

Michael Hyde

Lululemon Athletica, Inc

LULU | \$251.08

Sell | Target Price: \$210.00

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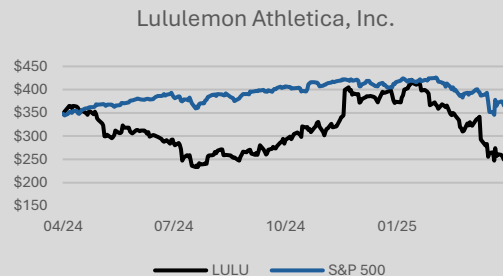
Company Statistics

Market Capitalization (B) \$30.29
52-Week Range \$226.01 – \$423.32

Revenue Growth History



1 Year Price History



LULU struggles as challengers build momentum

Our view: In the wake of slowing growth, disruptive competition, product innovation difficulties, brand erosion, pressure from trade wars, and the risk of recession, we recommend a **SELL** with a price target of **\$210**. While LULU posted a solid 2024, where it delivered \$10.6B in revenue with 10% growth, a 12% profit increase, and expanded margins by 90 bps to 59.2%, there are bigger questions about LULU's 2025 outlook. Guidance for 2025 is cautious – the company is forecasting 5-7% revenue growth including ~1% growth in the US and 60 bps compression on gross margin.

Our **investment thesis** has 4 main elements: **US growth under attack:** 77% of LULU's revenue comes from the Americas (US, Canada, Mexico) and LULU is under attack from high growth challengers, e.g. Alo Yoga and Vuori. Management is forecasting 1% revenue growth in the US, however, we believe LULU will potentially deliver negative growth, which will further compress margins in the US over the next 12 months. **Product innovation challenges:** LULU's innovation pipeline has slowed in recent years, suffering a major misstep in 2024 by having to pull their Breezethrough products soon after launch. They have also been criticized for lack of size and color availability. While management is placing significant focus on the Newness campaign in 2025,

management's guidance does not reflect material impact. **Brand erosion:** LULU has encountered a number of negative brand issues over the last few years. Recent accusations of greenwashing, along with the product and competitor issues discussed above, indicate that LULU is no longer the dominant brand in the luxury athleisure market. In many respects its products are perceived as "fast fashion". **Risks of recession and trade wars:** LULU's business is highly concentrated in the US and Canada, and as such, it is exposed to recession risk in the region. Also, international expansion is a major element of LULU's growth strategy, especially throughout China where it grew revenues by 41% in 2024. A China-US trade war could significantly constrain the potential of that market.

Valuation: We have set a target price of \$210 per share for LULU, a 16% discount from its current value of \$251. Under our base case assumptions, sales will grow at 4% in 2025 driven by contraction in the US, and then continue to decline to 3.5% by 2030. EBITDA margin will continue to contract from 27.9% to 27.2%, and we see capex expanding slightly. We are using an EV/Sales multiple of 2.0x, derived from the high-end of competitors, which reflects the maturing of the business.

Variant View: Analysts are expecting a quick rebound for LULU with an average price target of \$340. However, we believe that this is not a cyclical downturn. Instead, LULU has lost its identity and transitioned from the high growth disruptor, posting ~30% revenue growth, to the incumbent delivering single digit growth. Competitors have the momentum, so we expect slowing revenue growth and a declining market share unless LULU can develop a more competitive offering.