

Initiating Coverage

Lululemon Athletica Inc (\$LULU)

Lululemon's Jog Through Rough Terrain

Key Takeaway: Despite a period marked by softer U.S. demand, tariff headwinds, and product fatigue in its casual/lifestyle category, Lululemon continues to sustain itself, as indicated by its Q2 2025 earnings call; revenue has grown 7% to \$2.5 billion. After several years of hypergrowth, Lululemon is committed to accelerating innovation, shortening market lead times, and producing new product lines for the Spring 2026 season. Though earnings fell short of expectations, Lululemon's global momentum remains strong as revenue from China grew 25% in Q2 and the rest of the world grew 19% through its continued expansion into underpenetrated categories such as menswear, footwear, and accessories. Additionally, it has strong financial stability, as Lululemon still remains among the strongest in the industry through its flexibility in cash, minimal debt, and high margins. Despite these positives, several headwinds have led Lululemon to underperform, as US comps have turned negative as assortments have become too predictable; inventory levels remain high, which force heavier markdowns, and tariff pressures and the removal of the de minimis exemptions have added additional cost burdens.

Global Expansion and Category Diversification: Through Lululemon's continued international momentum and broadening product categories, the brand has continued to scale beyond the US customer base. Ending Q2 with 784 stores globally, Lululemon has added 14 new stores, 5 in China and across Europe. Looking forward, the brand is expected to open 40-45 new stores by the end of 2025, with nearly half of those openings in Mexico and China. At the same time, Lululemon has begun diversifying beyond its core women's leggings as its product line has grown in menswear to 6% and accessories to 15% which allows for greater market share within the activewear sector. The company's Science of Feel has continued to combat the fatigue of its casual categories through recent launches like Align No Line, Daydrift, and BeCalm. With over 30 million active members across platforms, Lululemon retains a clear path of growth to continue capturing market share despite macroeconomic and industry headwinds.

Long-term Financial Stability: Despite the tariffs and the removal of the de minimis exemption (which allows shipments valued under \$800 to enter the U.S. duty-free), Lululemon's financial profile remains one of the strongest within the apparel industry. For instance, in Q2 2025, even though its gross margin fell by 1.1% to 58.5%, it stood comparably well to its competitors like Nike and Adidas, ~43% and ~47% respectively. With an expected decline in profitability due to tariffs, the brand's management team has acted swiftly to offset these pressures through selective price increases, supply-chain adjustments, and various cost-saving methods. With a net income of \$371 million and \$1.16 billion in cash and equivalents at the end of Q2, Lululemon's stability will allow it to withstand margin pressures and continue investing in growth initiatives.

Valuation: We initiate coverage with a \$196 PT.



Consortium Research Group
Consumer | Apparel Retail
October 16th, 2025

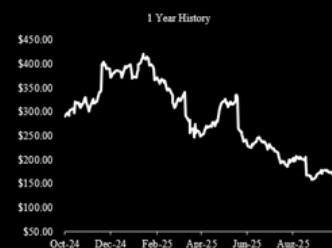
Stock Rating: O

Price Target: \$196

Price: \$166.13

Potential Upside: 18.02%

Ticker: SLULU



Consumer Coverage Team

Kenny Mok
Cornell University
km996@cornell.com

Company Overview

Leader in Luxury Activewear Industry: Lululemon is a luxury athletic apparel retailer founded in 1998 in Vancouver, Canada, that initially specialized in yoga wear. Now, it has evolved into a global lifestyle brand offering a range of technical apparel, footwear, and accessories designed for fitness and various activities, including running, training, and everyday casual wear. With over 760 stores worldwide and an expanding e-commerce omni-channel, Lululemon has established itself as a leader in the “athleisure” industry, combining performance-driven innovation with fashion-driven design. The brand extends beyond selling products, promoting a lifestyle of wellness, fitness, mindfulness, and community engagement through retail, in-store events, and partnerships.

Product Innovation and Brand Loyalty: Lululemon’s defining characteristics are its commitment to product innovation, primarily through the development of proprietary fabrics and high-performance apparel. Designed materials like Luon, Nulu, and Everlux created to enhance comfort, functionality, and durability are the main differentiating factors for Lululemon among its competitors. Its technical focus has cultivated a loyal customer base within the fitness community, allowing the company to command a premium price from its consumers. Additionally, Lululemon has cultivated strong customer engagement through community-oriented marketing and customer feedback loops that impact the development of its products.

