

## lululemon athletica (LULU)

**\$225.86** (As of 04/17/20)

Price Target (6-12 Months): **\$231.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/12/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: F

### Summary

Shares of lululemon continue to show resilience, despite the effects of the coronavirus pandemic, on its sound fundamentals. The company's shares outpaced the industry in the past year owing to its robust surprise trend and growth strategies. The company witnessed strong holiday results, which aided fourth-quarter fiscal 2019 results. Sales and earnings surpassed estimates and improved year over year driven by strong demand before the COVID-19 outbreak as well as solid e-commerce performance. Further, the company expects to emerge strong post-coronavirus driven by its online strategy and strong liquidity position. However, the company is not immune to the effects of the coronavirus outbreak across the world, which is likely to cast impacts on its first-quarter fiscal 2020 results. Consequently, it did not issue guidance for fiscal 2020.

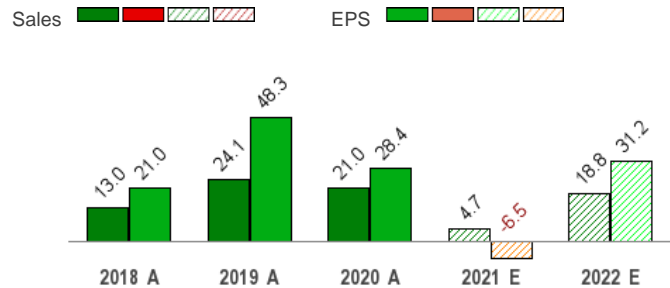
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$266.20 - \$128.85
20 Day Average Volume (sh)	2,442,675
Market Cap	\$29.4 B
YTD Price Change	-2.5%
Beta	0.90
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Textile - Apparel</a>
Zacks Industry Rank	Bottom 5% (240 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.3%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-19.3%
Expected Report Date	06/10/2020
Earnings ESP	-12.6%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	839 E	923 E	1,169 E	1,859 E	4,947 E
2021	737 E	895 E	1,015 E	1,565 E	4,165 E
2020	782 A	883 A	916 A	1,397 A	3,979 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.50 E	\$0.79 E	\$1.19 E	\$2.94 E	\$6.05 E
2021	\$0.30 E	\$0.72 E	\$0.98 E	\$2.50 E	\$4.61 E
2020	\$0.74 A	\$0.96 A	\$0.96 A	\$2.28 A	\$4.93 A

\*Quarterly figures may not add up to annual.

P/E TTM	45.7
P/E F1	49.0
PEG F1	2.7
P/S TTM	7.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/17/2020. The reports text is as of 04/20/2020.

## Overview

Founded in 1998 and based in Vancouver, Canada, lululemon athletica inc. is a yoga-inspired athletic apparel company that creates lifestyle components. The company designs, manufactures and distributes athletic apparel and accessories for women, men and female youth.

The company offers a line of apparel assortment, including fitness pants, shorts, tops and jackets designed for healthy lifestyle and athletic pursuits, such as yoga, training, and running as well as other sweaty and general fitness under the lululemon athletica brand name. Moreover, its fitness-related items comprise an array of accessories like bags, socks, underwear, yoga mats, instructional yoga DVDs, water bottles and other equipments.

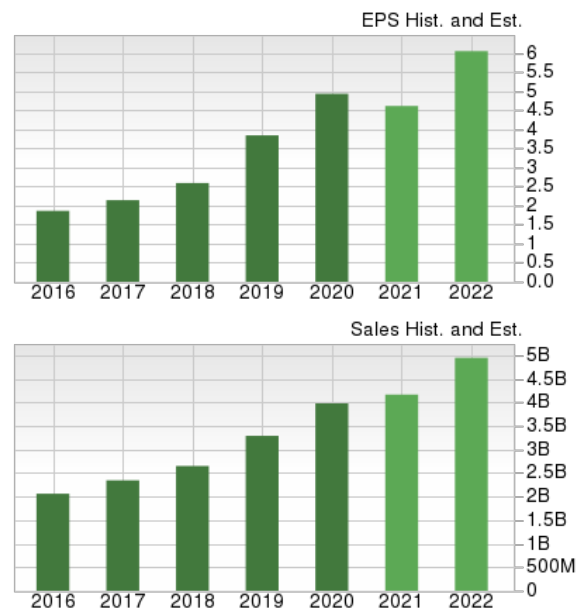
Notably, the company sells its products primarily in North America through a chain of corporate-owned and retail stores, outlets and warehouse sales, independent franchises, and a network of wholesale accounts. Also, the company has an e-commerce site with an aim to rapidly expand its online business.

