



lululemon

STOCK PITCH

EXECUTIVE SUMMARY

A fast rise to the top has made Lululemon one of the global leaders in athletic apparel with its yoga crazed fan base snapping up every pair of leggings on the shelves.

Despite a strong 33% growth over the past six months we still believe it still has a long runway of growth, for both Lululemon and its industry. Their strategy going forward makes it one of the best plays in consumer goods right now.

We see 4 primary investment drivers:

1. The first is the move to a flexible and **work from home lifestyle** as companies adapt and listen to what their employees want.
2. Developing a **subscription-based service** by recently accruing Mirror will allow them to compete with the likes of Nike and Peloton.
3. With the return to normality, Lululemon are betting on their **unique instore experiences** to lure their customers into brand loyalty
4. The pandemic has refocused the minds of society, putting **health and fitness** at the top of the agenda

Target Price	\$493.96
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Current Price	\$438
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Upside	12.5%
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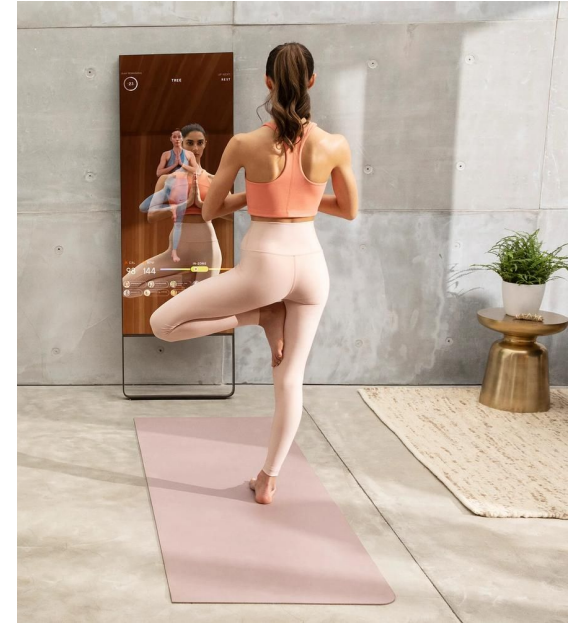
Projections	FY22	FY23	FY24
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Revenue Growth (\$000s)	5,018,142	5,720,682	6,521,577
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Earnings Growth (\$000s)	1,010,697	1,152,194	1,313,501
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INDUSTRY OVERVIEW

- 2020 saw a colossal move to technology and **online fitness programmes** with increased awareness of how fitness affects health.
- Challenge moving forward to retain both in-person and online revenue streams.
- **Rise of athleisure** (athletic wear x leisure wear), allowing sports clothing companies to capitalise from a greater product variety.
- **Chinese market** is growing from rising disposable incomes, COVID amplifying consumption on products to aid healthy lifestyle.
- **ESG push**, increasing concerns for sustainably sourced apparel (dies, recycled polyester) and good working conditions.