Direct-to-Consumer Model: Lululemon’s business model is heavily based on a Direct-to-Consumer (DTC) strategy, as its e-commerce and company-owned stores contribute most of its revenue. This model allows Lululemon to have greater control over pricing, brand positioning, and customer experience while maintaining higher margins compared to a wholesale strategy. Additionally, its omni-channel approach integrates both physical retail stores with digital platforms to create a personalized shopping experience for its customers.

Industry Overview

Premiumization & Brand Differentiation: The athleisure industry has shifted toward a premiumization strategy, where consumers are willing to pay higher prices for apparel that combines performance functionality for fitness with fashion-forward design. Leaders in this industry differentiate not only through product quality but also through branding, community-focused expansion, and associations to lifestyle. Additionally, brands continue to position themselves in the premium market through collaborations between sportswear and luxury fashion brands like Adidas x Gucci and Puma x Rihanna, elevating the perception and scarcity value of their products. Premiumization also extends beyond products sold in-store and online, as community events and immersive customer services reinforce the brand’s elevated identity. As competition intensifies, brand positioning and differentiation have become the most defensible competitive advantages.

Affluent Target Market Positioning: The target consumers of the luxury athleisure are affluent, health-conscious, and fashion-forward millennials and Gen Zs. Demographically, they are college-educated young professionals with middle- to upper-income levels, typically residing in the urban metropolitan areas. While both men and women are included in this segment, women currently represent the majority of high-end athleisure consumers, though the men’s category has been an increasingly growing market segment. Additionally, these consumers have integrated fitness and fashion into their daily identity, reflecting the trend of wellness as part of their everyday lifestyle. Hence, these consumers are willing to pay premiums for apparel that signals both status and function and even favor smaller, niche luxury brands like Alo Yoga or Vuori in addition to the global leaders of this industry. Since this target market is less price-sensitive in downturns, it provides resilience for luxury athleisure brands when overall consumer demand decreases.

Product Innovation & Sustainability: Innovation remains an important competitive differentiation in this luxury sector as brands invest heavily in proprietary fabrics, digital integration, and sustainable manufacturing. For example, Lululemon developed its Everlux and Nulu fabrics to combine performance and comfort, while Nike launched many digitally connected products through its Nike Run Club ecosystem. Beyond performance, brands have also invested in recycled fibers, circular design models, and more sustainable supply chains. This focus on innovation and sustainability enhances brand trust and broadens appeal to more socially conscious consumers, positioning companies to capture the growing demand for high-performance apparel alongside environmental responsibility.

Peer Comparisons

Comparable Companies						
Smm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM	
Adidas AG (XFRA:ADS)	\$38,698	\$43,933	28.1x	\$28,405	\$2,696	
V.F. CORPORATION (XNYS:VFC)	\$5,656	\$10,689	53.7x	\$9,496	\$771	
NIKE, INC. (XNYS:NKE)	\$99,986	\$102,472	34.7x	\$46,440	\$4,197	
Puma SE (XFRA:PUM)	\$3,525	\$6,196	NM	\$9,986	\$657	
Lululemon	\$20,056	\$20,663	11.5x	\$10,904	\$2,977	

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Adidas AG (XFRA:ADS)	12.8x	51.2%	9.5%	9.7%	11.0%
V.F. CORPORATION (XNYS:VFC)	8.0x	54.1%	8.1%	5.4%	(2.3%)
NIKE, INC. (XNYS:NKE)	19.3x	41.9%	9.0%	7.4%	(7.4%)
Puma SE (XFRA:PUM)	7.0x	47.1%	6.6%	4.7%	1.2%
Lululemon	5.8x	59.1%	27.3%	22.9%	10.1%

High	19.30x	59.1%	27.3%	22.9%	11.0%
75th Percentile	12.80x	54.1%	9.5%	9.7%	10.1%
Average	10.58x	50.7%	12.1%	10.0%	2.5%
Median	8.00x	51.2%	9.0%	7.4%	1.2%
25th Percentile	7.00x	47.1%	8.1%	5.4%	-2.3%
Low	5.80x	41.9%	6.6%	4.7%	-7.4%

Lululemon Relative Valuation		
Implied Enterprise Value (25th Percentile)	\$	20,837
Implied Enterprise Value (Median)	\$	23,814
Implied Enterprise Value (75th Percentile)	\$	38,102

Implied Share Price (25th Percentile)	\$	175.09
Implied Share Price (Median)	\$	200.19
Implied Share Price (75th Percentile)	\$	320.68

