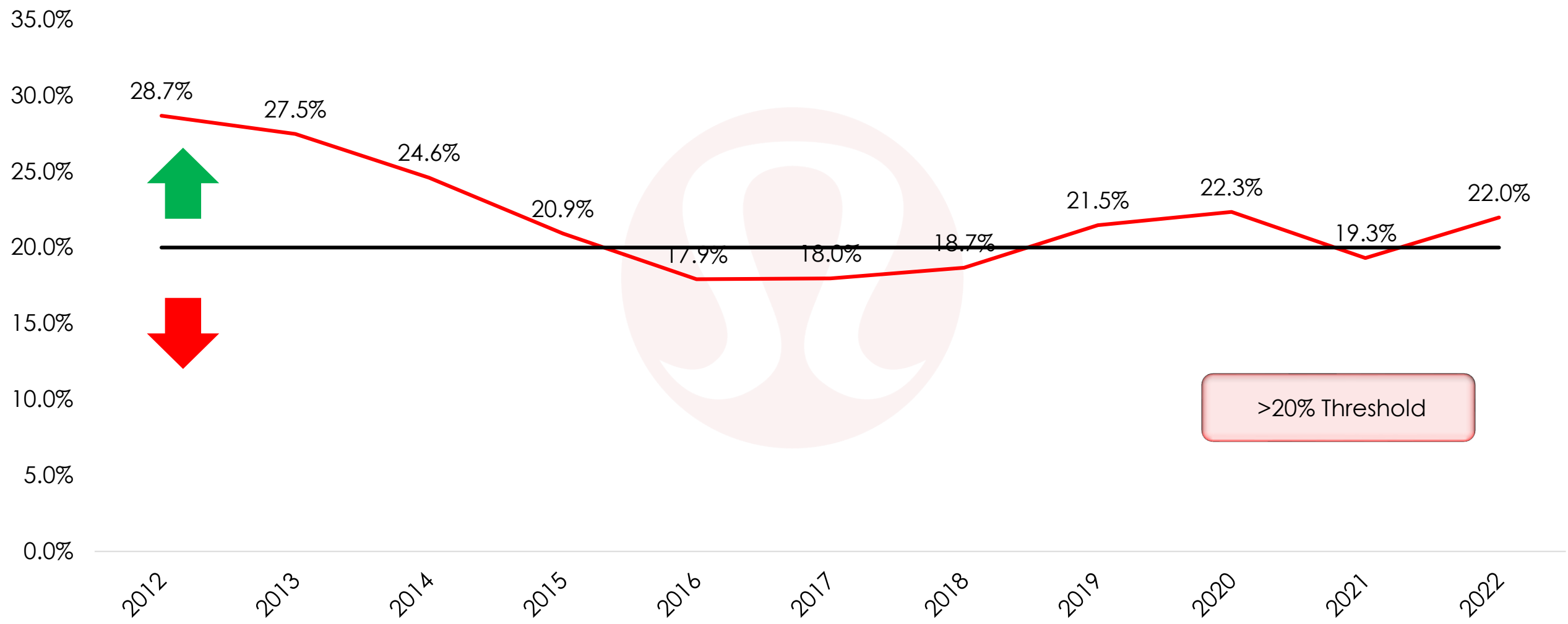
	CAGR
3 - Year	28%
5 - Year	28%
10 - Year	19%



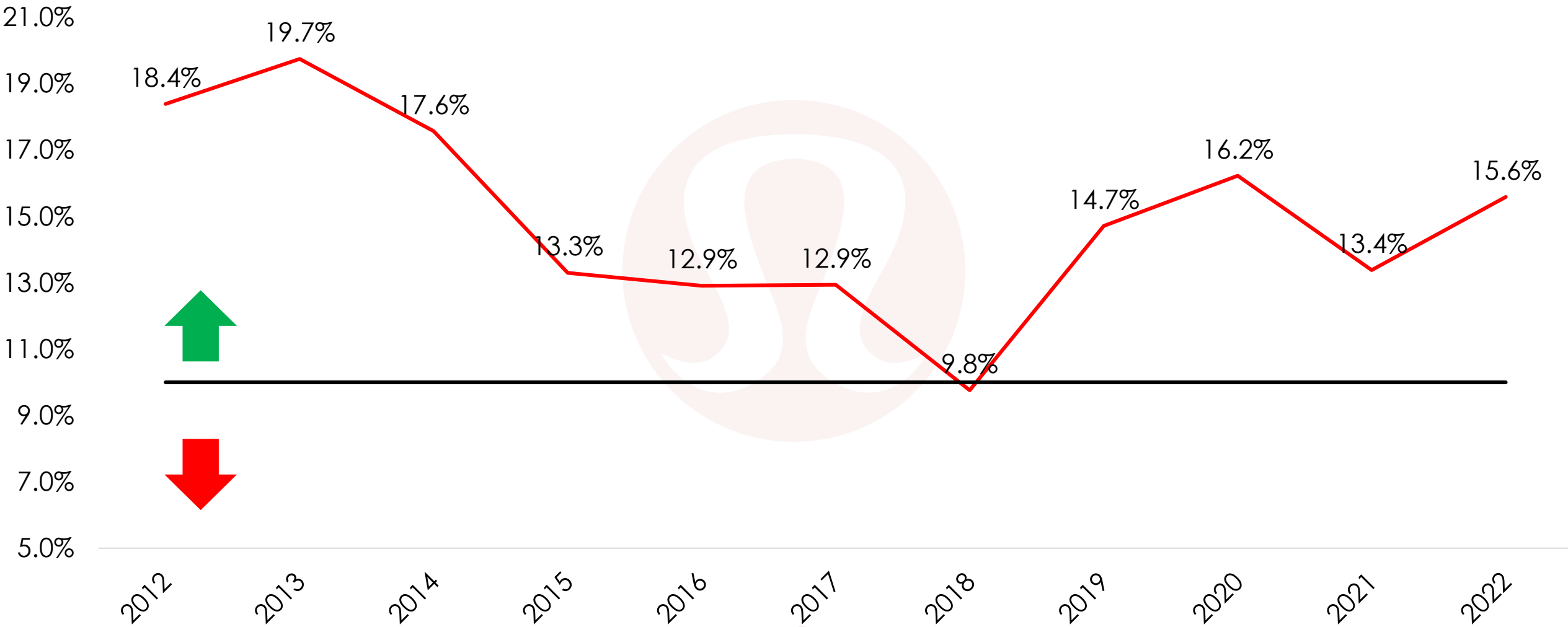
Gross Margin



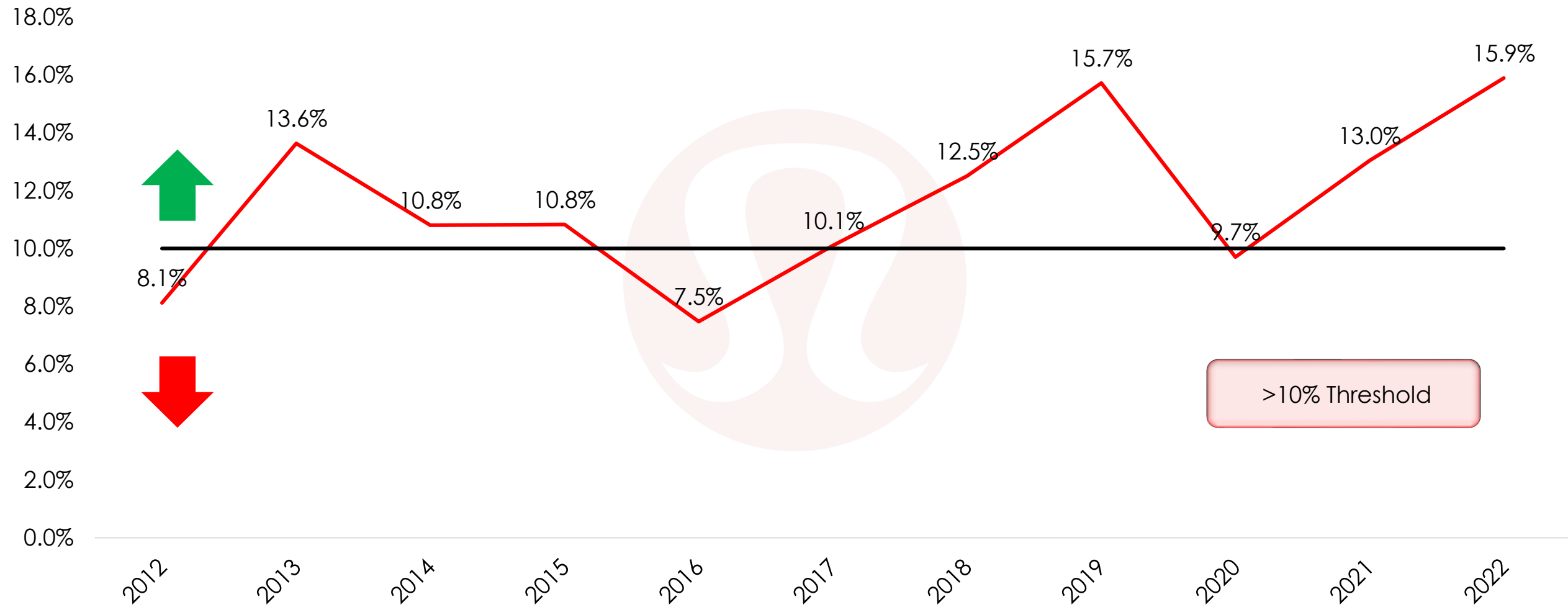
Operating Margin



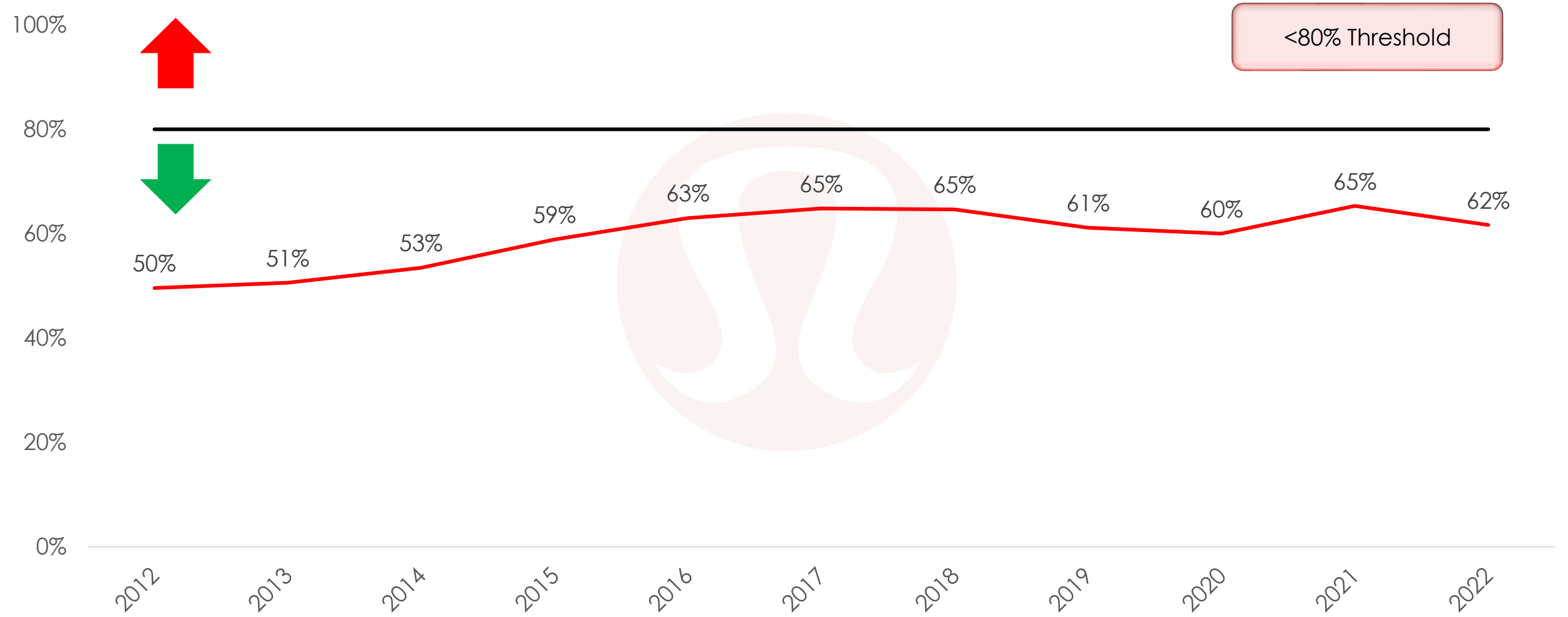
Net Margin



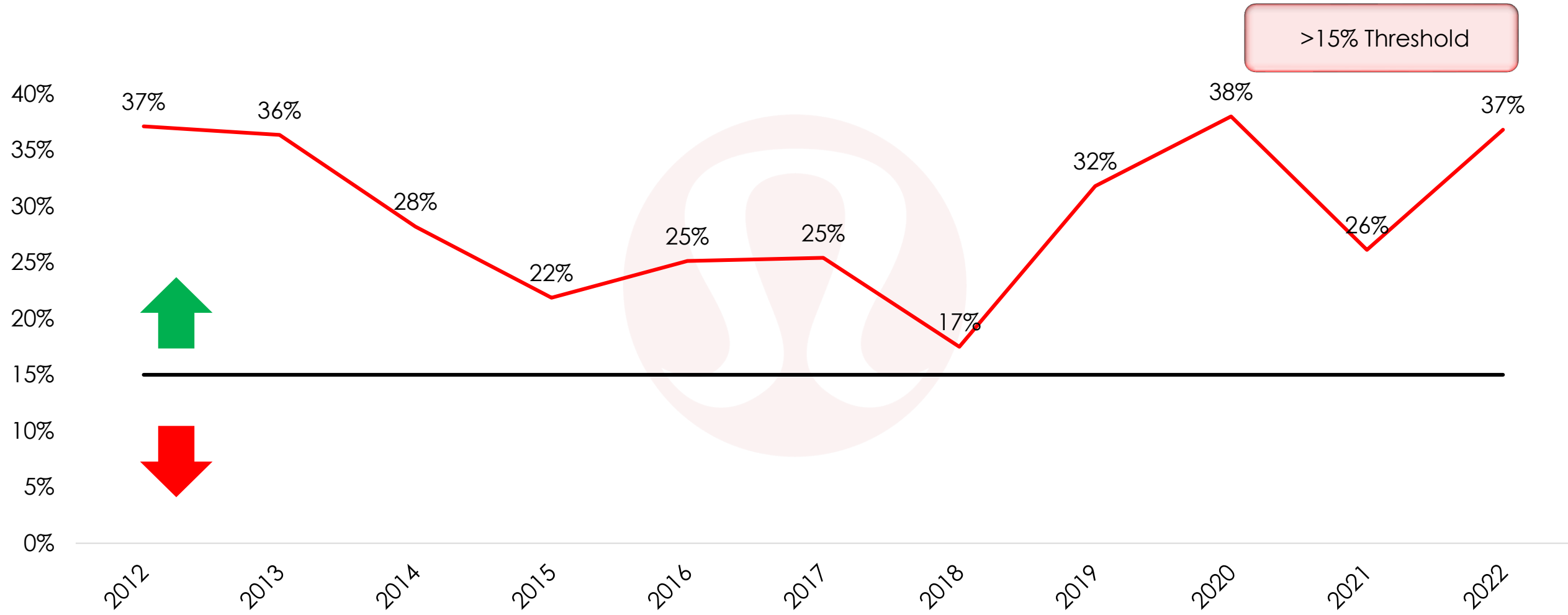
Free Cash Flow Margin



SGA as a % of Gross Profit



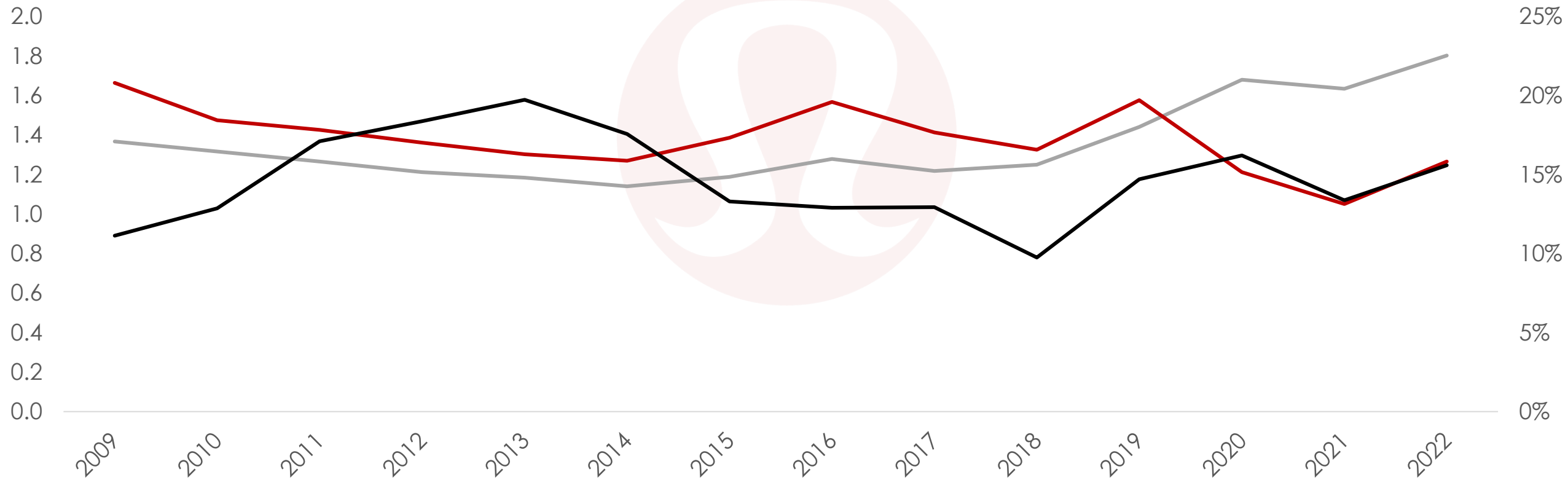
Return On Equity



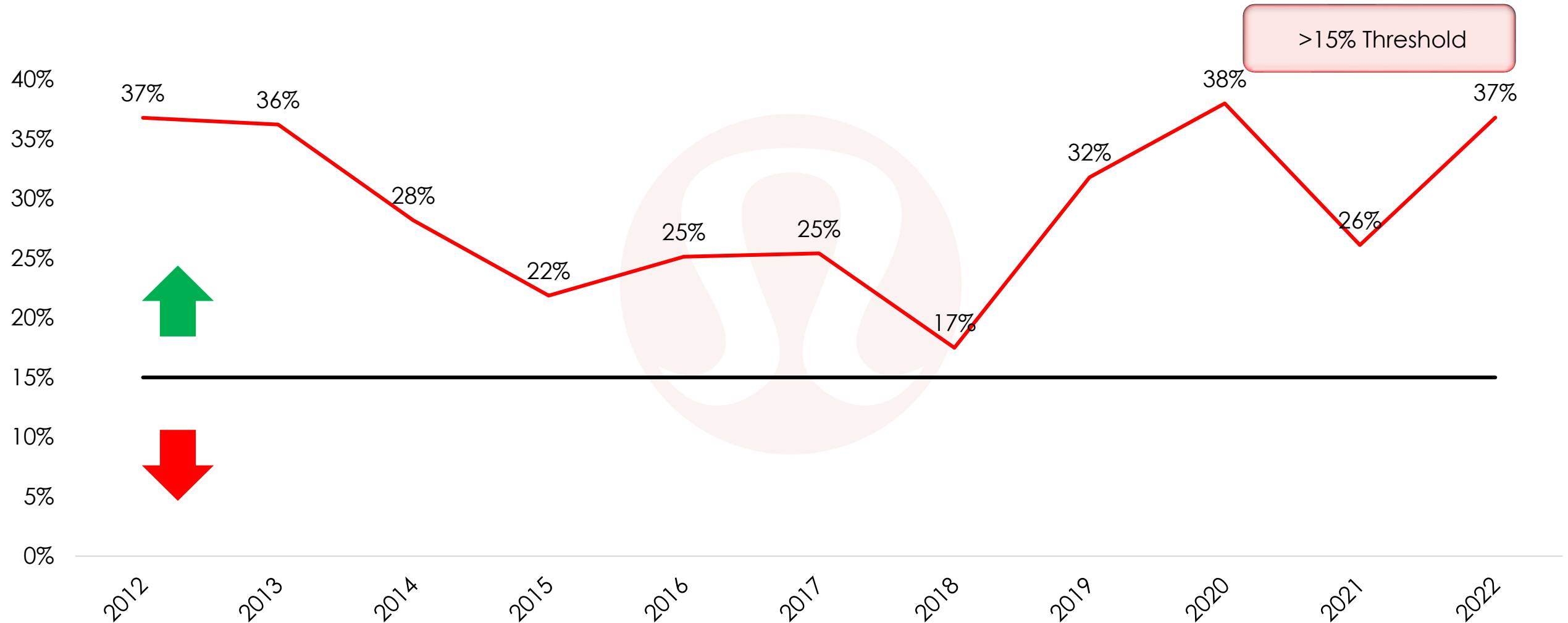
DuPont Analysis

ROE
 = $\frac{\text{Assets}}{\text{Equity}}$
 X $\frac{\text{Sales}}{\text{Assets}}$
 X $\frac{\text{Net Income}}{\text{Sales}}$

— Equity Multiplier
 — Asset Turnover
 — Net Margin



Return On Invested Capital



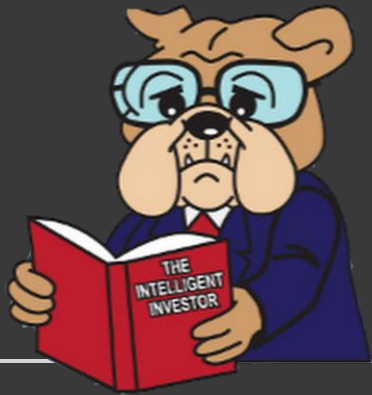
Obligation Ratio - 2021

Long Term Debt (+)	\$0
Short Term Debt (+)	\$0
Leases x7 (+)	\$2,015
Pension Shortfall (+)	\$0
Cash (-)	\$1,260
Divide by Net Income	\$975

0.77 Years



Management



Joaquin Rodriguez

A photograph of a Lululemon retail store. The store has a modern, clean aesthetic with light-colored wood paneling on the walls and ceiling. The "lululemon" logo is prominently displayed in white on the wood-paneled wall above the entrance. The store is well-lit with recessed ceiling lights. In the foreground, there are several mannequins dressed in athletic wear, including leggings and tops. Clothing racks and display tables are visible throughout the store, showcasing a variety of athletic apparel. The floor is made of light-colored tiles.

lululemon

Management



Calvin McDonald
Chief Executive Officer

Joined in 2018

Pres. & CEO at Sephora's Americas

2 years as Pres. And CEO of SEARS Canada



Meghan Frank
Chief Financial Officer

Joined in 2016

2016 joined as SVP for Financial Planning & Analysis

Finance & Merch. Planner at Ross & J.Crew



Sun Choe
Chief Product Officer

Joined in 2016

Chief of Global Product Merchant at Marc Jacobs

Multi-Channel Merchandising at West Elm, Urban Outfitters



Nikki Neuburger
Chief Brand Officer

Joined in 2020

Global Head of Marketing at Uber Eats

14 years at Nike ended as Global VP of Nike Running

Compensation

Chief Executive Officer

Other Named Executive Officers (Avg.)

