



Lululemon Athletica (NASDAQ: LULU)

Mark Jawornicki | Jaycee Zhou | Matthew Persadie | Amrita Dhaliwal

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LEXINGWORTH



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Recommendation

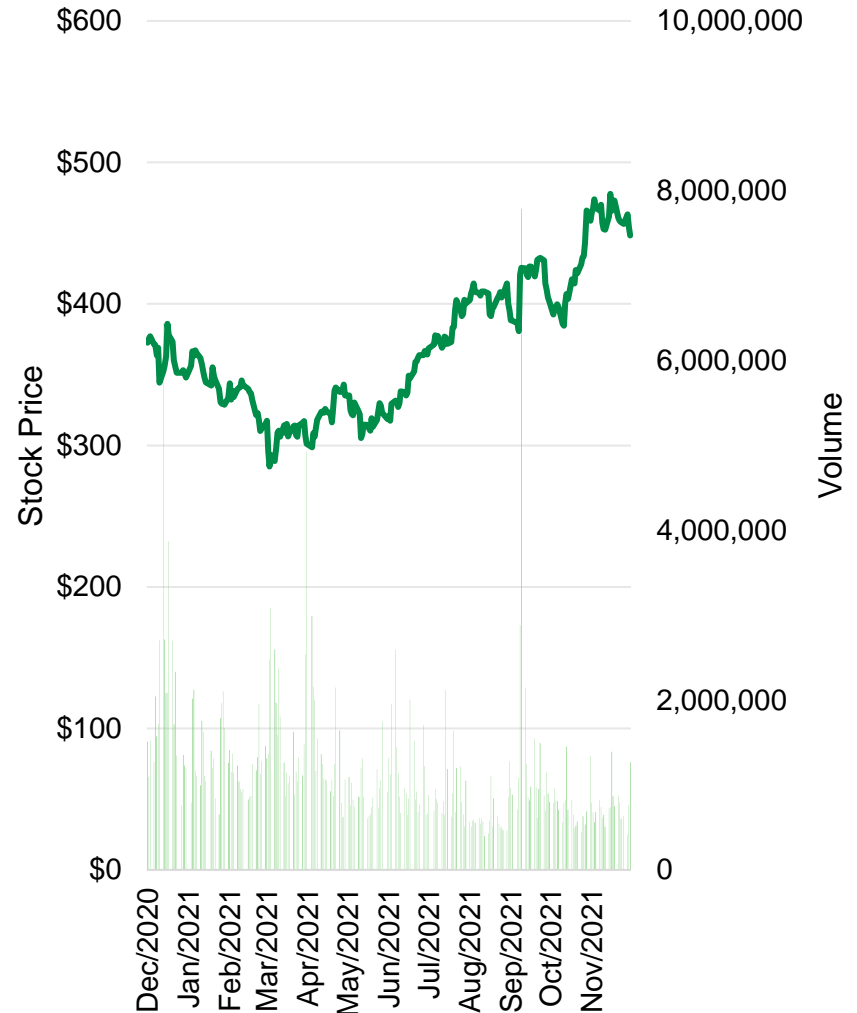


Company Overview

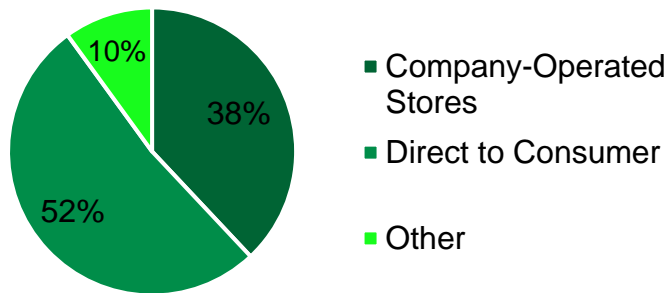
Historic Stock Price (1-year)

Lululemon Athletica, Inc. (LULU) is a Canadian athletic apparel retailer that spans multinationally to supply athleisure, yoga and fitness merchandise such as apparel, accessories, personal care and workout tools. The company operates in a noncommissioned sales environment in 17 countries worldwide, distributing via company-operated stores, e-commerce, outlets and wholesale accounts. Lululemon owns country-based subsidiaries, as well as, daughter brands like Ivivva, Curiouser Products (MIRROR) and New Harbour Yoga.

Price-Volume Chart (1-year)



2021 Segmented Revenue



Other: revenues generated from MIRROR (home workout tool), outlets and temporary locations, wholesale accounts, license and supply arrangements, and warehouse sales



Calvin McDonald
CEO

Earned his BSc from University of Western Ontario and MBA from the University of Toronto. Joined Lululemon in 2018 but previously worked as President and CEO of Sears, Loblaws, and Sephora America.



Meghan Frank
CFO

Graduated with a BA in Economics from Colgate University. Upon starting at Lululemon in 2016, she held the position of Senior VP of Financial Planning and Analysis and interim co-CFO, before moving to her current position.



Sun Choe
CPO

Earned her BA in Political Science and Government at University of Maryland College Park and worked as Chief Global Product Merchant at Marc Jacobs, and SVP at West Elm, Madewell and Urban Outfitters, to later join Lululemon in 2016.