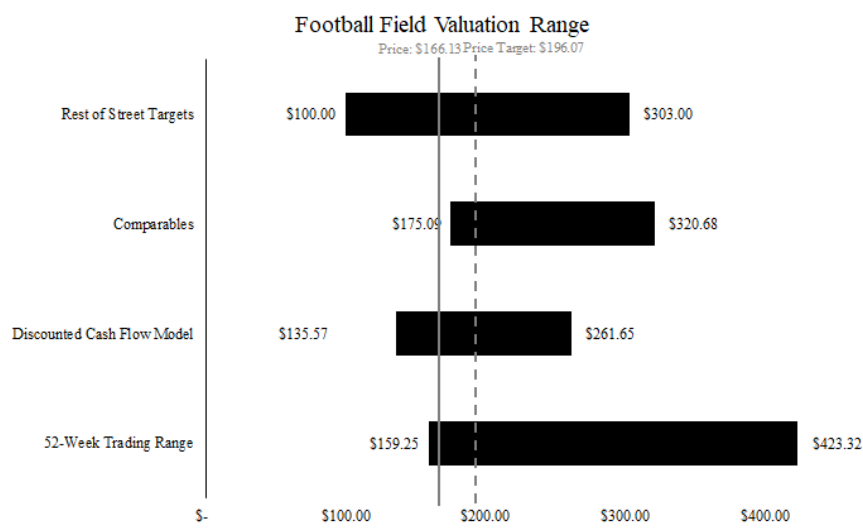
Source: Capital IQ

New Strategic Partnerships: Lululemon has continued to pursue strategic partnerships to capitalize on different channels of market share. First, the company recently partnered with the NFL to launch an apparel collection that features the logos of all 32 NFL teams. This apparel collection includes both men's and women's apparel and accessories with NFL team symbols, which incorporate Lululemon's signature products like the Define, Scuba, and Align collections. This partnership with the NFL is just another recent example of Lululemon's push into sports and performance in recent years. For instance, as announced on November 7th, Lululemon has agreed to a multi-year partnership with the BNP Paribas Open, a tennis event that runs at the beginning of every March. As part of the multi-year partnership, the BNP Paribas Open and Lululemon will debut a new product line of co-branded merchandise for the March event, including retail stores and pop-ups in the Indian Wells Tennis Garden, the arena where the event is held. Additionally, Lululemon also partnered with the NHL (National Hockey League) in 2024 to release team-branded items as well. These sport partnerships will continue to lift Lululemon's sales, reinvigorating its slowed-down US sales through new product cycles. Additionally, Lululemon's partnership with American Express provides Amex Platinum cardholders up to \$300/year (in \$75 quarterly credits) to spend at Lululemon. This partnership has shown early signs pointing to a meaningful boost in customer activity by targeting high-income customers, as Amex Platinum's core demographics overlap with Lululemon's target market. However, given the recent hike in fees for Amex Platinum cardholders starting on January 2, 2026, to \$895 annually, a \$200 increase, it may drive out the younger consumer base within Amex Business Platinum cardholders. Either way, with the recent announcement of this partnership, there has already been a surge in engagement, as Lululemon's website traffic spiked immediately. Strategically, this Amex offer is aimed at acquiring new customers within the Amex Platinum platform and re-engaging existing customers, bolstering store sales and online conversion.

Global Strength and Expansion: Given its strong brand image and continued global reach, Lululemon is well-positioned to capitalize on international opportunities, particularly in China and other under-penetrated areas. As Lululemon's management remains confident in its growth in China for FY2025, its target remains a +25-30% revenue growth in China. Under its Power of Three 2x plan, Lululemon aims to reach 200+ stores in China, which is up from around 154 stores in early 2025. With a premium brand image that connects to high-income consumers who are health-conscious and community-centric, Lululemon has leveraged local ambassadors, fitness events, and digital social media platforms like Tmall and WeChat to further engage consumers in China. Along with the Chinese government's "Healthy China 2030" health initiative promoting active lifestyles, Lululemon continues to ride the tailwinds of the Chinese government's support, as China has become a main focal point for growth investments. On top of its expansion in China, Lululemon has continued its focus within the EMEA market, as its first store opening in Milan, Italy, signals the continued execution of the Power of Three 2x Plan strategy, where its stated goal is to quadruple its international revenue from 2021 by the end of 2026. The EMEA market represents a large, underpenetrated region for the active leisure market, as according to the Grand View Research, it has a projected growth rate of 9.1% (2025-2030), with premium athleisure as the segment with the fastest growth. Lululemon has expected plans to continue opening stores within this geographic region, on top of its success in the Chinese market.