Annual Incentives

- Revenue & Operating Income

Performance Stock Unit

- Operating Income 3 year CAGR

Reserved Stock Unit

- Operating Income 3 year CAGR

10% Salary

30% Stock Options

10% RSU

18% Salary

30% Bonus

90%
Pay at Risk

31% Bonus

82%
Pay at Risk

15% Stock Options

30% PSUs

26% PSUs

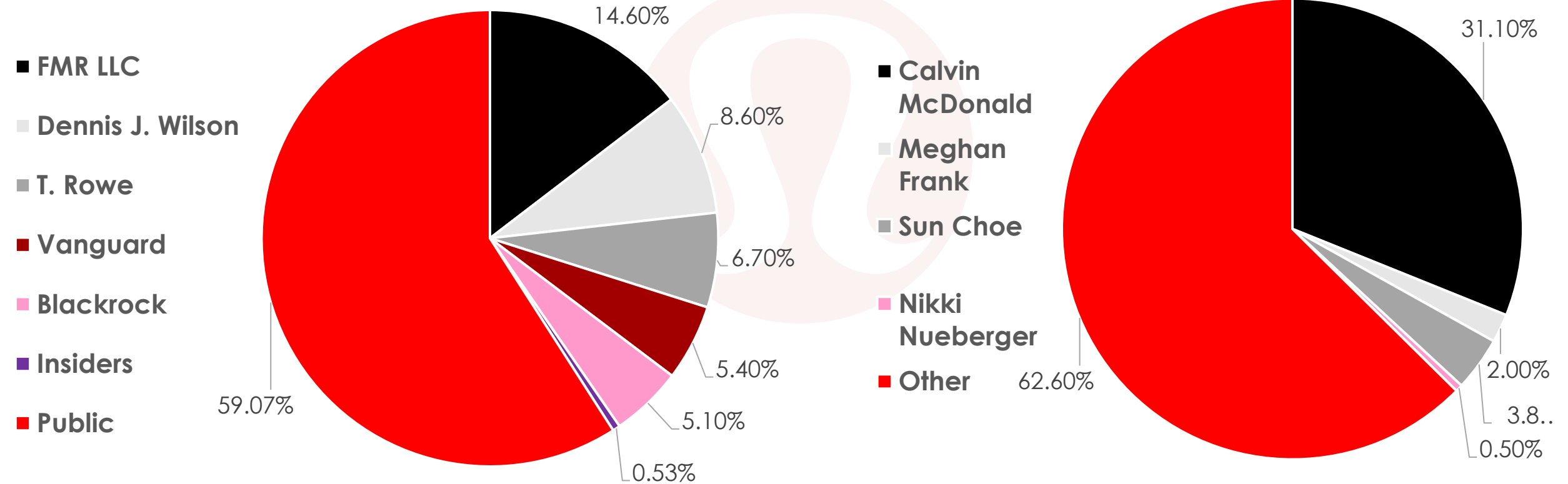
Must own 5x salary

Must own 3x salary

Ownership

Total

Insiders



Founder

Founded Lululemon in 1998



Stepped Down as CEO in June 2005



Resigned as Chairman of the Board Dec.
2013

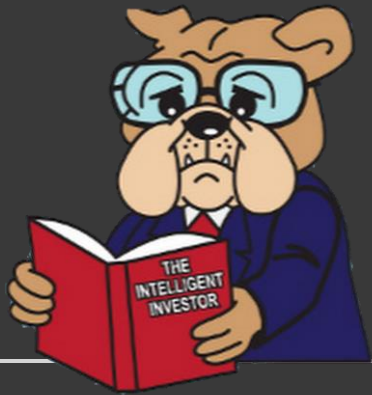


Resigned from Board of Directors May 2014





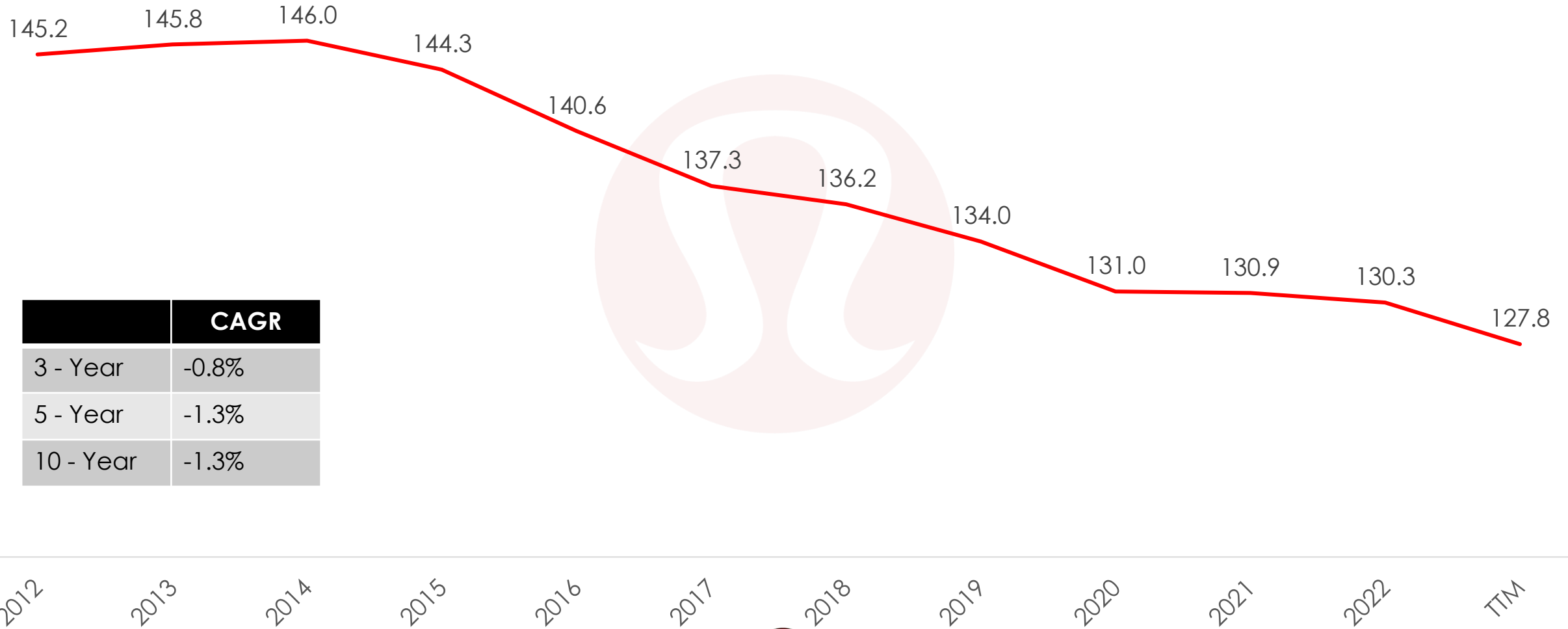
Capital Allocation



Logan Arciba



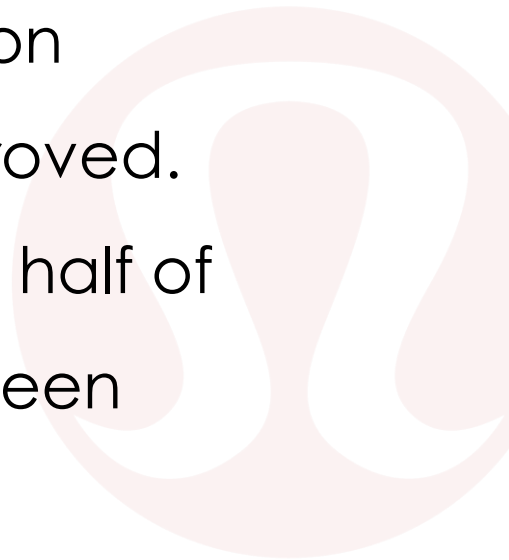
Shares Outstanding



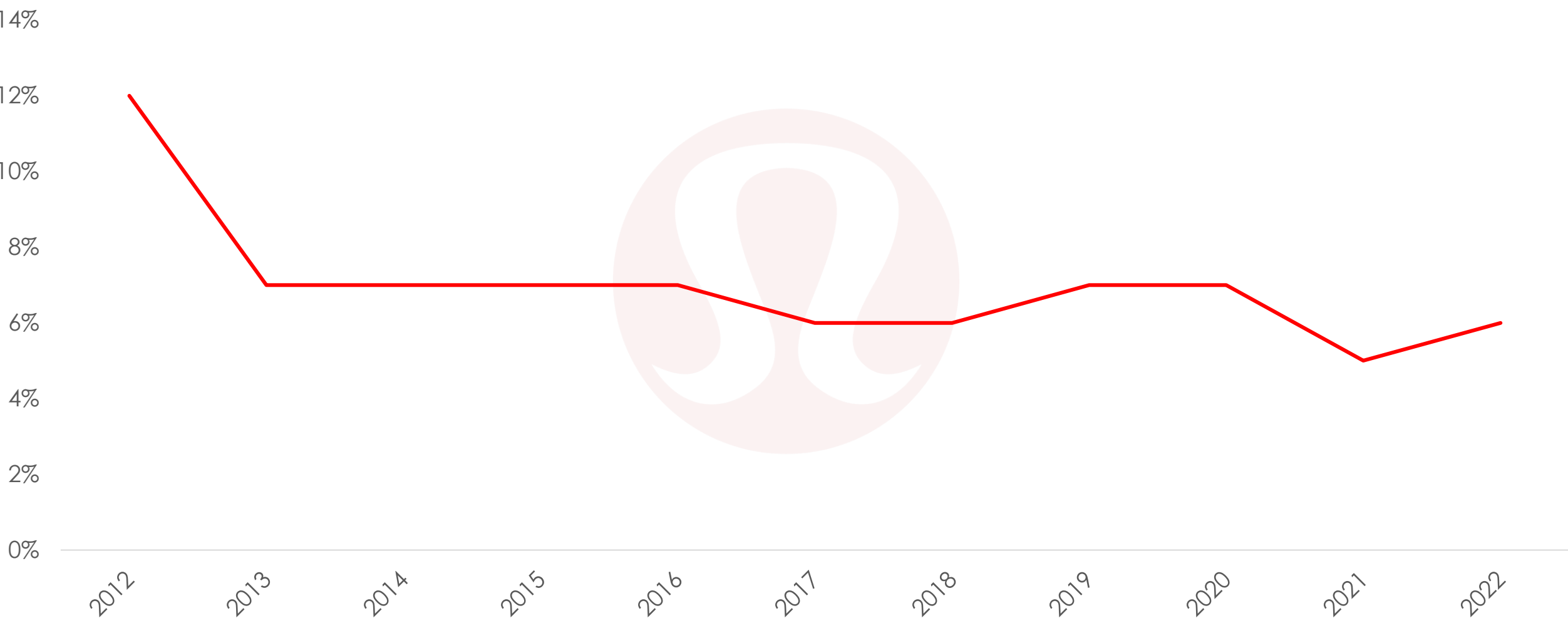
	CAGR
3 - Year	-0.8%
5 - Year	-1.3%
10 - Year	-1.3%

Share Buyback Plan

- In March of 2022, \$1 Billion buyback plan was approved.
- So far, about more than half of the buyback plan has been achieved.



