

March, 10, 2016

Company Name:

Sector: Consumer Goods

Lululemon Athletica INC.

Industry: Textile - Apparel Clothing

Marion HORRY

The main activity of Lululemon is to design, distribute, and retail athletic apparel. The company is offering apparel and accessories to different type of customers. The major customers targeted by Lululemon are women, men and youth women. Its apparel line is composed of pants, shorts, tops, jackets. Its accessories line is composed of bags, socks, underwear, yoga mats and water bottles. It is important for the company to offer high quality products. All the products are designed to promote healthy lifestyle and athletic activities. To distribute and retail its product the company is using two types of channels. The two channels are 360 company-operated stores and direct to consumer. Lululemon is selling direct to customers with the e-commerce and more particularly with its website.

BUY

Current Price: \$64.94
 Target Price: \$78.19
 Market Cap: 9.08B
 Beta: -0.21



Thesis:

For the next following year Lululemon athletica will ensure revenue growth.

At the same time, the company will be able to reduce the cost. This will ensure growing margin and profitability.

Revenue increasing and profitability increasing will increase the EBIT and the free cash flow for the following period.

I advise to buy Lululemon Athletica Inc. because its stock price is currently undervalued.

I expect the price of this stock to rise in the future from \$64.94 and \$78.19.

Catalysts:

- **Short term (within a year):**

The next earning is on March 23, 2017. This can increase the volatility of the stock and help to reach the target price.

- **Midterm (1-2 years):**

Disposable income of household will increase in 2018 and 2019 according to the forecast.

- **Long term (+3):**

Long term growth strategy of Lululemon is to develop the brand nationally and internationally.

Growing Strategy:

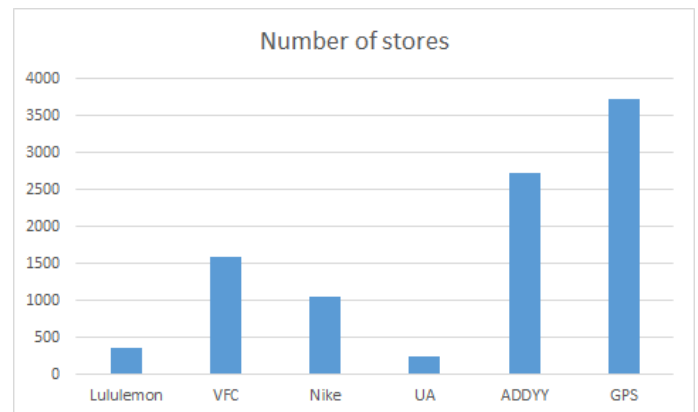
According to PWC industry outlook, customers have two ways to shop. The first way is to go in a shop. Today, 51% of shoppers like to buy their clothing and footwear in a store. On the opposite side, 40% of shoppers prefer to rely on e-commerce.

To respond to different shopping styles Lululemon has adapted its distribution channel to follow the different shopping styles of its customers.

Lululemon developed its company-operated stores. At this time Lululemon has 363 company-operated stores. They continue to develop the stores in the US and worldwide with different types of stores tailored to the different shopper's customs.

They are expanding and growing their standard stores, their co-located stores and their local stores. It is part of Lululemon's long term growth strategy to continue to develop their stores to take advantage of the North American Market and also worldwide. In 2017, Lululemon planned to open 44 new stores. 11 stores will be open outside the US and the remaining will ensure the growth within the US.

Lululemon has a strategy that ensures higher revenue per store historically. Historically, they ensure \$5.95 revenue per store. On the opposite side, its competitors generate \$3.72 of revenue per store. During the last twelve months, Lululemon generates less revenue per store compared to its competitors. Their growing strategy should ensure a growing revenue per store in the following period.



	Revenue/Total Stores	
	History	LTM
LULU	\$ 5.95	\$ 6.22
Competitors	\$ 3.72	\$ 6.63