Price Target & Valuation

Our analysis gives \$LULU a price target of \$196 and an Overweight rating.



Potential Downsides to Our Rating

Margin Compression from Tariffs and Discounting: Tariff changes alongside the loss of de minimis and increased markdown activity indicate a potential negative impact on its income statement. Lululemon’s increased activity in clearing its items led to deep promotions and, as a result, led to some assortments within its product line to still underperform. This forces Lululemon to continue discounting and weighs on full-price sell-through. Even if this gets mitigated with vendors and more selective price movements, the mix of higher costs due to international uncertainty and conflict can affect its margins in the future.

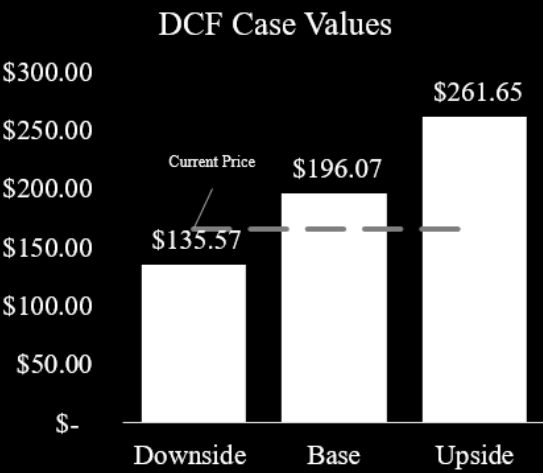
Weaken US Market Capture and Heavier Competition: Lululemon has continued to underperform within the US apparel market as newer premium athleisure competitors like Alo and Vuori are becoming a bigger threat to Lululemon’s lead in this market. As its competitors continue to scale stores and mindshare, they are forcing Lululemon to spend more on demand creation to defend its market share. Together, a loss of market share in the US and intensified competition will pressure Lululemon to respond, leaving less room for forecast beats.

International Growth Normalization: Specifically in China, with the rising local competition even as Lululemon scales store counts, growth is expected to “normalize” to more moderate levels. This creates a risk for Lululemon given that the main outlook leans heavily on outsized international expansion to offset ongoing US market weakness. If

Our Price Target: **\$196**
Our PT reflects steady but moderate growth, with North American comps stabilizing and international markets expanding at a slower, positive pace. Macro and tariff headwinds are partially offset by Lululemon’s supply chain efficiencies, and selective price adjustments. We also assume the continued brand loyalty and free cash flow supporting shareholder returns.

Our Upside Case: **\$262**
Our upside case assumes a stronger-than-expected rebound in US sales as new product innovation captures a greater market share, while international markets like China maintain double-digit growth. Enhanced and quicker innovation cycle drive higher sales, expanding gross margins above expectations.

Our Downside Case: **\$136**
Our downside case reflects persistent US softness combined with the normalization of international growth, resulting in slower top-line expansion. In this environment, competitive threats and weaker operating leverage drive earnings below expectations, compressing valuation.



Lululemon continues to face market saturation, competitive encroachment, or macro headwinds in the Chinese market, it could narrow Lululemon's margin of outperformance and limit its global expansion.

Projections

Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	9,619	10,555	11,044	11,582	12,172	8.2%
EBITDA	2,550	3,200	2,319	2,471	2,637	1.1%
EBIT	2,176	2,756	1,878	2,007	2,150	-0.4%
NOPAT	646	589	975	855	1,550	33.9%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	26.5%	30.3%	21.0%	21.3%	21.7%	24.2%
EBIT Margin	22.6%	26.1%	17.0%	17.3%	17.7%	20.1%
Revenue Growth	18.6%	9.7%	4.6%	4.9%	5.1%	8.6%
EBIT Growth	63.3%	26.7%	-31.9%	6.9%	7.1%	14.4%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	106.3x	5.8x	18.5x	18.0x	17.5x	33.2x
EV/Sales	2.0x	1.9x	1.8x	1.7x	1.6x	1.8x
EV/EBITDA	7.7x	6.1x	8.4x	7.9x	7.4x	7.5x
FCF Yield	0.9%	17.4%	5.4%	5.6%	5.7%	5.9%

About \$LULU

Lululemon Athletica Inc. (\$LULU), founded in 1998 in Vancouver, Canada operates as a premium athletic apparel and lifestyle brand. Lululemon design, distribute, and retail performance-based clothing, footwear, and accessories that combine innovation with a fashion-forward style. The brand runs three main business segments: women's apparel, men's apparel and accessories with a global stance of 760+ stores worldwide and strong digital presence. What makes Lululemon unique is its community-driven retail model, proprietary fabrics and the pioneer in the luxury athleisure market. The brand's key goal is to "elevate the world through the power of practice" by combining wellness and fitness into lifestyle through its unique and community-driven product lines.