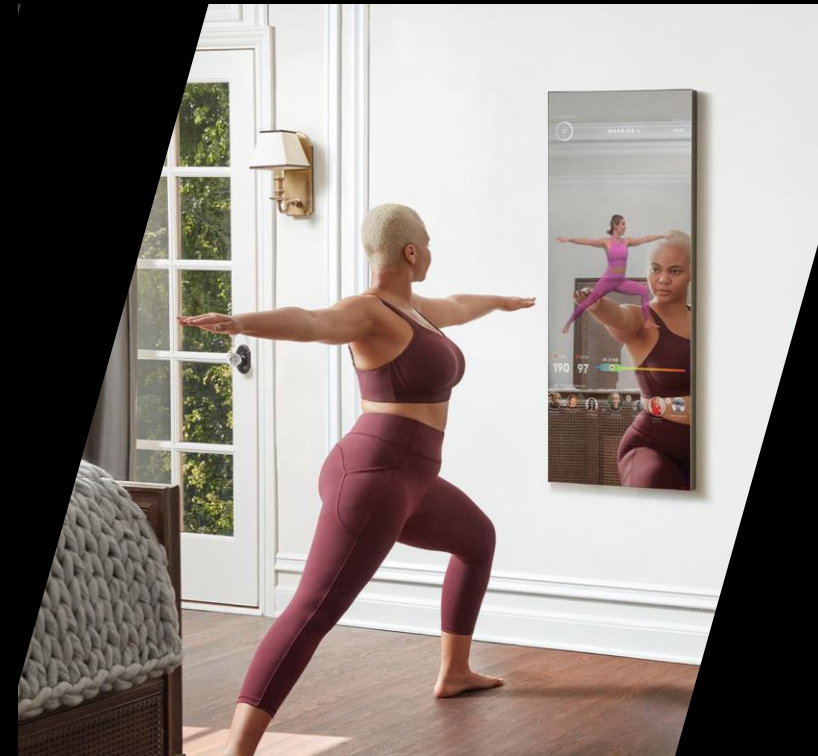
Capital Expenditures as % of Revenue



Acquisitions & Divestitures

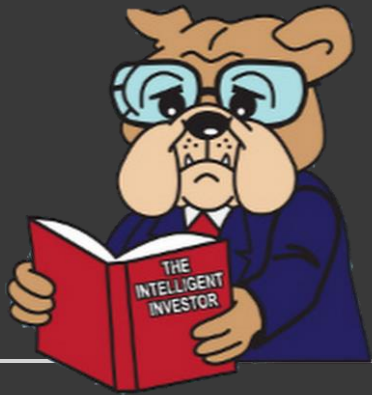
2018 – Divested Ivviva

2020 – Acquired Mirror for \$500M





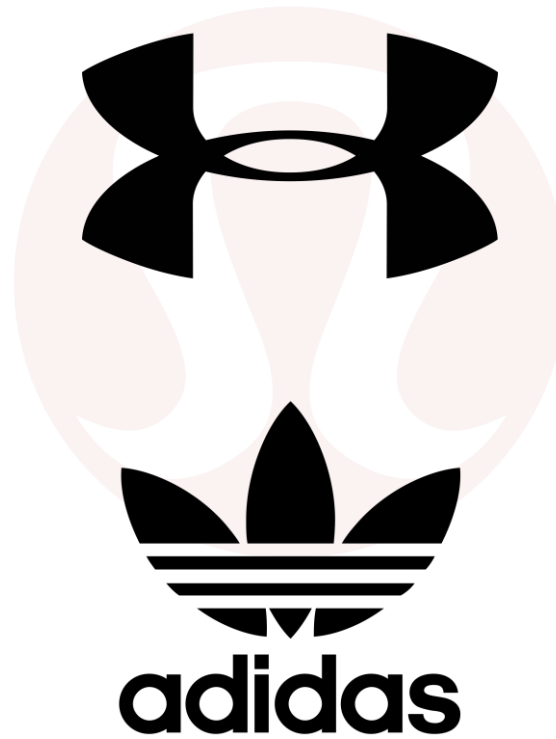
Competitor Analysis



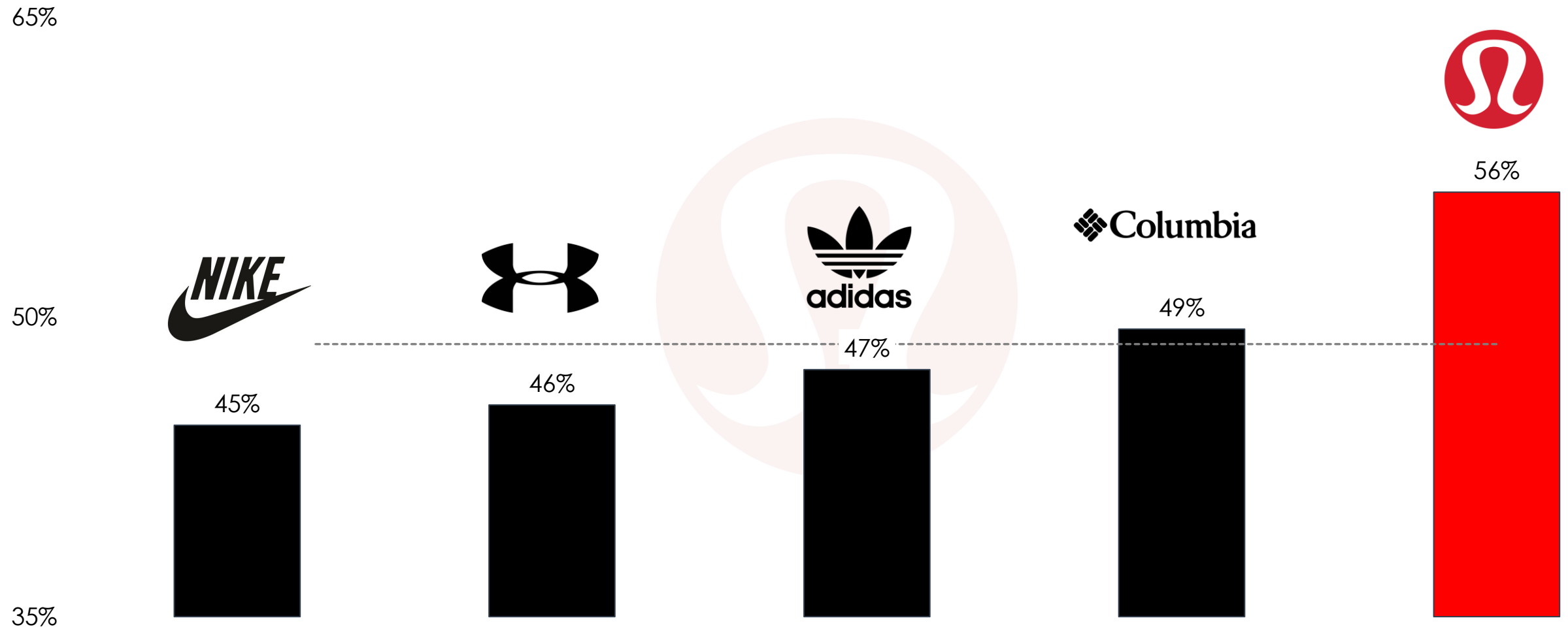
Dylan Swanson



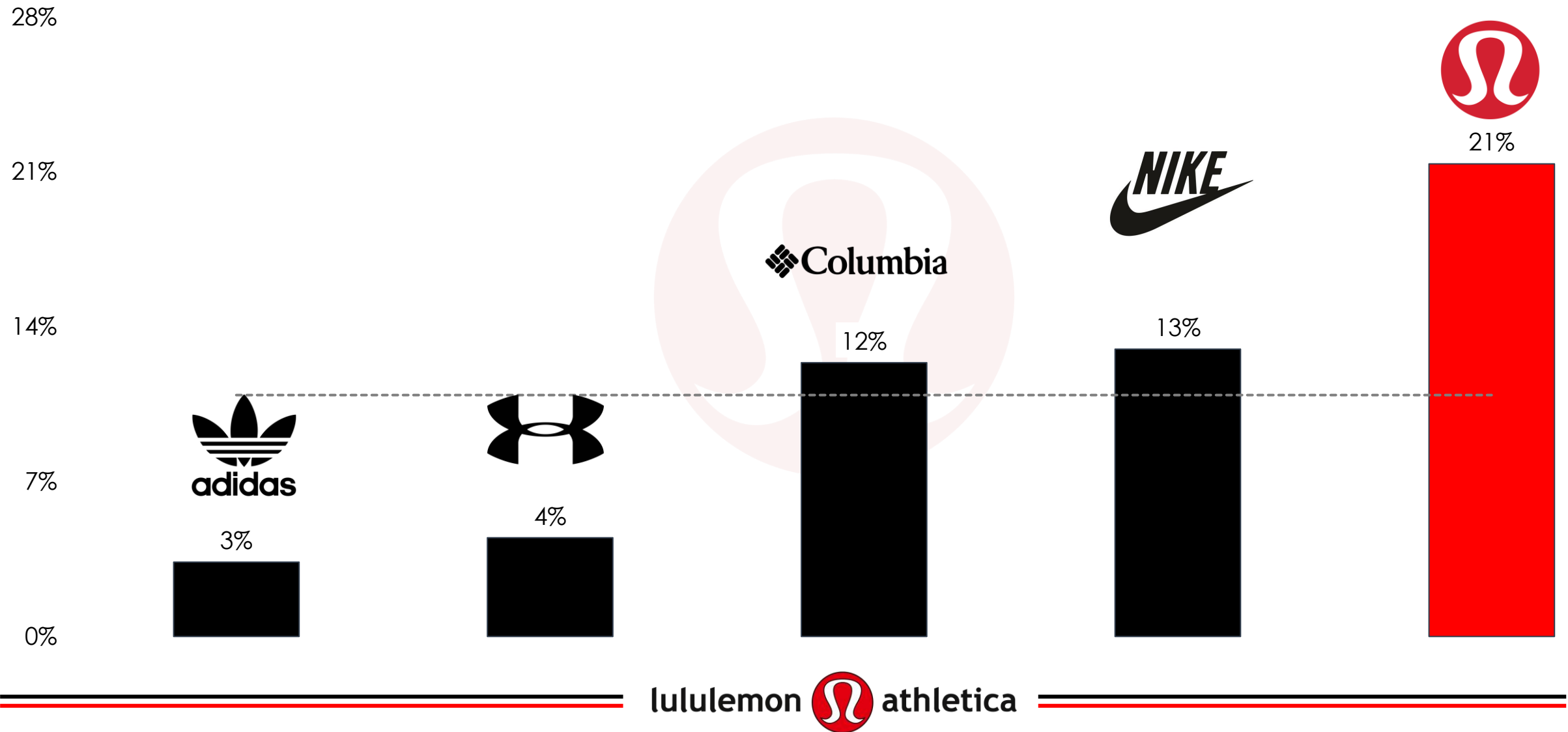
Competitors



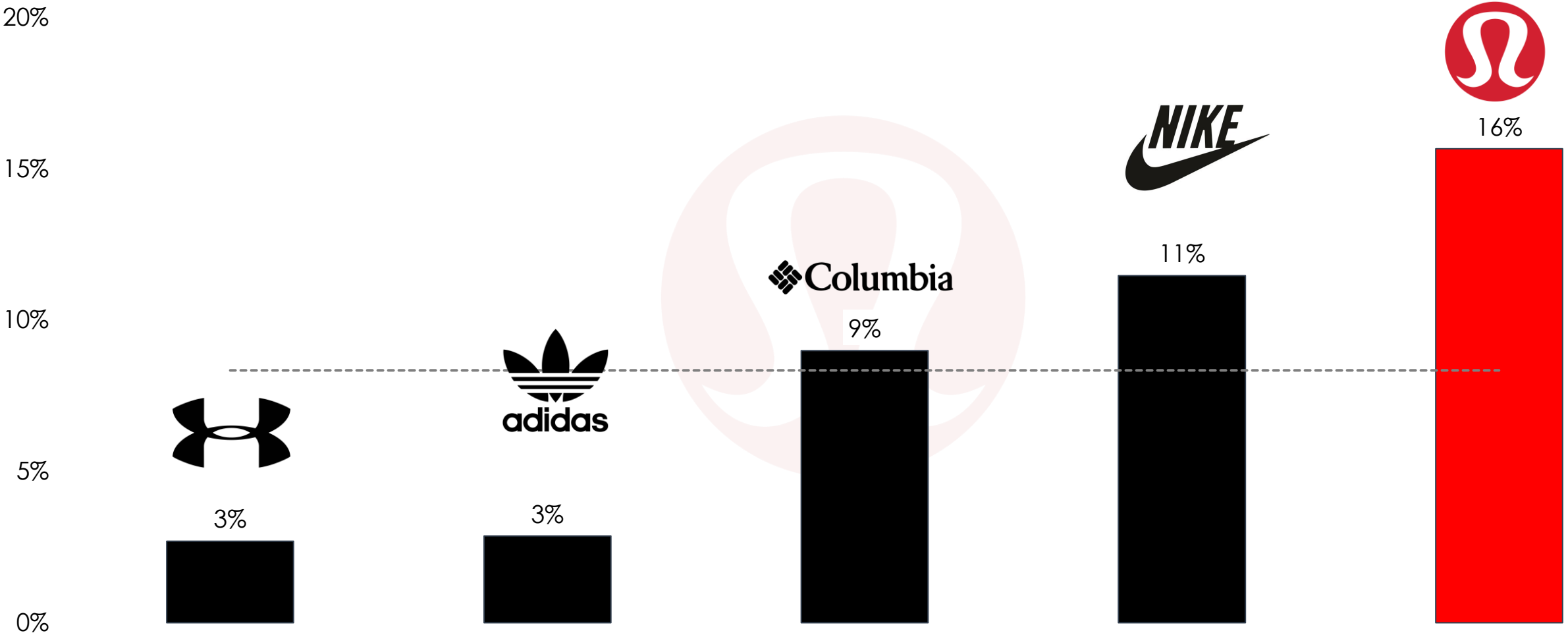
Gross Margin



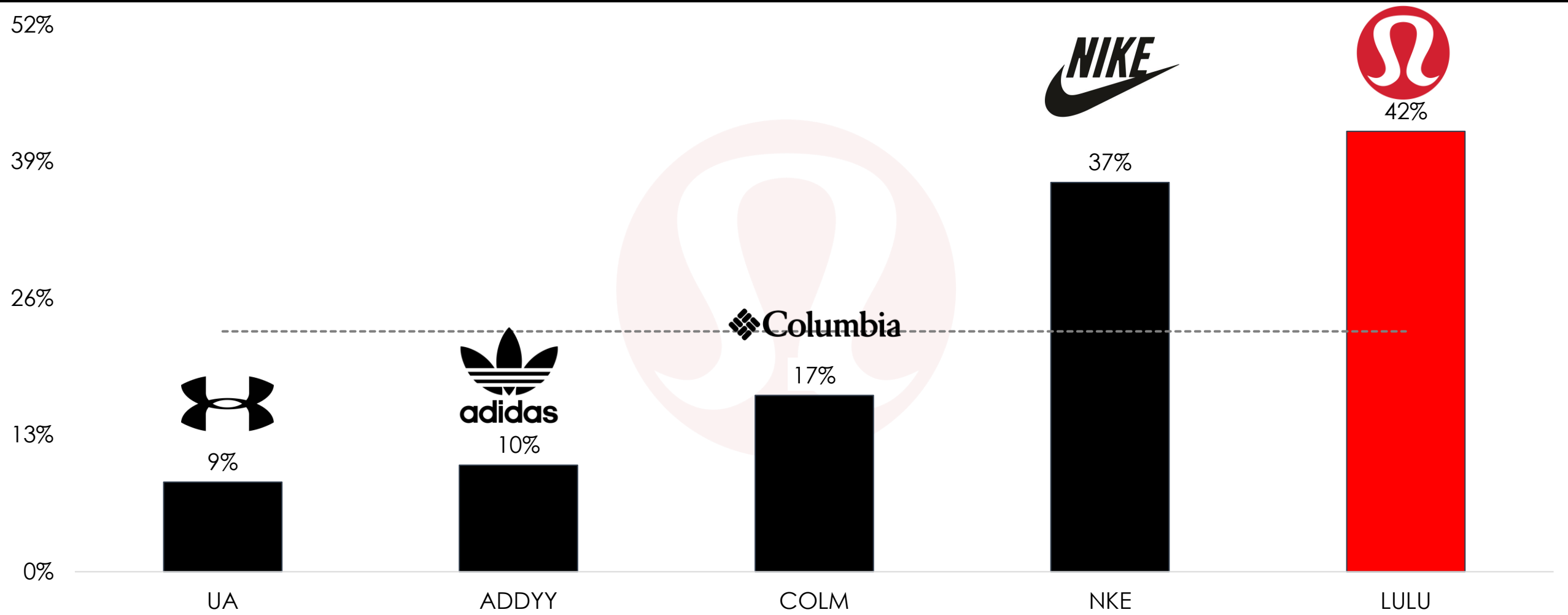
Operating Margin



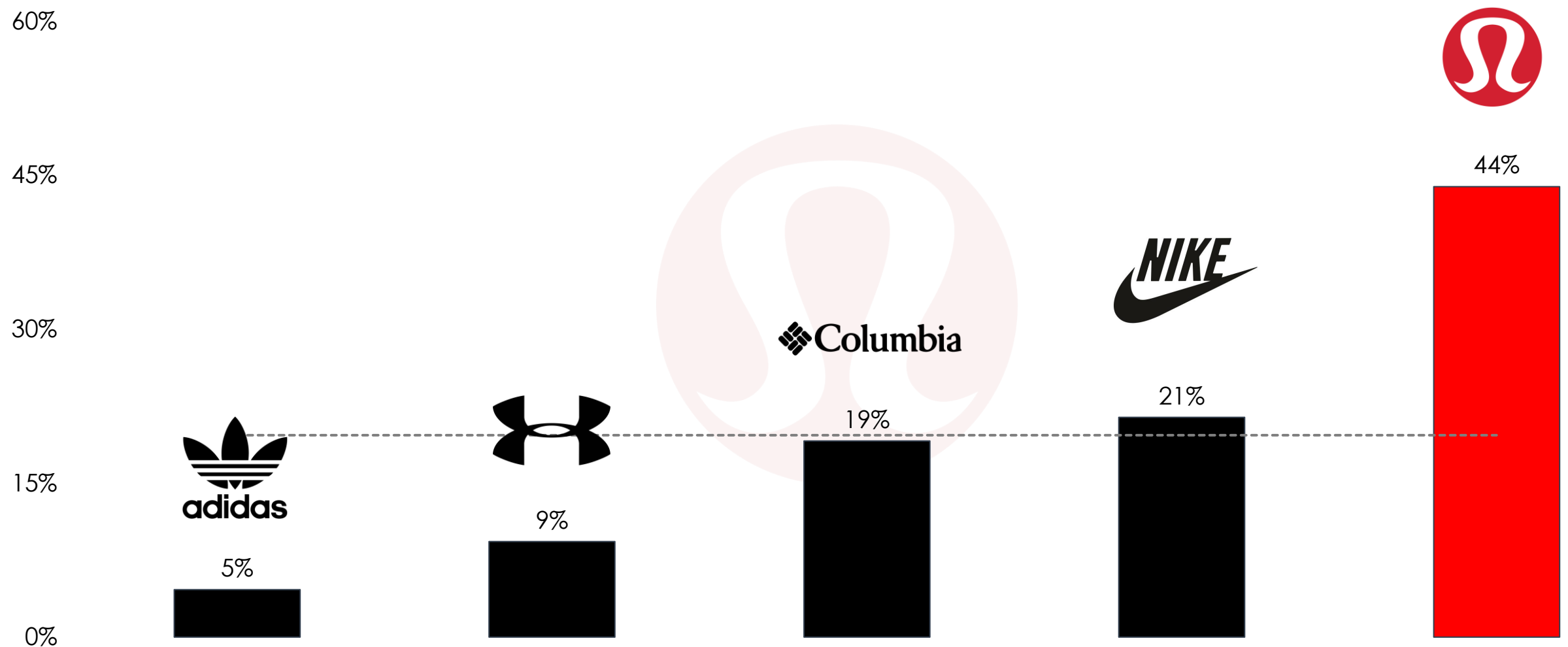
Net Margin



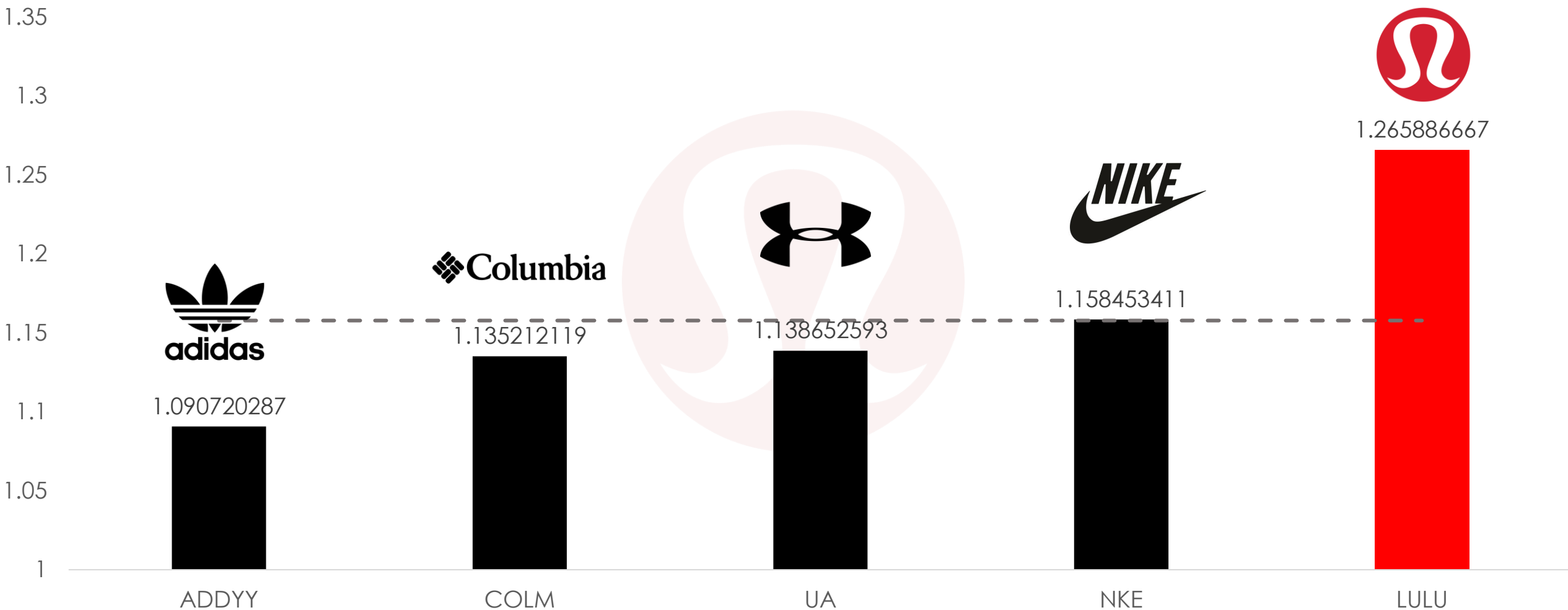
Return on Equity



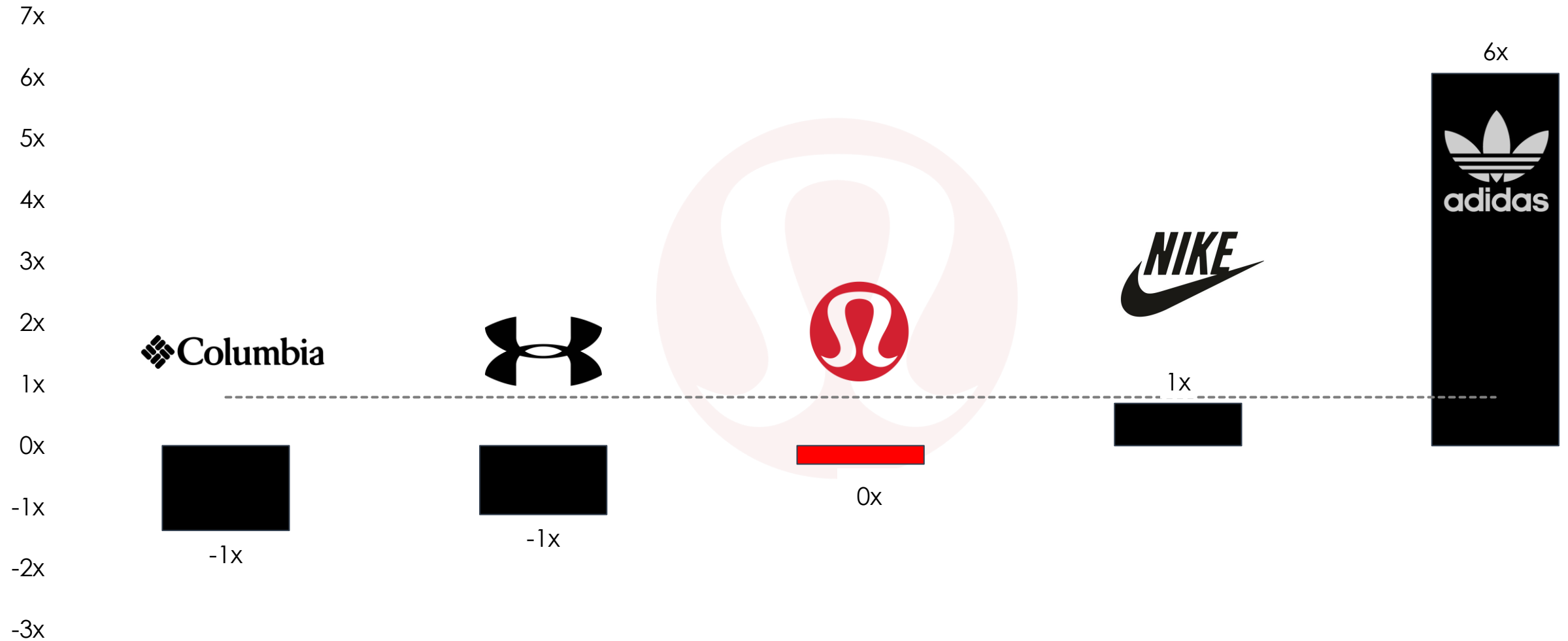
Return on Capital Employed



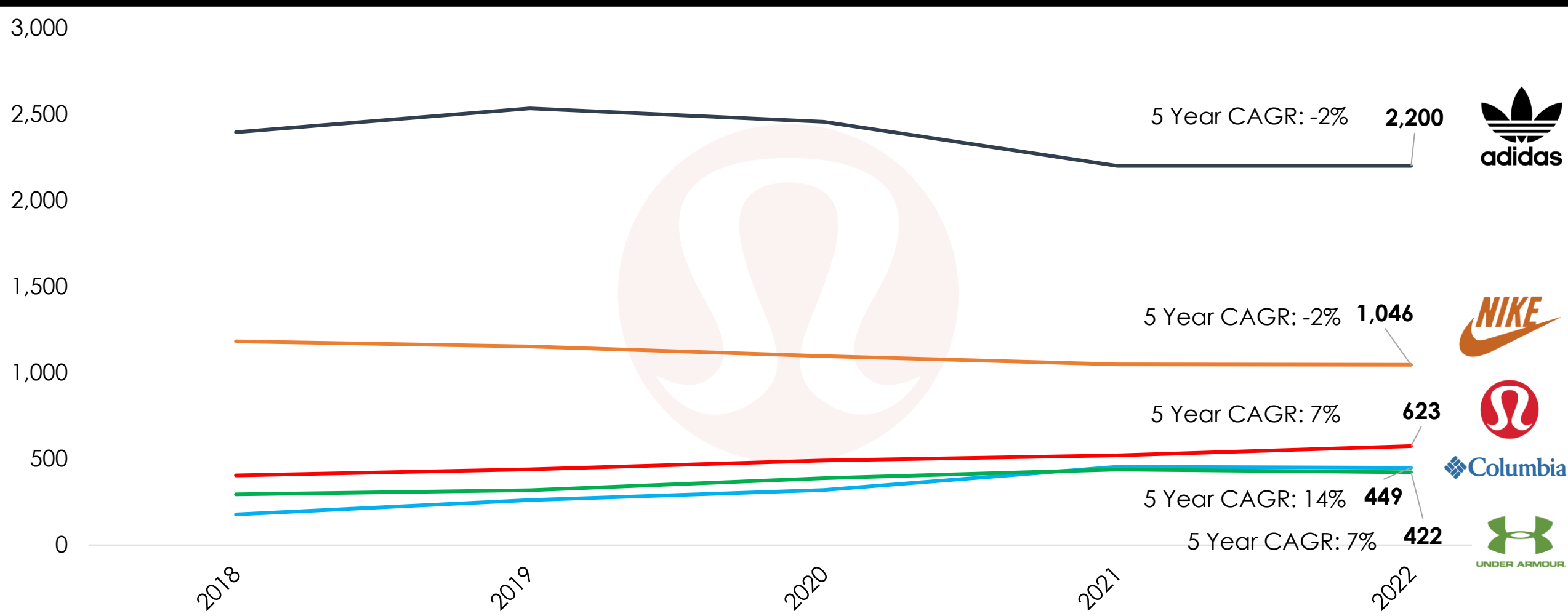
Asset Turnover



Obligation Ratio

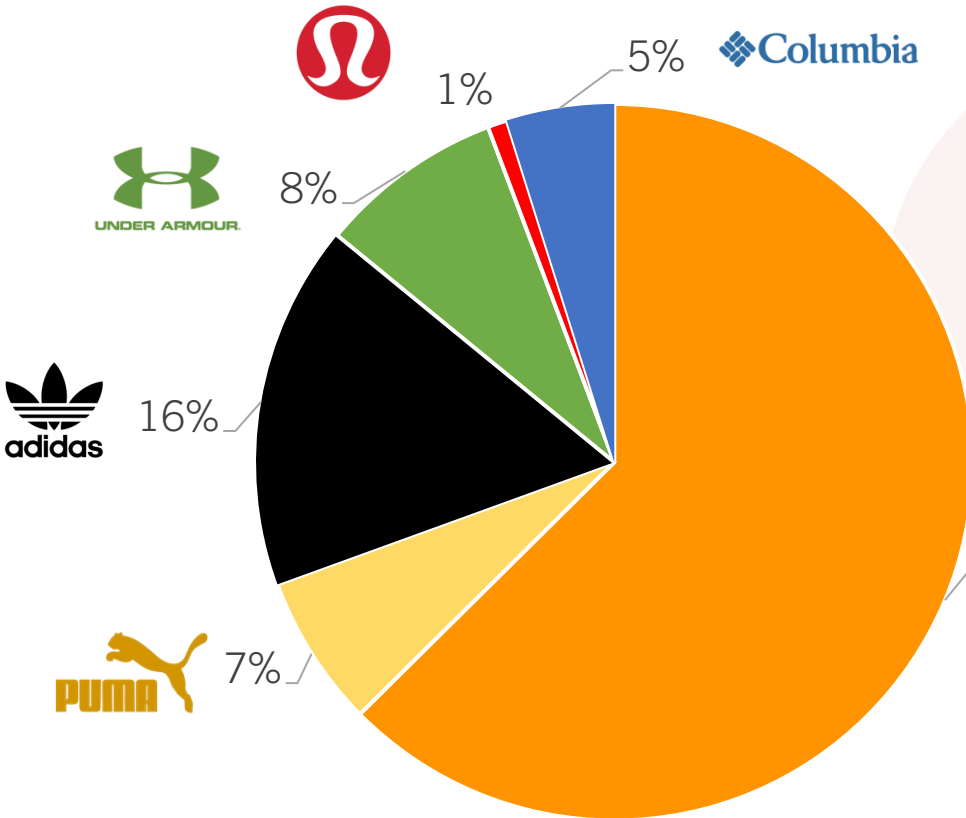


Store Count

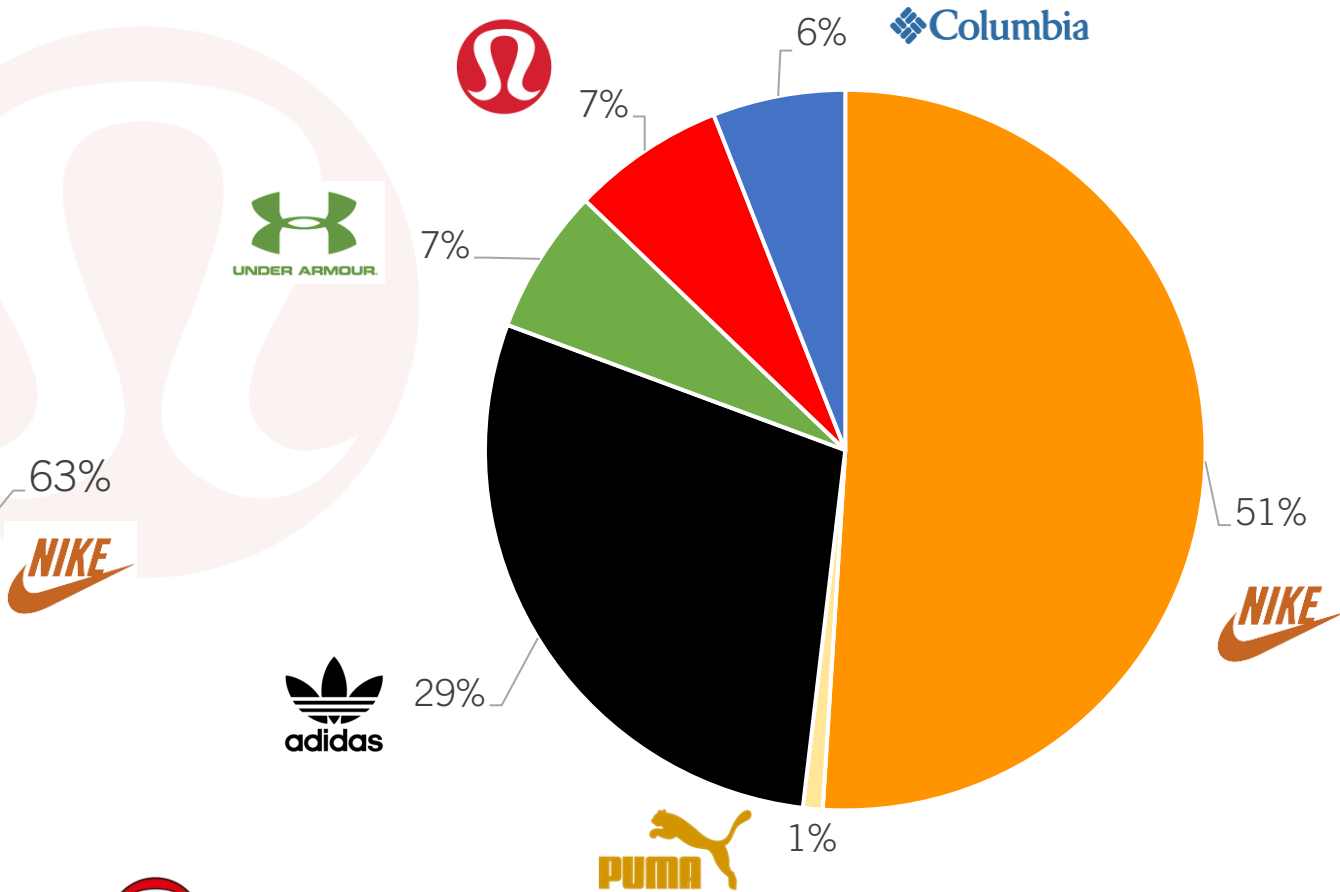


Market Share

2015



2021



Ambassadors



Malia Manuel
Surfing

Charlie Dark
Marathon

Ryan Leir
Yoga

Craig McMorris
Snowboard



Lebron James
Basketball



Tiger Woods
Golf



Michael Jordan
Basketball



Christiano Ronaldo
Soccer



Lionel Messi
Soccer



James Harden
Basketball








Damian Lillard
Basketball



David Beckham
Soccer

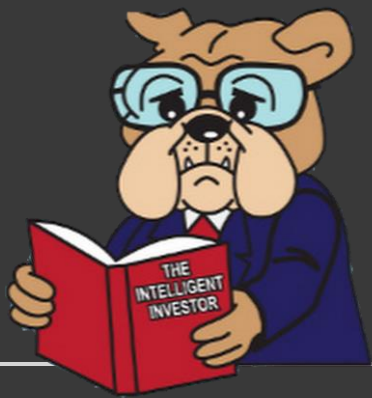


DuPont Analysis (2022)

	Net Margin	Asset Turnover	Equity Multiplier
	2.7%	1.09	4.07
	15.6%	1.27	1.80
	12.9%	1.16	2.64
	6.3%	1.14	2.39
	9.0%	1.14	1.58



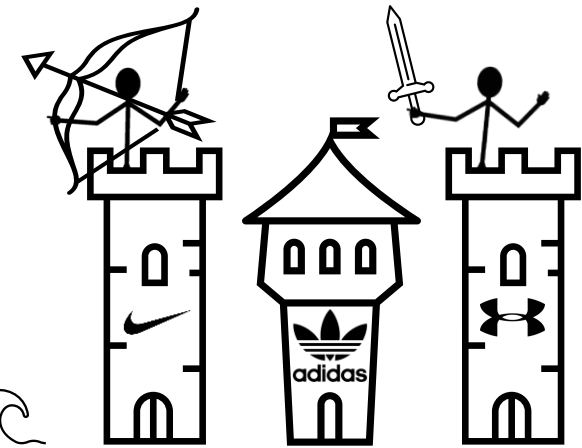
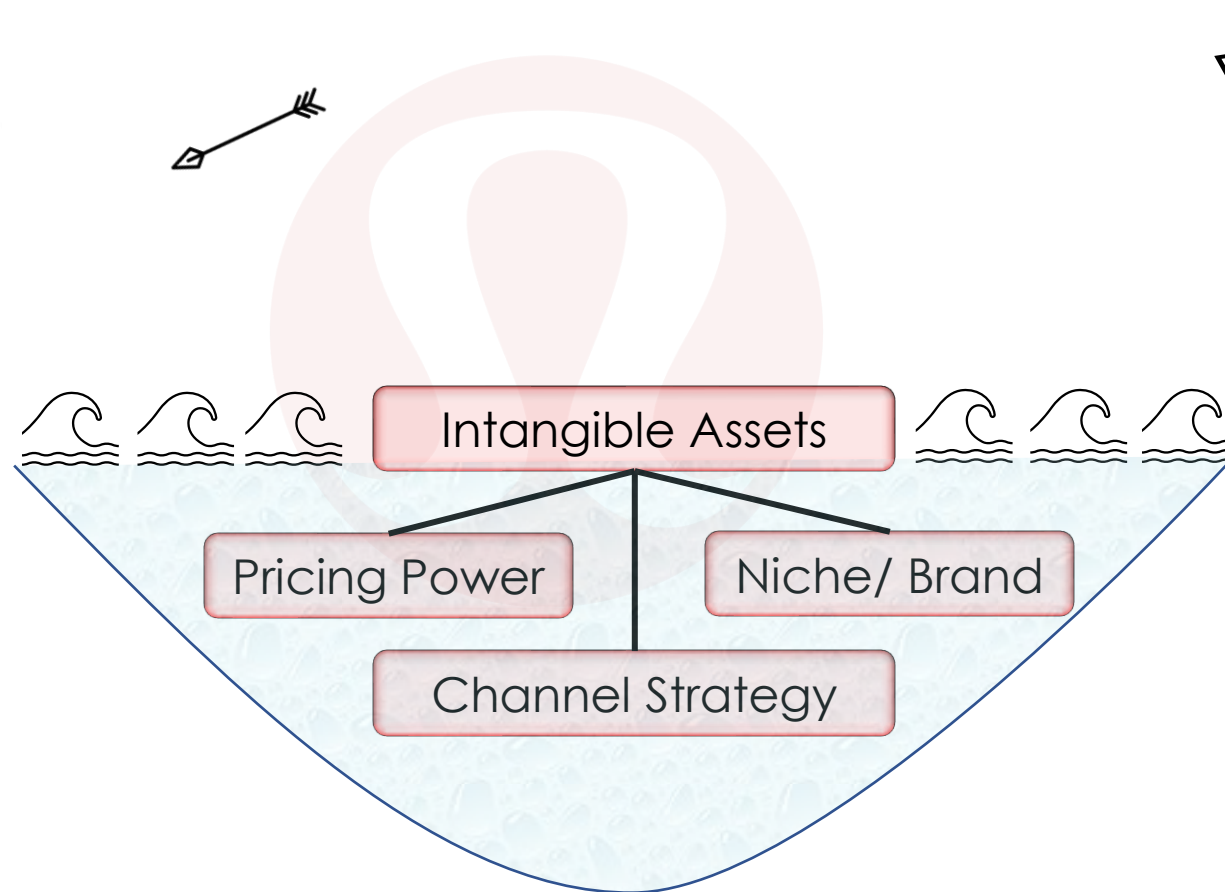
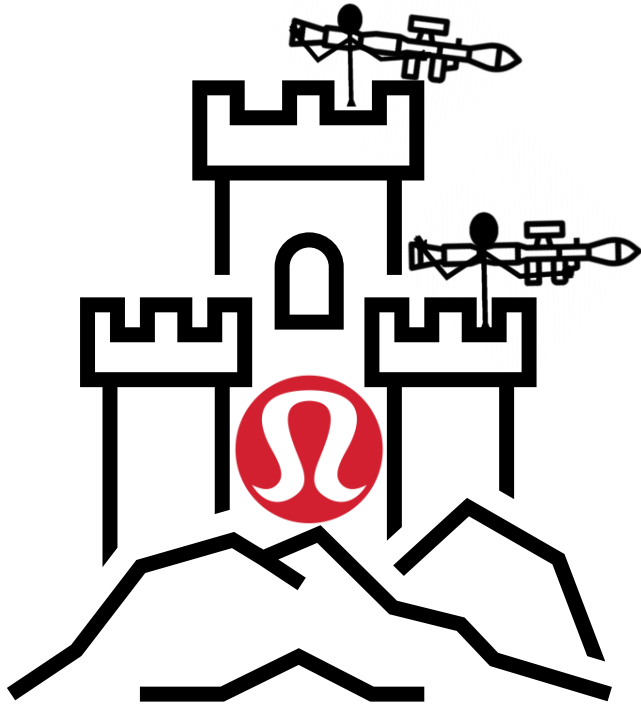
Economic Moat



Zac Nguyen



Economic Moat








Strategy

Higher margin

Product Assortments

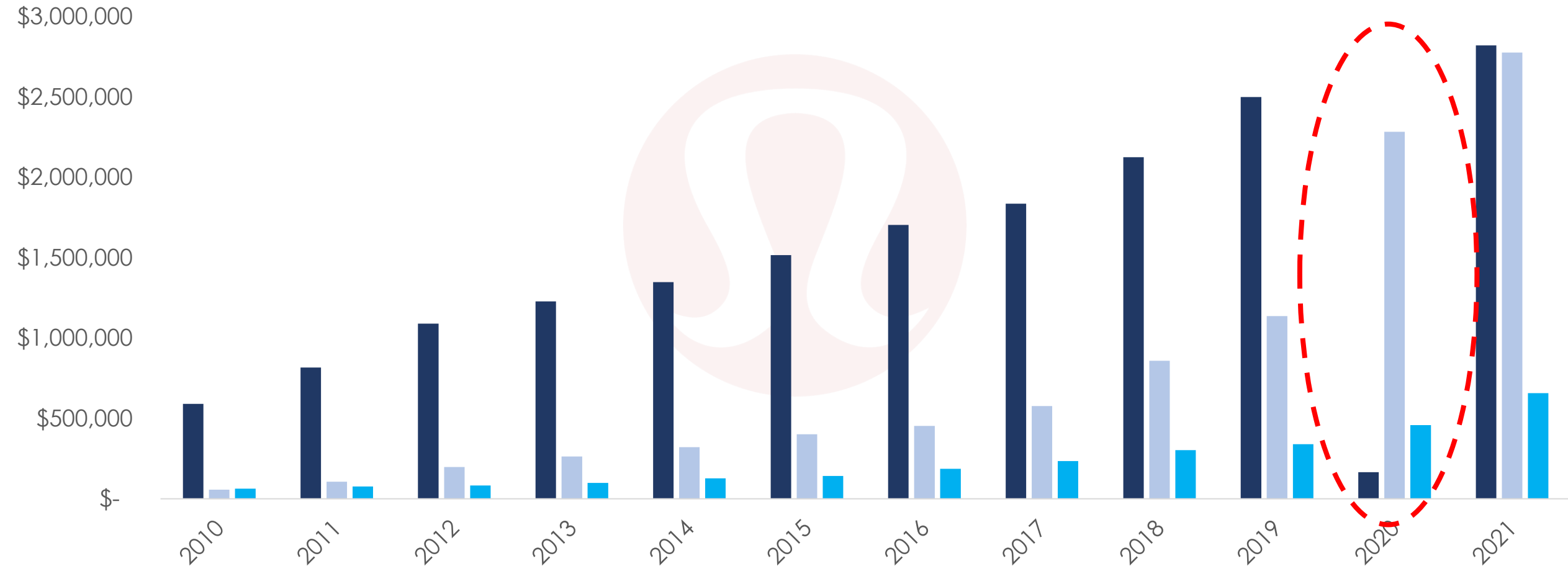
Customer Experience

Brand Engagement