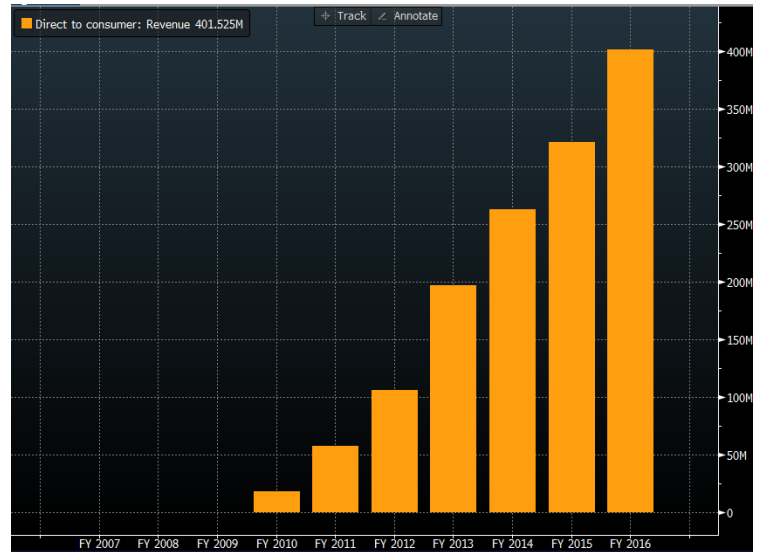
E-Commerce a key sales revenue:

Lululemon rely on e-commerce to distribute products directly to customers. It is important for apparel company to develop e-commerce because 40% of shoppers are buying online and because it is becoming a favored retail channel.

Since 2009, the company online sales increased from 4% in 2010 to 19.5% in 2014.

Lululemon long term strategy is to continue to develop their website. It is important to include it in their strategy because it will be a key component of the growth in the future.

Its strategy is to continue to develop their website to improve online shopping experience. The shopping experience can increase the conversion rate and then increase the revenue.



Revenue growth:

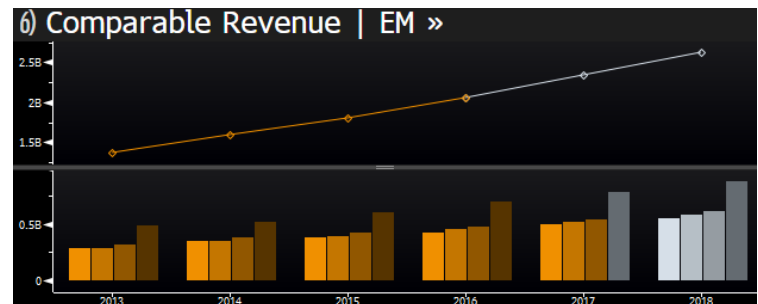
At this time, Lululemon faced an increase in revenue. This increase has been driven by the improvement of the shopping experience and by its expansion strategy.

The company planned a strategy to ensure a \$4 billion revenue in 2020.

This revenue goal in the future can be achieved by Lululemon by its product innovation, its store expansion, e-commerce, and new customer's segment.

Lululemon new customer segment is men customers. This segment have grown significantly over the past quarters at 20%. Moreover, all the areas of strategy improvement will drive up the revenues.

Since 2015, the quarterly sales of Lululemon were better than the consensus of the estimates. For the Q12017, the sales revenues should follow the same trend as before since its strategy target healthy growth compare to its peers.



Profitability Margin

Lululemon is manufacturing apparel product such as its competitors the company relies on manufactured overseas. This helps the company to ensure a cost advantage. At the same time the company can possibly face major risks.

The gross profit margin shows that Lululemon is higher gross profit compared to its peers. Thus, it means that the company has more money left after paying the cost of goods sold. It is possible to argue that this ratio should be increase because of the go-to-market strategy that will continue to positively impact the margin.

The operating profit margin of Lululemon shows that they have more money left after paying the operating expenses compare to its competitors. This ratio shows that Lululemon have a well-defined pricing strategy. In addition, it manages well their operating expenses.

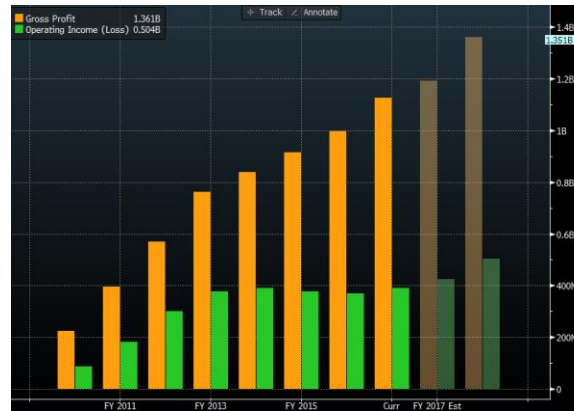
The net profit margin ratio emphasize that Lululemon is generating more profit from its sales compared to its competitors.

The EBITDA Margin also shows that Lululemon is more profitable than its competitors.