Disclosures & Ratings

Consortium Research Group is a not for profit and is not a registered investment advisory corporation. Analysts and leadership are current college students pursuing careers in finance and are not registered investment advisors. This is not investment advice. The group does not hold any professional relationships with any reported equities unless otherwise stated. All information contained in reports is public information.

Overweight means the analyst team believes the stock price will materially outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months.

Equal Weight means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

Lululemon

Discounted Cash Flow

Active Case:

2 Base

Current Share Price

\$169.81

DCF Analysis (\$mm)																
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Stub						0.87	1.87	2.87	3.87	4.87	5.87	6.87	7.87	8.87	9.87	10.87
Discount Period						0.07	0.63	1.63	2.63	3.63	4.63	5.63	6.63	7.63	8.63	9.63
Revenue	3,979	4,402	6,257	8,111	9,619	10,555	10,872	11,223	11,613	12,043	12,518	13,041	13,617	14,251	14,948	15,716
Revenue Growth	0%	11%	42%	30%	19%	10%	3%	3%	3%	4%	4%	4%	4%	5%	5%	5%
Men's Apparel	796	924	1,376	1,865	2,309	2,655	2,735	2,826	2,929	3,047	3,179	3,327	3,493	3,680	3,888	4,121
Women's Apparel	2,746	2,949	4,067	5,191	6,060	6,500	6,695	6,911	7,149	7,411	7,699	8,016	8,363	8,744	9,162	9,620
Other Accessories	438	528	813	1,054	1,251	1,400	1,442	1,487	1,535	1,586	1,641	1,699	1,761	1,828	1,899	1,975
EBIT	897	819	1,334	1,333	2,176	2,756	1,631	1,721	1,819	1,927	2,045	2,174	2,315	2,470	2,641	2,829
EBIT Margin	23%	19%	21%	16%	23%	26%	15%	15%	16%	16%	17%	17%	17%	18%	18%	18%
Tax Expense	252	230	359	478	626	760	424	447	473	501	532	565	602	642	687	735
Effective Tax Rate	28%	28%	27%	36%	29%	28%	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%
NOPAT	645.60	589.00	975.40	854.80	1,550.20	1,996.00	1,206.74	1,273.47	1,346.32	1,425.93	1,513.03	1,608.43	1,713.06	1,827.95	1,954.27	2,093.45
D&A	162	180	215	283	374	444	435	449	465	482	501	522	545	570	598	629
Capex	283	229	395	639	652	(689)	652	698	748	803	862	927	999	1,077	1,163	1,257
Changes in NWC	212	57	109	(105)	1,089	(260)	109	137	168	201	236	275	318	364	415	471
UPCF	312	483	687	604	184	3,389	881	887	895	904	915	927	941	957	974	993
PV of FCF						3,370	835	773	717	666	619	577	539	503	471	441

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	1.02
Risk Free Rate	4.39%
Cost of Equity	8.77%
Weighted Average Cost of Debt	4.50%
Tax Rate	26.00%
Cost of Debt	0.01%
Total Equity	\$20,137
Total Debt	\$75
Equity/Total Capitalization	99.63%
Debt/Total Capitalization	0.37%
WACC	8.78%

Terminal Value	
Perpetuity Growth Method	
2034 FCF	\$993
Growth	1.50%
Terminal Value	\$13,636
PV of Terminal Value	\$6,059
PV of Projection Period	\$9,511
PV of Terminal Value	\$6,059
Implied TEV	\$15,570
(-) Debt	\$75
(+) Cash	\$0
Implied Equity Value	\$15,496
Basic Shares Outstanding	119
Implied Share Price	\$130.67
Upside/Downside	-23.05%

Implied Exit BF EV/EBITDA	5.5x
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Blended Share Price	
Perpetuity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	\$196.18
Upside/Downside	15.53%

Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$3,457
EV/EBITDA Exit Multiple	9.0x
Terminal Value	\$31,117
PV of Terminal Value	\$13,827
PV of Projection Period	\$9,511
PV of Terminal Value	\$13,827
Implied TEV	\$23,338
(-) Debt	\$75
(+) Cash	\$0
Implied Equity Value	\$23,263
Diluted Shares Outstanding	119
Implied Share Price	\$196.18
Upside/Downside	15.5%

Implied PGR	1.5%
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