Additionally, the company has entered into license and supply agreements with partners in the Middle East and Mexico, through which they are permitted to operate lululemon branded retail locations in the United Arab Emirates, Kuwait, Qatar, Oman, Bahrain, and Mexico. Also, they have the rights to sell lululemon products via the company's e-commerce websites in these countries.

Under these arrangements, the company supplies its license partners with lululemon products, training and other support. While the initial agreement term for the Middle East expires in January 2020, the term for Mexico expires in November 2026.

Furthermore, the company conducts its business through two segments: company-operated stores and direct to consumer.

As of Feb 2, 2020, lululemon operated 491 company-operated stores.



---

## Reasons To Buy:

- ▲ **Robust Surprise Trend:** lululemon retained its positive streak in fourth-quarter fiscal 2019, with sales and earnings surpassing the Zacks Consensus Estimate and improving year over year. Results gained from strong demand before the COVID-19 outbreak along with a solid e-commerce performance. The bottom line gained from solid top-line growth and gross margin expansion, as well as strong holiday season results. Top line benefited from strong execution across all parts of the business along with robust total comparable sales (comps) performance and addition of stores contributed to quarterly sales. Total comps, including comparable store sales and direct-to-consumer (DTC) sales, grew 20%. Comps growth was driven by a rise in traffic, with in-store traffic up in high-single digits and online traffic up more than 30%. Gross margin expanded 70 basis points (bps) driven by improvement in the product margin, stemming from a decline in product costs and favorable product mix. Driven by its robust performance, shares of lululemon have moved up 29% in the past year against the industry's 34% decline.
- lululemon is using online channel as a key tool to emerge stronger post-coronavirus pandemic. Further, its strong liquidity position is likely to help it steer through the current situation.
- ▲ **Key Strategy to Stay Afloat in Coronavirus Crisis:** lululemon expects to be in a strong position after the coronavirus crisis driven by its strong balance sheet and online strategy. The company used its online channel as the key tool to emerge stronger during the coronavirus pandemic in China. Notably, when most of its stores were closed in China during February, the company's digital business promptly met consumer demands through its efficient distribution network and supply chain investments. Apart from this, the company used its online channel to offer virtual yoga, meditation, pilates, dance and training classes for guests. It added thousands of new followers for the company on WeChat in China during the pandemic-related lockdowns. Currently, the company has most of its stores closed across North America, Europe, Malaysia and New Zealand, with limited operations in Australia due to the spread of the virus. Consequently, the company is using the aforesaid strategy used in China to bolster business in these tough times. In the initial first week of store closures in North America and Europe, the company saw 170,000 new guest enrollments for its live classes on Instagram. This strategy gives lululemon an edge of remaining connected with its guests during this time and providing a solid base for growth in the post-coronavirus recovery market. This was well-demonstrated in China, where the company is now witnessing robust growth both in-stores and online, as most of the stores in the country have reopened.
- ▲ **Strong Financial Position:** Despite the ongoing headwinds related to the coronavirus outbreak, lululemon remains well-poised financially to steer to the situation. Notably, it ended fiscal 2019 with \$1.1 billion in cash, no long-term debt and a \$400 million untapped revolver with maturity after three years. The company's strong liquidity position is its key advantage in the current situation. It also has access to additional sources of liquidity as its revolver facility has the option to be upsized by \$200 million. Further, the company is efficiently managing inventory by balancing inventory supply with the current reduction in demand, as well as working terms with vendors for smooth assortment flow in the second half of the year, when the situation might likely improve. To retain its financial strength, management has undertaken some bold steps, which includes evaluating expense structure and capital investments for store opening and remodeling projects. The company has also suspended its share repurchase program for the time being. This will enable the company to stay put in these tough times supporting its employees with continued salary payments.
- ▲ **Power of Three Strategic Plan:** lululemon is progressing well with the ongoing five-year plan namely Power of Three, which aims at doubling sales in the men's and digital categories, and quadrupling sales in the international unit by 2023. This five-year plan focuses on three core objectives – product innovation, augmenting omni-guest experiences and market expansion. Notably, the company is witnessing positive consumer response for its merchandise. Going forward, the company remains optimistic about the innovations it plans to bring in its assortments for both men and women. Management plans to keep investing in strategies to maintain customer footfall, including efforts to augment store base and enhancing shopping experiences. Driven by these plans, the company had earlier anticipated to deliver sales growth in the low-teens in the next five years. lululemon also expects some annual benefits of this plan, which include modest gross margin improvement, slight reduction in SG&A costs, operating growth in excess of sales growth, earnings per share growth equal to or more than operating income growth, and capital expenditure of about 6-8% of sales.
-