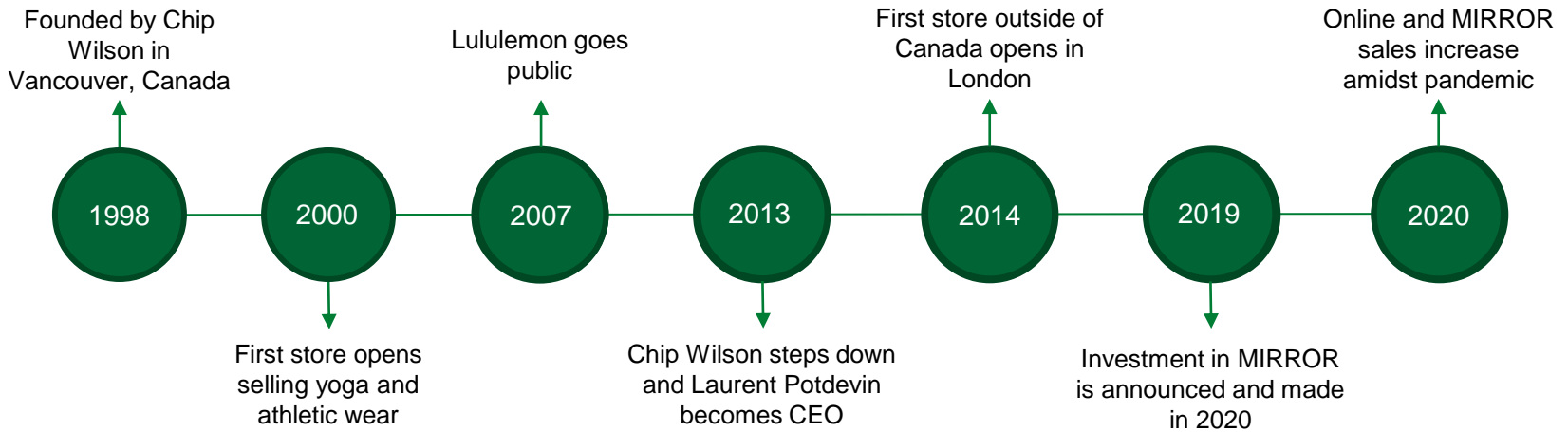
Julie Averill
Executive VP and CTO

Graduated from Seattle Pacific University with an BA in computer science and an MBA from the University of Washington. Began working in technology at REI and Nordstrom, before joining Lululemon in 2017.

