

lululemon athletica (LULU)

\$267.53 (As of 05/25/20)

Price Target (6-12 Months): **\$291.00**

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: C

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.

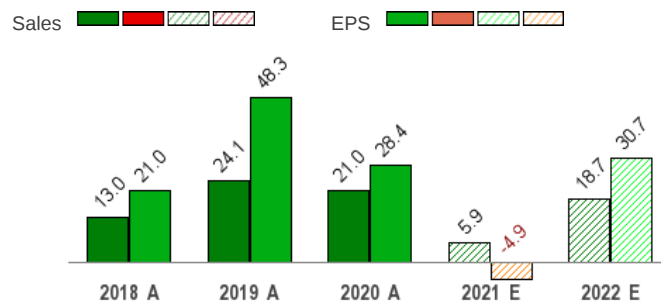
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$284.92 - \$128.85
20 Day Average Volume (sh)	1,658,535
Market Cap	\$36.0 B
YTD Price Change	19.5%
Beta	0.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 21% (195 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.3%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	1.6%
Expected Report Date	06/10/2020
Earnings ESP	-8.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	845 E	951 E	1,184 E	1,859 E	5,003 E
2021	725 E	893 E	1,016 E	1,563 E	4,215 E
2020	782 A	883 A	916 A	1,397 A	3,979 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.49 E	\$0.76 E	\$1.22 E	\$3.00 E	\$6.13 E
2021	\$0.29 E	\$0.71 E	\$0.98 E	\$2.49 E	\$4.69 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	56.0
P/E F1	57.2
PEG F1	3.1
P/S TTM	9.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/25/2020. The reports text is as of 05/26/2020.

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.

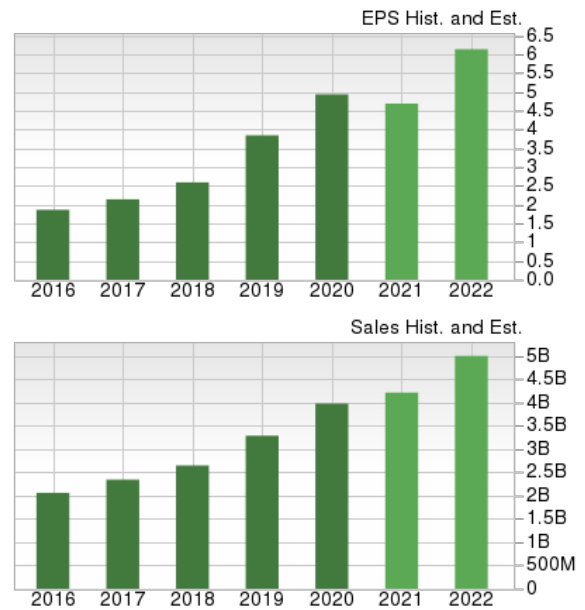
Notably, the company sells its products primarily in North America through a chain of corporate-owned and retail stores, outlets and warehouse sales, independent franchises, and a network of wholesale accounts. Also, the company has an e-commerce site with an aim to rapidly expand its online business.

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 60.2% in the past year against the industry's 32.8% 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.
- ▲ **Phased Re-Opening of Stores:** As the coronavirus led restrictions are being lifted gradually, lululemon gears up to re-open stores in a phased manner. Following its successful re-opening in Greater China, the company is opening stores in select other regions, week-by-week and market-by-market as per the guidelines of local governments as well as public health authority. As of May 21, lululemon re-opened more than 150 store locations across North America, Asia, Europe, Australia and New Zealand. Further, about 200 more locations are likely to re-open in the next two weeks. Meanwhile, lululemon informed that with the stores reopening, the company has undertaken extra measures to ensure safety and sanitization.
- ▲ **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.
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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 56.02x compared with 18.73x for the industry and 19.05x for the S&P 500. Its trailing 12-month P/E ratio is above the median level of 45.75x and at par with the high level scaled in the past year. These factors profess that the stock's valuation is quite stretched.

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.

▼ **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.

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 Reopens Stores In Phased Manner – May 21, 2020

lululemon is reopening stores in a phased manner as the coronavirus-led curbs being lifted gradually. Following its successful reopening in Greater China, the company is opening stores in select other regions, week-by-week and market-by-market as per the guidelines of local governments as well as public health authority.

lululemon has reopened more than 150 store locations till today, across North America, Asia, Europe, Australia and New Zealand. Further, about 200 more locations are likely to re-open in the next two weeks. Meanwhile, lululemon informed that with the stores reopening, the company has undertaken extra measures to ensure safety and sanitization.

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.

Valuation

lululemon shares are up 19.5% in the year-to-date period and nearly 60.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 32.8% and 16.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 26% and 8.7%, respectively.

The S&P 500 index is down 8.1% in the year-to-date period but up 4.5% in the past year.