---

## Reasons To Sell:

- ▼ **Stock Valuation Looks Stretched:** Considering Price-to-Earnings (P/E) ratio, lululemon looks pretty overvalued when compared with the broader industry and the S&P 500. The stock has a trailing 12-month P/E of 45.7x compared with 15.5x for the industry and 17.9x for the S&P 500. Its trailing 12-month P/E ratio is above the median level of 45.3x and below the high level of 54.4x scaled in the past year. These factors profess that the stock's valuation is quite stretched.
- ▼ **Withholds Guidance on Coronavirus-Related Impacts:** The crippling effect of the coronavirus outbreak has led to supply-chain disruptions, slowdown in production activities and reduced demand for several commodities. Despite starting fiscal 2020 on a strong note, lululemon did not issue any guidance due to the unprecedented impact of the coronavirus outbreak, which led the company to close stores and limit operating hours. The company has extended store closures in North America, Europe, Malaysia, Australia and New Zealand until the situation stabilizes. It will continue to pay its employees till Jun 1, irrespective of whether stores remain closed or reopen. The company expects to be negatively impacted by store closures, especially in North America as the region accounts for a major portion of revenues. Also, lululemon's aggressive efforts related to the men's clothing category and expansion of new products have been disrupted due to the ongoing crisis.
- ▼ **Competition:** lululemon is an elite and premium activewear brand which had established itself as a market leader in the yoga apparel segment. However, the company is facing stiff competition from leading brands like Gap, NIKE, Nordstrom, L Brands and Under Armour, as well as other private and boutique brands to capture market share in the female yoga, running, dancing and stylish casual compression pant product lines. Apart from this, Amazon.com is also extending activewear offerings, thus intensifying the competition.
- ▼ **Macroeconomic Challenges:** The apparel retail industry is consumer-driven and hence, very sensitive to the health of the economy. Spending on apparel and accessories is heavily dependent on the personal disposable income of consumers. Macroeconomic challenges such as high household debt and unemployment levels may restrain consumer spending on these items.

lululemon did not issue guidance for fiscal 2020 due to the unprecedented impact of the coronavirus outbreak, which led it to close stores and limit operating hours.

## Last Earnings Report

### Lululemon Beats on Q4 Earnings, Holds Off Guidance

lululemon retained its positive streak in fourth-quarter fiscal 2019, with sales and earnings surpassing the Zacks Consensus Estimate and improving year over year. Results gained from strong demand before the COVID-19 outbreak along with a solid e-commerce performance.

Despite starting fiscal 2020 on a strong note, management did not issue any guidance due to the unprecedented impact of the coronavirus outbreak, which also led the company to close stores and limit operating hours. It is likely to be negatively impacted by store closures, especially in North America as the region accounts for a major portion of revenues. Also, lululemon's aggressive efforts related to the men's clothing category and expansion of new products have been disrupted due to the ongoing crisis.

In spite of these headwinds, the company has been witnessing increasing demand for yoga mats and blocks in times of quarantine. Moreover, store closures have led to a rise in social media followers for its popular yoga classes.

### Q4 Numbers

lululemon posted earnings of \$2.28 per share, beating the Zacks Consensus Estimate of \$2.25 and increasing 23.2% from adjusted earnings of \$1.85 in the year-ago quarter. The bottom line gained from solid top-line growth along with gross margin expansion.

The company's quarterly revenues advanced about 20% to \$1,397.5 million and surpassed the Zacks Consensus Estimate of \$1,375 million. Strong execution across all parts of the business along with robust total comparable sales (comps) performance and addition of stores contributed to quarterly sales. Notably, e-commerce contributed \$464 million to sales, representing about 33% of total sales.

Total comps, including comparable store sales and direct-to-consumer (DTC) sales, grew 20%. Comps growth was driven by a rise in traffic, with in-store traffic up in high-single digits and online traffic up more than 30%. Comparable store sales improved 9%, while DTC sales grew 41%.

### Margins

Gross profit rose 21% to \$810.8 million in fourth-quarter fiscal 2019. Moreover, gross margin expanded 70 basis points (bps) to 58% on an 80-bps improvement in the product margin, stemming from a decline in product costs and favorable product mix.

SG&A expenses rose 16.9% to \$394.3 million. Meanwhile, SG&A expenses, as a percentage of sales, contracted 70 bps to 28.2%. Driven by gross margin growth and the SG&A leverage, operating income grew nearly 26% to \$416.5 million, while operating margin expanded 140 bps to 29.8%.