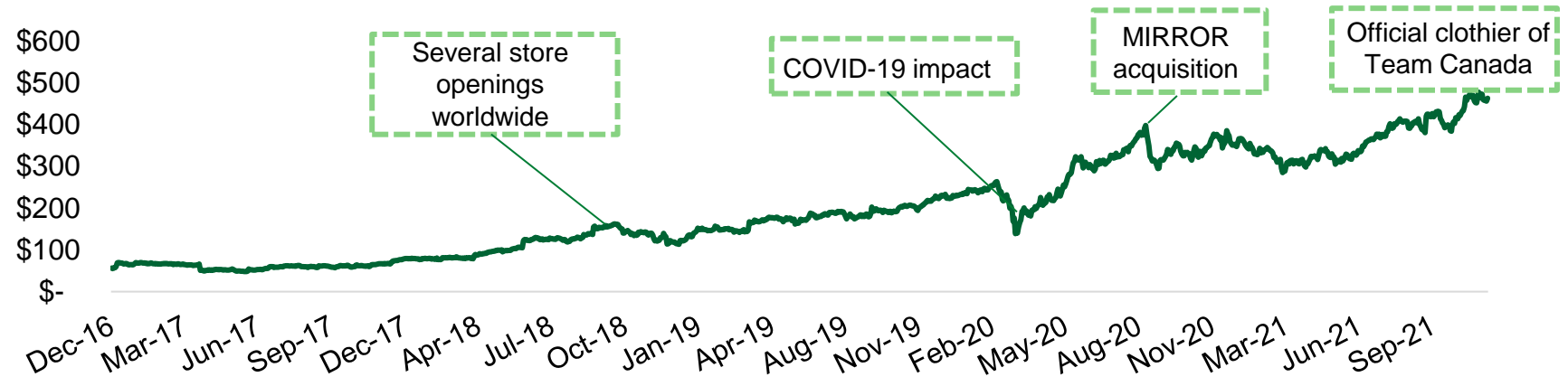


Company Overview

History of Lululemon



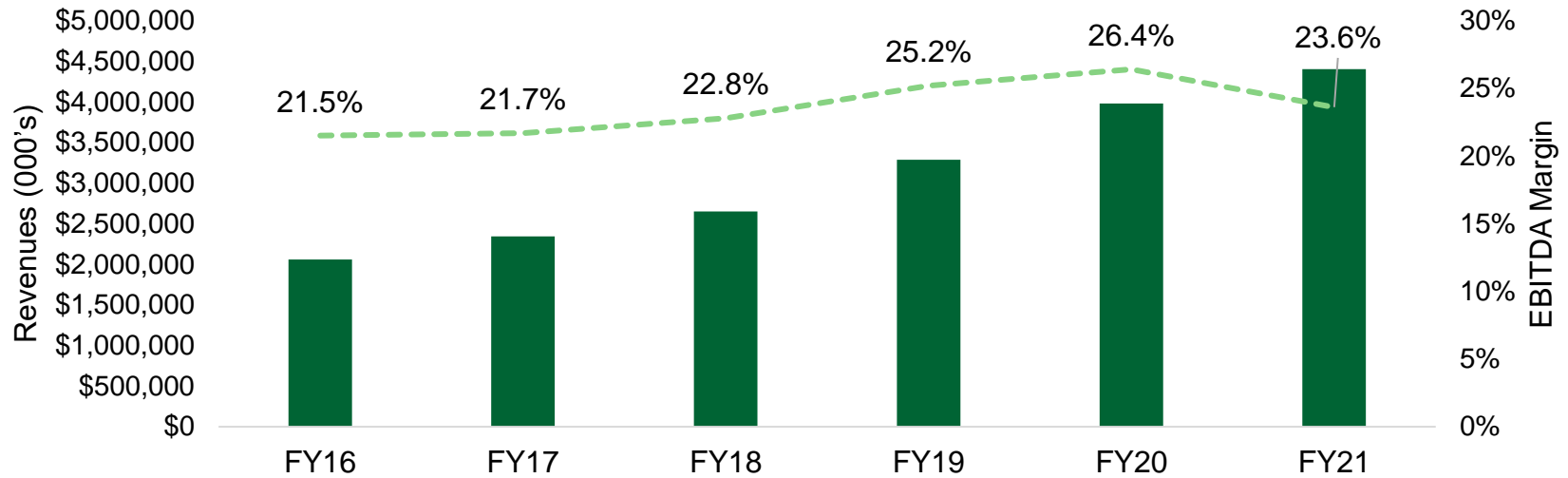
5-year Stock Price





Company Overview

Revenue and Margins



Key Stats (as of December 2, 2021)



Consistent growth in sales



EBITDA margin expanding

Share Price	\$448.43
52-Week Range	\$269.28 - \$485.83
Market Cap	\$58.215B
Cash & Short Term Investments	\$1,151M
Total Debt	\$794.82M
Enterprise Value	\$59.76B



Major Players

Sport Apparel, Footwear & Accessories



Niche Market Competition – Yoga Appeal



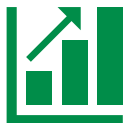
Global Sports Apparel Market



\$181 billion revenue in 2019.



In 2020, the sporting goods industry contracted for the first time since 2007–2008.



The activewear apparel market is projected to grow at a CAGR of 11% from 2020 to 2024.