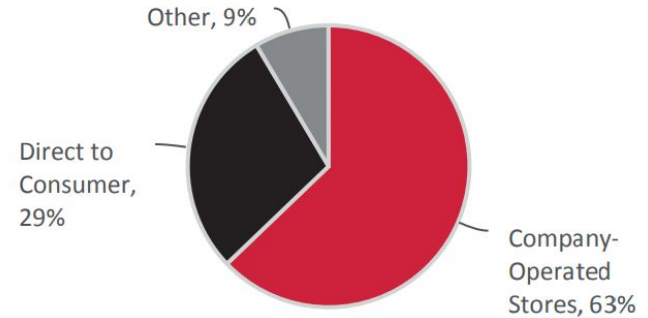


**\$430B GLOBAL
SPORTSWEAR
MARKET SIZE BY 2025**

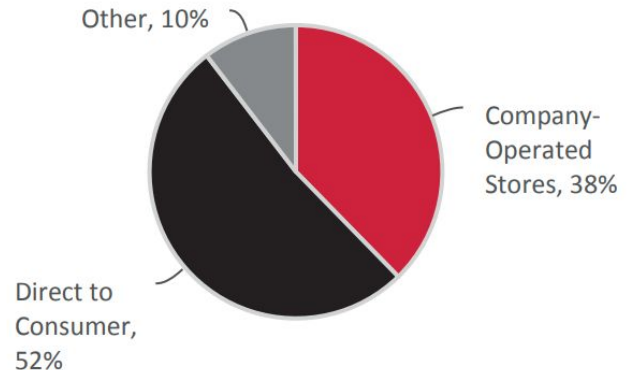
COMPANY OVERVIEW

- Company established in 1998, **IPO in 2007 at \$327M**, major acquisition of Mirror in 2020 for \$500M after previous investment.
- Apparel revenues split between **40% men and 60% women** operating online and in over 500 stores across 17 countries.
- Other revenues include wholesale, Mirror, temporary stores, discounts and license/supply arrangements.

2019 NET REVENUES SHARES



2020 NET REVENUE SHARES



MANAGEMENT AND OWNERSHIP OVERVIEW



CALVIN MCDONALD
CEO



MEGHAN FRANK
CFO



SUN CHOE
CPO

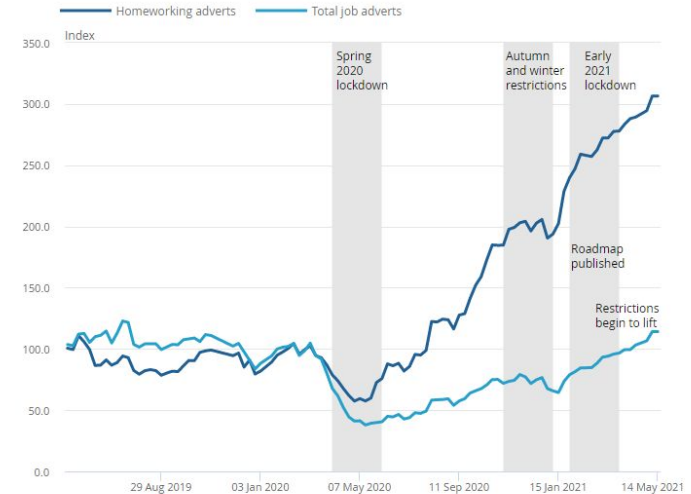


GLENN MURPHY
CHAIRMAN

- Average management tenure of 2.5yrs, CEO compensation \$10M.
- 14.5% of firm owned by Fidelity, 6.7% owned by Vanguard.
- Internal management equity sales, independent director 108K.

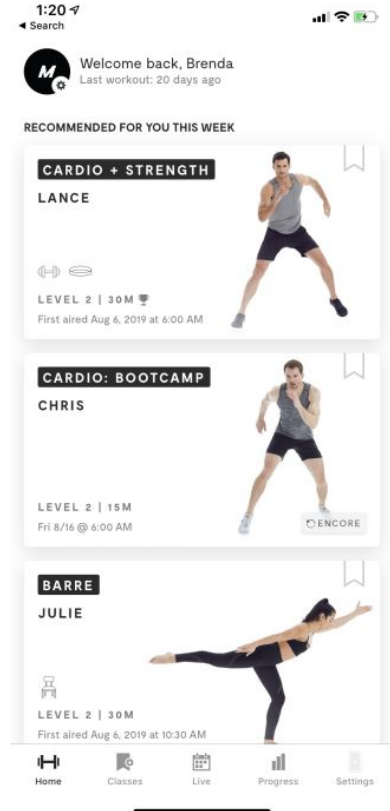
CASE 1: WORK FROM HOME CONTINUING

- With people working (and working out) more from home, the demand for suits and ties has fallen and the days of doing meetings in leggings and a sweatshirt have come
- Activewear accounted for 40% of all online sales in 2020 with many suit retailer filing for bankruptcy or experiencing vast store closures
- Of current working adults, 85% in the UK stated they wanted to continue working from home
- The graph to the right shows job advertisements that state working from home as a benefit of the job. A clear indication and move in the labour market to a much more flexible model