According to all this profitability ratios, Lululemon is more profitable than its peers. It emphasizes that they are more able to control and manage cost.

Name (BI Peers)	Ticker	Adj Grs Prof LF	OPM LF	NI Mrgn Adj LF	EBITDA Mrgn Adj LF
Median		1.57B	11.10%	9.13%	15.68%
100) LULULEMON ATHLETICA INC	LULU US	278.43M	17.08%	11.84%	21.48%
101) ADIDAS AG	ADS GR	2.47B	0.49%	-0.19%	12.38%
102) VF CORP	VFC US	1.65B	9.64%	12.03%	17.61%
103) NIKE INC -CL B	NKE US	3.62B	13.58%	10.29%	15.70%
104) UNDER ARMOUR INC-CLA...	UAA US	583.70M	12.56%	7.96%	15.66%
105) GAP INC/THE	GPS US	1.49B	6.80%	4.58%	10.07%

Moreover, the company will continue to implement strategy in order to continue to decrease the cost and the operating cost during the following period. The strategy is about managing well the go-to market product cycle. The company implements this strategy in order to utilize efficiently all the accessible resources. This will help the company to deliver valuable product to customers and to ensure competitive advantage.



Capital allocation

ROIC of Lululemon shows that it is allocating well its capital into profitable investments. It means that they create return on investment.

If we compare the ROIC to the WACC it is possible to notice that the company is able to create value.

Lululemon ROIC for the last twelve month is 43.8% and its WACC is 10%.

It means that Lululemon is creating 33 cents for every dollars invested in capital.

ROIC (NOPAT/IC)		
	History	LTM
LULU	79.2%	43.8%
Competitors	43.1%	35.5%

WACC		
	History	LTM
LULU	10.0%	10.0%
Competitors	10.3%	9.6%

Conclusion:

In conclusion, it is important to notice that Lululemon Athletica Inc. has and will continue to gain more competitive advantage. This competitive advantage will be obtained by its long term strategy. It will ensure revenue growth and it will continue to manage effectively cost. Thus, it will ensure higher profitability margin. Moreover, the company will continue to capture market share with its stores expansion strategy.

Lululemon Athletica Inc. (LULU)
CENTER FOR GLOBAL FINANCIAL STUDIES
BULLISH

Analysis by Marina HOBBY 3/6/2017
Current Price: \$64.94
Intrinsic Value: \$73.01
Target 1 year Return: 20.4%

Dividend Yield: 0.0%
Target Price: \$72.19
Probability of Price Increase:

Description

Lululemon Athletica Inc., an athletic apparel company, together with its subsidiaries, designs, distributes, and retails athletic apparel and accessories for women, men, and female youth.

General Information

Sector: Consumer Discretionary
 Industry: Textiles, Apparel and Luxury Goods
 Last Guidance: November 5, 2015
 Next earnings date: March 25, 2017
 Estimated Country Risk Premium: 2.38X
 Effective Tax rate: 30X
 Effective Operating Tax rate: 30X

Market Data

Market Capitalization: \$3,885.17
 Daily volume (mil): 8.51
 Shares outstanding (mil): 197.88
 Diluted shares outstanding (mil): 197.58
 X shares held by institutional: 18X
 X shares held by institutional Managers: 53X
 X shares held by hedge funds: 49X
 X shares held by insiders: 7.24X
 Short interest: 7.83X
 Days to next short interest: 5.19
 52 week high: \$61.81
 52 week low: \$54.88
 Leverage Ratio: 1.68
 Volatility: 35.88X

Quarter ending

11/4/2015	Revenue	-4.31X	EBITDA	-5.25X
1/31/2016	Revenue	-1.45X	EBITDA	-4.26X
5/7/2016	Revenue	-3.36X	EBITDA	-7.65X
7/31/2016	Revenue	-3.24X	EBITDA	-8.89X
10/31/2016	Revenue	-3.62X	EBITDA	-2.24X
Mean	Revenue	-4.53X	EBITDA	-4.89X
Standard error	Revenue	1.8X	EBITDA	5.4X

Management

Pauline, Laurel: President
 Heather, Stuart: Chief Executive Officer and Chief Financial Officer and
 Slomp, Scott: Executive Vice President of
 Alvarado, Miguel: Executive Vice President of
 Holmes, Lee: Executive Vice President of
 Warren, Gina: Executive Vice President of