The Next Normal

Consumer Shift



New default - Athleisure



Physical Activity Gap



Sustainability

Digital Leap



Digital fitness communities



Direct to consumer business model



Influencer-based Marketing

Industry Disruption



Retail under pressure



Explore alternatives for Supply Chains



Risks

Mitigations



Vulnerable Supply Chain



Increasing International Presence



Trades at a Premium Compared to Competitors



Premiumization



Raw Materials Increase



Less exposed than competitors



Catalysts

Impact / Probability Matrix



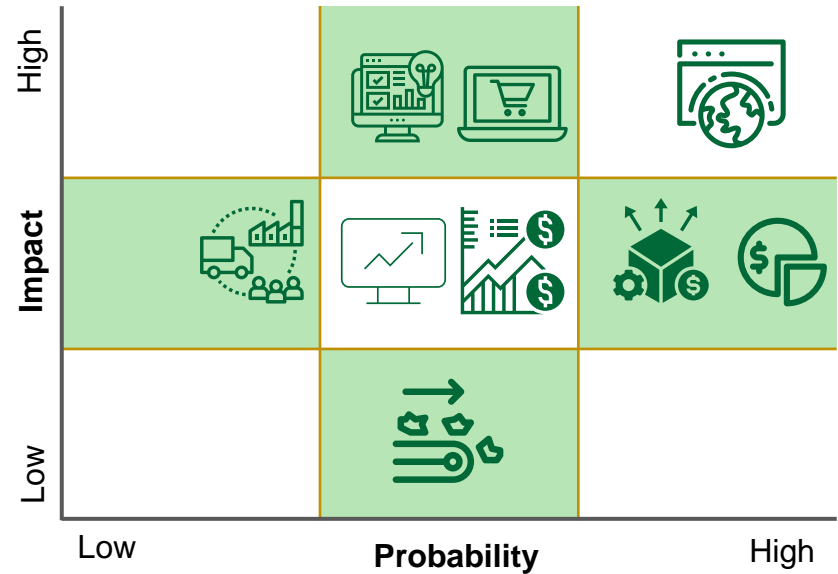
Increased Brand Awareness



Share Repurchase Program



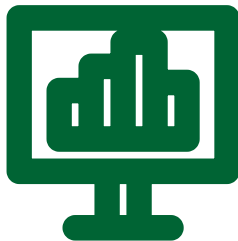
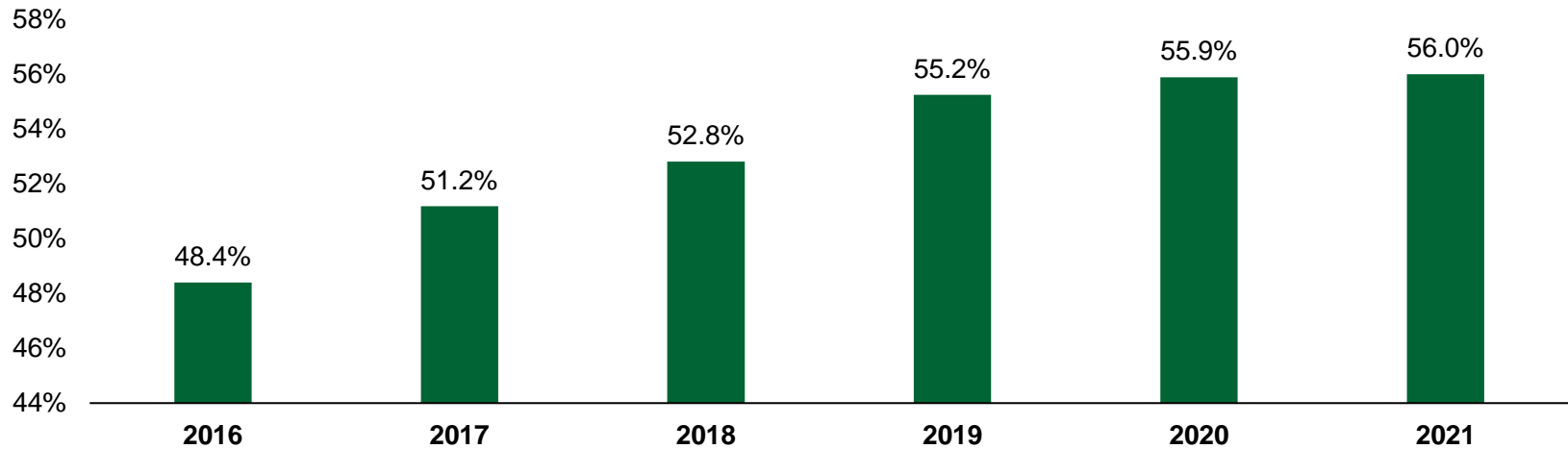
E-Commerce Expansion