CASE 2: GROWTH IN FITNESS SUBSCRIPTIONS

- Revenue model through **subscriptions (\$39/mo)** and **initial mirror purchase (\$1495)**.
- Mirror is more than just a regular device, more realistic. Synced to heart-rate with personal performance shown in real-time, multitude of classes (individual or groups).
- Expansion into Canada, on track to deliver between **\$250-\$275M** in revenue in 2021. No quarterly breakdown.
- Diversification away from apparel is a positive, now have **talent** from Mirror to innovate.



CASE 3: IN-STORE EXPERIENCE GROWTH

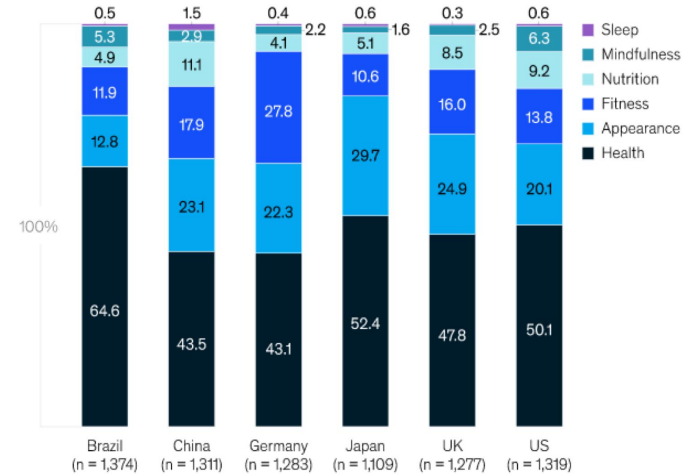
- As part of their community-based retail model, Lululemon has introduced a **new membership loyalty program** and opened two **experiential stores** in America.
- They recruit ambassadors, usually yoga and fitness instructors, from local communities where the stores are located to run in-store fitness sessions. This sets them apart from competitors who still largely anchor their marketing towards big celebrity endorsements.
- This has allowed Lululemon to create a much more powerful customer base by creating a sense of belonging to a community amongst their customers, encourages **loyalty** to the brand and keeps customers coming back.
- Spend far less than their competitors on marketing, for example, **Nike spends \$6bn** annually on celebrity endorsements and sponsorships, **whereas Lululemon spend approx. \$224mm** on ambassadors. Lower customer acquisition cost.



CASE 4: HEALTH CONSCIOUSNESS

- Covid has led many people to re-think their approach to overall health and wellness. Wellness is continuing to rise as a **priority** across nations.
- Global wellness market estimated to reach **\$1.5 trillion**, with **annual growth of 5-10%**.
- Today's typical consumer views wellness across six dimensions: **better health, fitness, nutrition, appearance, sleep and mindfulness.**
- Appearance primarily involves wellness-oriented apparel, which is Lululemon's core business.

Wellness spending by category,¹ % of annual spending on wellness products and services



¹Question: Approximately how much money have you spent on each of the following in the past 12 months? Figures may not sum to 100%, because of rounding.
Source: McKinsey Future of Wellness Survey, August 2020