Financial Ratios

ROIC	28.8X	ROE	27.58X
NOPAT Margin	45X	Return on Assets	28.45X
Return/Invested Capital	1.42	ROE	1.34
ROE	26.2X	ROE	33.72X
Adjusted debt margin	14X	ROE	13.34X
Return/Adjusted Book Value	1.87	ROE	1.5

Capital Structure

Total Debt/Total Capital	24.5X	Total Debt/Equity	35.3X
Estimated Operating Cash/Total Capital	24.5X	Estimated Operating Cash/Equity	34.3X
Non-cash working Capital/Total Capital	17.4X	Non-cash working Capital/Equity	18.5X
Invested Capital/Total Capital	38.2X	Invested Capital/Equity	37.2X

Capital Structure

Total Debt/Current Equity (LTM)	8.8X	Total Debt/Equity (5 years historical)	8.84
Cost of Existing Debt	5.83X	Cost of Existing Debt	5.83X
Estimated Cost of new Borrowing	5.75X	Estimated Cost of new Borrowing	5.75X
CCPS Risk Rating	D	CCPS Risk Rating	D
Unlevered Beta (LTM)	0.58	Unlevered Beta (LTM)	1.04
WACC	5.74X	WACC	5.48X

Peer

Under Armour, Inc.	Under Armour, Inc.
Columbia Sportswear Company	Columbia Sportswear Company
G-III Apparel Group, Ltd.	G-III Apparel Group, Ltd.
Coach, Inc.	Coach, Inc.
Clavin's FNS, Inc.	Clavin's FNS, Inc.
Express, Inc.	Express, Inc.
Urban Outfitters, Inc.	Urban Outfitters, Inc.
Fossil Group, Inc.	Fossil Group, Inc.

Key Metrics

Total compensation per share	-180X per annum over 2q	Total return to shareholders	16.55X per annum over 2q
EPS	8X per annum over 1q	EPS	8X per annum over 1q
EPS	-180X per annum over 1q	EPS	-4.3X per annum over 1q
EPS	8X per annum over 1q	EPS	8X per annum over 1q
EPS	8X per annum over 1q	EPS	8X per annum over 1q

Valuation

ROIC/WACC	5.62
ROIC/WACC	14.2X
ROIC/WACC	14.5X
ROIC/WACC	14.1X
ROIC/WACC	15.6X
ROIC/WACC	16.8X
ROIC/WACC	16.1X
ROIC/WACC	15.4X
ROIC/WACC	14.8X
ROIC/WACC	14.2X
ROIC/WACC	15.5X
ROIC/WACC	12.3X
ROIC/WACC	4.85

Sensitivity Attribution Analysis

Revenue	24.0%
Operating Expenses	24.0%
Dividends	0.2%
NPV	0.4%
CAPEX	0.2%
Operating Cash	0.2%

Porter's 5 Forces (summed at 100)

Overall 58

- Eargaining Power of Suppliers: 44
- Eargaining Power of Consumers: 50
- Threat of New Competition: 71
- Threat of Substitution: 75
- Incentive of Existing Rivalry: 42

Period

Year	Revenue growth	ROIC margin	ROIC/WACC
10/30/2017	15.3X	14.2X	5.62
10/30/2017	14.8X	14.5X	5.74
10/30/2018	8.4X	14.1X	5.68
10/30/2019	18.2X	15.6X	5.87
10/30/2020	5.6X	16.8X	5.19
10/30/2021	8.6X	16.1X	5.14
10/30/2022	7.3X	15.4X	2.35
10/30/2023	7.4X	14.8X	2.88
10/30/2024	6.3X	14.2X	2.64
10/30/2025	5.6X	15.5X	2.58
10/30/2026	4.8X	12.3X	2.35
10/30/2027	4.8X	12.3X	4.85

Invested Capital

Year	Invested Capital	Net Claims	Price per share
10/30/2017	\$874.66	\$555.68	\$72.58
10/30/2017	\$1,145.55	\$559.42	\$77.48
10/30/2018	\$1,416.38	\$419.35	\$82.84
10/30/2019	\$1,548.88	\$419.82	\$88.58
10/30/2020	\$1,535.34	\$623.15	\$34.35
10/30/2021	\$1,382.74	\$624.19	\$100.42
10/30/2022	\$2,353.88	\$1,836.12	\$106.67
10/30/2023	\$2,637.44	\$1,438.17	\$113.31
10/30/2024	\$2,375.82	\$1,336.33	\$110.35
10/30/2025	\$3,211.45	\$1,233.74	\$125.58
10/30/2026	\$3,567.55	\$1,878.65	\$131.47