Consistent Improvement in Unit Costs

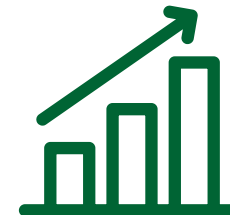
Gross Profit Margin



Increasing economies of scale



Passing increased costs to customers

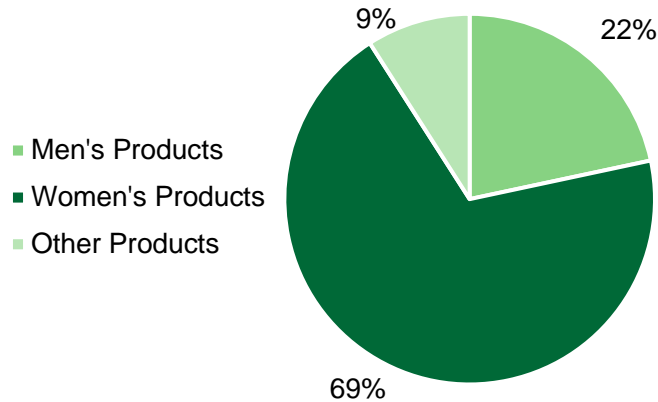


Growing DTC Business



Growth in Men's Products

2021 Revenue by Category



Increasing men-specific products

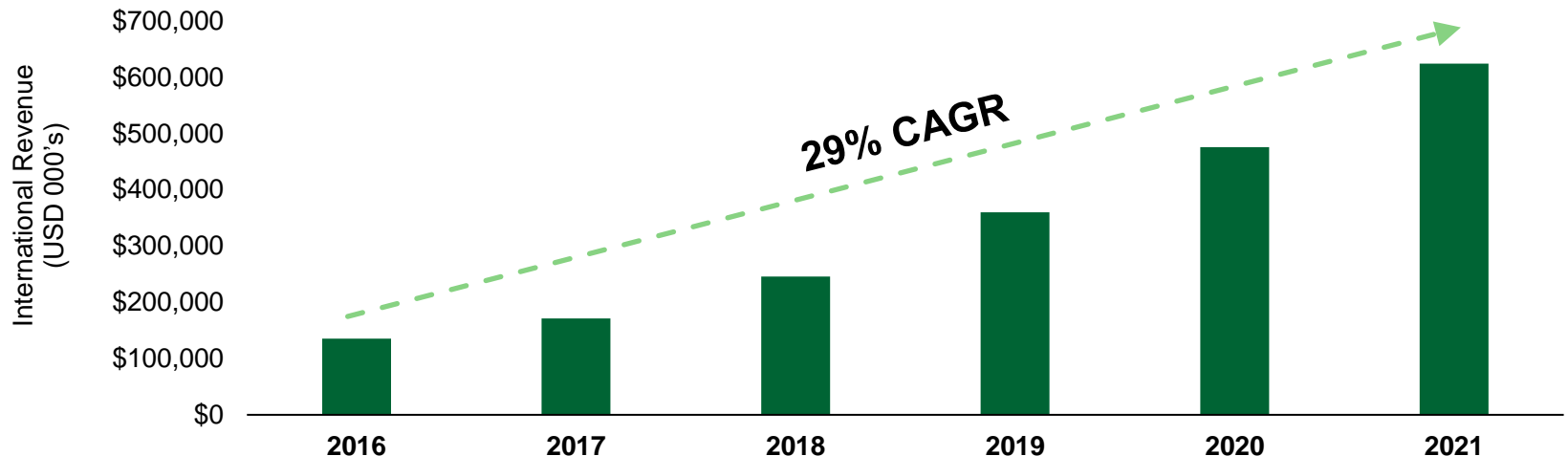


Faster growth than women's products



Sales of \$1B from male products by 2023

Growth Outside of North America





Comparable Companies Universe

Numbers in US\$M, except for per share earnings and multiples

	Market Cap	TEV	NTM Revenue	NTM EBITDA	NTM EPS	EV/ FWD Revenue	EV/ FWD EBITDA	FWD P/E
Levi Strauss	11,362	12,382	6,277	941	2	1.97x	13.15x	18.46x
Ralph Lauren	9,265	9,691	6,079	1,030	7	1.59x	9.41x	16.88x
Gildan Activewear	8,204	8,513	3,050	699	3	2.79x	12.19x	15.81x
Under Armour	11,704	11,984	5,904	681	1	2.03x	17.60x	34.99x
Victoria's Secret	5,117	7,302	6,860	1,130	7	1.06x	6.46x	8.89x
Aritzia	4,605	4,916	1,106	280	1	4.44x	17.54x	41.47x
The Buckle	2,631	2,507	1,250	324	5	2.01x	7.73x	46.10x
Urban Outfitters	3,684	4,234	4,640	552	3	0.91x	7.67x	11.53x
American Eagle Outfitters	4,756	5,647	5,132	800	2	1.10x	7.06x	12.43x
Abercrombie & Fitch	2,827	3,230	3,830	520	4	0.84x	6.22x	12.20x
The Gap	9,327	13,972	17,943	1,921	2		7.27x	10.52x
Nike	271,216	270,311	48,485	8,048	4	5.58x	33.59x	46.10x
Adidas	61,615	63,835	25,959	4,092		2.46x	15.60x	32.51x
Lululemon Athletica	61,433	61,058	6,764	1,649	8	9.03x	37.03x	58.81x

Analysis



Superior position to peers



Could expect to see multiple compression

EV/ FWB EBITDA Summary

Average EV/ FWB EBITDA	12.4x
Lululemon Athletica FWD EBITDA (US\$M)	\$1,585
Total Enterprise Value (US\$M)	\$19,685
Less: Net Debt (US\$M)	-\$375
Implied Equity Value (US\$M)	\$20,061
Shares Outstanding (M)	252
Implied Share Price	\$177.54



DCF Base Case Output

Gordon Growth Method	
PV of Forecast Period	14,519,473
% of Enterprise Value	27%
Terminal Value	
Terminal Year FCFF	77,188,211
Perpetual Growth Rate	2.00%
PV of Terminal Value	39,314,424
% of Enterprise Value	73%
Enterprise Value	53,833,897
Less: Net Debt	(351,836)
Equity Value	54,185,733
Fully Diluted Shares Outstanding	124,830
Implied Price per Share	\$434.08

Exit Multiple Method	
PV of Forecast Period	14,519,473
% of Enterprise Value	25%
Terminal Value	
Terminal Year EBITDA	8,005,349
EBITDA Multiple	10.5x
PV of Terminal Value	42,812,493
% of Enterprise Value	75%
Enterprise Value	57,331,966
Less: Net Debt	(351,836)
Equity Value	57,683,802
Fully Diluted Shares Outstanding	124,830
Implied Price per Share	\$462.10

Base Case Sensitivity Analysis

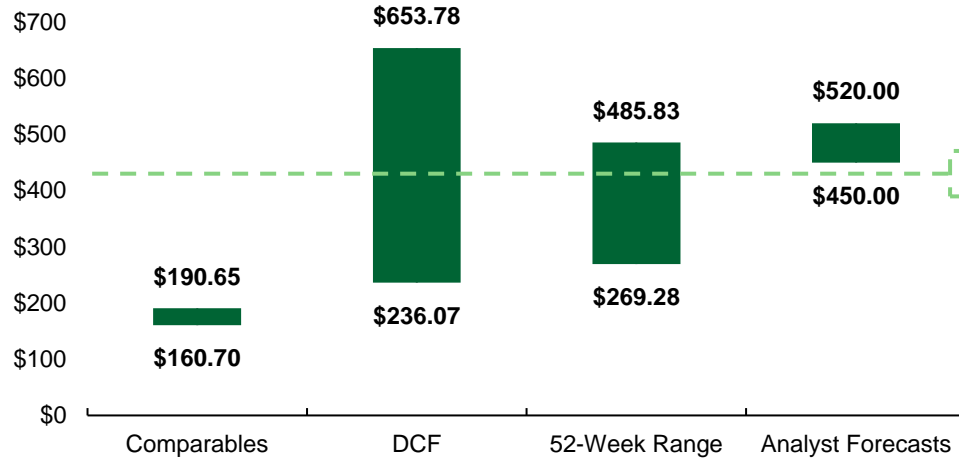
		WACC				
		6.36%	6.86%	7.36%	7.86%	8.36%
Perpetual Growth Rate	1.00%	\$412.93	\$397.08	\$381.95	\$367.51	\$353.73
	1.50%	\$438.99	\$422.00	\$405.79	\$390.32	\$375.55
	2.00%	\$469.90	\$451.57	\$434.08	\$417.39	\$401.46
	2.50%	\$507.18	\$487.22	\$468.18	\$450.02	\$432.68
	3.00%	\$553.00	\$531.05	\$510.11	\$490.14	\$471.08