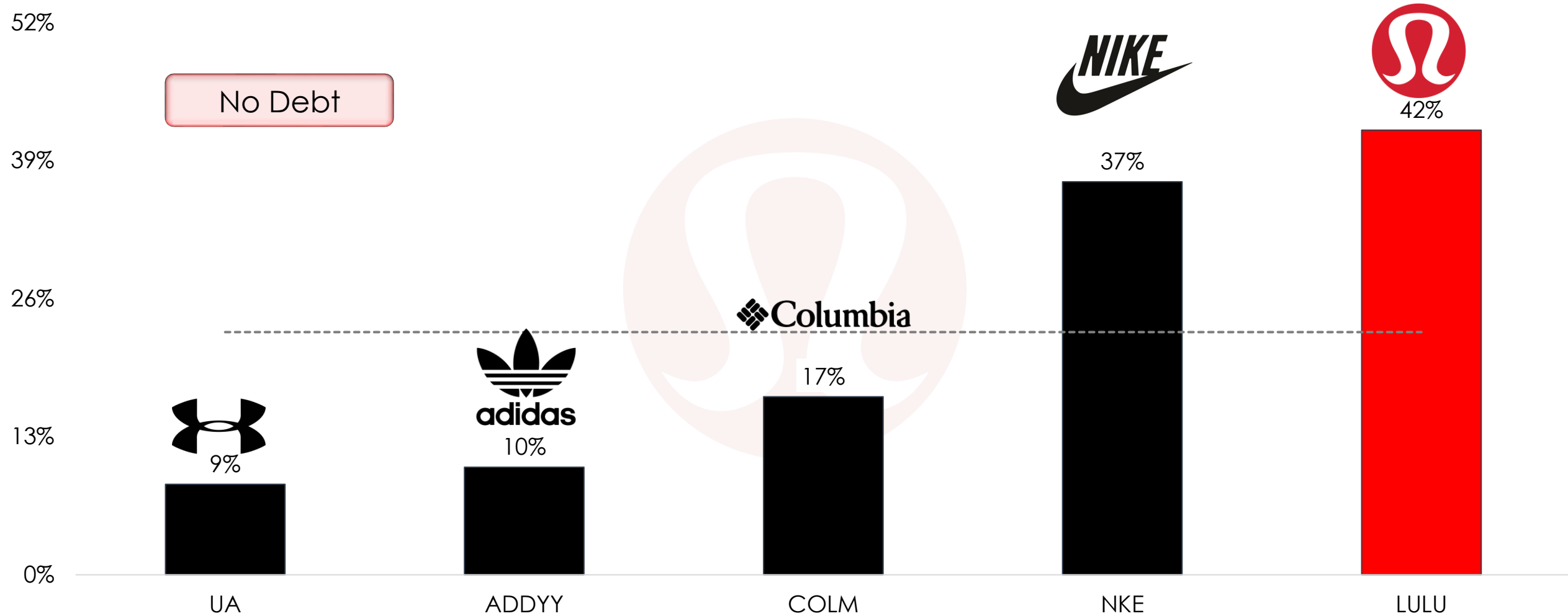
	Wholesale	DTC
	62%	38%
	<10%	89%
	58%	42%
	57%	43%
	54%	46%

Digital Footprint

■ Corporate-owned stores ■ Direct to consumer ■ Other



ROE - Competitors



Pricing



Polyester

Water resistant

Breathable



Nylon

Durability

Comfort



Polyester/ Elastane

Durability

Breathable

Quality



lululemon FABRIC GUIDE

<i>Fabric</i>	<i>Feels Like</i>	<i>Made for</i>	<i>Styles</i>
LUON	COTTONY SOFT	LOW IMPACT	WUNDER UNDER GROOVE PANT
LUXTREME	SMOOTH & SLICK	HIGH IMPACT	ALL THE RIGHT PLACES, SPEED UP, WUNDER UNDER
NULU	BUTTER SOFT, NAKED SENSATION	VERY LOW IMPACT, CASUAL	ALIGN
NULUX	SILKY SMOOTH, SLICK, NAKED SENSATION, COOL AGAINST THE SKIN	HIGH IMPACT	FAST & FREE, SPEED WUNDER
EVERLUX	SOFT, SPONGEY, PLUSH, FEELS COOL AGAINST SKIN	HIGH IMPACT, HIGH SWEAT CLASSES	IN MOVEMENT, INVIGORATE, WUNDER TRAIN

“Quality is the heart of who we are. Quality shows up in our people, our conversations and of course, our product. If our product doesn't perform for you, we'll take it back.”

- Lululemon

Repairment

Another shopping secret is that Lululemon will also mend ripped seams or holes meaning your leggings will truly **last you a lifetime.**



Hemming

Your gear should never get in the way and that's why we offer complimentary hemming on tops and bottoms at all of our stores (excluding outlets and select locations)— no tags or receipt required.

HOW DOES IT WORK?

- 1 You try on the top or bottom you would like hemmed.
- 2 An educator will pin the hem exactly where you want it.
- 3 Our hemmers will hem it.
- 4 Your gear will be ready for pickup within 3 business days. At pop up stores, hemming takes up to 7 business days. Reach out to your local store for all the details.