INVESTMENT RISKS

	Downside risk	Description	Evaluation
1	Negative publicity affecting brand reputation and value	<ul style="list-style-type: none"> On March 18th 2021, Lululemon experienced several complaints referring to the revealing nature of some of their most purchased black yoga leggings. They were forced to recall 17% of its bottoms and remove all of them from their inventory, costing an estimated \$67mm 	<ul style="list-style-type: none"> Fortunately, these one off reputationally damaging events can be mitigated and controlled if strong risk and crisis management is implemented. This has included communicating clearly to their supply chain about their quality control measures, ensuring a repeat of the situation does not occur These events are singularities and Lululemon continue to enhance their brand reputation daily as their product grows and customer loyalty develops; a key and definitive factor to the future success of Lululemon
2	Acquisition of Mirror may not realise synergies	<ul style="list-style-type: none"> In March 2017 UA acquired MyFitnessPal, attempting to transform into a connected fitness platform. In an attempt to achieve its tech dream UA spent over \$1bn in an area that now generates little over \$32mm with little profit Lululemon could make similar mistakes, as management gets distracted from their core fabrics business and ploughs assets in to growing a platform that is already starting behind the likes of Peloton and Nike 	<ul style="list-style-type: none"> In the first week of store closures, 170k people joined Lululemon's Instagram Live for daily workout, showing strong demand for their brands type of fitness and lifestyle Prior to covid 64% of Lulu customers used at home workout apps and 50% of mirrors existing customers were already Lululemon customers Mirrors potential revenue growth as more and more people workout from home could hit \$700mm and 600k subscribers by 2023
3	Larger than expected return to office work	<ul style="list-style-type: none"> The return to the pre-pandemic lifestyle of working in an office could see gym tops swapped for shirts and ties and, leggings replaced by suit trousers. Ultimately, the benefits that became apparent due to the pandemic, of the relaxed and fluid lifestyle that Lululemon promote, could be wiped away 	<ul style="list-style-type: none"> Workplaces appear to be listening to their employees, relaxing dress codes and driving a more flexible approach to time spent in the office. This risk should be mitigated by the approach taken by employers

VALUATIONS

Company	Share Price	Ticker	Market Cap. (\$Bn)	Net Debt (\$000s)	Enterprise Value (\$Bn)	Revenue(\$000s)	EBITDA	EPS	Price/Sales	EV/EBITDA	P/E
Nike	162.35	\$NKE	258.76	3,400,000	258.76	46,190,000	8,340,000	3.77	5.72	32.06	44.250
Under Armour	21.84	\$UA	9.01	1,840,000	9.36	5,455,516	635	0.79	1.51	48.34	32.36
Adidas	162.29	\$ADDYY	54.08	5,890,000	54.69	22,445,000	2.75	8.46	2.41	15.78	28.01
Puma	124.8	\$PMAF	17.96	931,700	18.23	6,241,400	621	2.30	2.45	33.33	36.5
Peloton	88.45	\$PTON	28.2	1,512,100	28.2	4,021,900	-89,000	-0.64	6.86	-234.96	151.4
Industry average			73.602	2,714,760	73.848	16,870,763	1,650,452	2.94	3.79	-21.09	58.51
Lululemon	438	\$LULU	58.55	798,681	56.57	4,401,879	1,004	6.32	20.50	40.83	47.85