		WACC				
		6.36%	6.86%	7.36%	7.86%	8.36%
EBITDA Exit Multiple	8.5x	\$429.13	\$412.57	\$396.77	\$381.69	\$367.30
	9.5x	\$464.83	\$446.72	\$429.44	\$412.95	\$397.21
	10.5x	\$500.53	\$480.86	\$462.10	\$444.20	\$427.12
	11.5x	\$536.23	\$515.01	\$494.76	\$475.45	\$457.02
	12.5x	\$571.93	\$549.15	\$527.43	\$506.70	\$486.93



Recommendation- Hold with a Price Target of \$434.75

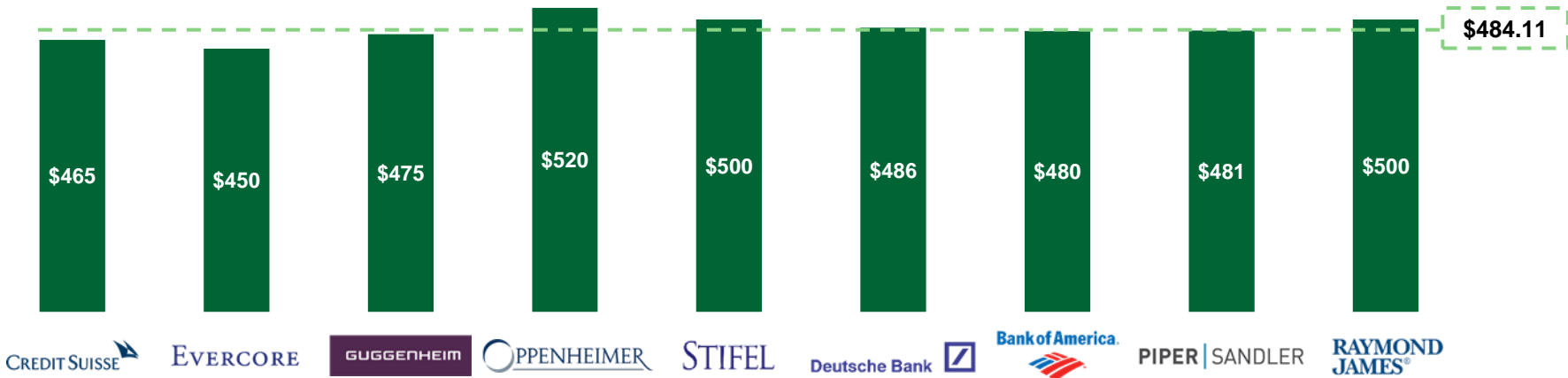
Football Field



Analysis	Average	Weight
Comparables	\$175.68	5%
DCF	\$444.93	60%
52-Week Range	\$377.56	10%
Analyst Forecast	\$484.11	25%