### Store Updates

During the fiscal fourth quarter, the company opened 12 net new stores and completed five optimizations. As of Feb 2, 2020, it operated 491 stores.

Given the COVID-19 crisis, the company had temporarily closed all retail stores in China in February, all of which, except one, have recently reopened. Moreover, in March, all retail stores in North America, Europe, Malaysia, New Zealand along with a distribution center in Sumner, WA, have been shut down. Meanwhile, all stores in Australia remain open for limited hours.

### Financials

lululemon exited the fiscal fourth quarter with cash and cash equivalents of \$1,093.5 million and stockholders' equity of \$1,952.2 million. Inventories were up 28.1% to \$518.8 million.

As of Feb 2, 2020, cash from operating activities was \$669.3 million. Further, it spent nearly \$69 million toward capital expenditure in fourth-quarter fiscal 2019, mainly related to IT and supply-chain investments, and store capital for new locations, relocations and renovations.

During the fiscal fourth quarter, the company bought back 1.6 thousand shares at an average price of \$194.10 per share. As of Feb 2, 2020, it had nearly \$327 million outstanding under its new \$500-million share repurchase plan.

Quarter Ending 01/2020

Report Date	Mar 26, 2020
Sales Surprise	1.10%
EPS Surprise	1.33%
Quarterly EPS	2.28
Annual EPS (TTM)	4.94

## Recent News

### **lululemon Extends Store Closure on Rising Coronavirus Impact – Apr 2, 2020**

Given the growing cases of COVID-19 and the unprecedented impacts of it, lululemon announced certain control measures to safeguard customers and employees. To this end, the company has decided to extend store closures in North America, Europe, Malaysia, Australia and New Zealand until the situation stabilizes. It will continue to pay its employees till Jun 1, irrespective of whether stores remain closed or reopen. However, the company informed that shoppers can continue purchasing via website and mobile app.

Further, lululemon's senior leadership will take a salary cut by 20% while the board members will forgo their cash retainers. The proceeds from these will then be utilized to fund its new initiative — We Stand Together Fund — in a bid to support employees affected by the pandemic. Moreover, management has undertaken some bold steps, which involves managing expense structure, capital investment, and store opening and remodel projects. The company has also suspended its share repurchase program for the time being.

### **lululemon Closes Stores Globally to Curb Coronavirus Spread – Mar 15, 2020**

Due to the rapid spread of COVID-19, lululemon athletica closed all stores across North America and Europe, starting from today till Mar 27. However, customers can shop online from lululemon.com. The company's employees will continue to receive their salary based on the number of hours they are scheduled to work for and will also have access to its Global Pay Relief plan. Per the plan, any employee of lululemon suffering from coronavirus or in need of quarantine measures will be provided salary protection for 14 days.

### **lululemon Closes Stores in China Due to Coronavirus Outbreak – Feb 23, 2020**

lululemon athletica announced that it has temporarily closed 38 stores in China on Feb 21 in response to the coronavirus outbreak since Feb 3, 2020. The outbreak of coronavirus in China has given rise to a tough situation for companies operating in the region. The leading yoga apparel retailer is among the companies that are anticipating the current situation in China to have a material impact on its results. The company also noted that the open stores are operating with reduced hours while online business has continued to operate. Given the epidemic outbreak in the country, lululemon is prioritizing on health and safety of employees. Consequently, it expects China operations to witness softness in the near term, which should have a pronounced impact on overall results. The company also stated that it is monitoring the effect of current situation and will provide an update on financial and operational impacts from the coronavirus outbreak on its fourth-quarter results.

## Valuation

lululemon shares are down 3.7% in the year-to-date period but up nearly 29% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 35.7% and 21.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 34% and 16.6%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 37.87X forward 12-month earnings, which compares to 16.94X for the Zacks sub-industry, 20.78X for the Zacks sector and 19.53X for the S&P 500 index.

Over the past five years, the stock has traded as high as 49.9X and as low as 19.31X, with a 5-year median of 29.43X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$231 price target reflects 39.76X forward 12-month earnings.