Niche



Athleisure



Premium athletic wear for the fashionable



Athletic



Athletic wear for the serious athlete



Athletic/ Athleisure

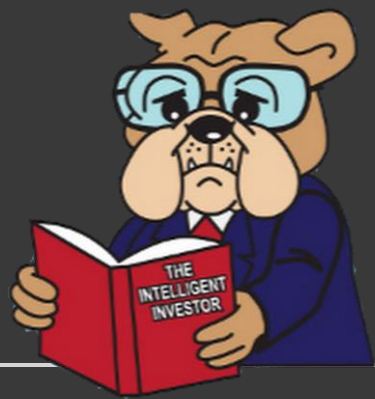


Everyday athletic wear

Lifestyle



Growth Opportunities



Logan Arciba

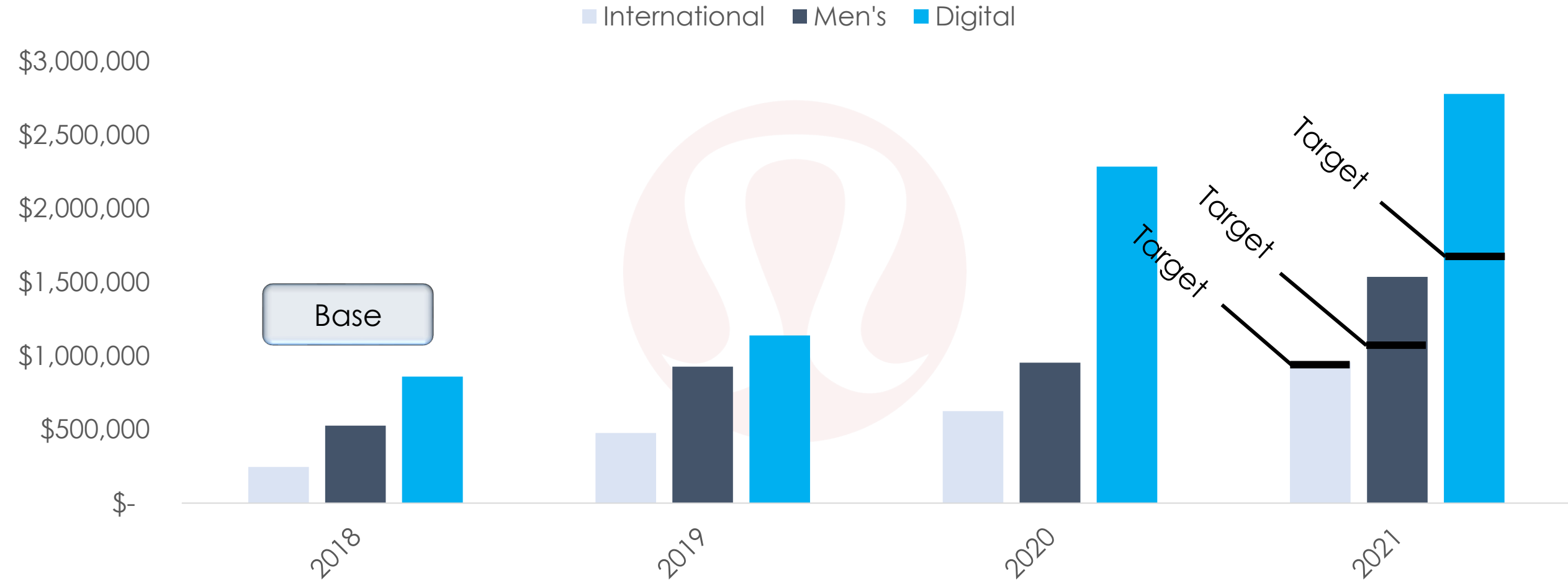


Five Year Growth Plan

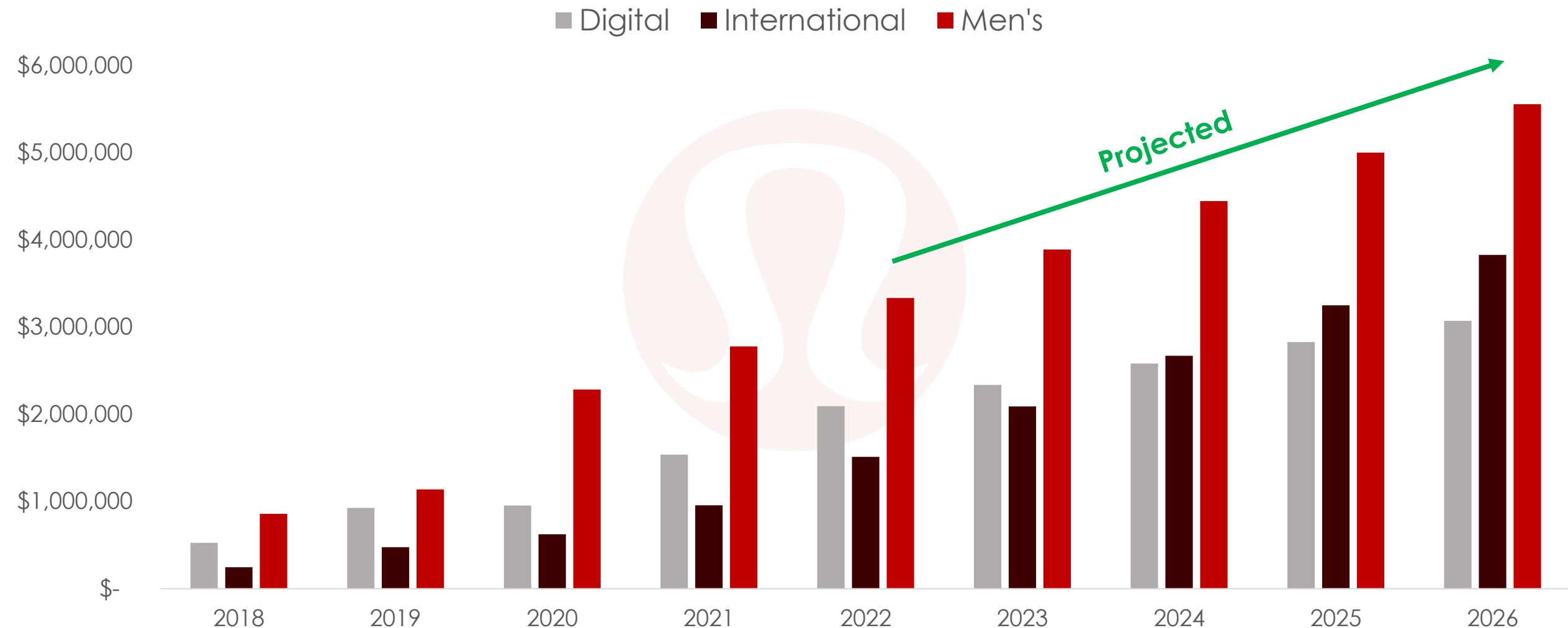
Power of Three **x2**



Power of Three



Power of Three X2



Product Innovation



Science of Feel

Activity

Franchise & hero items

Extending categories

Raw materials innovation

Men's

What products do they plan on releasing ?

- Men's Blissfeel running shoe
- New product lines for golf, hiking, and tennis

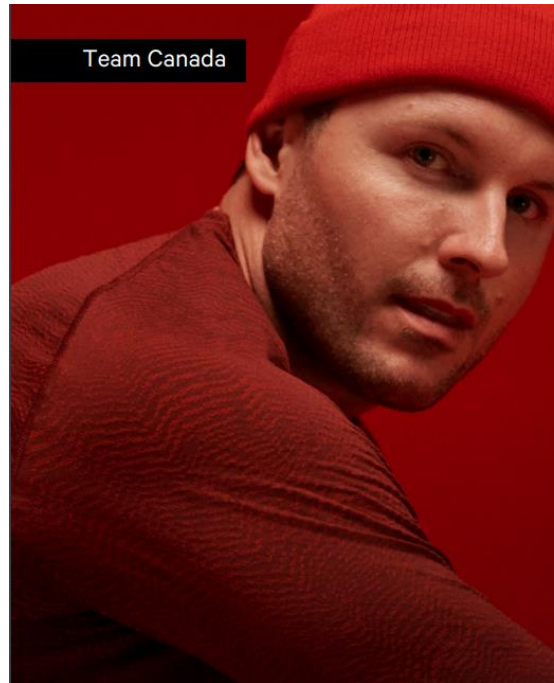
What products did they release in past?

- In 2014, ABC pants which retail for \$128
- Restfeel Men's Slide
- Wonder Puff apparel has extended into men's category.

Over the last 3 years, doubled men's business.



Men's



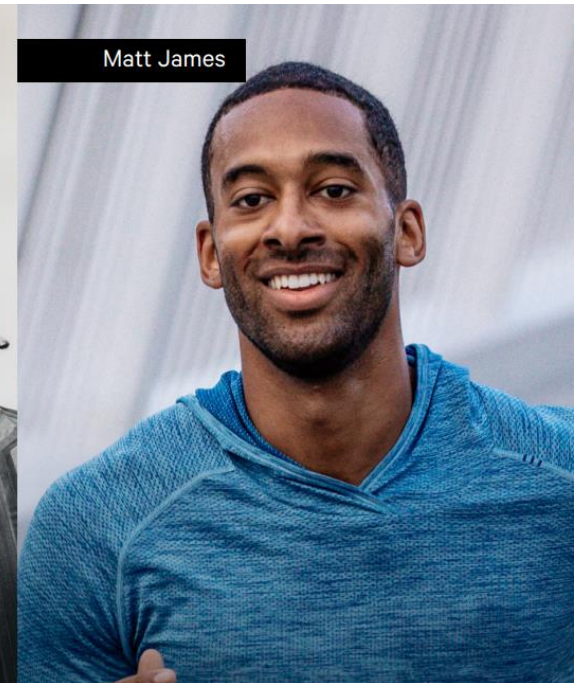
Team of Olympic stars



Fitness Coach
YouTube Star



Utah Jazz Star
2021 Sixth Man of the
Year



NCAA Former Football
Player &
Bachelor Show Star

Guest Experience



Product

Connection

Community

Innovation

Guest Experience

- Bring designer's vision to life
- 20,000 In-store educators
 - Doing the same for digital
- About 1/4th of guests shop omni-channel.
- Omni-guests spend more and are loyal



Product

Guest Experience



Connection

- Lulu believes the core of guest relationships is creating connections.
- 20,000 global educators.
- Relationships with guests drive DTC model

Guest Experience



Community

- Ambassadors and Studio Partners
- Local and national Studios
 - When guests sweat more, they spend 15% more
- Community Events
 - **5k Races – Houston and Atlanta**
 - **Real-life events**
 - **Over 100k attendees since 2019**

Guest Experience

- **Memberships Program**

- Launched Fall of 2022
- Two Tiered: Essential and Studio
- 80% of guests expected to join within 5 years.

- **Like New Program**

- Trade in lululemon products for e-gift card.
- Currently one of the top brands in most 3rd party resell sites

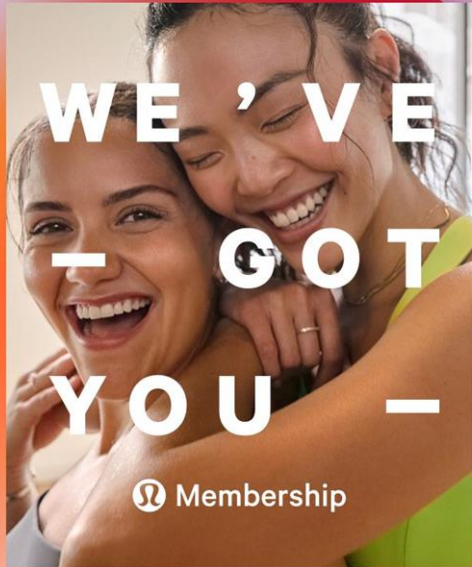


Innovation

Digital

Lululemon Essential

- A free membership
- Early access to product drops
- Select lululemon Studio content
- Virtual community events
- Free hemming



Lululemon Studio

- \$39/Month for 1 year, with the purchase of a Studio Mirror
- 10,000 + world-class workouts
- 10% off gear
- Unlimited experiential store classes
- 20% off at partner studios
- Early access to events.

Market Expansion



Size of the opportunity

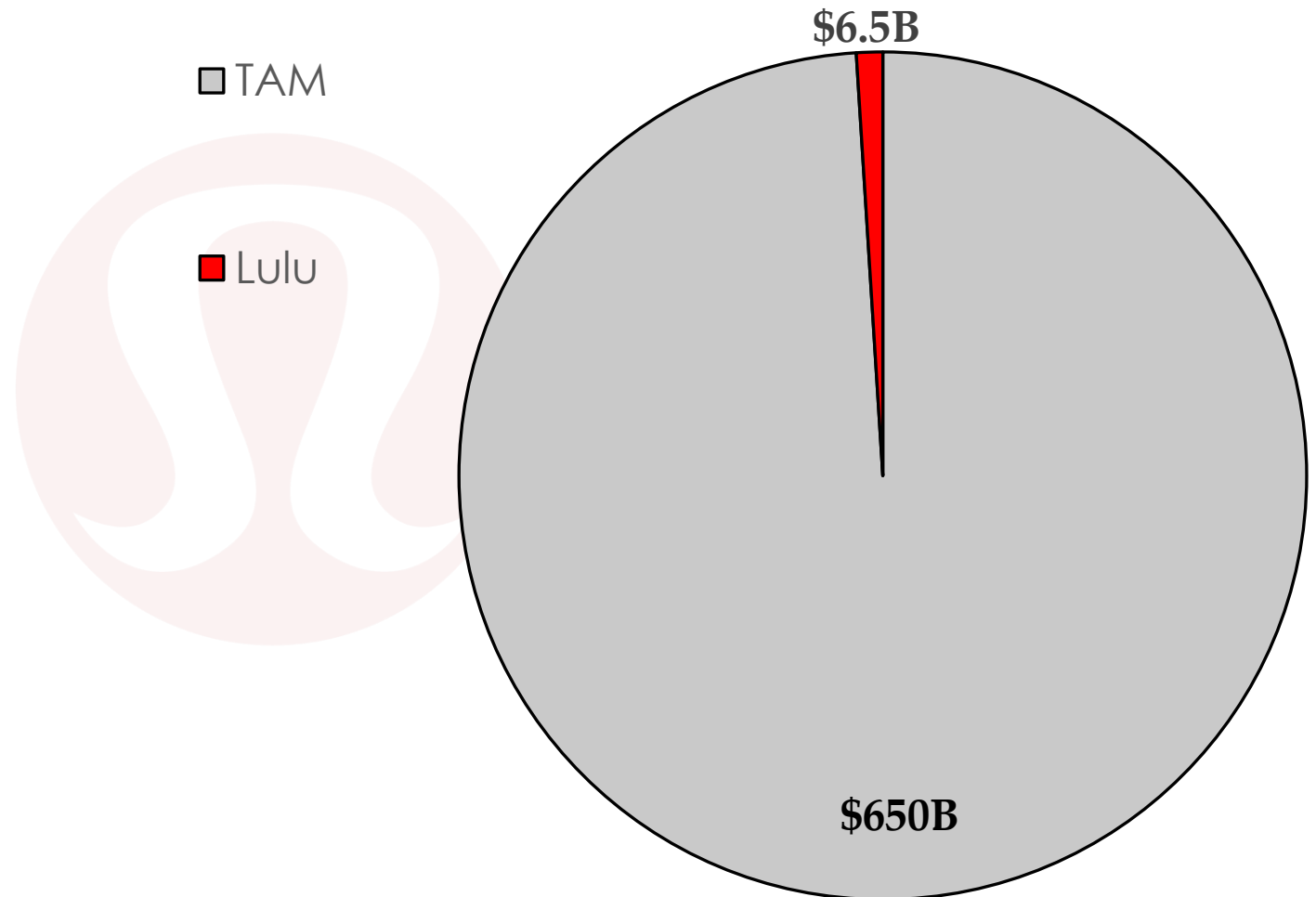
Attracting new guests

Growth in our Core

Entering new markets

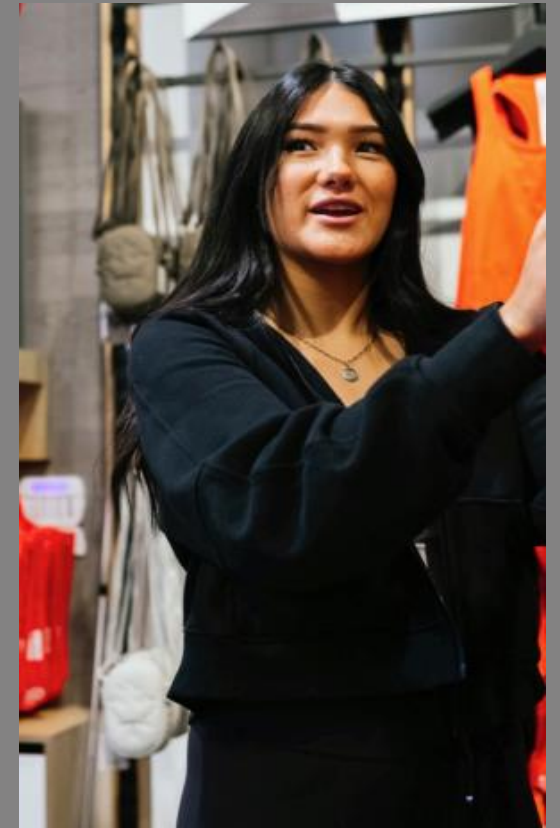
Brand Awareness

- Lululemon is 1% of total addressable market of \$650 billion
- Awareness is built through ambassadors, expanding categories, earned/paid media, campaigns, and events.



Market Expansion

- Low unaided Awareness
- North America totals 73% brand awareness, while international is 48% across 18 different countries.
- Most brands stand at 85%-95% unaided brand awareness
- Lulu has gained more market share than any brand in the industry since 2019.



Attracting New Guests

Market Expansion

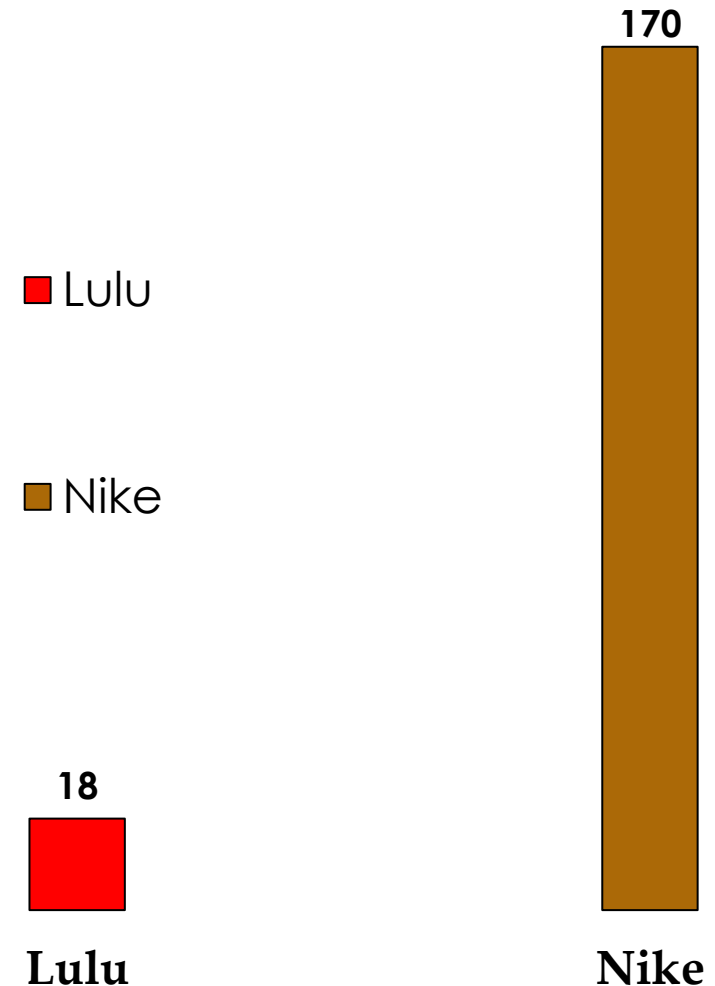
- Momentum in new markets
- First store has been opened in Spain
- Sweat Index
 - Gauges how much people are sweating.
- Biggest Opportunity is China Mainland.
 - **Grow from 70 stores to 220 by the end of 2026**
 - In Q3 of FY22, 9 new stores were opened in mainland China, bringing the total to 88.



Entering New Markets

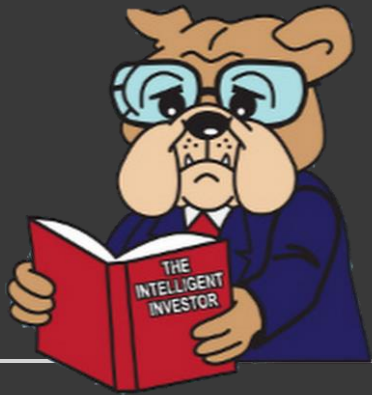
International

- As mentioned, **international revenue is expected to quadruple by 2026**
- Lulu is in 18 countries with 53% revenue growth for 2021
- Nike is in 170 countries, which is almost **10x more than Lulu**
- 45-50 new stores expected internationally
- Websites