Weighted Average Price Target:
\$434.75

Select Broker Price Targets





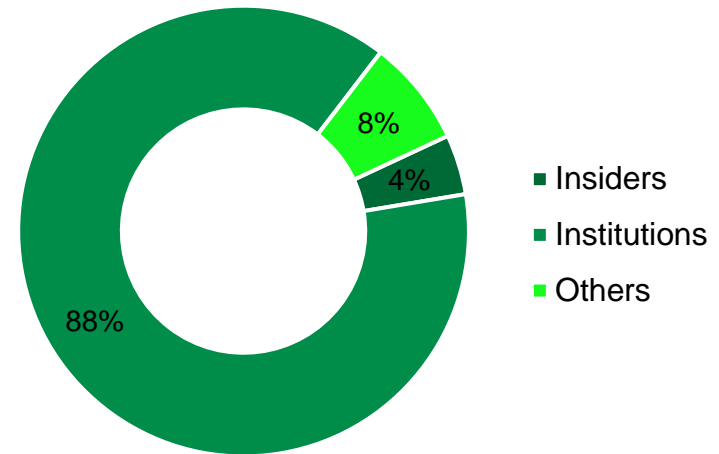
Appendices



Appendix – Shareholder Summary

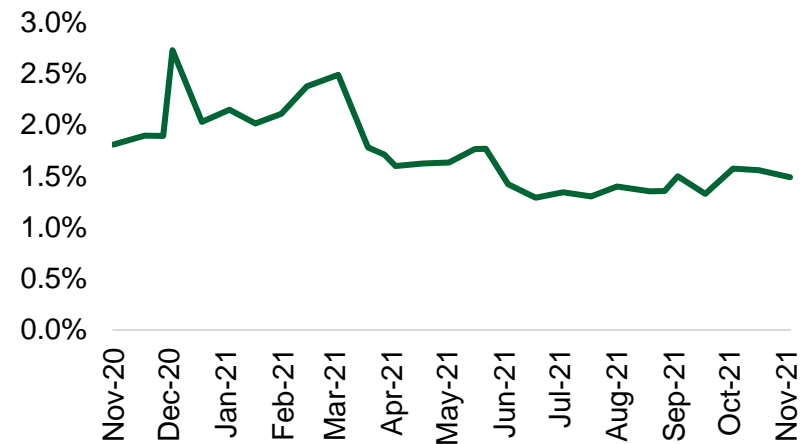
Shareholder Summary

	# of Shares Held	% of Shares Outstanding
Insiders		
Dennis Wilson	4,829,713	3.721%
Glenn Murphy	102,903	0.079%
Marth Morfitt	90,551	0.07%
Michael Casey	57,494	0.044%
Calvin McDonald	43,409	0.033%
David Mussafer	19,783	0.015%
Other Insiders	86,233	0.066%
Total Insiders	4,935,729	3.802%



	# of Shares Held	% of Shares Outstanding
Institutions		
Fidelity Investments	18,742,809	15.04%
T. Rowe Price	8,826,162	7.08%
The Vanguard Group	8,673,278	6.96%
Blackrock	6,721,624	5.39%
WCM Investment Management	5,475,271	4.39%
Other Institutions	13,925,910	11.18%
Total Institutions	62,365,054	50.04%

Short Interest





Appendix – DCF Outputs

Gordon Growth Method- Bull Case

PV of Forecast Period	20,690,263
% of Enterprise Value	25%
<u>Terminal Value</u>	
Terminal Year FCFF	118,919,727
Perpetual Growth Rate	2.00%
PV of Terminal Value	60,569,619
% of Enterprise Value	75%
Enterprise Value	81,259,882
Less: Net Debt	(351,836)
Equity Value	81,611,718
Fully Diluted Shares Outstanding	124,830
Implied Price per Share	\$653.78

Gordon Growth Method- Bear Case

PV of Forecast Period	8,078,663
% of Enterprise Value	28%
<u>Terminal Value</u>	
Terminal Year FCFF	41,305,475
Perpetual Growth Rate	2.00%
PV of Terminal Value	21,038,199
% of Enterprise Value	72%
Enterprise Value	29,116,862
Less: Net Debt	(351,836)
Equity Value	29,468,698
Fully Diluted Shares Outstanding	124,830
Implied Price per Share	\$236.07

Exit Multiple Method- Bull Case

PV of Forecast Period	20,690,263
% of Enterprise Value	27%
<u>Terminal Value</u>	
Terminal Year EBITDA	10,609,171
EBITDA Multiple	10.5x
PV of Terminal Value	56,737,693
% of Enterprise Value	73%
Enterprise Value	77,427,956
Less: Net Debt	(351,836)
Equity Value	77,779,792
Fully Diluted Shares Outstanding	124,830
Implied Price per Share	\$623.09

Exit Multiple Method- Bear Case

PV of Forecast Period	8,078,663
% of Enterprise Value	20%
<u>Terminal Value</u>	
Terminal Year EBITDA	5,995,188
EBITDA Multiple	10.5x
PV of Terminal Value	32,062,178
% of Enterprise Value	80%
Enterprise Value	40,140,841
Less: Net Debt	(351,836)
Equity Value	40,492,677
Fully Diluted Shares Outstanding	124,830
Implied Price per Share	\$324.38

Appendix- Unlevered Free Cash Flow (Base Case)



	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
EBIAT	990,423	1,287,550	1,622,313	2,039,479	2,452,009	2,819,811	3,242,783	3,729,200	4,288,580	4,931,867
Plus: D&A	264,113	343,347	412,016	494,419	568,582	653,869	751,950	864,742	994,453	1,143,621
Less: Change in NWC	75,799	(210,515)	(229,114)	(115,167)	(231,770)	(99,302)	(199,875)	(229,856)	(264,334)	(303,984)
Less: CAPEX	(396,169)	(515,020)	(618,024)	(741,629)	(852,873)	(980,804)	(1,127,924)	(1,297,113)	(1,491,680)	(1,715,432)
FCFF	934,165	905,361	1,187,190	1,677,102	1,935,948	2,393,574	2,666,933	3,066,973	3,527,019	4,056,072
Mid year Convention	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
WACC	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%
Discount Factor	0.97	0.90	0.84	0.78	0.73	0.68	0.63	0.59	0.55	0.51
PV of FCFF	901,577	813,877	994,066	1,308,014	1,406,387	1,619,630	1,680,889	1,800,507	1,928,638	2,065,887
Terminal Value										77,188,211