DISCOUNTED CASH FLOW

Income Statement	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenue	\$3,288,319	\$3,979,296	\$4,401,879	\$5,018,142	\$5,720,682	\$6,521,577	\$7,434,598	\$8,475,442	\$9,662,004	\$11,014,684	\$12,556,740	\$14,314,684	\$16,318,740
COGS	1,472,032	1,755,910	1,937,888	2,223,300	2,534,562	2,889,401	3,293,917	3,755,066	4,280,775	4,880,083	5,563,295	6,342,156	7,230,058
Gross Profit	1,816,287	2,223,386	2,463,991	\$2,794,842	\$3,186,120	\$3,632,176	\$4,140,681	\$4,720,376	\$5,381,229	\$6,134,601	\$6,993,445	\$7,972,528	\$9,088,682
SG&A	1,110,451	1,334,276	1,614,163	1,505,443	1,716,205	1,956,473	2,230,379	2,542,633	2,898,601	3,304,405	3,767,022	4,294,405	4,895,622
Acquisition related costs	0	0	29,842	0	0	0	0	0	0	0	0	0	0
Operating Income	705,836	889,110	819,986	1,289,399	1,469,915	1,675,703	1,910,302	2,177,744	2,482,628	2,830,196	3,226,423	3,678,123	4,193,060
Other Income (Expense), net	9,414	8,283	(636)	10,036	11,441	13,043	14,869	16,951	19,324	22,029	25,113	28,629	32,637
Income Before Tax	715,250	897,393	819,350	1,279,363	1,458,474	1,662,660	1,895,432	2,160,793	2,463,304	2,808,167	3,201,310	3,649,493	4,160,422
Provision for Tax	231,449	252,797	230,437	268,666	306,279	349,159	398,041	453,767	517,294	589,715	672,275	766,394	873,689
Net Income	\$483,801	\$644,596	\$588,913	\$1,010,697	\$1,152,194	\$1,313,501	\$1,497,392	\$1,707,026	\$1,946,010	\$2,218,452	\$2,529,035	\$2,883,100	\$3,286,734
Dividend	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained Earnings	\$483,801	\$644,596	\$588,913	\$1,010,697	\$1,152,194	\$1,313,501	\$1,497,392	\$1,707,026	\$1,946,010	\$2,218,452	\$2,529,035	\$2,883,100	\$3,286,734
Other Comprehensive Income (Loss), net of tax													
Foreign Currency Translation Adjustment	(73,885)	(7,773)	47,426	(22,830)	(26,026)	(29,669)	(33,823)	(38,558)	(43,956)	(50,110)	(57,126)	(65,123)	(74,241)
Comprehensive Income	\$409,916	\$636,823	\$636,339	\$987,867	\$1,126,168	\$1,283,832	\$1,463,569	\$1,668,468	\$1,902,054	\$2,168,341	\$2,471,909	\$2,817,976	\$3,212,493

Discount Cash Flow

EBITDA	847,148	1,067,609	1,004,192	1,466,476	1,671,783	1,905,832	2,172,649	2,476,820	2,823,575	3,218,875	3,669,518	4,183,250	4,768,905
Long Run FCF Growth Rate	2.50%												
Cost of Equity	6.50%												
Terminal Value	\$92,817,739.90												
Total FCF				\$1,422,127	\$1,269,779	\$1,447,549	\$1,650,205	\$1,881,234	\$2,144,607	\$2,444,852	\$2,787,131	\$3,177,330	\$96,439,896
Discounted FCF				\$1,335,330	\$1,119,513	\$1,198,352	\$1,282,743	\$1,373,077	\$1,469,772	\$1,573,277	\$1,684,072	\$1,802,668	\$51,376,043
Equity Value	\$64,214,847.29												
Shares Outstanding	130,000												
Fair Stock Price	\$493.96												
Sensitivity Analysis													
		Sales Growth Rate											
	\$493.96	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%	11.00%	12.00%	13.00%	14.00%	15.00%	16.00%
Cost of Equity	4.50%	\$503	\$547	\$594	\$645	\$700	\$759	\$823	\$892	\$967	\$1,047	\$1,133	\$1,226
	5.00%	\$401	\$435	\$472	\$512	\$555	\$601	\$651	\$705	\$763	\$825	\$892	\$964
	5.50%	\$333	\$361	\$391	\$423	\$458	\$496	\$536	\$580	\$627	\$678	\$732	\$790
	6.00%	\$285	\$308	\$333	\$360	\$389	\$421	\$455	\$491	\$530	\$572	\$618	\$667
	6.50%	\$249	\$268	\$290	\$313	\$338	\$365	\$394	\$425	\$458	\$494	\$533	\$574
	7.00%	\$220	\$238	\$256	\$276	\$298	\$321	\$346	\$373	\$402	\$433	\$467	\$502
	7.50%	\$198	\$213	\$229	\$247	\$266	\$286	\$308	\$332	\$357	\$385	\$414	\$445
	8.00%	\$179	\$193	\$207	\$223	\$240	\$258	\$278	\$298	\$321	\$345	\$371	\$399



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