Risk Factors



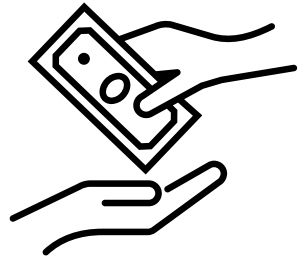
Joaquin Rodriguez



Risk Factors



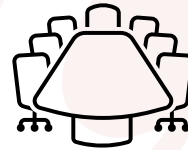
Litigation



Macroeconomy



Competition



Scandals

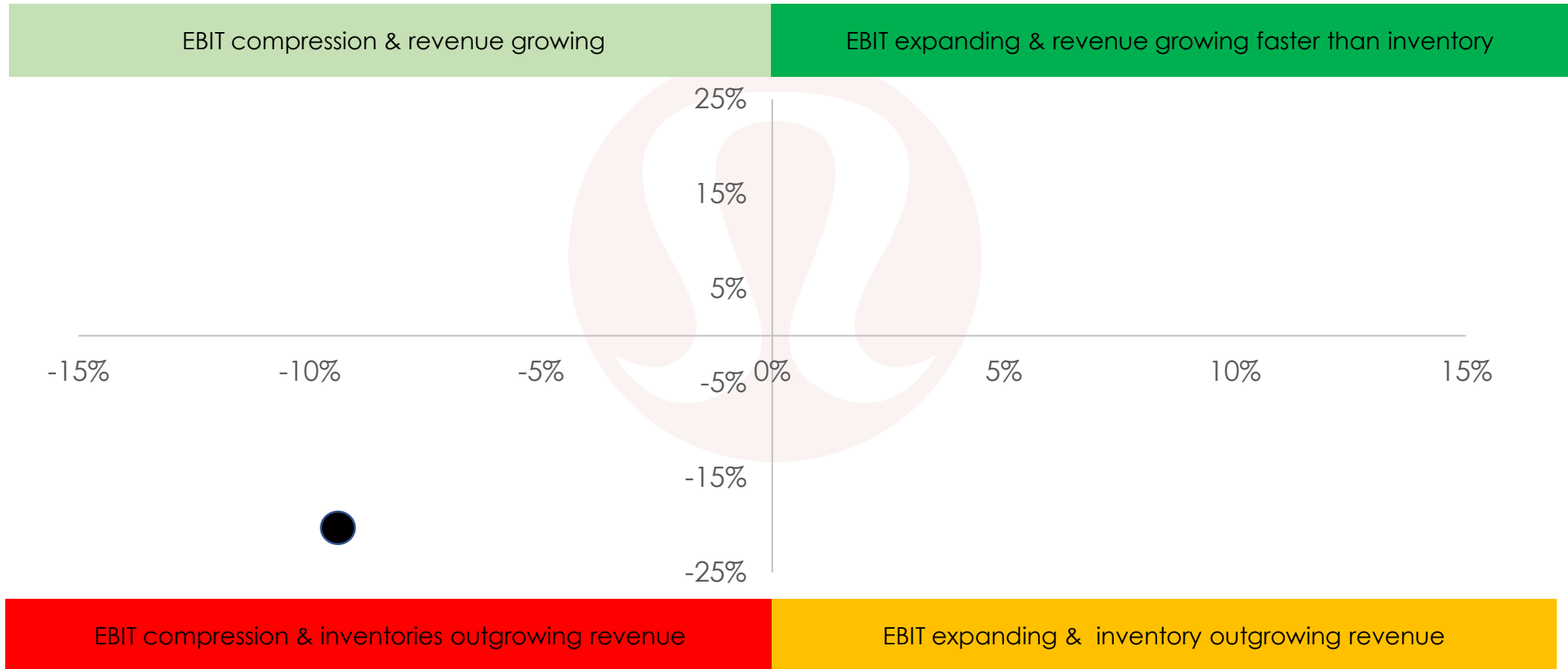


Maturity/ Saturation

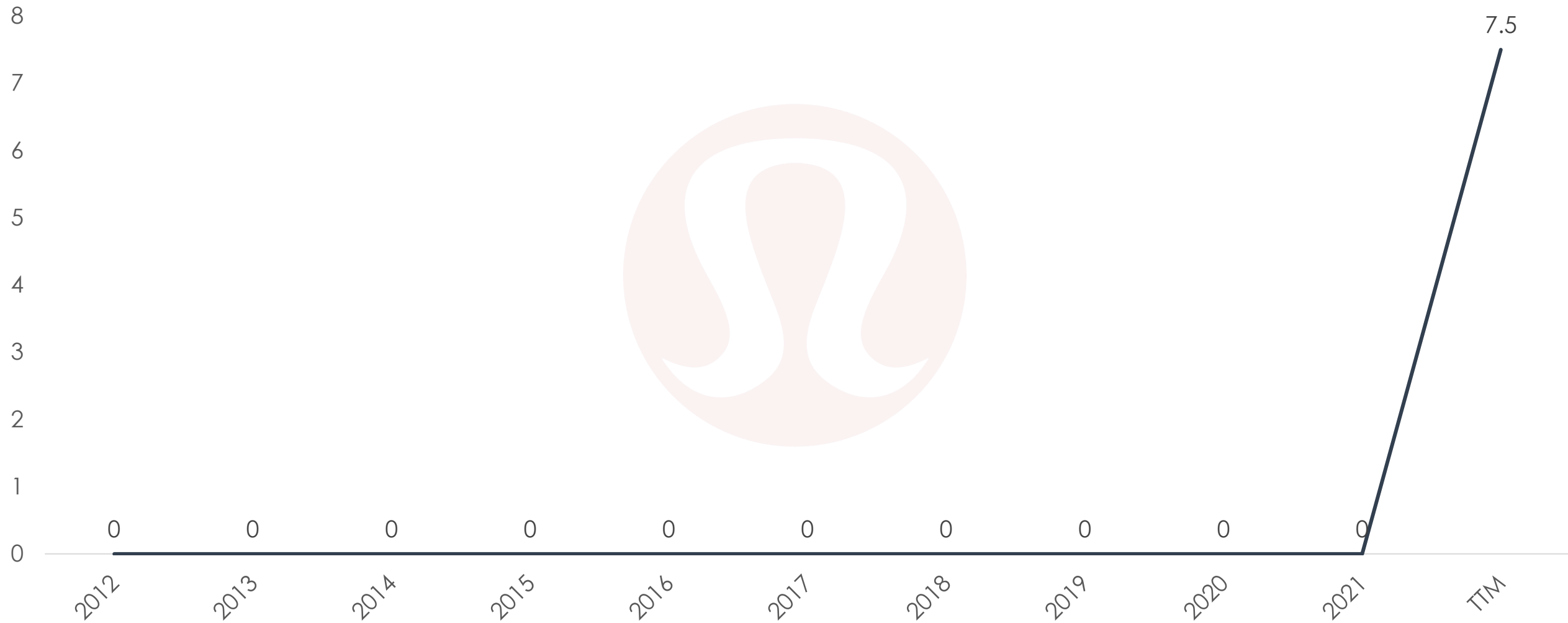
Macroeconomy

- EBIT Margin +

Sales growth – inventory growth



Obligation Ratio TTM



Litigation



vs.



January 2022

Patent infringement over the Mirror

January 2023

Patent infringement over Flyknit technology



Slowing innovation

Competition

Copypcat products

Cheaper offerings

Fragmentation

The image shows two Amazon product listings for leggings, enclosed in a red border. The left listing is for 'LEGGINGS DEPOT' and is marked 'Amazon's Choice'. It features a side view of a woman wearing black leggings and white sneakers. The product title is 'High Waisted Leggings for Women Buttery Soft 3" Waistband Women's..'. It has a 4.3 star rating from 38,576 reviews and 50+ units bought in the past week. The price is \$11.50, down from \$19.99. The right listing is for 'SATINA' and is marked 'Best Seller'. It features a side view of a woman wearing dark brown leggings and white sneakers. The product title is 'High Waisted Leggings for Women - Capri & Full Length Women's...'. It has a 4.3 star rating from 93,632 reviews and 50+ units bought in the past week. The price is \$13.99, down from \$14.99. Both listings include a color selection bar with a '+38' and '+19' indicator respectively, and a Prime logo.

Scandals

CEO turnover

Brand Image

Alienating customers



Maturity/Saturation

As the company grows it will be harder to maintain growth



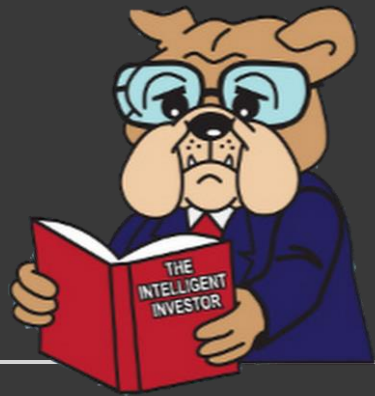
As the company grows there is risk of market saturation



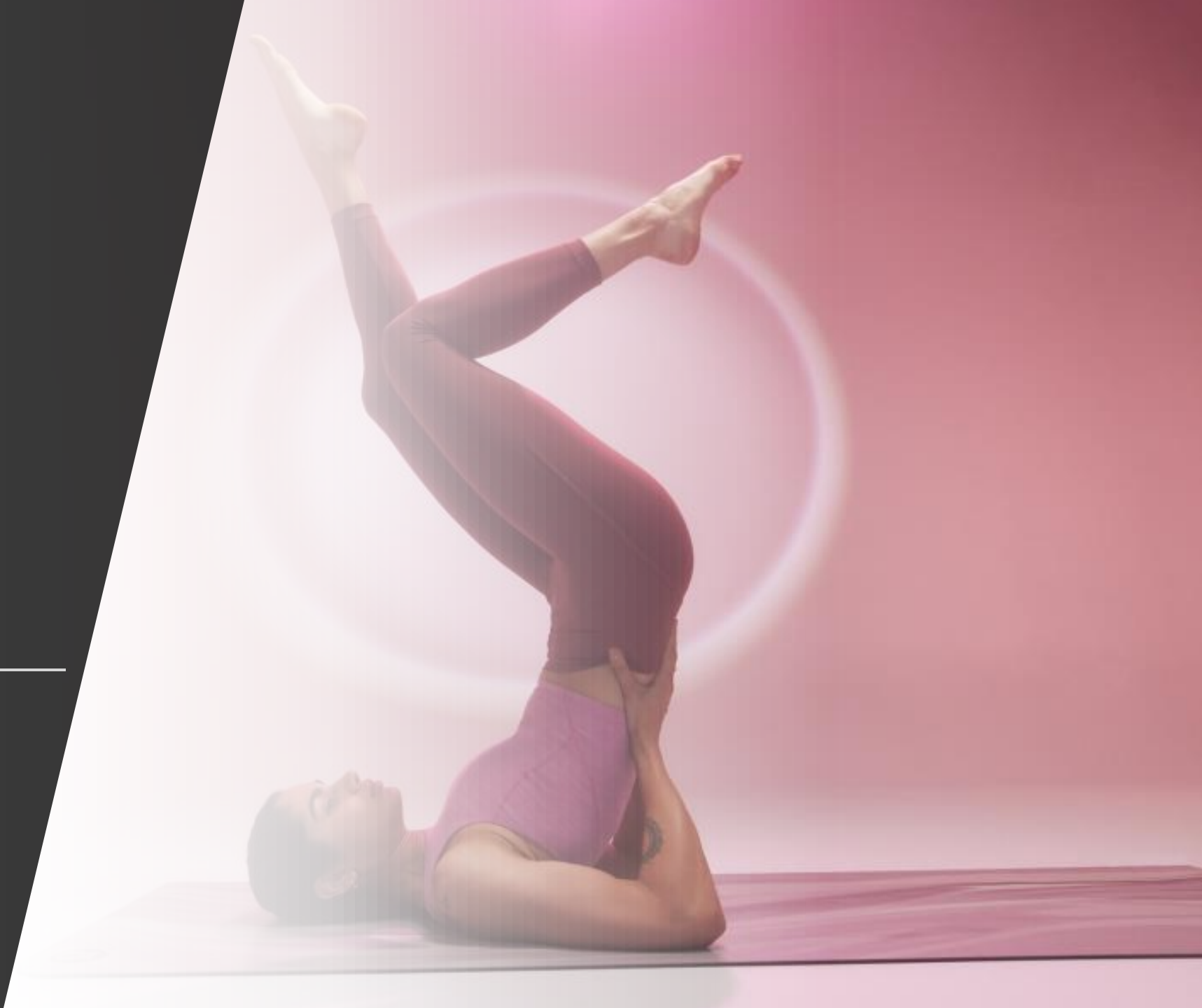
Slowing Growth



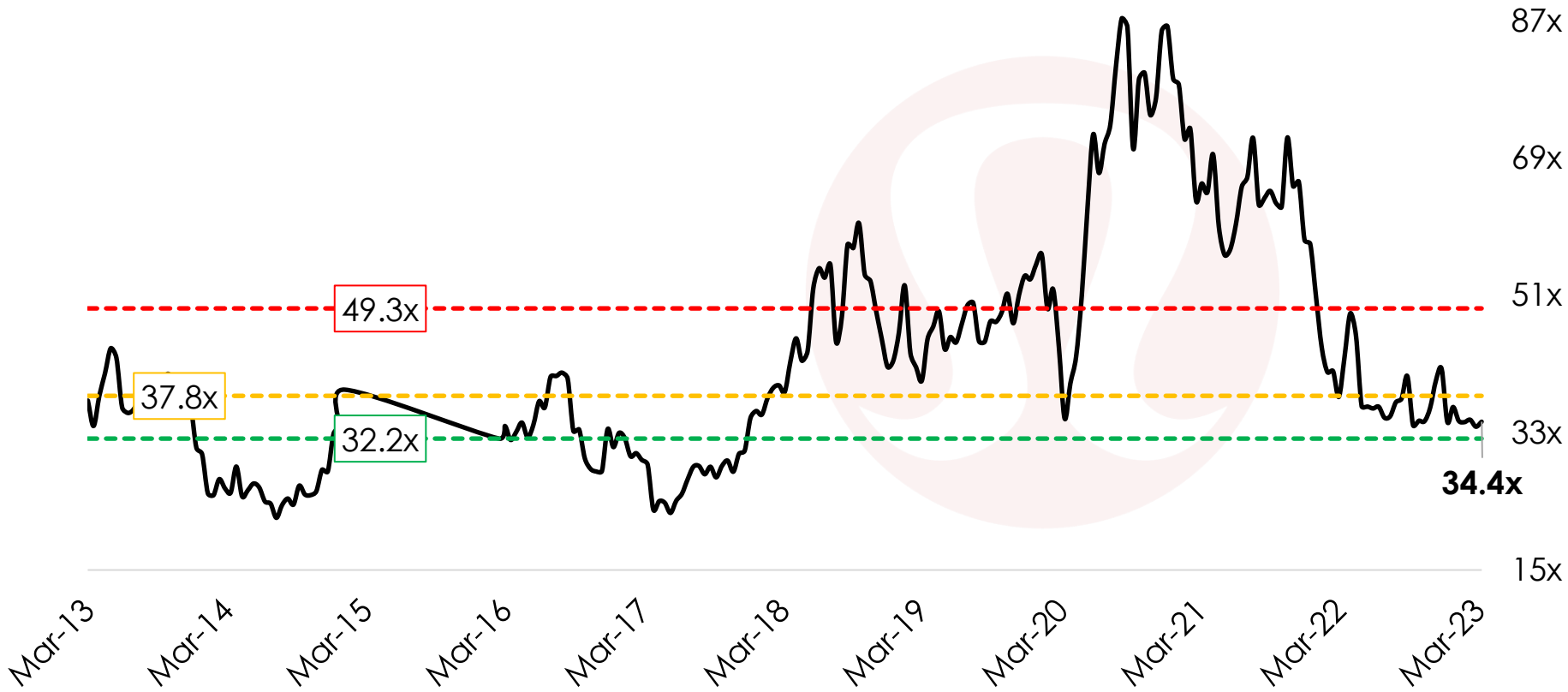
Valuation



Dylan Swanson



Value Bands

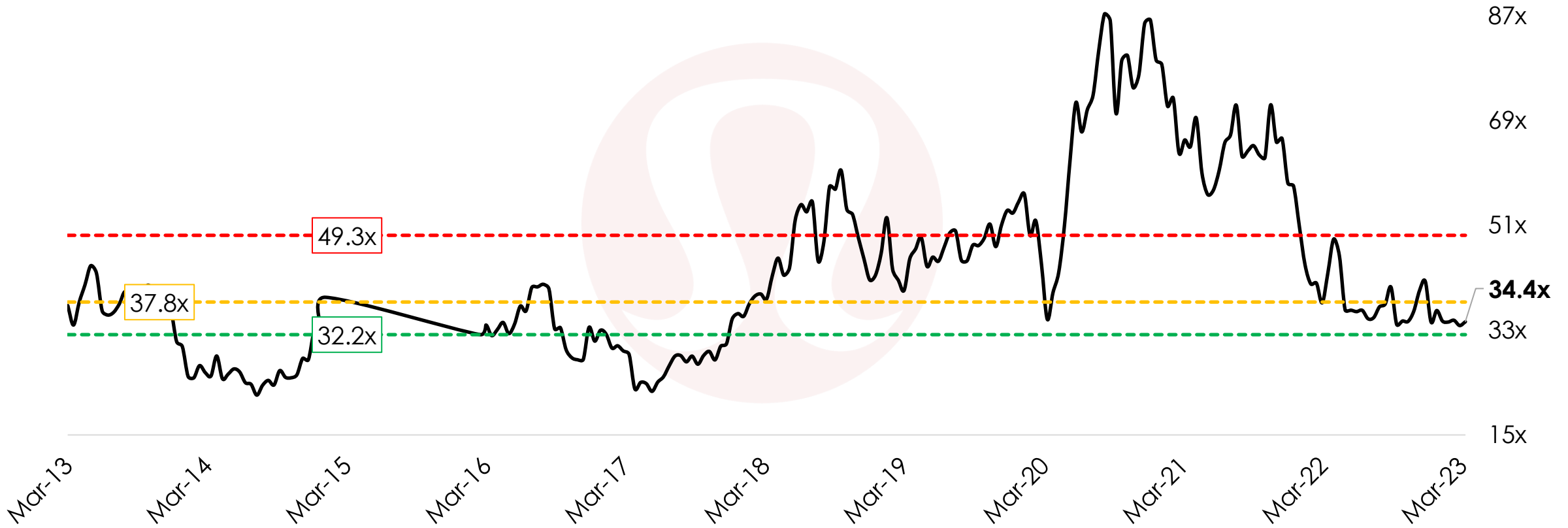


What does it mean?