	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
EBIAT	1,096,438	1,458,262	1,875,192	2,406,769	2,958,320	3,490,817	4,119,165	4,860,614	5,735,525	6,767,919
Plus: D&A	303,069	403,082	495,791	609,823	719,591	849,118	1,001,959	1,182,312	1,395,128	1,646,251
Less: Change in NWC	171,034	(147,894)	(206,754)	(102,019)	(229,089)	(99,065)	(204,518)	(241,332)	(284,772)	(336,030)
Less: CAPEX	(336,744)	(447,869)	(550,879)	(677,581)	(799,546)	(943,464)	(1,113,288)	(1,313,680)	(1,550,142)	(1,829,167)
FCFF	1,233,797	1,265,581	1,613,351	2,236,992	2,649,276	3,297,406	3,803,317	4,487,914	5,295,739	6,248,972
Mid year Convention	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
WACC	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%
Discount Factor	0.97	0.90	0.84	0.78	0.73	0.68	0.63	0.59	0.55	0.51
PV of FCFF	1,190,756	1,137,698	1,350,902	1,744,686	1,924,590	2,231,215	2,397,119	2,634,690	2,895,806	3,182,801
Terminal Value										118,919,727

Appendix- Unlevered Free Cash Flow (Bear Case)



	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
EBIAT	815,316	1,035,451	1,278,782	1,574,922	1,852,108	2,074,361	2,323,284	2,602,078	2,914,327	3,264,047
Plus: D&A	226,477	287,625	336,522	393,730	440,978	493,895	553,163	619,542	693,887	777,154
Less: Change in NWC	(184,353)	(338,892)	(294,872)	(154,134)	(267,163)	(114,768)	(225,193)	(252,216)	(282,482)	(316,380)
Less: CAPEX	(452,953)	(575,251)	(673,043)	(787,461)	(881,956)	(987,791)	(1,106,326)	(1,239,085)	(1,387,775)	(1,554,308)
FCFF	404,487	408,934	647,389	1,027,057	1,143,967	1,465,697	1,544,928	1,730,319	1,937,958	2,170,513
Mid year Convention	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
WACC	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%	7.36%
Discount Factor	0.97	0.90	0.84	0.78	0.73	0.68	0.63	0.59	0.55	0.51
PV of FCFF	390,376	367,612	542,076	801,028	831,045	991,775	973,722	1,015,807	1,059,710	1,105,511
Terminal Value										41,305,475

Appendix- Assumptions (Base Case)



Assumption	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue Growth	50%	30%	20%	20%	15%	15%	15%	15%	15%	15%
COGS, % of Sales	42%	42%	40%	40%	38%	38%	38%	38%	38%	38%
GPM %	57%	57%	60%	60%	60%	60%	60%	60%	60%	60%
SG&A, % of Sales	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%
EBITDA MGN %	24%	24%	25%	26%	28%	28%	28%	28%	28%	28%
D&A, % of Sales	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
EBIT MGN %	20%	20%	21%	22%	23%	23%	23%	23%	23%	23%
Taxes, % of EBIT	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
DSO	4	4	4	4	4	4	4	4	4	4
Days Inventory Held	110	110	110	110	110	110	110	110	110	110
Days Payable Outstanding	25	25	25	25	25	25	25	25	25	25
Accrued Liabilities, % of Sales	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
CAPEX, % of Sales	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%

Appendix- Assumptions (Bull Case)



Assumption	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue Growth	53%	33%	23%	23%	18%	18%	18%	18%	18%	18%
COGS, % of Sales	40%	40%	38%	38%	36%	36%	36%	36%	36%	36%
GPM %	58%	58%	61%	61%	61%	61%	61%	61%	61%	61%
SG&A, % of Sales	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
EBITDA MGN %	25%	25%	26%	27%	29%	29%	29%	29%	29%	29%
D&A, % of Sales	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
EBIT MGN %	22%	22%	23%	24%	25%	25%	25%	25%	25%	25%
Taxes, % of EBIT	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%
DSO	3	3	3	3	3	3	3	3	3	3
Days Inventory Held	100	100	100	100	100	100	100	100	100	100
Days Payable Outstanding	30	30	30	30	30	30	30	30	30	30
Accrued Liabilities, % of Sales	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
CAPEX, % of Sales	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%

Appendix- Assumptions (Bear Case)



Assumption	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue Growth	47%	27%	17%	17%	12%	12%	12%	12%	12%	12%
COGS, % of Sales	44%	44%	42%	42%	40%	40%	40%	40%	40%	40%
GPM %	56%	56%	59%	59%	59%	59%	59%	59%	59%	59%
SG&A, % of Sales	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%
EBITDA MGN %	23%	23%	24%	25%	27%	27%	27%	27%	27%	27%
D&A, % of Sales	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
EBIT MGN %	18%	18%	19%	20%	21%	21%	21%	21%	21%	21%
Taxes, % of EBIT	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
DSO	6	6	6	6	6	6	6	6	6	6
Days Inventory Held	140	140	140	140	140	140	140	140	140	140
Days Payable Outstanding	15	15	15	15	15	15	15	15	15	15
Accrued Liabilities, % of Sales	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
CAPEX, % of Sales	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%



Mark Jawornicki

Portfolio Manager

Mark is in his 4th year of the Honours Commerce program and has past experience working at Brendan Wood International and Purpose Investments



Amrita Dhaliwal

Associate

Amrita is in her 2nd year of the Commerce Program and is an active member of DFIC.



Jaycee Zhou

Associate

Jaycee is in her 3rd year of the Honours Commerce program and is also the VP of Finance of the McMaster Solar Car Project.



Matthew Persadie

Associate

Matthew is in his 3rd year of the Honours Commerce program and is an active member of Investa Insights.