The table below shows summary valuation data for LULU

Valuation Multiples - LULU					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	37.87	16.94	20.78	19.53
	5-Year High	49.9	23.06	23.23	19.53
	5-Year Low	19.31	12.9	16.15	15.19
	5-Year Median	29.43	17.85	19.89	17.45
P/S F12M	Current	6.26	1.69	1.88	3.2
	5-Year High	8.17	2.58	3.19	3.44
	5-Year Low	2.47	1.43	1.67	2.54
	5-Year Median	4.02	2.04	2.52	3.01
EV/EBITDA TTM	Current	26.97	13.61	9.59	10.51
	5-Year High	31.99	26.49	17.61	12.87
	5-Year Low	11.52	11.09	8.27	8.28
	5-Year Median	19.06	17.85	12.25	10.78

As of 04/17/2020

## Industry Analysis Zacks Industry Rank: Bottom 5% (240 out of 253)



## Top Peers

G-III Apparel Group, LTD. (GIII)	Neutral
Gildan Activewear, Inc. (GIL)	Neutral
Ralph Lauren Corporation (RL)	Neutral
Tailored Brands, Inc. (TLRD)	Neutral
Columbia Sportswear Company (COLM)	Underperform
Guess?, Inc. (GES)	Underperform
NIKE, Inc. (NKE)	Underperform
PVH Corp. (PVH)	Underperform

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	LULU Neutral	X Industry	S&P 500	COLM Underperform	NKE Underperform	RL Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>A</b>
Market Cap	29.40 B	448.40 M	19.60 B	4.88 B	140.02 B	5.36 B
# of Analysts	16	4.5	14	5	8	6
Dividend Yield	0.00%	0.00%	2.17%	1.44%	1.09%	3.78%
<b>Value Score</b>	<b>F</b>	-	-	<b>D</b>	<b>F</b>	<b>A</b>
Cash/Price	0.04	0.14	0.06	0.14	0.02	0.32
EV/EBITDA	27.30	7.45	11.73	8.66	25.68	6.20
PEG Ratio	2.59	1.89	2.19	6.07	2.62	0.73
Price/Book (P/B)	15.08	1.33	2.67	2.64	15.48	1.72
Price/Cash Flow (P/CF)	36.46	4.13	10.55	11.00	29.76	6.53
P/E (F1)	47.61	13.06	18.18	24.59	33.83	10.88
Price/Sales (P/S)	7.39	0.44	2.08	1.60	3.39	0.84
Earnings Yield	2.04%	6.17%	5.38%	4.07%	2.96%	9.19%
Debt/Equity	0.31	0.65	0.70	0.20	0.69	0.65
Cash Flow (\$/share)	6.20	2.16	7.01	6.59	3.02	11.12
<b>Growth Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	25.21%	4.12%	10.92%	19.86%	7.68%	1.80%
Proj. EPS Growth (F1/F0)	-6.50%	-38.96%	-3.36%	-39.01%	6.73%	-8.89%
Curr. Cash Flow Growth	26.75%	8.09%	5.93%	30.70%	0.27%	9.60%
Hist. Cash Flow Growth (3-5 yrs)	19.56%	4.10%	8.55%	17.53%	7.69%	-3.42%
Current Ratio	2.91	1.66	1.24	2.97	1.90	1.94
Debt/Capital	23.85%	39.71%	42.78%	16.73%	40.75%	39.49%
Net Margin	16.22%	3.79%	11.64%	10.86%	10.46%	10.40%
Return on Equity	39.88%	12.14%	16.74%	18.53%	51.49%	20.83%
Sales/Assets	1.41	1.13	0.54	1.11	1.61	0.91
Proj. Sales Growth (F1/F0)	4.68%	-3.87%	-0.14%	-8.89%	0.91%	-0.34%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>D</b>	<b>D</b>	<b>A</b>
Daily Price Chg	7.97%	3.75%	4.04%	2.32%	4.18%	6.07%
1 Week Price Chg	12.28%	20.52%	16.01%	14.79%	10.06%	31.82%
4 Week Price Chg	45.85%	14.17%	18.93%	14.17%	27.82%	3.06%
12 Week Price Chg	-7.08%	-43.33%	-19.39%	-24.31%	-12.73%	-38.42%
52 Week Price Chg	30.32%	-54.28%	-11.34%	-29.79%	0.80%	-44.56%
20 Day Average Volume	2,442,675	54,719	3,220,598	360,672	11,367,738	1,418,244
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-21.51%	0.00%	0.00%
(F1) EPS Est 4 week change	-19.26%	-39.04%	-7.09%	-39.04%	-1.81%	-15.92%
(F1) EPS Est 12 week change	-19.90%	-44.01%	-9.32%	-44.01%	-11.78%	-19.81%
(Q1) EPS Est Mthly Chg	-64.61%	-91.74%	-10.68%	-1,286.67%	-59.31%	0.00%



## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.