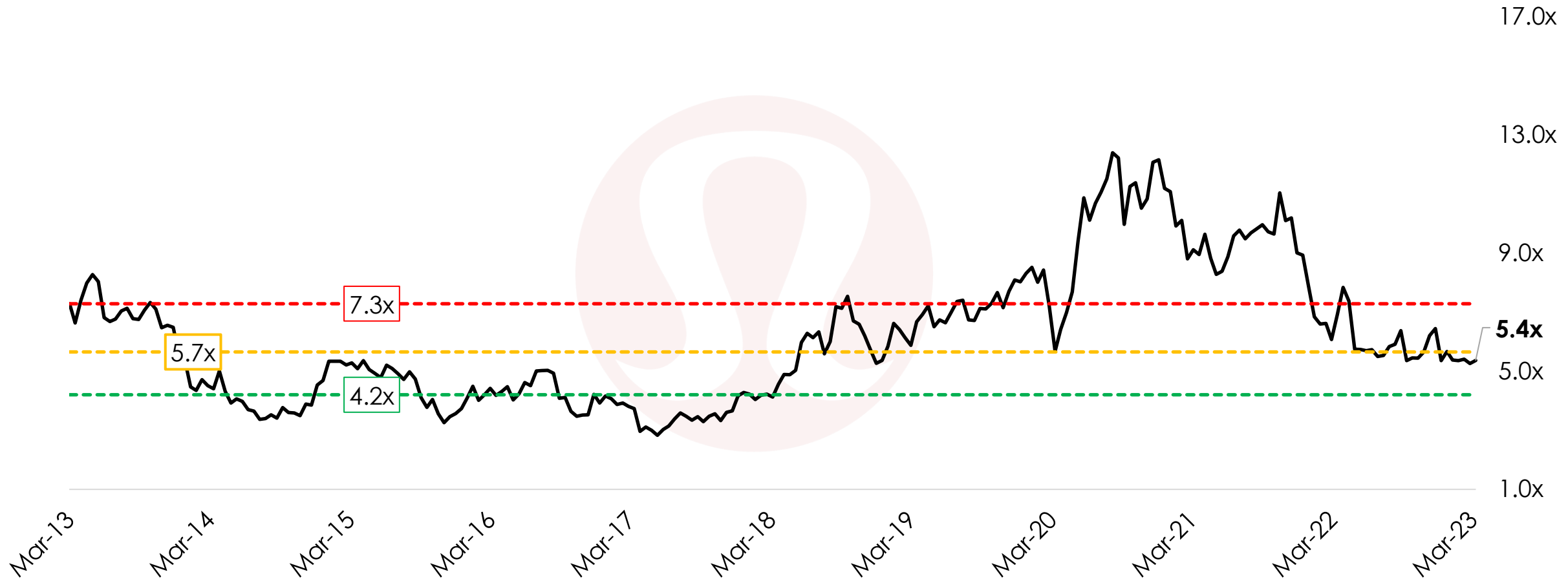


- Overvalued – 75th
- Fairly valued – 50th
- Undervalued – 25th

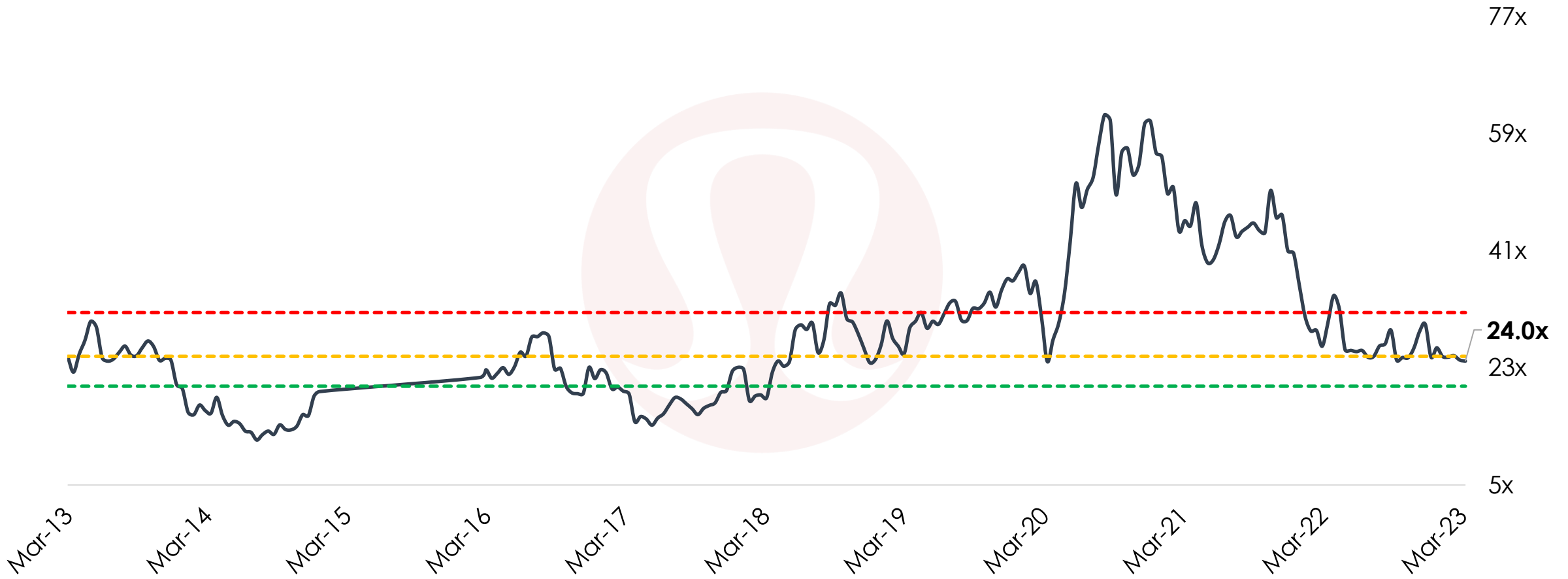
Price to Earnings



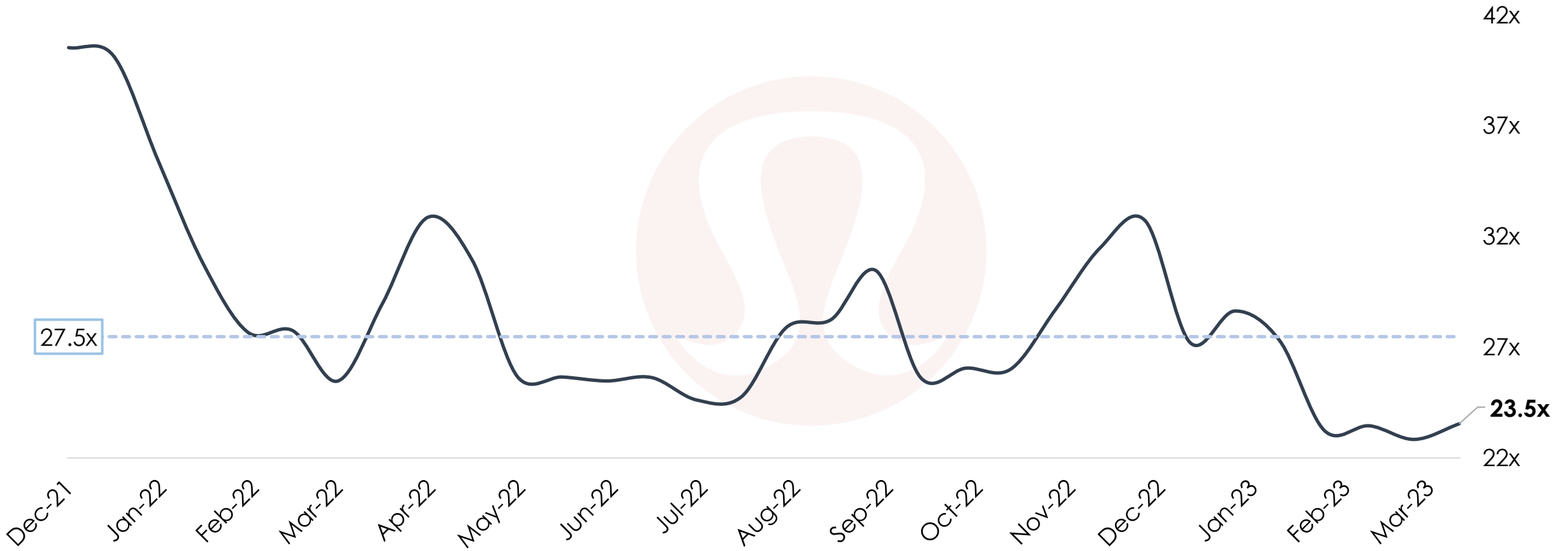
Price to Sales



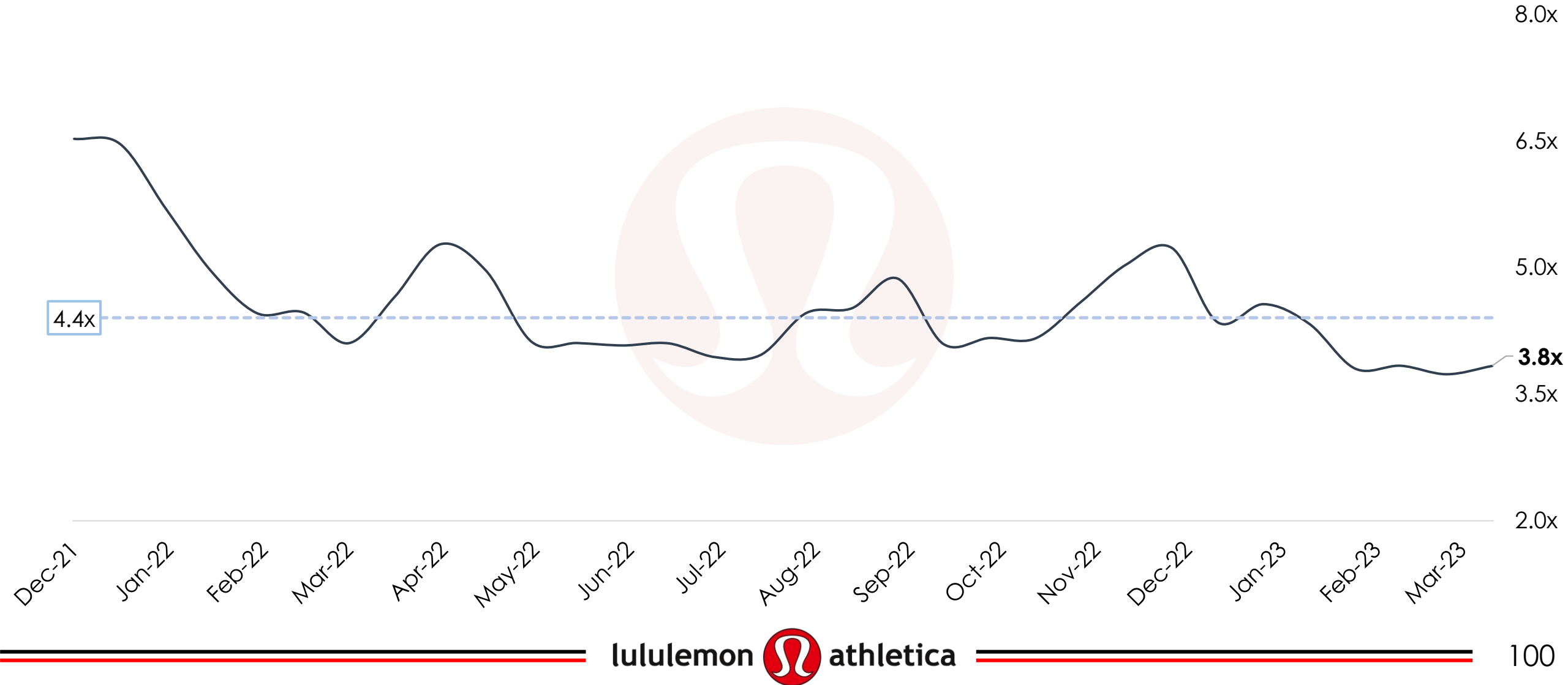
EV/ EBIT



Forward Price to Earnings

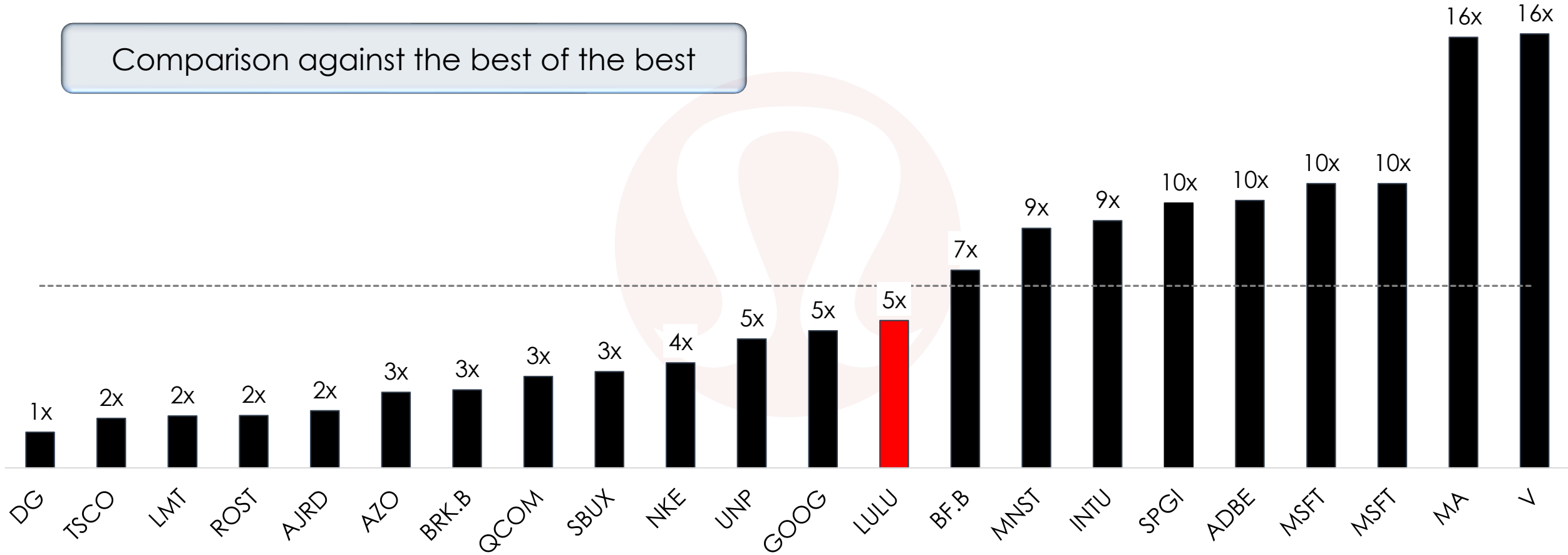


Forward Price to Sales

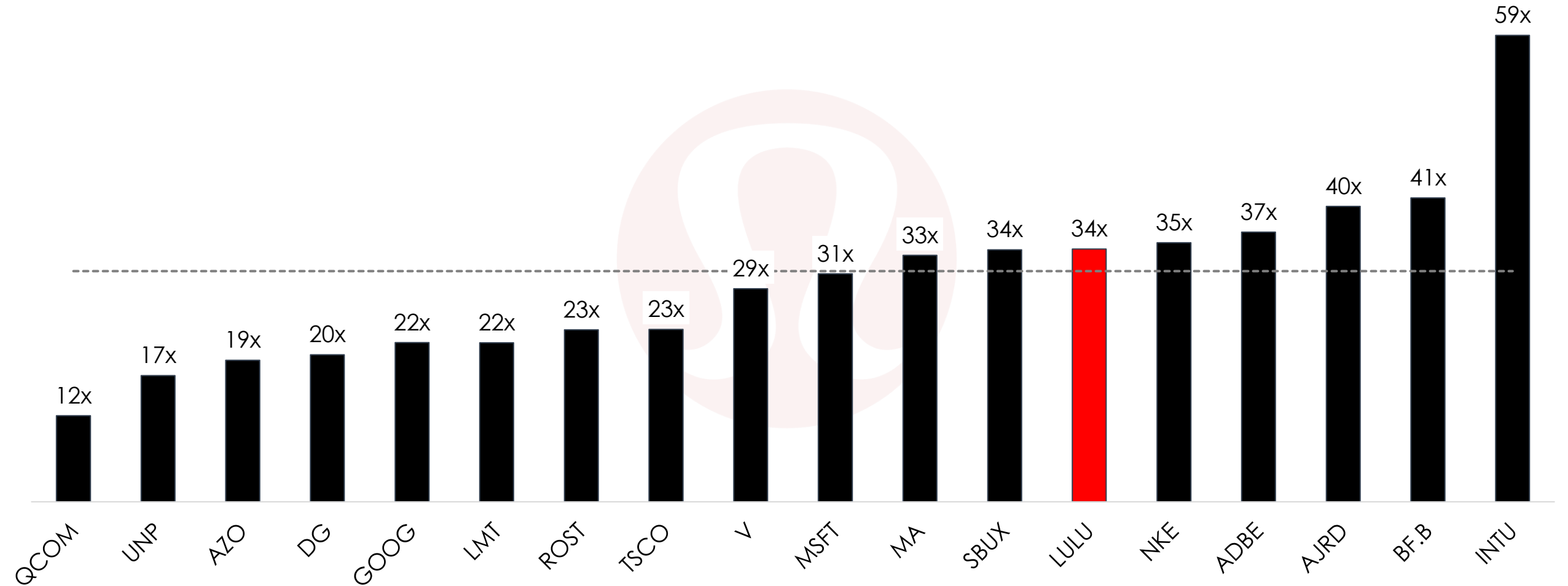


Intraportfolio Analysis

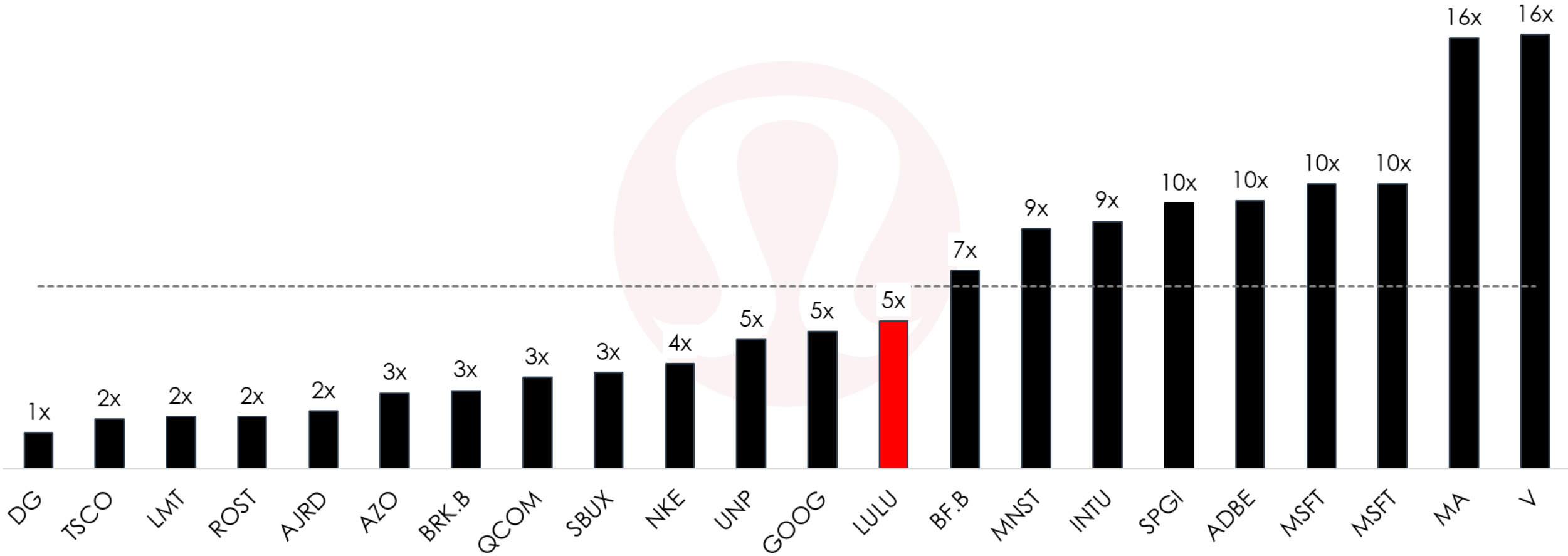
Comparison against the best of the best



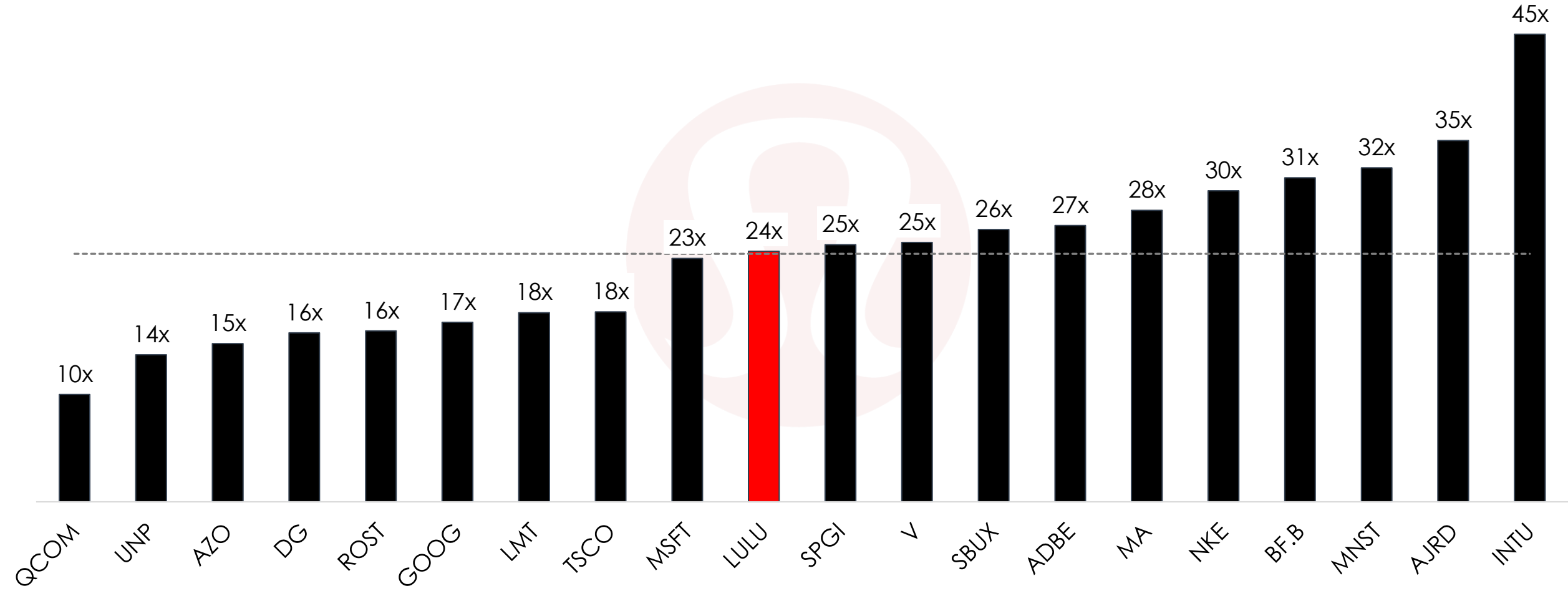
Price to Earnings



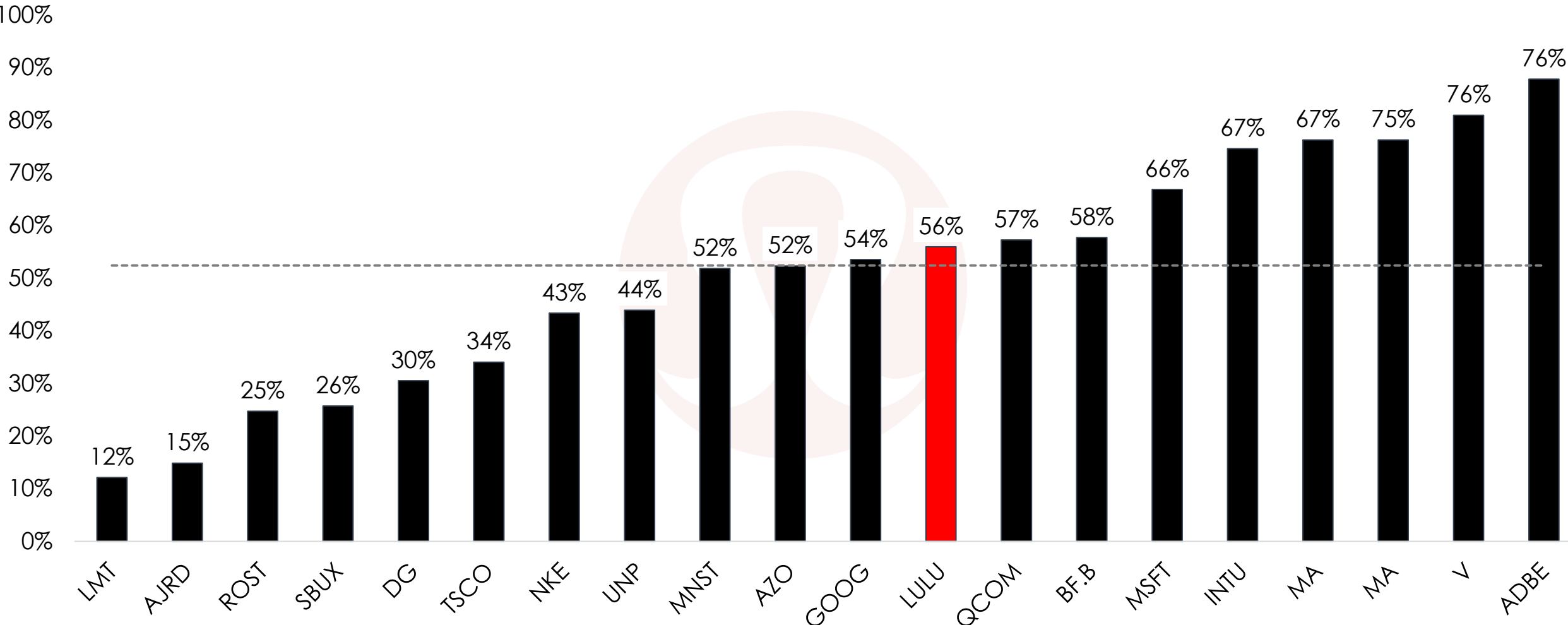
Price to Sales



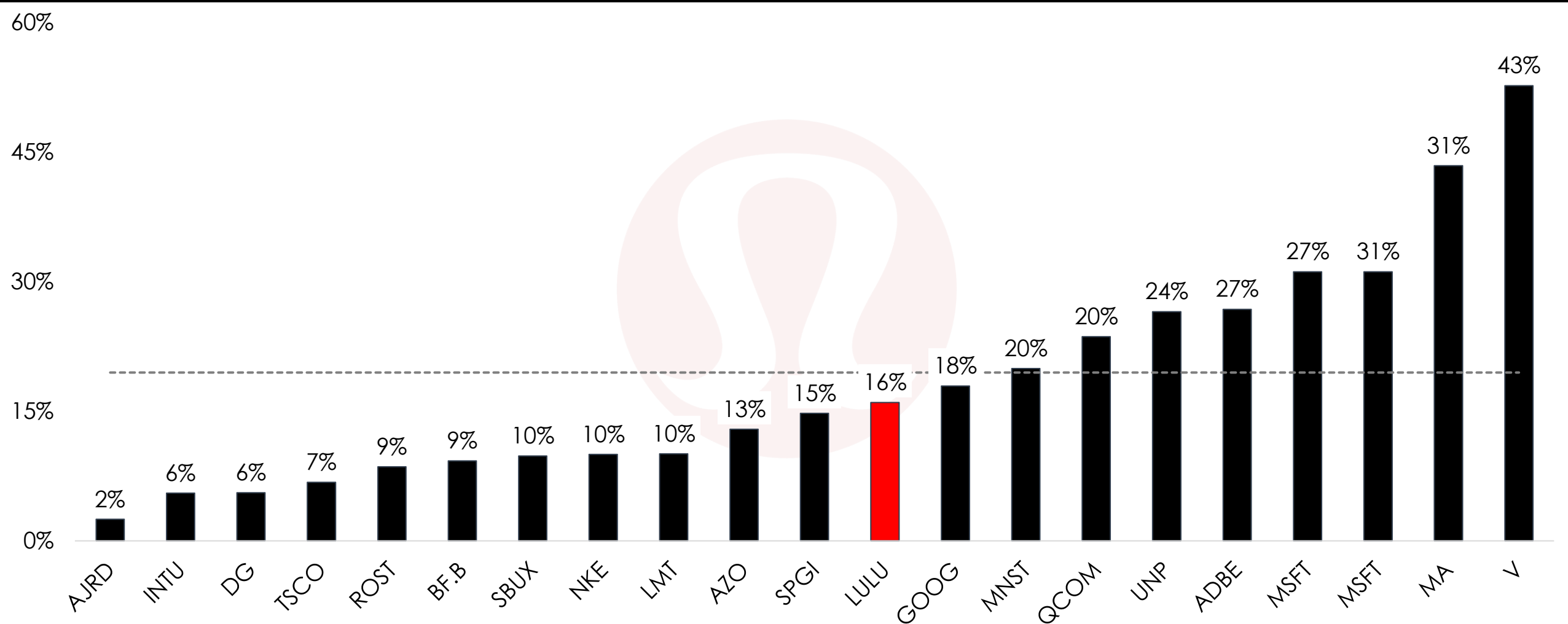
EV/EBIT



Gross Margin



Net Margin



EPS Model Inputs

	Bear	Base	Bull
Revenue Growth	12%	15%	18%
Margin Expansion	0%	0.5%	1%
Share Buybacks	1%	1.5%	2%
Total	13%	17%	21%