The stock is currently trading at 53.79X forward 12-month earnings, which compares to 23.01X for the Zacks sub-industry, 29.3X for the Zacks sector and 21.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 53.96X and as low as 19.31X, with a 5-year median of 29.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$291 price target reflects 56.56X 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	53.79	23.01	29.3	21.5
	5-Year High	53.96	23.06	29.3	21.5
	5-Year Low	19.31	13.34	16.21	15.23
	5-Year Median	29.6	17.99	19.92	17.49
P/S F12M	Current	8.07	1.96	2.06	3.33
	5-Year High	8.18	2.58	3.2	3.44
	5-Year Low	2.47	1.42	1.67	2.53
	5-Year Median	4.06	2.04	2.53	3.01
EV/EBITDA TTM	Current	33.23	15.92	9.71	10.93
	5-Year High	33.23	26.49	17.65	12.86
	5-Year Low	11.52	10.85	8.28	8.26
	5-Year Median	19.16	17.66	12.25	10.79

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (195 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Columbia Sportswear Company (COLM)	Neutral	3
Guess, Inc. (GES)	Neutral	2
Gildan Activewear, Inc. (GIL)	Neutral	3
NIKE, Inc. (NKE)	Neutral	3
PVH Corp. (PVH)	Neutral	4
Tailored Brands, Inc. (TLRD)	Neutral	2
GIII Apparel Group, LTD. (GIII)	Underperform	5
Ralph Lauren Corporation (RL)	Underperform	5

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	LULU	X Industry	S&P 500	COLM	NKE	RL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	C	-	-	F	C	A
Market Cap	36.02 B	477.63 M	20.16 B	4.58 B	145.78 B	5.37 B
# of Analysts	16	4	14	7	8	6
Dividend Yield	0.00%	0.00%	2.11%	1.50%	1.05%	3.78%
Value Score	F	-	-	D	D	A
Cash/Price	0.03	0.20	0.07	0.17	0.02	0.40
EV/EBITDA	33.55	7.19	12.07	8.03	26.72	6.21
PEG Ratio	3.27	2.98	2.72	11.15	2.91	0.80
Price/Book (P/B)	18.48	1.58	2.77	2.70	16.12	1.72
Price/Cash Flow (P/CF)	44.67	4.23	10.95	10.51	31.03	6.55
P/E (F1)	59.99	16.62	20.22	34.68	35.51	15.43
Price/Sales (P/S)	9.05	0.37	2.12	1.55	3.53	0.84
Earnings Yield	1.69%	3.30%	4.71%	2.89%	2.82%	6.48%
Debt/Equity	0.31	0.66	0.76	0.21	0.69	0.65
Cash Flow (\$/share)	6.20	2.17	6.96	6.59	3.02	11.12
Growth Score	A	-	-	F	B	A
Hist. EPS Growth (3-5 yrs)	25.21%	4.02%	10.87%	18.04%	7.68%	1.80%
Proj. EPS Growth (F1/F0)	-4.97%	-58.87%	-10.31%	-58.68%	6.02%	-33.29%
Curr. Cash Flow Growth	26.75%	8.09%	5.46%	30.70%	0.27%	9.60%
Hist. Cash Flow Growth (3-5 yrs)	19.56%	4.03%	8.55%	17.53%	7.69%	-3.42%
Current Ratio	2.91	1.67	1.29	2.80	1.90	1.94
Debt/Capital	23.85%	43.08%	44.54%	17.68%	40.75%	39.49%
Net Margin	16.22%	3.58%	10.54%	8.68%	10.46%	10.40%
Return on Equity	39.88%	12.14%	16.27%	14.34%	51.49%	20.83%
Sales/Assets	1.41	1.07	0.54	1.07	1.61	0.91
Proj. Sales Growth (F1/F0)	5.92%	-10.89%	-2.49%	-15.54%	0.22%	-9.12%
Momentum Score	C	-	-	F	D	F
Daily Price Chg	3.44%	-1.24%	0.12%	-1.11%	-0.54%	-2.32%
1 Week Price Chg	3.82%	-7.60%	-4.56%	-7.20%	-3.84%	-9.30%
4 Week Price Chg	30.76%	5.07%	5.28%	2.87%	7.33%	5.64%
12 Week Price Chg	25.39%	-25.57%	-8.60%	-17.29%	5.87%	-28.31%
52 Week Price Chg	62.59%	-53.49%	-6.15%	-28.37%	13.44%	-33.32%
20 Day Average Volume	1,658,535	63,033	2,645,192	415,098	6,715,255	1,490,736
(F1) EPS Est 1 week change	-0.48%	0.00%	0.00%	0.00%	-0.66%	-14.47%
(F1) EPS Est 4 week change	1.64%	-15.11%	-3.80%	-30.34%	-0.66%	-29.34%
(F1) EPS Est 12 week change	-18.66%	-65.68%	-16.57%	-58.65%	-11.02%	-45.75%
(Q1) EPS Est Mthly Chg	-1.09%	-21.43%	-7.64%	-19.71%	-25.16%	-86.54%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
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.

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