Revenue Assumptions

	Bear	Base	Bull
Digital	14%	18%	22%
International	28%	34%	40%
Men's	14%	18%	22%

5 Year EPS Model

Ticker: LULU		5 Year EPS Forecast										
Price: \$312.62												
		<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	\$9.10	\$10.10	\$11.52	\$13.13	\$14.70	\$16.47	28.0x	\$461.07	\$286.29	47.5%	8.1%
			11%	14%	14%	12%	12%	33.0x	\$543.41	\$337.41	73.8%	11.7%
								38.0x	\$625.74	\$388.54	100.2%	14.9%
Base	EPS	\$9.10	\$10.47	\$12.45	\$14.32	\$16.76	\$19.60	28.0x	\$548.93	\$340.84	75.6%	11.9%
			15%	19%	15%	17%	17%	33.0x	\$646.95	\$401.70	106.9%	15.7%
								38.0x	\$744.97	\$462.57	138.3%	19.0%
Bull	EPS	\$9.10	\$11.01	\$12.99	\$15.85	\$19.02	\$23.21	28.0x	\$649.78	\$403.46	107.9%	15.8%
			21%	18%	22%	20%	22%	33.0x	\$765.81	\$475.51	145.0%	19.6%
								38.0x	\$881.85	\$547.56	182.1%	23.0%

Discount rate: 10%

Margin of Safety

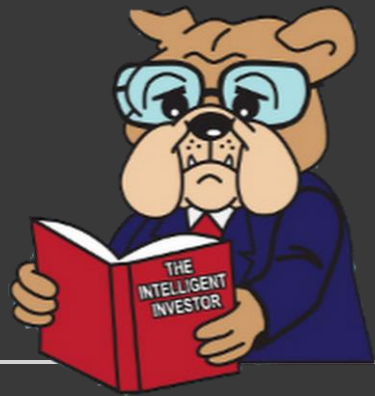
	Bear	Base	Bull
Present Value	\$337.41	\$401.70	\$475.51
Margin of Safety	8.3%	29.2%	52.7%

Sensitivity Analysis

Total RoR Sensitivity				
		Est. EPS growth rate		
		13%	17%	21%
P / E	\$9.10			
	28.0x	8.1%	12.0%	15.8%
	33.0x	11.7%	15.7%	19.7%
	38.0x	14.9%	19.0%	23.1%



Conclusion



Dylan Swanson



Conclusion

Long runway for growth

Strong financials

Differentiated product offering

> 20% margin of safety



Suggestion


100 shares limit order



~ 2.5% of portfolio

~ 3.5% of portfolio LULU + NKE





lululemon



lululemon

THANK YOU!

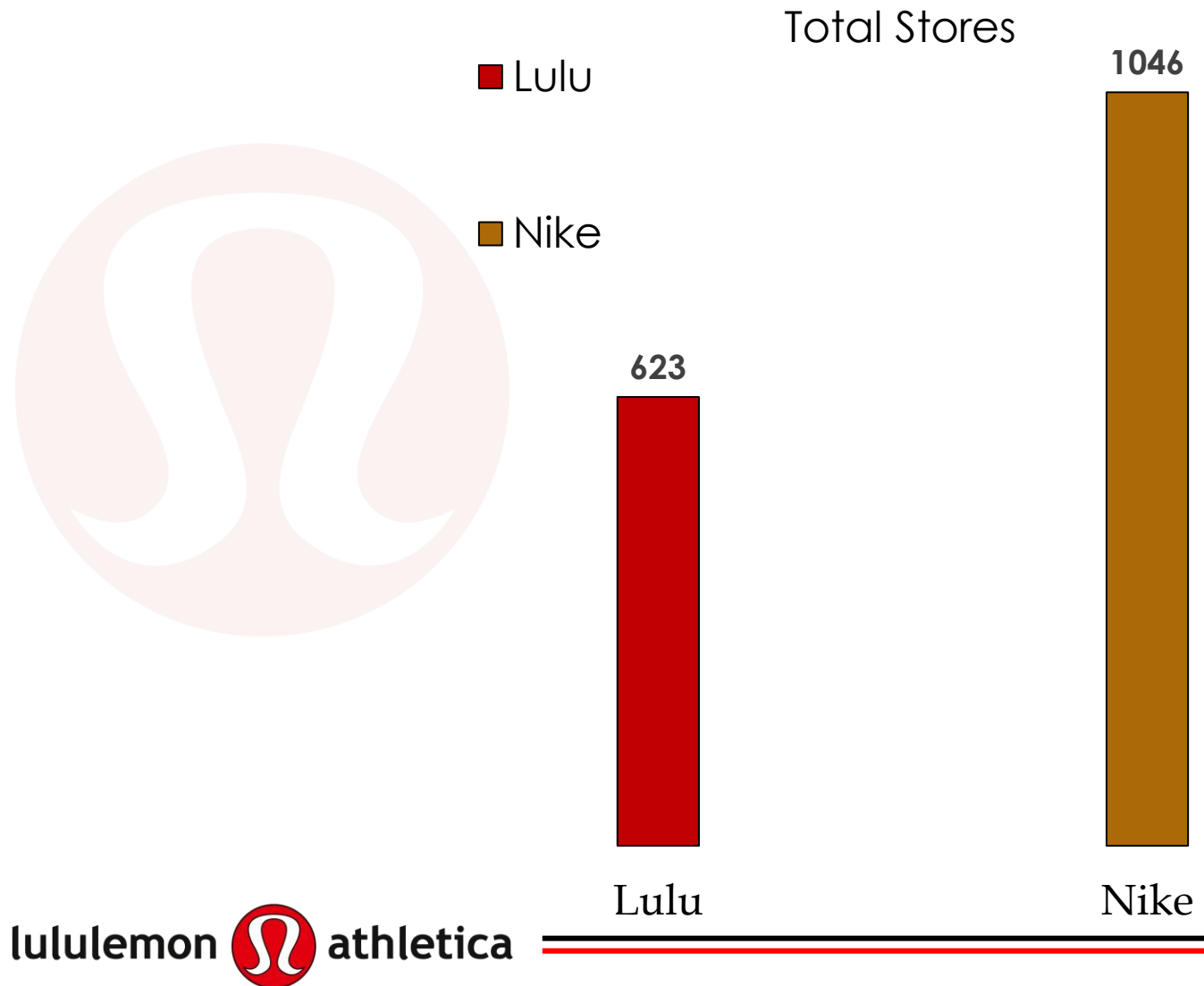
Price Target

	EV/EBIT	EV/EBIT Multiple	Price Target
Bear	\$1650	22x	\$285
Base	\$1775	25x	\$350
Bull	\$1860	28x	\$410



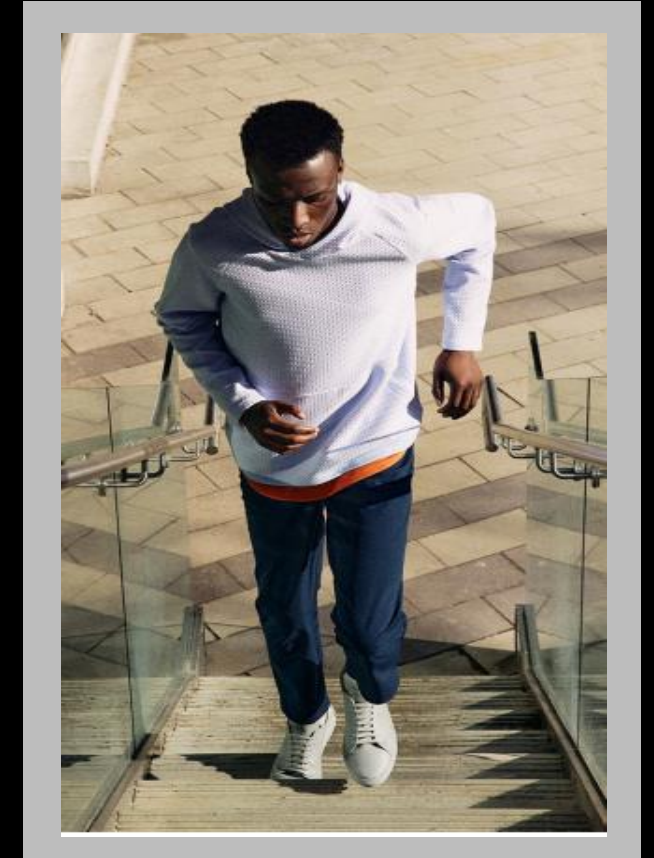
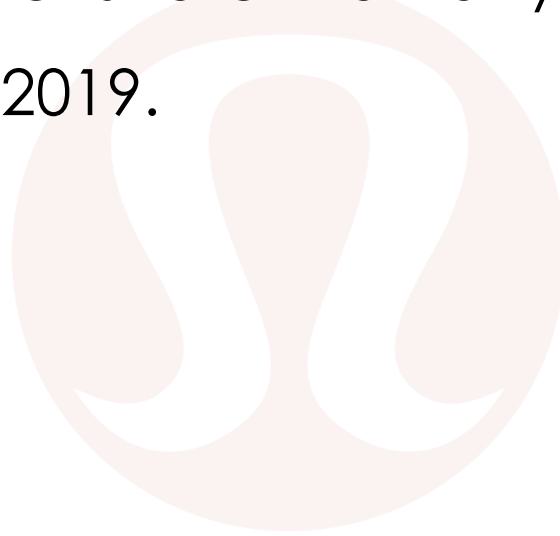
Stores Compared to Nike

- Lulu has about 60% the stores that Nike has and are 1/6 the size
- 30 more stores expected to open in Q4 FY22, totaling 79



Market Expansion

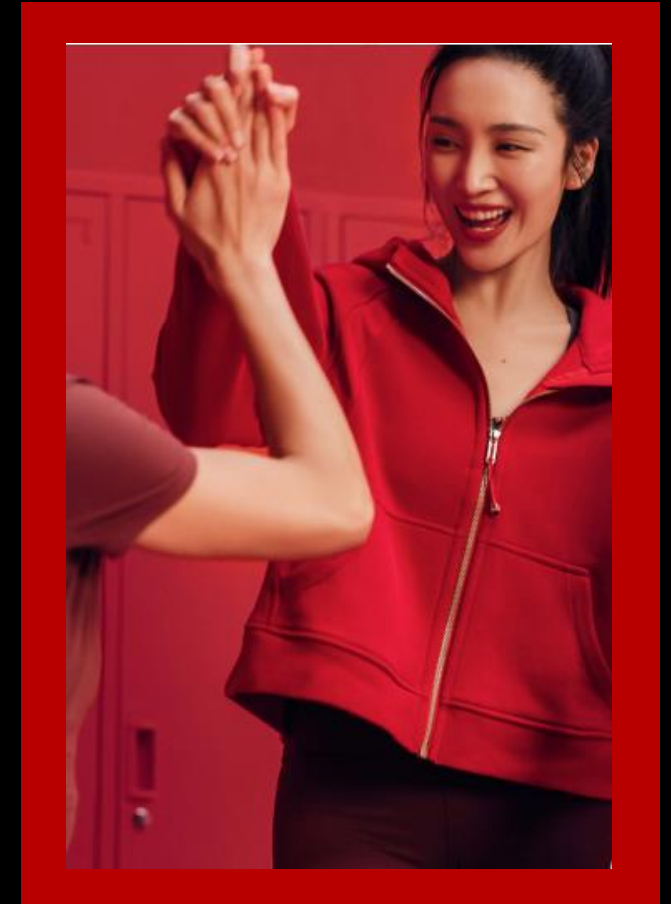
- Lulu has gained more market share than any brand in the industry since 2019.



Growth in the Core

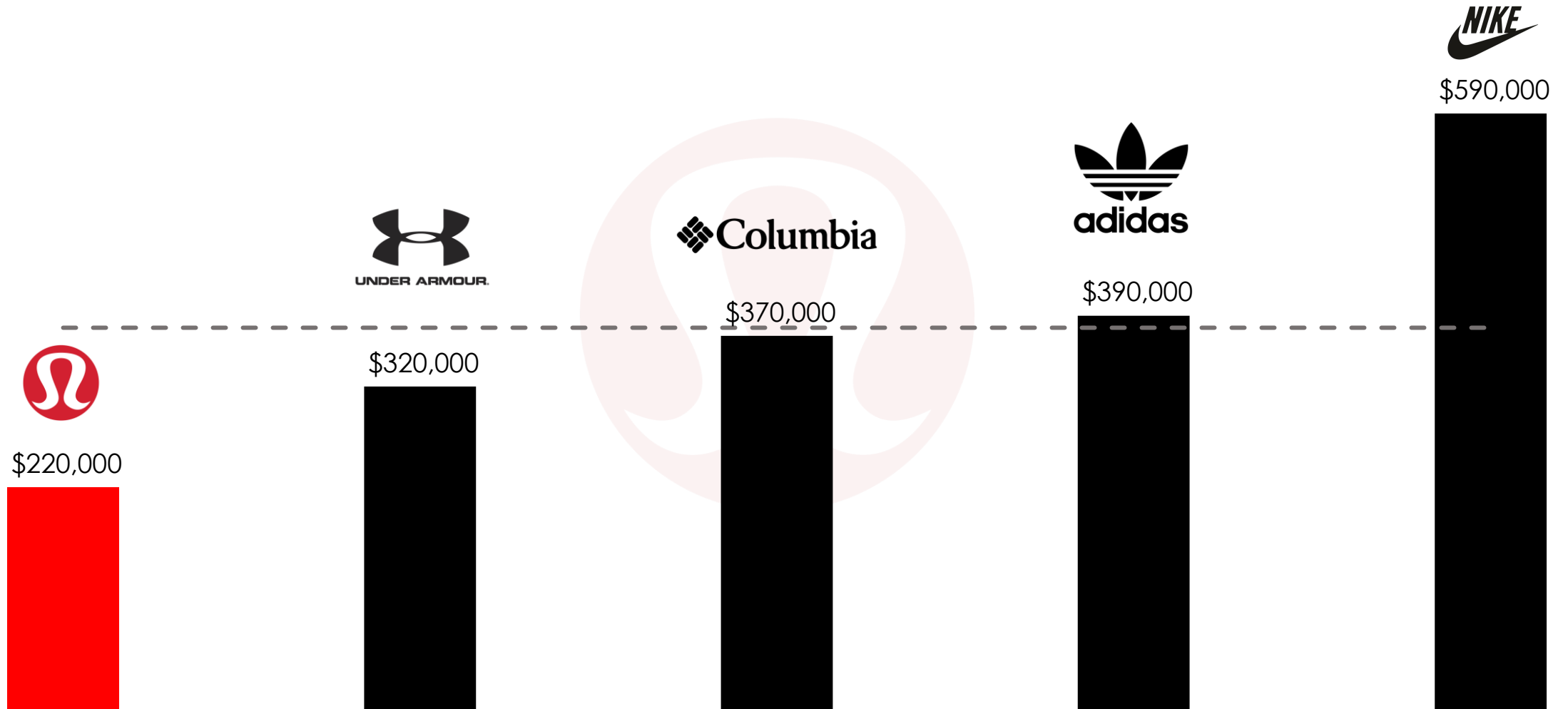
Market Expansion

- Again, 1% of TAM of \$650B globally
- North America totals 73% brand awareness, while international is 48% across 18 different countries

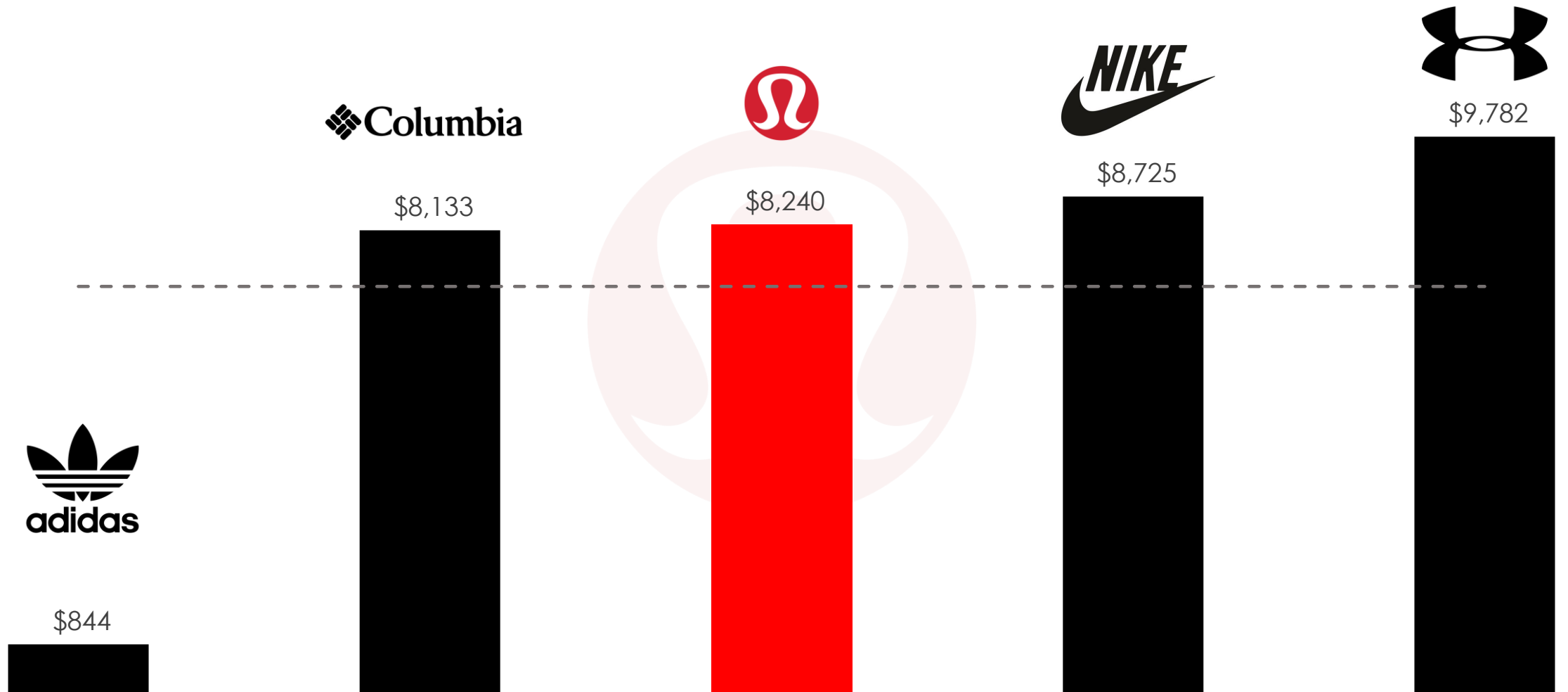


Size of The Opportunity

Sales Per Employee



Sales Per Square Foot



Cash Balance

	First Quarter		
	2022	2021	Year over year change
	<i>(In thousands)</i>		
Total cash provided by (used in):			
Operating activities	\$ (243,256)	\$ 214,109	\$ (457,365)
Investing activities	(101,328)	(85,464)	(15,864)
Financing activities	(259,560)	(122,235)	(137,325)
Effect of foreign currency exchange rate changes on cash	(6,711)	22,812	(29,523)
Increase (decrease) in cash and cash equivalents	\$ (610,855)	\$ 29,222	\$ (640,077)

- a decrease in cash flows from the changes in operating assets and liabilities of \$487.9 million. This decrease was driven by changes in inventories, income taxes, and accrued compensation.

The increase in cash used in financing activities was primarily the result of an increase in stock repurchases. Cash used in financing activities for the first quarter of 2022 included \$232.6 million to repurchase 0.7 million shares of our common stock compared to \$83.8 million to repurchase 0.3 million shares for the first quarter of 2021. The common stock was repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors.