Executive Summary

- NASDAQ: LULU = $318.46 (Nov 11th)
- Recommended Price: $341.72(+7.30%)
- Recommendation: Buy
- DCF Price: $336.79 (P. 52)
- Relative Valuation Price: $346.64 (P. 67)
- Reconciled Price: $341.72 (P. 68)
- **Acquisition**
- **Target firm: Unifi, Inc. (NYSE: UFI)**
- **DCF Price (Max Bid): $8.66 (+49.23%)**
- **Initial Offer Price: $7.00 (+20.69%)**
- **Market Price: $5.80 (Nov 11th)**
- **Financing Strategy: Cash**

- Fiscal Year End: January 28th, 2024
- Currency of financial statements: USD
- Impact of COVID: P.6
- WACC (8.33%): P. 29
- Historical Data Analysis: P. 30-37
- Last Twelve Months Revenue: P. 4
- Guidance & Street Analysis: P. 38
- NCWC: P.48
- Terminal Growth: (2%) P.51
- Funded Debt: P.25
- DCF Matrix: P.50
- Sensitivity Analysis: P. 53

Firm Description & Business Model

Lululemon Athletica Inc. designs, manufactures, and sells athletic apparel, footwear, and accessories for men and women. Its products cater to activities like yoga, running, and training. The company operates globally through in-person stores, e-commerce, fitness platforms, and various retail partnerships. Founded in 1998 and based in Vancouver, Lululemon has a strong presence across North America, Europe, Asia, and beyond. The company aims to nurture distinct guest experiences by curating in-person events and pop-up events. It also spreads and grows its brand awareness by sponsoring sporting events, most recently the Canadian Summer Olympic team.

lululemon

Financial Snapshot Matrix

usd millions, Oct-31 '24

Price	$ 297.90
Shares	117.66
MC	$ 35,050.91
Cash	$ 1,610.00
Debt	$ 1,458.89
EV	$ 34,899.80
PIC	589.16
AD	-309.82

usd millions	Q323	Q423	Q124	Q224	FY23	TTM
Revenue	2,204	3,205	2,209	2,371	9,619	9,989
COGS	948	1,302	934	959	4,010	4,142
Gross Profit	1,257	1,904	1,275	1,412	5,609	5,848
SG&A	843	990	842	872	3,397	3,547
Restructuring costs	75	0	0	0	75	75
D&A	1	0	0	0	5	1
Acquisition expenses	0	0	0	0	0	0
Operating Income	413	914	433	540	2,133	2,225
Other Income (expense)	10	18	23	18	43	69
Pretax Income	422	932	456	558	2,176	2,294
Taxes	99	262	135	165	626	661
Net Income	323	670	321	393	1,550	1,633
Shares	127	127	126	125	127	125
EPS	$ 2.55	$ 5.27	$ 2.54	$ 3.15	$ 12.20	$ 13.08

Funded Debt, Oct-31 ***usd millions***

Current lease liabilities	$ 278.07
Non-current lease liabilities	$ 1,180.82
Total funded debt	$ 1,458.89

Product & Revenue Segmentation

Net Revenue Segmentation

usd millions	2019	2020	2021	2022	2023
Company-operated stores	2,501	1,659	2,822	3,648	4,411
% of total revenue	*63%*	*38%*	*45%*	*45%*	*46%*
Direct to consumer	1,138	2,284	2,778	3,700	4,311
% of total revenue	*29%*	*52%*	*44%*	*46%*	*45%*
Other	340	459	657	763	897
% of total revenue	*9%*	*10%*	*11%*	*9%*	*9%*
Total	**3,979**	**4,402**	**6,257**	**8,111**	**9,619**
Women's products	2,768	3,050	4,172	5,260	6,147
% of total revenue	*70%*	*69%*	*67%*	*65%*	*64%*
Men's products	927	953	1,536	1,957	2,253
% of total revenue	*23%*	*22%*	*25%*	*24%*	*23%*
Other	284	399	549	894	1,219
% of total revenue	*7%*	*9%*	*9%*	*11%*	*13%*
Total	**3,979**	**4,402**	**6,257**	**8,110**	**9,619**
US	2,854	3,105	4,346	5,654	6,346
% of total revenue	*72%*	*71%*	*69%*	*70%*	*66%*
Canada	649	673	954	1,163	1,285
% of total revenue	*16%*	*15%*	*15%*	*14%*	*13%*
Outside NA	476	624	957	1,293	1,988
% of total revenue	*12%*	*14%*	*15%*	*16%*	*21%*
Total	**3,979**	**4,402**	**6,257**	**8,111**	**9,619**

Net Revenue Growth, Geographically

usd millions	FY21	FY22	FY23	
Net Rev	5,300	6,817	7,632	**Americas**
% growth	*40.30%*	*28.60%*	*11.90%*	
Net Rev	434.26	576.5	963.76	**China**
% growth	*80.30%*	*32.80%*	*67.20%*	
Net Rev	522	717	1,024	**ROW**
% growth	*36.30%*	*0.37%*	*0.43%*	

Impact of COVID

Negative Impacts

- The biggest impact COVID had on the business was the closing of many stores worldwide. This significantly hurt revenue growth in 2020 and 2021.
- COVID also inflicted supply chain constraints, and this resulted in a 41% surge in inventories when COVID hit in Q1 2020.

- COVID Impact on Lululemon - Perplexity AI

Positive Impacts

- Since people were forced to shop online and stay indoors, LULU's "Direct-to-consumer" (ecomm) segment saw a surge of 70% in terms of total revenue, in Q1 2020.
- This segment represented 54% of total sales in that same quarter (vs ~20% a year before)
- This means the company was still very quick to react to such a black swan event and may do the same in the future, if need be.

DCF Implications: COVID Impacts won't play any role in our DCF assumptions and model

Recent Firm Development

- The company hasn't explicitly cited future product innovations in clear detail, but we do know that they have a plethora of new offerings in women's, men's and footwear products planned in the short-term.
- The company is also building a new headquarter, which will support a rapidly growing workforce centered around customer support. They expect their workforce to grow to 4,000 people by 2032.
- The firm also sponsored and made the Paris Olympics' apparel for Team Canada, showcasing its push on the world stage.
- Lululemon current company development, November 2024 - Perplexity AI

DCF Implications: Surprisingly, the recent firm developments are too small to take into consideration in our DCF. We'll focus more on company guidance.

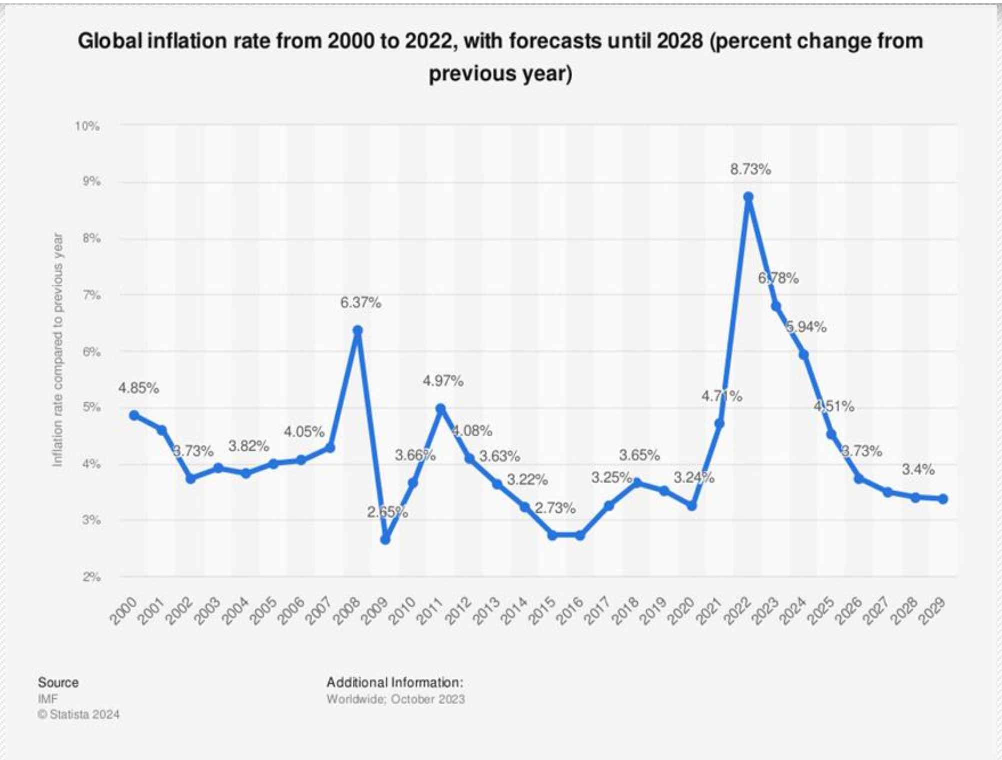
Recent Industry Development

- The retail sportswear apparel industry has been pushing the use of recycled plastics and materials for an adoption of environmentally-friendly practices.
- Lululemon and other firms are also mitigating the surplus manufacturing of clothes by selling outdated items at massive discounts. This was common practice in in-person outlets, but it’s starting to be more common online as well.
- Firms also have a used clothes section, where unwanted clothes which have been returned and almost unworn are resold online at discounts. This promotes eco-friendly and reusable practices which align with ESG trends.
- Retail Sportswear Apparel Industry Developments as of November 2024 - Perplexity AI

DCF Implications: The push for recycled plastics in the manufacturing will have an impact in the acquisition of Unifi, Inc. and the merged DCF model of said acquisition.

Environment Analysis

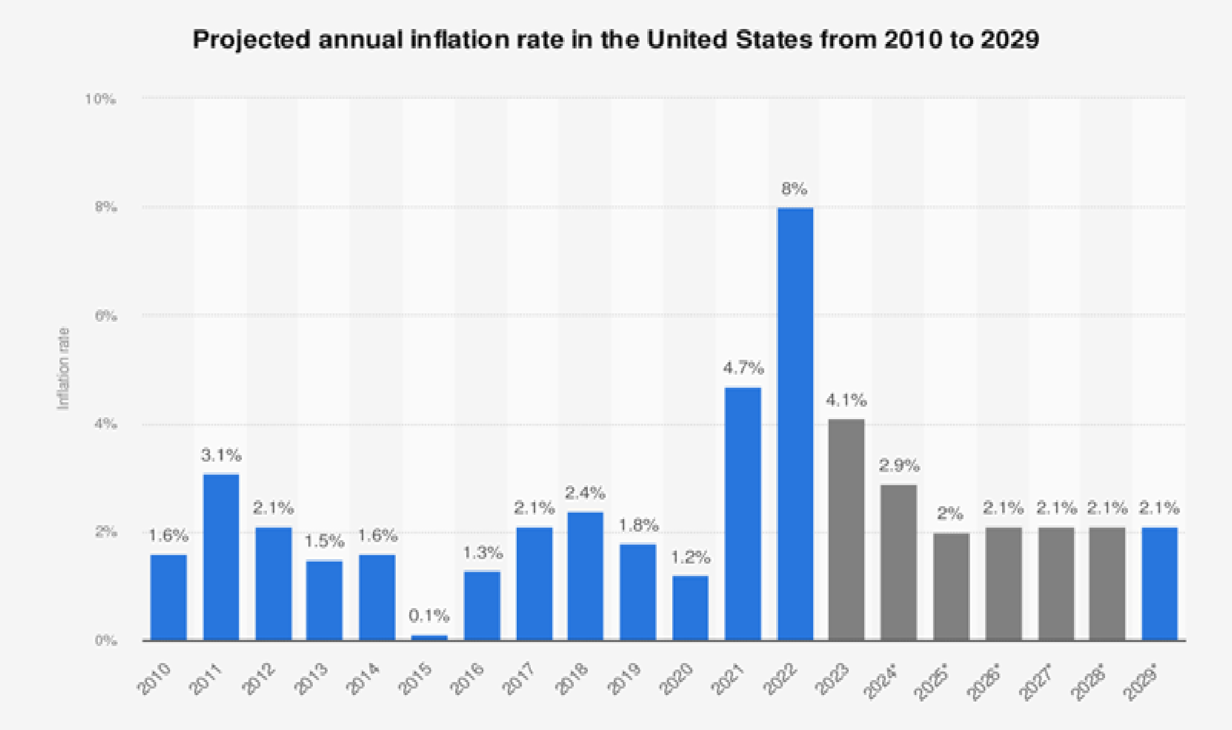
Economic Analysis



- Lululemon's revenue growth has been strong over recent years, even amid fluctuating inflation rates. In 2020, during the early stages of the pandemic, Lululemon reported revenue of approximately 3,979.3 million USD. As the economy began to recover in 2021, revenue grew to 4,401.9 million USD, reflecting increased demand for athleisure products as consumers adapted to lifestyle changes.
- Despite the challenges posed by a peak inflation rate of 8.73% in 2022, Lululemon significantly increased its revenue to 6,256.6 million USD. This upward trend continued into 2023, with revenue reaching 8,110.5 million USD, highlighting the brand's resilience and ability to attract loyal customers despite rising costs.
- For the fiscal year ending in January 2024, Lululemon's revenue further climbed to 9,619.3 million USD, and in the latest twelve-month period ending in July 2024, revenue reached 9,989.39 million USD. This growth trajectory suggests that Lululemon has effectively navigated inflationary pressures, possibly through strategic pricing, cost management, and maintaining strong brand appeal.
- Looking ahead, with global inflation projected to stabilize around 4.51% in 2025 and gradually decrease, Lululemon may benefit from an environment where consumer spending power strengthens, potentially supporting continued revenue growth.

Cashflow Implication: The projected decline in global inflation rates is expected to boost consumer confidence, driving demand for Lululemon's products. This could lead to continued revenue growth, enhancing cash flow and providing opportunities for further investment in expansion and innovation.

Economic Analysis

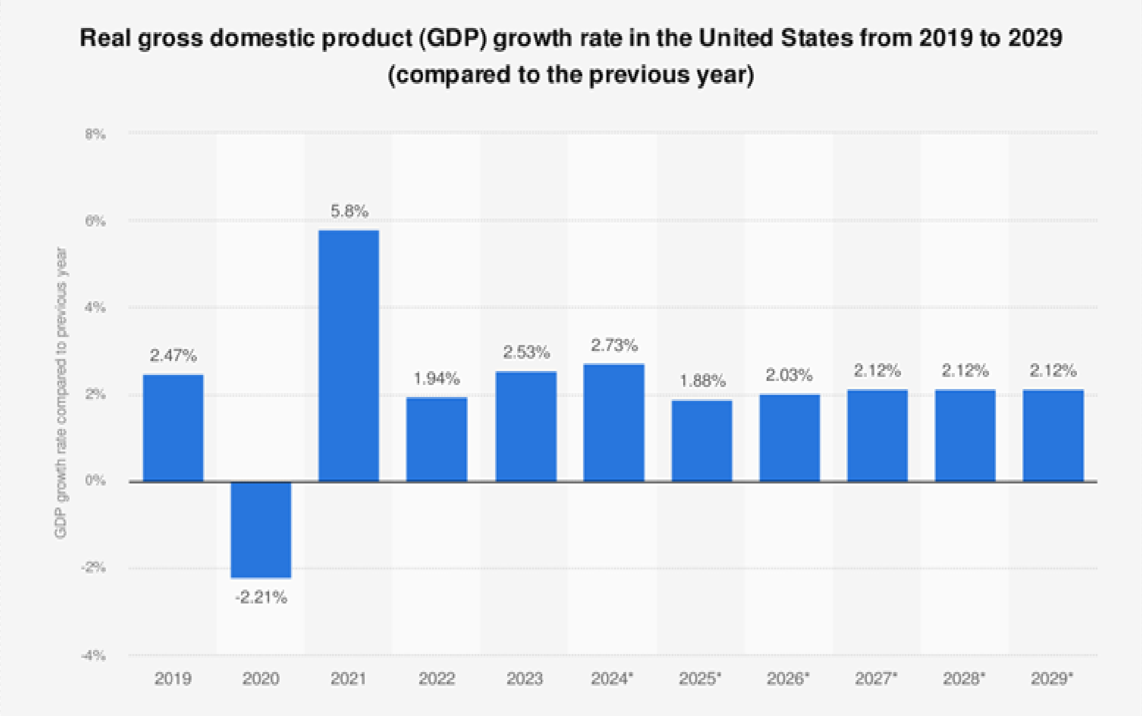


- Inflation is a critical factor affecting Lululemon's performance, directly influencing both consumer spending and operational costs. The sharp increase in inflation to 8% in 2022 posed substantial challenges, as rising production and distribution expenses led the company to raise prices across its product lines. Nevertheless, Lululemon demonstrated remarkable resilience with significant revenue growth despite these economic pressures. Revenue grew from $6.26 billion in 2022 to $8.11 billion in 2023—a 29.63% increase—highlighting the brand’s strong demand even during high inflation.

- With inflation moderating to 4.1% in 2023, Lululemon continued to experience robust revenue growth, reaching $9.62 billion in early 2024, marking an 18.6% increase from the previous year. In the latest twelve months (LTM) as of July 2024, revenue has reached $9.99 billion, reflecting a smaller yet positive growth of 3.85%. This trend is aligned with forecasts for inflation to decline to 2% by 2026, which is expected to create a more favorable economic environment for Lululemon.

- As inflation trends down, Lululemon is poised to benefit from increased consumer purchasing power and lower cost pressures. This stability may allow the company to maintain or lower prices, potentially boosting demand across key product lines. Consequently, Lululemon’s revenue growth is likely to remain positive, driven by stronger consumer spending and the company’s capacity to adapt to changing economic conditions.

Economic Analysis



Lululemon's revenue growth is significantly influenced by the U.S. GDP, which reflects the overall economic health and consumer spending power. In recent years, the brand has seen strong revenue gains, as its athletic and lifestyle products have resonated with consumers' increasing focus on health, wellness, and comfort.

For instance, in 2020, the recession driven by a 2.21% contraction in GDP posed challenges for Lululemon, as consumer spending on non-essential items slowed. Despite these challenges, the brand adapted by leveraging e-commerce and focusing on high-demand products like loungewear, helping it weather the economic impact.

The subsequent economic rebound in 2021, with GDP growth at 5.8%, boosted consumer confidence and discretionary spending, contributing to a substantial revenue increase for Lululemon. This period of growth enabled the company to expand its market reach and further establish its brand in both online and physical retail spaces.

Recently, as GDP growth rates have moderated to between 1.94% and 2.53%, Lululemon has seen a corresponding slowdown in its revenue growth rate. However, the brand continues to benefit from its loyal customer base and strong positioning within the activewear market.

Looking forward, with steady GDP growth projected at around 1.88% to 2.73% through 2026, Lululemon is expected to maintain moderate revenue growth. As economic stability improves consumer spending, Lululemon's revenue growth should align with its strategic expansions, including new product lines and international market entry, to capitalize on the anticipated recovery in consumer confidence and demand for premium activewear.

Cashflow Implication: While inflation initially pressured Lululemon's profitability, the projected decline in inflation to 2% by 2026 could enhance consumer purchasing power and reduce cost pressures. As a result, Lululemon is likely to see stronger demand for its products, leading to sustained revenue growth and improved cash flow in the coming years.

Porter's Five Forces

Buyer Power	Supplier Power	Rivalry of Existing Competitors	Threats of New Entreats	Threats of Substitute
Moderate	Moderate	High	Moderate	High
• Consumers have access to a wide range of activewear options, which gives them bargaining power to choose between brands based on price, quality, and features. While Lululemon commands premium pricing, its loyal customer base is often less price-sensitive. • However, other brands, such as Nike, Athleta, and Under Armour, offer competitive alternatives, which gives buyers more options to choose from. The availability of online reviews, social media, and comparison tools further empowers consumers, making them more informed and capable of seeking better deals or switching to other brands.	• Lululemon's supply chain is diversified across global suppliers, which limits the bargaining power of individual suppliers. However, the company uses specialized, high-performance fabrics and proprietary materials, which gives certain suppliers a degree of leverage. • While Lululemon can switch suppliers for basic materials, finding alternatives for some of its custom fabrics might pose higher switching costs. Nevertheless, Lululemon's scale and reputation enable it to negotiate favorable terms with suppliers, reducing their overall bargaining power.	• The activewear industry is highly competitive, with several major players constantly vying for market share. Lululemon competes with both legacy athletic brands like Nike and Adidas and newer, niche brands like Athleta and Outdoor Voices. These competitors are constantly innovating in terms of product design, performance, and sustainability. • Lululemon's premium pricing strategy also places it in direct competition with these brands, which often offer similar products at lower price points. This high level of competition leads to aggressive marketing, product differentiation, and constant innovation, all contributing to the intense rivalry within the industry.	• New entrants in the activewear market face significant challenges when trying to compete with established brands like Lululemon. While the athletic wear industry has seen new players emerge, Lululemon's strong brand equity and customer loyalty make it difficult for new companies to capture market share. • The high cost of branding, building distribution channels, and creating a reputation for quality adds substantial barriers. Additionally, Lululemon has established relationships with suppliers and significant economies of scale, which give it a competitive advantage over new entrants.	• The threat of substitutes for Lululemon is high, as there are many brands offering similar athleisure products. Alternatives include athletic wear from Nike, Adidas, and Under Armour, as well as newer direct-to-consumer brands like Outdoor Voices. • Additionally, non-athletic fashion brands are increasingly entering the athleisure market, offering similar products at more affordable prices. This variety of choices makes it easy for consumers to find substitutes, particularly if they are more price-sensitive or prefer a different brand's style or performance features.

Cashflow Implication: Lululemon, as a prominent player in the activewear industry, faces competitive pressures from both existing rivals and new entrants, as outlined in Porter's Five Forces analysis. While these forces may limit aggressive revenue growth, they are unlikely to severely impact cash flow in the near term.

Pest Analysis

P	E	S	T
• Lululemon operates globally, which subjects it to various regulations regarding labor standards, environmental policies, and trade agreements. • Changes in tariffs or trade policies, particularly between the U.S. and countries like China where manufacturing occurs, can affect costs and supply chain efficiency. Additionally, political stability in these regions plays a crucial role in operational continuity and risk management	• Lululemon benefits from the growing trend of health and wellness, which has become a significant part of consumer spending. The increase in disposable income among middle and upper classes, particularly in urban areas, allows customers to invest in premium athleisure products. • However, economic downturns or inflation could impact consumer behavior, leading to a shift towards more affordable alternatives. The brand's resilience is also reflected in its ability to maintain strong sales even during economic fluctuations, largely due to its loyal customer base.	• The shift towards a healthier lifestyle has elevated the status of athleisure wear, making it a staple in everyday fashion. Lululemon has successfully positioned itself as a community-driven brand, fostering a strong emotional connection with consumers through events, fitness classes, and a focus on mental well-being. • Social media plays a vital role in this engagement, allowing for direct communication and feedback from customers. The brand's emphasis on inclusivity, size diversity, and sustainability resonates with modern consumers, further enhancing its appeal.	• Lululemon is embracing innovation to enhance its products and customer experience. Advances in wearable technology, like fitness trackers and smart fabrics, offer opportunities to integrate into its apparel. The company continues to invest in e-commerce and digital platforms to boost sales, while focusing on sustainable practices, such as using recycled materials and innovative fabrics, to meet consumer demand for eco-friendly products.

Cashflow Implication: Political factors like trade tariffs and labor laws may impact production costs and cash flow. Economic shifts, including inflation, could affect demand for premium products, putting pressure on cash flow. However, Lululemon’s investments in e-commerce and wearable tech, alongside strong social trends in fitness and sustainability, support revenue growth, enhancing cash flow stability.

Competition Analysis

•**Size:**
•Nike is the largest global sportswear company, with a presence in over 190 countries.
•Nike generated $50 billion revenue in 2024.

•**Strengths:**
- Nike is renowned for its iconic brand, extensive product portfolio (including footwear, apparel, and equipment), and powerful marketing campaigns. The company has invested heavily in innovation, particularly in performance-enhancing technology for its footwear and apparel.
- Nike also leads in the digital space with platforms like the Nike Training Club app and a strong e-commerce presence. It benefits from a wide global reach and strong endorsements from top athletes and celebrities. Sustainability initiatives are a growing focus, with Nike working toward more sustainable materials and manufacturing processes.

•**Size:**
•Under Armour is a major player in the athletic wear market, generating $5.4 billion in revenue in 2024.

•**Strengths:**
•Under Armour is known for its focus on performance-based athletic wear, with a strong portfolio of sports-focused clothing and footwear. The company has a strong presence in North America and has successfully expanded into international markets. Under Armour invests heavily in product innovation, particularly in its heatgear and coldgear technologies, which are designed for optimal performance in various weather conditions.

•**Size:**
•Adidas is one of the world's leading sportswear brands, generating €23 billion in revenue in 2024. It operates in over 160 countries.

•**Strengths:**
•Adidas has a strong presence in the global sportswear market, particularly in footwear, apparel, and accessories. The brand is known for its focus on innovation in product design, including collaborations with high-end fashion designers (e.g., Y-3) and celebrities (e.g., Kanye West's Yeezy). Adidas has also built a solid reputation for sustainability through initiatives such as using recycled ocean plastics in its products and a focus on eco-friendly manufacturing processes

•**Size:**
•Aritzia is a Canadian fashion retailer with a strong presence in North America, generating approximately $2.5 billion in revenue in 2024.

•**Strengths:**
•Aritzia offers stylish, high-quality apparel focused on women's fashion, including athleisure pieces. The brand is known for its premium, trend-driven designs and strong emphasis on customer experience, both in-store and online. Aritzia has cultivated a loyal following, particularly among young, fashion-conscious consumers. Its strategic collaborations with influencers and designers have helped solidify its position in the market. Sustainability is also a growing focus, with efforts to introduce eco-friendly materials and ethical production practices.

Cashflow Implication: Operating in a highly competitive athleisure market with rivals like Nike, Adidas, Under Armour and Aritzia, Lululemon leverages its premium brand position to maintain strong cash flow despite its smaller scale. However, to sustain this advantage, Lululemon must continue innovating in product design and technology to retain its loyal customer base and prevent erosion of market share to larger competitors with more extensive offerings.

ESG Comments

Environmental

- Strength
- Lululemon has committed to using sustainable materials in its products. They have increased the use of recycled polyester, organic cotton, and other eco-friendly materials in their apparel.
- The company has set ambitious goals to reduce its carbon emissions, including becoming carbon neutral by 2050 and reducing emissions by 60% by 2030.

- Weakness
- Despite advances, Lululemon still faces challenges in fully eliminating non-sustainable packaging. The transportation of goods, particularly across long distances, contributes to a high carbon footprint.

Social

- Strength
- Lululemon is known for its robust commitment to employee wellness, offering an array of benefits, including health initiatives and wellness programs, that extend far beyond traditional corporate perks.
- The company has made strides in building a more inclusive culture, not only improving gender balance but actively working to elevate diverse voices at the leadership level, setting an example for others in the industry.

- Weakness
- Despite efforts to enhance conditions, concerns about labor practices persist in some of Lululemon’s global manufacturing hubs, presenting a challenge to its ethical reputation.

Governance

- Strength
- Lululemon’s executive team exhibits forward-thinking leadership, with a strong focus on both sustainability and stakeholder value, ensuring the company stays ahead of trends while maintaining a balance of financial growth.

- Weakness
- Lululemon’s approach to executive compensation has occasionally drawn scrutiny, with some arguing that it lacks clarity and alignment with broader corporate performance and employee incentives.

Cashflow Implication: Lululemon's strong social responsibility and governance initiatives are positive, but its environmental efforts need improvement. Short-term cash flow may be impacted by higher costs for sustainability initiatives. In the long term, aligning with sustainability goals could boost revenue and attract investment, improving cash flow as operational efficiencies and cost savings from eco-friendly practices take effect.

SWOT Analysis

STRENGTH

- Lululemon’s brand isn’t just a label; it’s a symbol of luxury and performance. Their blend of high-quality materials, innovative design, and a deeply entrenched community of loyal customers gives them a competitive edge that many struggle to replicate. It’s not just about athleisure; it’s a lifestyle that people subscribe to, a culture that elevates their fitness routines.
- Think of Lululemon and you think of seamless integration between style and function. From fabric technology that wicks moisture to the latest sustainable material choices, Lululemon isn’t just responding to market demands—it’s shaping them. Their products have transformed from mere workout wear to essential tools for everyday life.

WEAKNESS

- While the premium pricing strategy has undoubtedly paid off, there is a fragile balance between luxury and accessibility. Lululemon’s products can be a significant barrier for a large portion of potential customers who are looking for affordable alternatives. The high price point restricts its mass-market appeal, potentially limiting the company’s growth in regions where affordability is key.
- The company’s home turf, North America, still drives a significant portion of its revenue. While Lululemon has made forays into international markets, its global expansion remains uneven. Until the brand makes deeper inroads into emerging economies, its growth potential outside North America is capped.

OPPORTUNITY

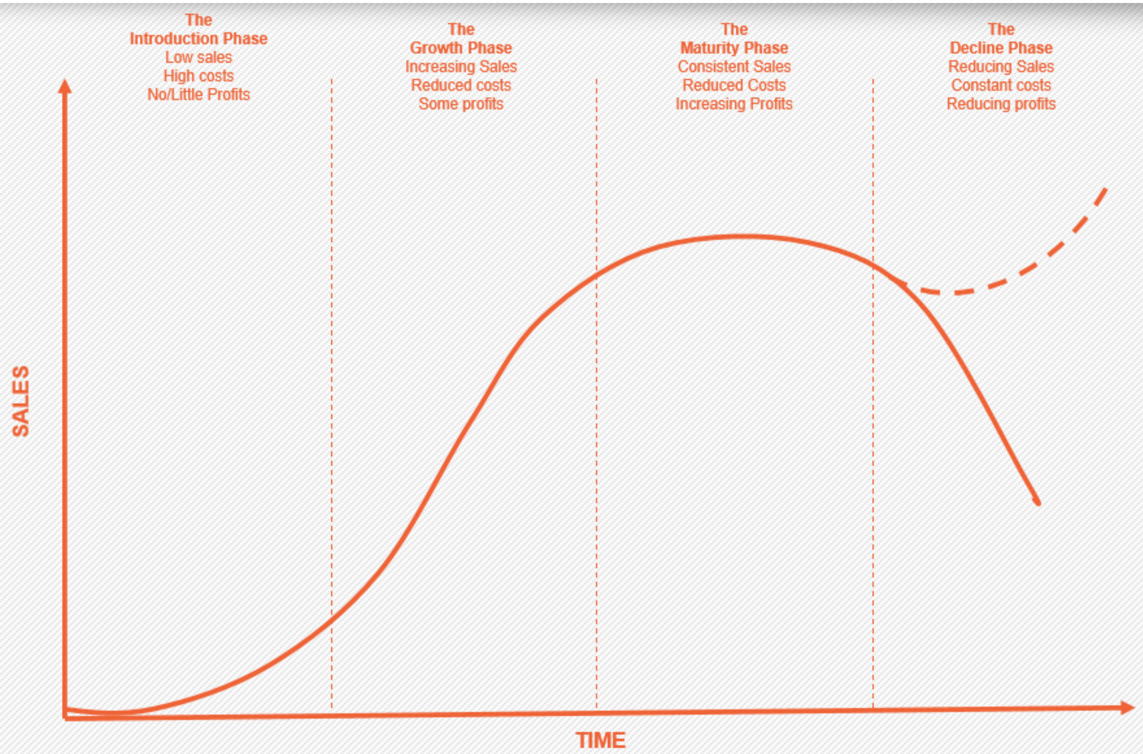
- The fusion of fitness and technology is the future. Lululemon has already shown signs of innovation in this space, from launching smart wearables to integrating with fitness apps. The collaboration with Peloton was just the beginning. There’s an entire ecosystem waiting to be explored, where Lululemon could position itself as the go-to brand for fitness enthusiasts seeking both tech and performance.
- The world is large, and Lululemon’s vision can stretch even farther. With Asia and Europe presenting untapped opportunities, the company’s expansion into these regions could deliver exponential growth. There’s a rising demand for premium fitness apparel in these markets, and Lululemon could capitalize on this wave.

THREAT

- Lululemon is swimming in a sea of competition. From established giants like Nike and Adidas to up-and-comers carving out their own niches in the athleisure space, Lululemon faces an onslaught of competitors in both price and product innovation. Any misstep could lead to a dip in market share.
- As Lululemon's market share expands, the risk of imitation increases. Competitors are replicating its unique blend of style, comfort, and performance at lower prices, undermining the brand's exclusivity. Despite trademark protections, this growing competition threatens to dilute Lululemon’s premium image, as consumers may begin to see it as just another brand in an increasingly saturated market.

Cashflow Implication: Lululemon’s strong brand and profitability ensure steady cash flow, supporting investments in product innovation and global expansion. However, significant capital expenditures for international growth and sustainability initiatives may temporarily strain short-term cash flow.

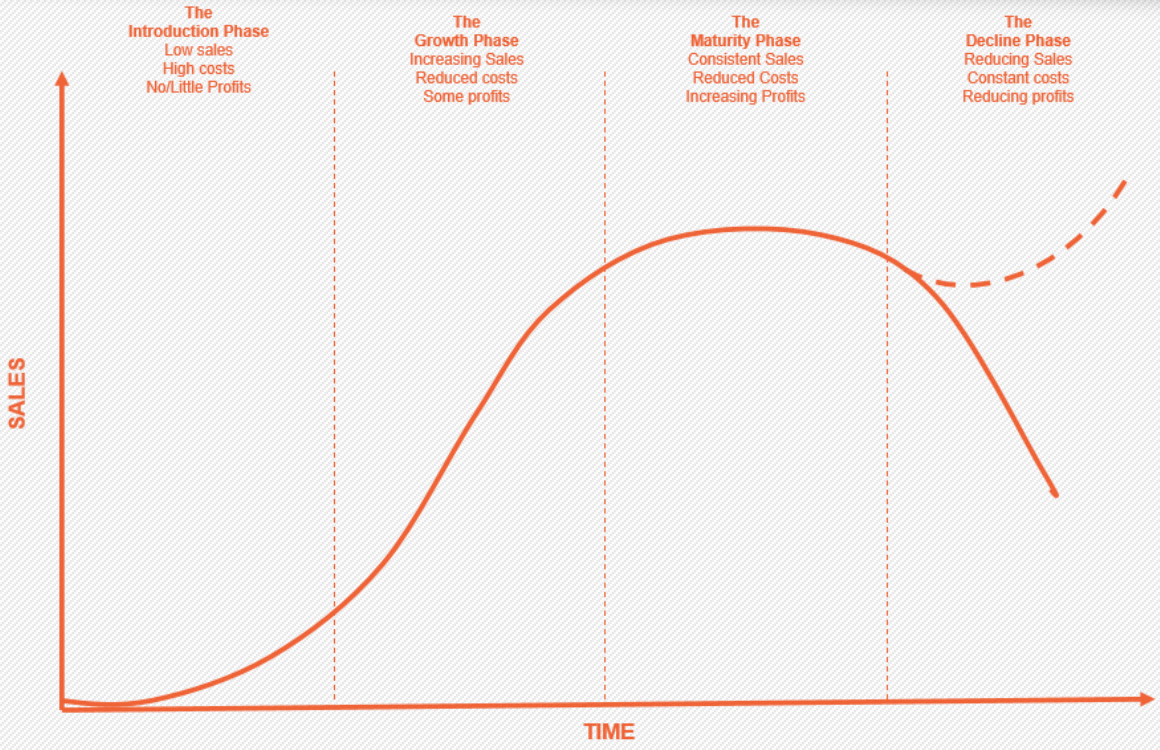
Business Cycle - Industry



- The athleisure industry is deeply entrenched in the mature phase, where market saturation has become the norm.
- Dominated by major players like Nike and Adidas, this space leaves little room fo new entrants to carve out significant market share. Consumer loyalty remains a key asset, but as the market grows more competitive, it’s harder for brands to stand out. Companies like Lululemon must innovate relentlessly to maintain their edge, staying ahead of competitors by aligning with trends like sustainability and personalized offerings that cater to the growing demand for eco-conscious and tailored products.
- On top of this, the industry faces mounting economic pressures, including rising production costs and fluctuating global trade conditions. Meanwhile, consumer behaviors are shifting towards online shopping and the expectation of more personalized shopping experiences. These changes force companies to invest heavily in digital transformation, revamping their online platforms, and adopting targeted marketing strategies that resonate with today’s values-driven consumer. For brands to maintain their competitive edge and profitability, they must remain agile, adapting to the rapid changes shaping the athleisure landscape.

Cashflow Implication: In the mature phase of the athleisure industry, cash flow for companies like Lululemon remains relatively stable, driven by a strong customer base and consistent demand. However, to stay competitive, significant investments in innovation, sustainability, and digital transformation may create short-term cash flow challenges. While the company is less exposed to severe cash flow risks, strategic spending is essential for long-term growth and maintaining a market edge amidst economic pressures and increasing competition.

Business Cycle - Firm



- Lululemon is firmly in the mature phase of its business life cycle, operating in a saturated athleisure market where competition is intense.
- The brand, once a leader in premium activewear, now faces fierce rivals like Nike, Adidas, and up-and-coming disruptors such as Gymshark. While consumer loyalty remains a stronghold, growth has slowed as market share shifts become less pronounced, and new entrants struggle to break through.
- In this phase, Lululemon's ability to innovate and maintain its exclusivity is critical. The brand must continue evolving, investing in digital experiences, sustainability, and personalization to meet changing consumer demands. Economic pressures, such as rising costs and shifting spending habits, also pose challenges, demanding agility and strategic adaptation.
- To stay relevant, Lululemon must balance brand prestige with the need for constant innovation, responding to evolving consumer values while securing its position as the go-to name for luxury athleisure in a competitive and increasingly complex market.

Cashflow Implication: Lululemon's position in the mature phase of the business cycle means cash flow remains stable but faces pressure from intense competition and slower growth. To stay relevant, the company must invest heavily in innovation, digital experiences, sustainability, and personalization, which could strain short-term cash flow. Rising production costs and changing consumer spending habits further challenge profitability. However, these strategic investments are essential for maintaining its premium brand image and securing long-term growth, ensuring that Lululemon continues to stand out in a saturated, competitive market.

Management Analysis

Calvin McDonald - CEO

- Calvin McDonald is the President and CEO of Lululemon Athletica, a global leader in the premium athleisure market. He joined the company in August 2018, bringing with him a wealth of experience in retail leadership.
- Before Lululemon, McDonald served as the President and CEO of Sephora Americas, where he significantly expanded the brand's presence and digital capabilities. He also held key roles at Loblaw Companies Limited and Sears Canada, honing his expertise in consumer-driven businesses.
- McDonald is recognized for his innovative leadership and has been pivotal in steering Lululemon through a period of significant growth, focusing on product innovation, market expansion, and enhancing the brand's digital transformation.

Meghan Frank - CFO

- Meghan Frank is the Chief Financial Officer (CFO) at Lululemon, a position she has held since November 2020. She made history as the company's first female CFO. Frank joined Lululemon in 2016 as Senior Vice President of Financial Planning and Analysis, and in 2020, she took on the role of interim co-CFO, alongside Alex Grieve, before stepping into the permanent role of CFO.
- With over 20 years of experience in the retail industry, Frank brings a wealth of expertise to Lululemon. Prior to joining the company, she held leadership positions at Ross Stores and J.Crew, where she spent nearly a decade. At Lululemon, Frank oversees a broad range of key functions, including finance, tax, treasury, investor relations, asset protection, and operational excellence.

Cashflow Implication: Lululemon's experienced leadership ensures effective adaptation to market challenges and drives long-term growth. While investments in innovation and sustainability may strain short-term cash flow, their strategic decisions will likely sustain revenue growth and optimize cash flow in the future.

How Does $LULU Generate Revenue?

- Lululemon generates revenues from three main business segments which are company-operated stores, direct-to-consumers (mainly e-commerce) and others (this includes outlets, pop-up stores, third-party retailers and licensing agreements.).
- The company's product lines include women's sportswear products, men's sportswear products and others (Lulu Studio, sports accessories such as yoga mats, water bottles, etc.)

Cashflow Implication (next 3 slides):Lululemon's 3x2 growth plan requires heavy investment in brand awareness, international expansion, and new products, which may strain short-term cash flow. While international growth, especially in China, could boost long-term cash flow, execution risks and challenges in North America add uncertainty to short-term profitability.

How Does $LULU Compete

- To maintain or grow its operations, Lululemon has to grow its brand awareness worldwide. To do so, management has three main strategies;
- **Product Innovation:** They aim to penetrate/expend new sportswear segments such as footwear, self-care products and tech-related products.
- **Guest Experience:** LULU wants to maintain and grow its brand awareness through live events, in-person stores, sponsorship and community spaces.
- **Market Expansion:** LULU’s target market to harness future growth, is China. They also aim to have 50% of their net revenue come from international markets.
- **3x2 Plan:** They plan on doubling the firm’s revenue from $6.25b (‘21) to $12.5b (‘26), by focusing on product innovation, guest experience and market expansion. In practice, they want to double men’s and ecommerce’s revenues, quadruple international revenues and continue growing their women and NA segments. "Can you explain Lululemon's 3x2 growth plan?" - Perplexity AI

$LULU Value Drivers

Net Revenue by Geographical Segment

Segments	FY21	FY22	FY23
Americas	85%	84%	79%
China	7%	7%	10%
ROW	8%	9%	11%

- As mentioned in the previous slide, the main growth driver will be market penetration internationally. LULU aims to grow international net revenue to be 50% of total revenue (vs 21% as of FY23, China + ROW %). If they do so, they'll most likely outperform what the Street is currently pricing in.
- However, all this future growth in smaller segments stems from ONE very important factor, which is their brand awareness/image. To grow massively, the company must preserve its "cool" factor. Ultimately, sportswear companies all have the same suppliers and very similar products. What differentiates them all is their brand and aura.
- Cash flow implications: In our view, it's very unclear whether LULU will materialize their 3x2 plan. In their Shanghai event, the CEO touched on why their NA segment wasn't growing as fast as guidance and the Street expected, his answer was very dubious and unclear. He associated this lower growth to "internal mis-execution across creative design and product merchandising rather than external competition"

WACC Estimations

WACC - Funded Debt

Funded Debt, Oct-31 ***usd millions***

Current lease liabilities	$ 278.07
Non-current lease liabilities	$ 1,180.82
Total funded debt	$ 1,458.89

WACC – Bottoms Up Beta

Bottoms-Up Beta (November 4th, 2024)

millions USD

				CAPIQ	*CAPIQ*	*CAPIQ*	*CAPIQ*			
Companies	**Industry**	**Geography**	**Mkt Cap**	**LTM EBITDA Margin**	**Levered Beta**	**D/E**	**Effective Tax Rate**	**Unlevered Beta**	**Weight**	**Weight Rationale**
Nike (NYSE: $NKE)	Sportswear (footwear & accessories)	US	116,810	14.4%	1.03	87%	16.60%	0.60	30%	Staple sportswear company, similar product line, but higher valuation
Adidas (FRA: $ADS)	Sportswear (footwear & accessories)	Europe	43,250	6.2%	1.16	100.70%	38.80%	0.72	20%	Different geography, but similar product line
Puma (ETR: $PUM)	Sportswear (footwear & accessories)	Europe	6,960	8.9%	1.02	76.10%	24.50%	0.65	10%	Different geography, but similar product line
Under Armour (NYSE: $UAA)	Textile, sports equipment	US	3,590	6.5%	1.84	73.90%	11.50%	1.11	10%	Similar geography and product line (more male-oriented, though)
Aritzia (TSX: ATZ)	Retail clothing	Canada	3,730	10.8%	1.83	101.10%	32.40%	1.09	30%	Canadian firm that experienced similar growth, (similar sportswear)
Lululemon Athletica (NDAQ: LULU)	Retail Apparel, Footwear	Canada	39,070	27.0%	1.24	36.20%	28.80%	0.99	0.82	
					1.376	88%		Relevered Beta	1.037	

- We used the same companies and weights to calculate WACC as we did for the RV because we deemed them pertinent.
- We first unlevered the beta of the comps with the following formula: B/(1+((1-Effective Tax Rate)*(D/E)))
- Once we had the weighted average beta, we relevered it with the D/E of LULU. Giving us a final beta of 1.037

Cost of Equity And Cost of Debt calculation

Cost of Equity	Ke = Rf + B(ERP)	
Risk free rate	4.30%	November 4th 10Y US Treasury
Beta	1.037	Bottoms-Up Beta
Equity Risk Premium	4.04%	November '24 Damodaran
Cost of Equity (Ke)	8.33%	

Cost of Debt	Kd = Rf + Credit Spread	
Credit Rating	4%	operating lease discount rate ('23 10k)
Credit Spread	1.21%	Damodaran Credit Spread
Risk Free Rate	4.30%	
Cost of Debt (Kd)	5.51%	

Cost of Equity = Rf + (ERP*Beta) = 8.33%

Cost of debt = Rf + Credit Spread= 5.51%

Debt and Equity Weighting

Market Cap = Shares Outstanding * Current Share Price
Market Cap = $318.83 *117.67= $32,620.18

Funded Debt (usd millions)	1,459
Market Cap (usd millions)	37,431
Firm Value	38,890
Debt Weighting	3.75%
Equity Weighting	96.25%

Total Value of firm = Funded Debt + Market Cap
FIRM VALUE = 1,459 + 37,431 = $ 38,890

Funded Debt = Current Lease liabilities + Non-Current lease liabilities = $278.07 + $1180.82 = $1458.89

Debt Weighting = Funded Debt/Firm Value = 3.75%
Equity Weighting = 1-Debt Weighting = 96.25%

WACC Calculations + TV WACC

- Considering that the majority of LULU's revenue are from the US, a 25% marginal tax rate was used to calculate the cost of debt.
- All the calculations, sources and formulas are present on the picture, but one key detail to highlight is our <u>TV WACC which was artificially lowered to meet the maturity phase LULU currently is in</u>.
- The normal TV WACC (from calculations would've been 8.33%, but <u>since it needs to be lower than the normal WACC, we lowered it to 8%.</u>

Cost of Equity	Ke = Rf + B(ERP)	
Risk free rate	4.30%	November 4th 10Y US Treasury
Beta	1.037	Bottoms-Up Beta
Equity Risk Premium	4.04%	November '24 Damodaran
Cost of Equity (Ke)	8.49%	

Cost of Debt	Kd = Rf + Credit Spread	
Credit Rating	4%	operating lease discount rate ('23 10k)
Credit Spread	1.21%	Damodaran Credit Spread
Risk Free Rate	4.30%	
Cost of Debt (Kd)	5.51%	

Debt/Equity Weightings		
Funded Debt (usd millions)	1,459	10Q for Q2'24
Market Cap (usd millions)	37,431	04-Nov
Firm Value	38,890	= mkt cap + funded debt
Debt Weighting	3.75%	
Equity Weighting	96.25%	

WACC Calculations FCFF	
Cost of Debt	5.51%
Weight of Debt	3.75%
Marginal Tax Rate	25.00%
Cost of Equity	8.49%
Weight of Equity	96.25%
WACC	8.33%

WACC = (Ke*Weight of Equity) + [(Kd*Weight of Debt)*(1-tax rate)]

WACC Calculations TV (Should be lower, because Co is in maturity phase)	
Cost of Debt	5.51%
Weight of Debt	3.75%
Marginal Tax Rate	25.00%
Cost of Equity	8.49%
Weight of Equity	96.25%
WACC	8.33%

WACC = (Ke*Weight of Equity) + [(Kd*Weight of Debt)*(1-tax rate)]

TV WACC Adjustment	8.00%

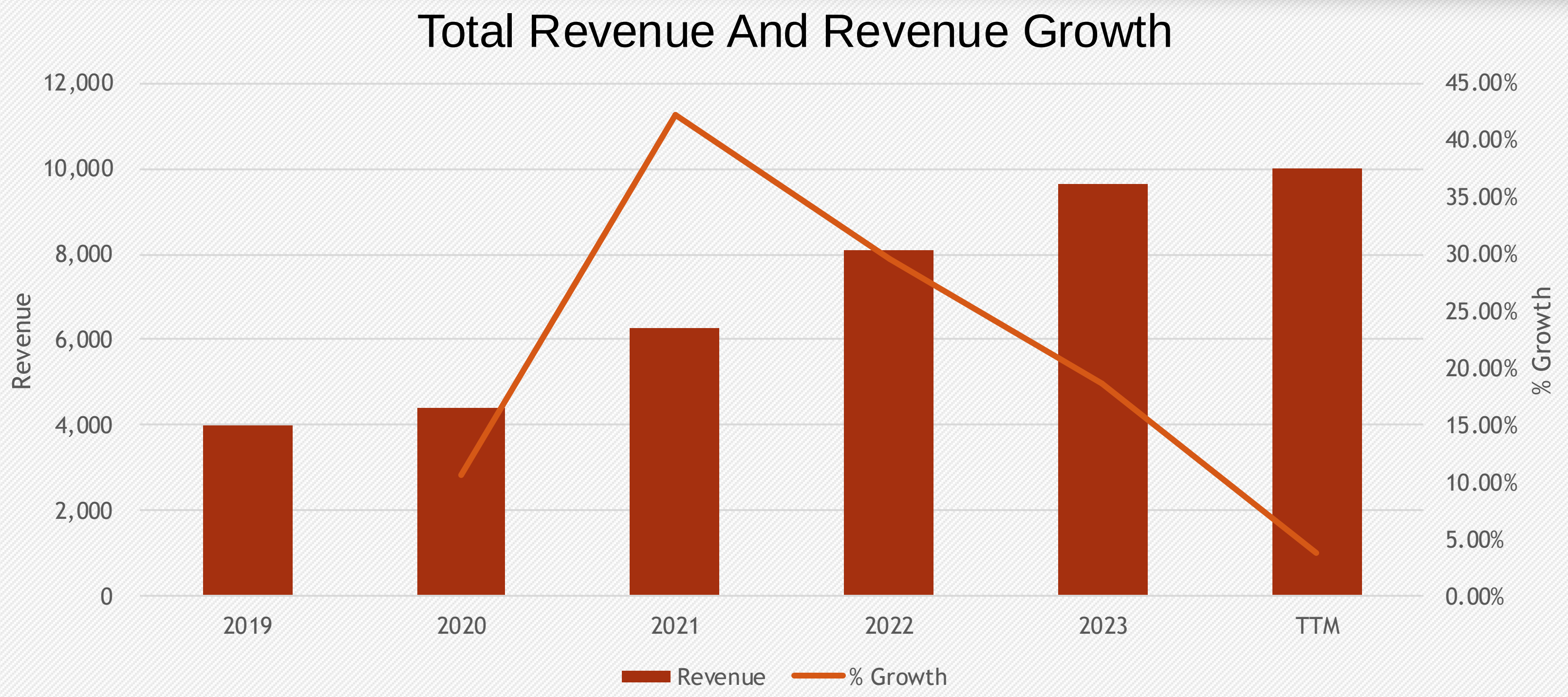
Analysis of Historical Data

Historical Revenue Analysis – 5 yr

usd millions	2019	2020	2021	2022	2023	Average
Company-operated stores	2,501	1,659	2,822	3,648	4,411	
% of total revenue	*63%*	*38%*	*45%*	*45%*	*46%*	47.29%
Direct to consumer	1,138	2,284	2,778	3,700	4,311	
% of total revenue	*29%*	*52%*	*44%*	*46%*	*45%*	43.06%
Other	340	459	657	763	897	
% of total revenue	*9%*	*10%*	*11%*	*9%*	*9%*	9.64%
Total	**3,979**	**4,402**	**6,257**	**8,111**	**9,619**	
Women's products	2,768	3,050	4,172	5,260	6,147	
% of total revenue	*70%*	*69%*	*67%*	*65%*	*64%*	66.86%
Men's products	927	953	1,536	1,957	2,253	
% of total revenue	*23%*	*22%*	*25%*	*24%*	*23%*	23.41%
Other	284	399	549	894	1,219	
% of total revenue	*7%*	*9%*	*9%*	*11%*	*13%*	9.73%
Total	**3,979**	**4,402**	**6,257**	**8,110**	**9,619**	
US	2,854	3,105	4,346	5,654	6,346	
% of total revenue	*72%*	*71%*	*69%*	*70%*	*66%*	69.48%
Canada	649	673	954	1,163	1,285	
% of total revenue	*16%*	*15%*	*15%*	*14%*	*13%*	14.91%
Outside NA	476	624	957	1,293	1,988	
% of total revenue	*12%*	*14%*	*15%*	*16%*	*21%*	15.61%
Total	**3,979**	**4,402**	**6,257**	**8,111**	**9,619**	

- The table provides a breakdown of Lululemon's revenue by business segment, product category, and geography from 2019 to 2023. Here is a summary of key trends and growth insights based on the data
- *Women's products* consistently represented the largest share, averaging 66.86% of total revenue. Despite a slight decline in share over the years, revenue for this category still grew, indicating sustained demand.
- *Men's products* gained market share, growing from 23% of total revenue in 2019 to around 25% in 2021, with a steady contribution of about 23.41% over five years.
- The *U.S.* was the largest market, averaging 69.48%, though its share slightly declined. Growth outside North America rose significantly, increasing from 12% to 21%, reflecting Lululemon’s successful international expansion.

Historical Revenue Analysis – 5 yr



Cashflow Implication: The varying revenue growth rates suggest that Lululemon's cash flow could face challenges if growth continues to slow, especially with a significant drop from 42.14% growth in 2021 to 3.85% in 2023. The slowdown in revenue growth could reduce cash inflows, impacting the company's ability to reinvest in innovation, expansion, or meet obligations. To maintain strong cash flow, Lululemon will need to manage cost efficiency and focus on maintaining revenue growth in key segments, while mitigating risks associated with slowing growth.

Historical Analysis – COGS

Period	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Average
Total Revenue	$3,979.30	$4,401.88	$6,256.62	$8,110.52	$9,619.28	
Cost of Good Sold	$1,755.91	$1,937.89	$2,648.02	$3,618.18	$4,009.87	
% of Revenues	44.13%	44.02%	42.32%	44.61%	41.69%	43.35%

- Over the past five fiscal years, Lululemon's Cost of Goods Sold (COGS) as a percentage of revenue has shown slight fluctuations, with an average of 43.35%.
- The highest COGS percentage was recorded in FY 2022 at 44.61%, while the lowest was in FY 2023 at 41.69%, indicating an overall efficiency improvement.
- This suggests that Lululemon has been able to slightly reduce production costs relative to revenue, despite growth in total sales.

Cashflow Implication: Lululemon's increasing COGS from 2019-2023, averaging 43.35% of revenue, may pressure cash flow. To improve cash flow, the company should aim to reduce COGS as a percentage of revenue, focusing on cost control and operational efficiency. Maintaining this balance will boost profitability and free cash flow.

Historical Analysis – SG&A

Period	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Average
Total Revenue	$3,979.30	$4,401.88	$6,256.62	$8,110.52	$9,619.28	
SG&A	$1,334.25	$1,609.00	$2,225.00	$2,757.45	$3,397.22	
% of Revenues	33.53%	36.55%	35.56%	34.00%	35.32%	34.99%

- Over the past five fiscal years, Lululemon's Selling, General & Administrative (SG&A) expenses as a percentage of revenue have averaged 34.99%.
- The SG&A ratio peaked in FY 2020 at 36.55% and was lowest in FY 2019 at 33.53%. While there was some fluctuation, the percentage remained relatively stable, indicating controlled operational expenses relative to revenue.
- This consistency suggests that Lululemon has effectively managed its administrative and selling costs despite revenue growth.

Cashflow Implication: Lululemon’s rising SG&A expenses, averaging 34.99% of revenue, may pressure cash flow. Stabilizing SG&A could enhance cash flow margins if revenue growth slows.

Historical Analysis – D&A

Period	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Average
Total Revenue	$3,979.30	$4,401.88	$6,256.62	$8,110.52	$9,619.28	
D&A	$0.03	$5.16	$8.78	$8.75	$5.00	
% of Revenues	0.00%	0.12%	0.14%	0.11%	0.05%	0.08%

- Over the past five years, Lululemon's Depreciation and Amortization (D&A) expenses have remained low, averaging just 0.08% of revenues.
- D&A increased from $0.03 million in FY 2019 to $8.78 million in FY 2021, reflecting higher investments in physical and intangible assets. However, it slightly decreased to $5 million in FY 2023. This stable, low percentage suggests that while Lululemon has been expanding its asset base, it has managed its capital expenditures efficiently, which supports strong cash flow without significantly impacting profitability.

Cashflow Implication: Lululemon's D&A expenses have remained relatively low, with minor fluctuations in recent years. As the company continues to invest in expanding its asset base, D&A is likely to increase in line with future capital expenditures. While these non-cash expenses will not directly impact cash flow, they will help reduce taxable income, providing some tax relief and contributing to more stable future cash flows.

Historical Analysis – CAPEX

Period	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Average
Total Revenue	$3,979.30	$4,401.88	$6,256.62	$8,110.52	$9,619.28	
Capital Expenditure	$283.00	$229.20	$394.50	$638.70	651.9	
% of Revenues	7.11%	5.21%	6.31%	7.87%	6.78%	6.66%

- Over the past five years, Lululemon has shown a consistent increase in capital expenditures (CapEx), with the percentage of CapEx to total revenue rising from 7.11% in 2019 to 7.87% in 2022. This increase highlights the company's focus on expanding its retail presence, investing in its digital infrastructure, and enhancing supply chain efficiency to support its growing business.
- In 2023, CapEx as a percentage of revenue decreased slightly to 6.78%, suggesting a potential stabilization after a period of higher investment. The average CapEx over the five-year period stands at 6.66%, reflecting Lululemon's strategy of balancing reinvestment with maintaining operational efficiency as it continues to scale its operations for long-term growth.

Cashflow Implication: Lululemon's capital expenditures (CapEx) have averaged 6.66% of revenues over the past five years, reflecting significant investments in expansion and infrastructure. The slight decrease in FY 2023 suggests a potential stabilization of CapEx, which could lead to improved cash flow in the coming years as these investments begin to generate returns and cash retention increases.

Historical Analysis – Tax

Period	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Average
EBIT	$897.40	$819.40	$1,333.90	$1,332.60	$2,175.70	
Tax	$251.80	$230.40	$358.50	$477.80	625.5	
% of EBIT	28.06%	28.12%	26.88%	35.85%	28.75%	29.53%

- Over the past five years, Lululemon's tax expense has shown a steady increase in line with its growing earnings before interest and tax (EBIT).
- The tax expense as a percentage of EBIT has fluctuated, peaking at 35.85% in 2022. The average tax rate over this period stands at 29.53%. The spike in 2022 reflects potential changes in tax laws or one-time events, while the overall stability of the tax rate indicates a responsive tax strategy.
- Moving forward, Lululemon’s tax obligations appear closely linked to its financial performance, highlighting the need for continued tax planning as the company grows.

Cashflow Implication: Lululemon's rising tax expense, particularly in 2022, may lead to higher tax outflows in the future, potentially impacting cash flow. Effective tax planning will be essential to manage these costs and optimize cash flow as the company continues to grow.

Guidance and Street Analysis

Guidance:
For Q3 ‘24, the company expects net revenue to be in the range Of $2.340 billion to $2.365 billion (we used the average of the two, representing growth of 6% to 7%. Diluted earnings per share are expected to be in the range of $2.68 to $2.73 for the quarter. For FY24, the company expects net revenue to be in the range of $10.375 billion to $10.475 billion, representing growth of 8% to 9%, or 6% to 7% excluding the 53rd week of 2024. Diluted earnings per share are now expected to be in the range of $13.95 to $14.15 for the year.

Street Analysis:
With a total of 24 analysts covering the stock, next quarter estimated EPS stand at $5.58, for FY25 EPS is expected to be $13.92. Next year FY26 predicted EPS stands at $14.93.

Overall Revenue estimates for next quarter are $3.48B. FY25 revenues are expected at $10.41B and FY26 revenues at $11.19B.

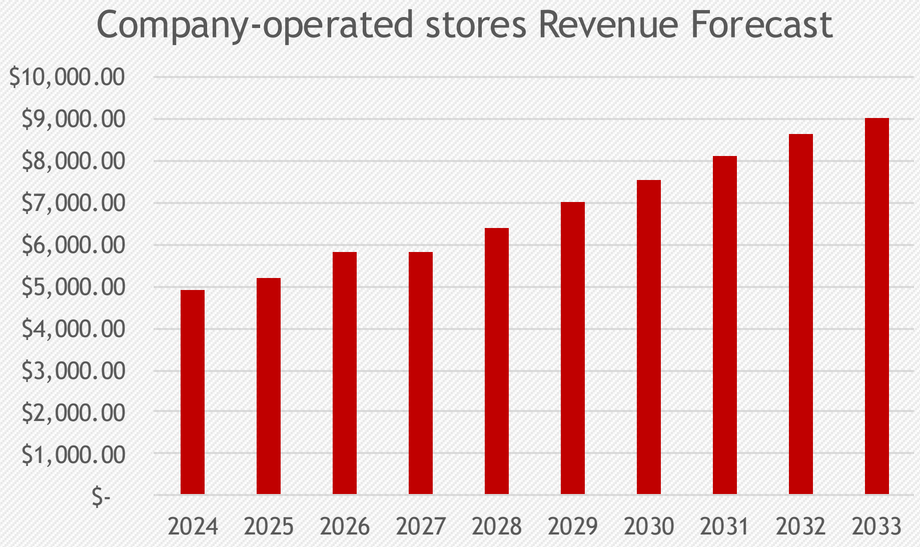
DCF Cash Flow Implications: The guidance provided by management will be used in the first forecasted period in the DCF. Given JPM’s (Shanghai report) similar views on LULU as ours, we will use their estimates for periods 2 and 3. Lastly, we’ll be using CIQ estimates (based on aggregate analysts’ estimates) for periods 4 to 6.

Forecast Assumption

Revenue Forecast by Segment

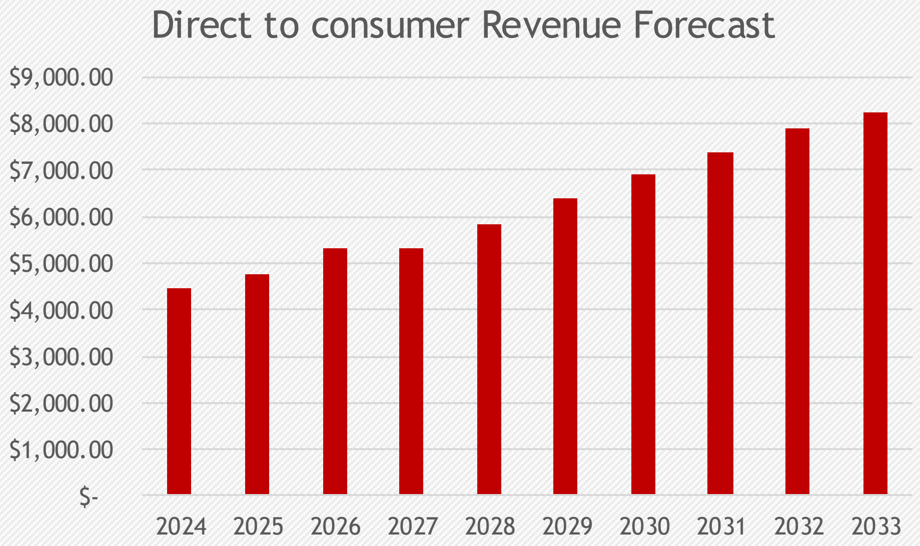
• Company-Operated Stores Revenue Forecast

- We forecast that company-operated stores will continue to be the bigger segment of revenue going forward, because of the in-person communities and events the firm is betting on. They're also investing heavily in opening stores in Europe, Asia and the Middle East. On average, for the next 10 years, this segment will be 47% of revenues.



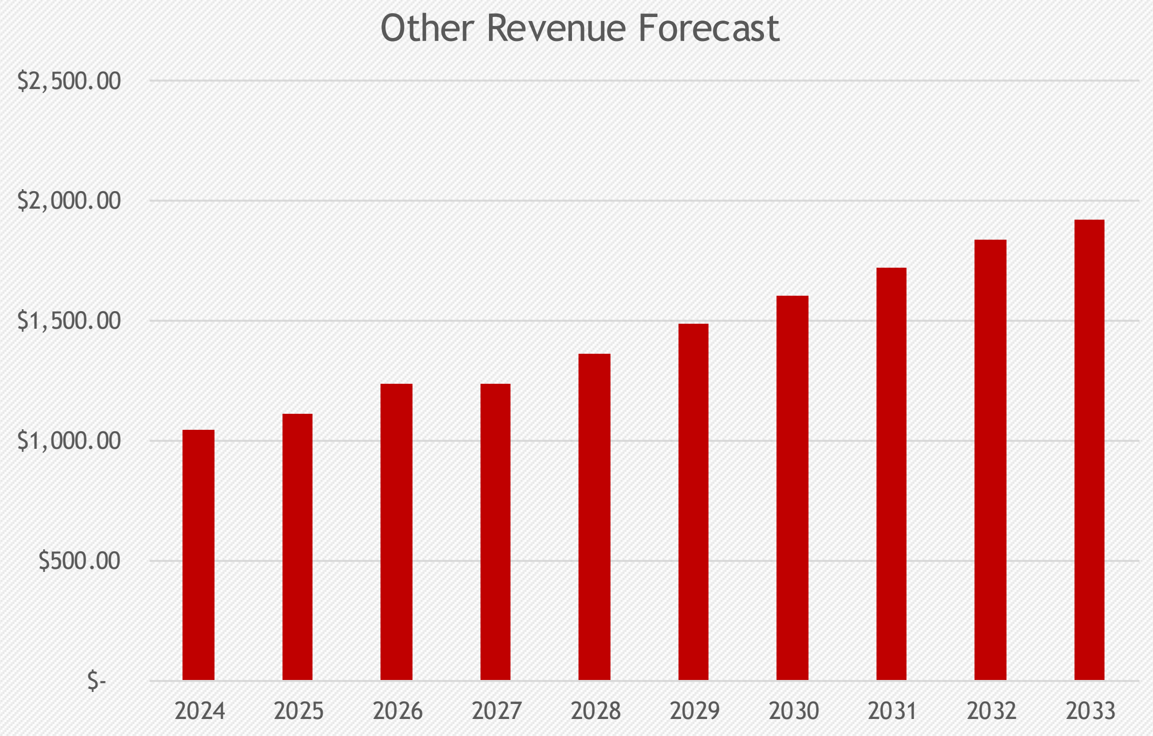
• Direct to Consumer Revenue Forecast

- The second largest segment of future revenues will be direct to consumer. Intuitively, the online segment should surpass the in-person segment given the rise of online shopping but considering the brand awareness plans LULU has for in-person sales, online sales will average 43% of total future revenues.

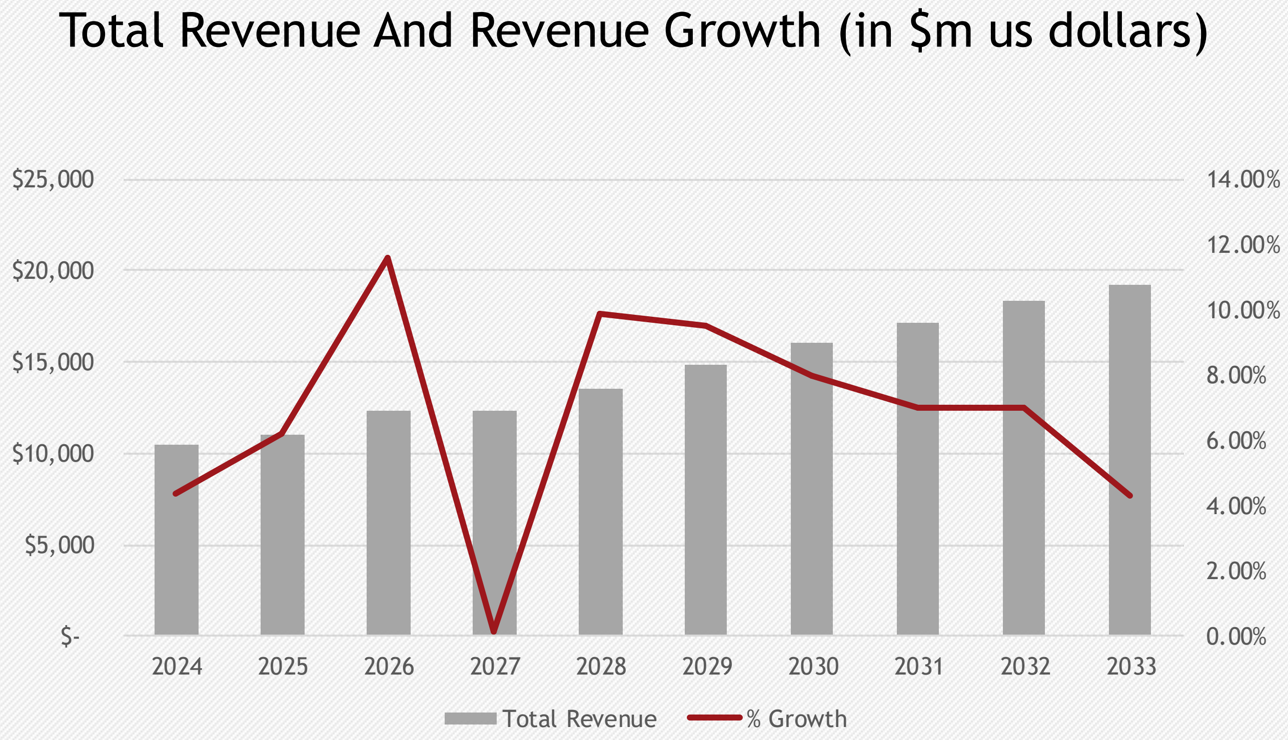


Other Revenue Segment Forecast

We forecast an average portion of 10% of future revenues for the “Other” revenue segment. We believe so, because LULU plans on introducing and offering a broader range of footwear products. This market should increase revenues, but later in our 10-year forecast given the already saturated market.



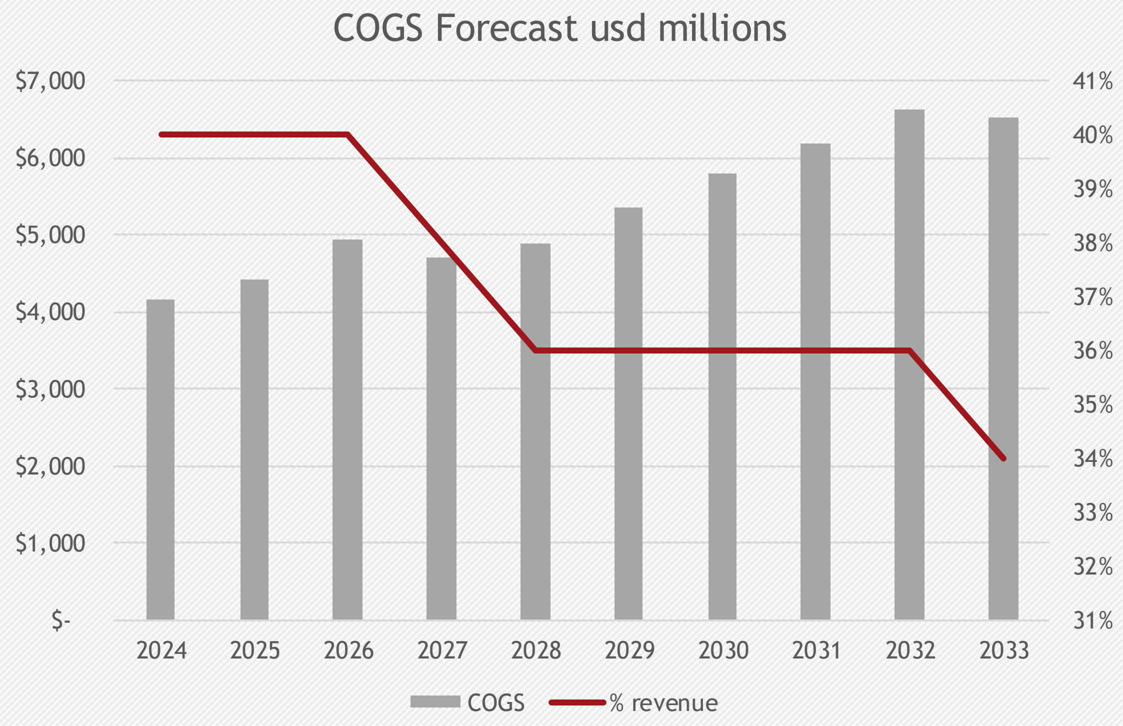
Forecast Assumption – Total Revenue



COGS Forecast

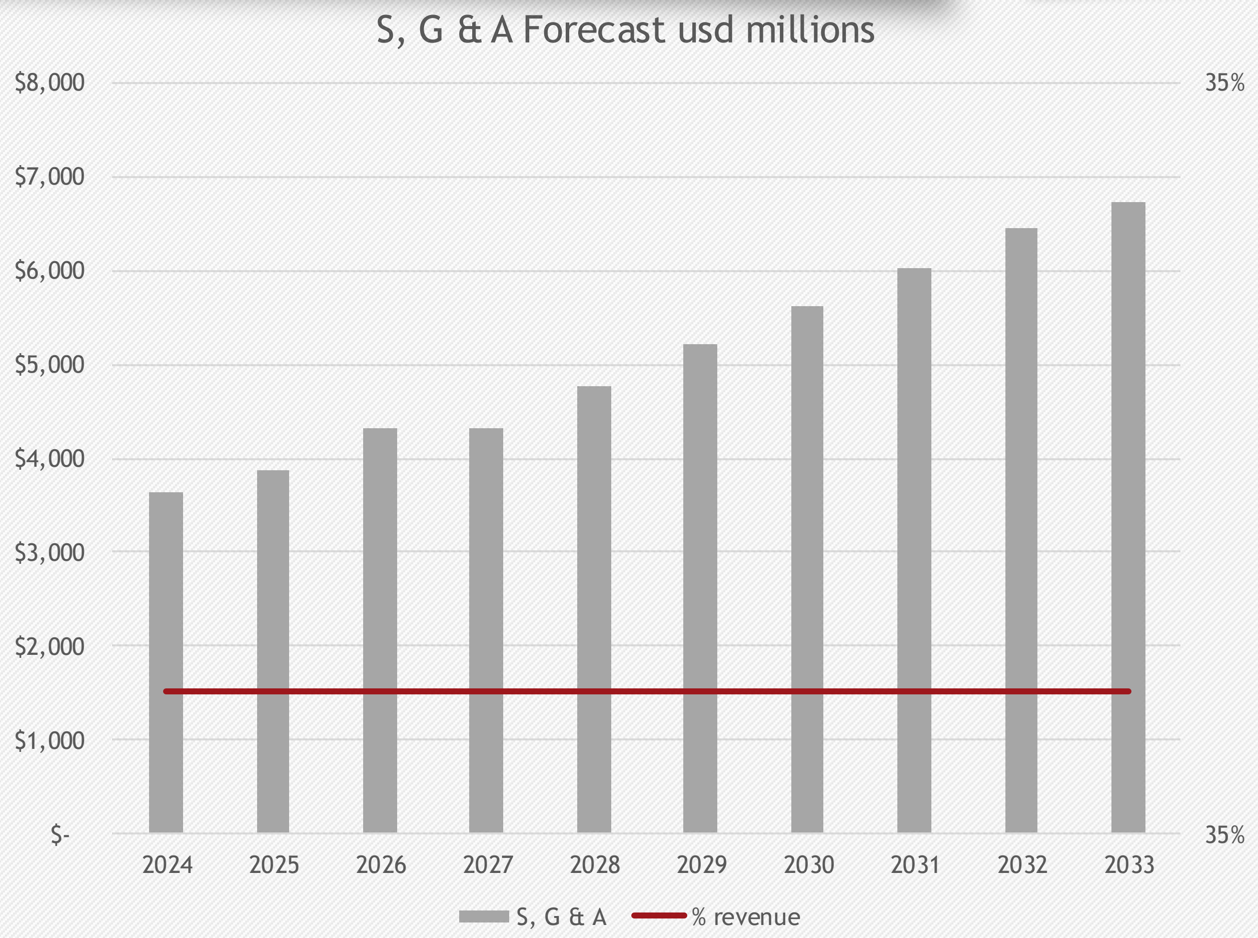
Considering the massive amounts of CapEx that went into distribution centers and innovative technology to increase margins (which already are increasing gross margins), we believe that COGS as a % of revenue will significantly decrease over the next ten years.

We believe so, because the company knows it'll be hard to significantly grow their topline, so focusing on lower costs will translate to higher earnings. In sum, they've invested a lot in higher gross margins, and it'll come to fruition in the next 10 years.



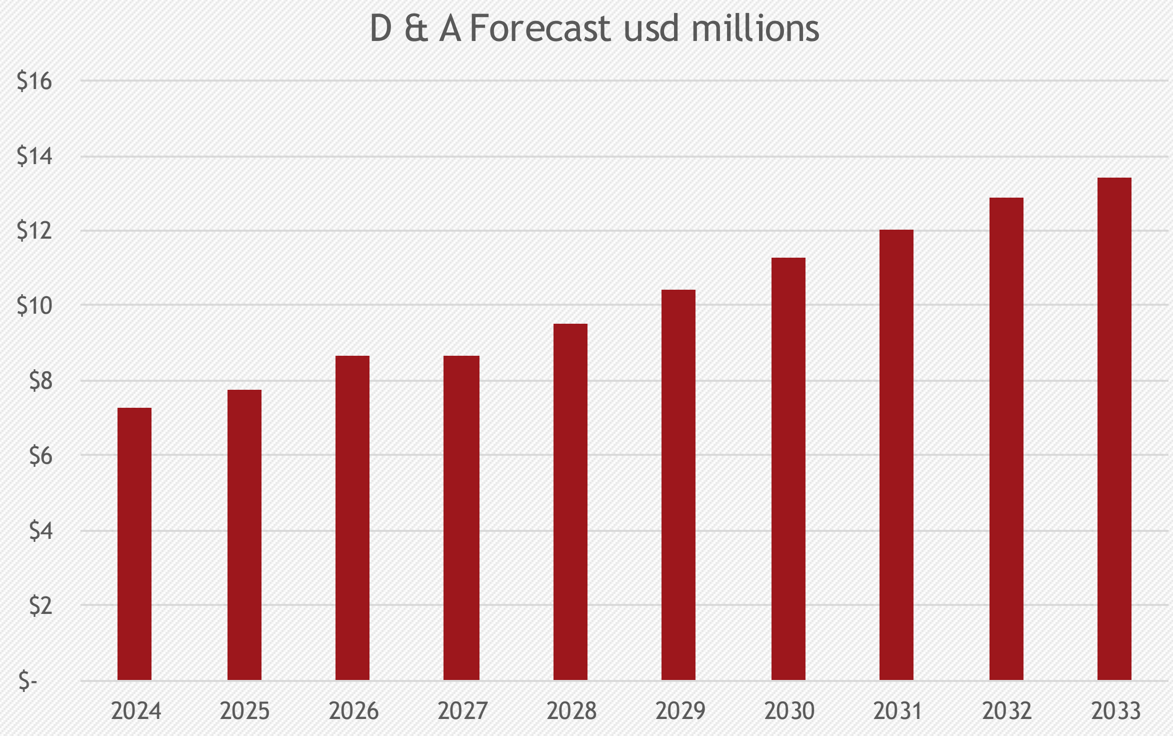
S, G & A Forecast

- Management hasn’t spoken on what it expects to spend on SG&A going forward. We know that they’ll need to spend a lot to maintain their brand image and awareness, which is why we’re forecasting it to grow at an average of 35% (% of revenue) per year for the next 10 years. This represents a slight decrease from historical levels, because we’re also assuming that management will try to increase operating and net margins.



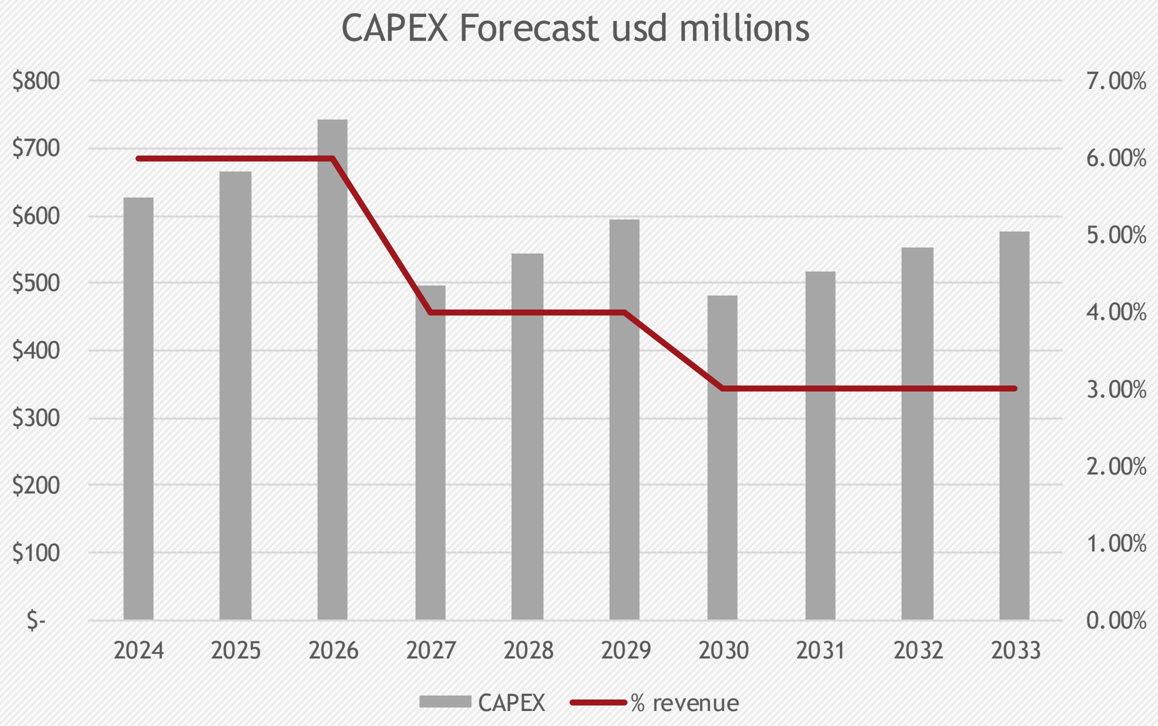
D&A Forecast

- We expect linear D&A growth, because LULU doesn't own a large contingent of its manufacturing operations. Indeed, it uses third-party manufacturers and suppliers.
- Guidance regarding D&A hasn't been very explicit, so we assumed a very linear growth, relative to overall top line growth.



CAPEX Forecast

- In 2022, Lululemon gave guidance of future CapEx at around 7%-9% of earnings. We believe they'll spend less than this going forward, because the majority of the distribution centers they need for ecommerce and in-person sales (which comprised the majority of past CapEx) have been built and they won't need any more.
- The future CapEx we're forecasting comes in the form of the stores they'll build, but even this number will decrease overtime.



NCWC Analysis

NCWC Analysis

NCWC Matrix, usd millions

Historicals						Assumptions	Forecasts									
	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Revenues	3,979	4,402	6,257	8,111	9,619		10,425	11,071	12,358	12,373	13,594	14,887	16,078	17,203	18,408	19,199
% Growth	*21.02%*	*10.62%*	*42.14%*	*29.63%*	*18.60%*		*8%*	*6%*	*12%*	*0%*	*10%*	*10%*	*8%*	*7%*	*7%*	*4%*
Accounts Receivable	40	62	77	133	125											
% of Revenues	*1.01%*	*1.42%*	*1.23%*	*1.64%*	*1.30%*											
Inventory	519	647	966	1,447	1,324											
% of Revenues	*13.03%*	*14.70%*	*15.45%*	*17.85%*	*13.76%*											
Prepaid Expenses + Other CA	156	264	312	424	368											
% of Revenues	*3.91%*	*6.00%*	*4.98%*	*5.23%*	*3.83%*											
Non-Cash Current Assets	714	974	1,355	2,005	1,817											
% of Revenues	*17.95%*	*22.12%*	*21.66%*	*24.72%*	*18.88%*											
Accounts Payable & Accruals	220	529	825	820	1,023											
% of Revenues	*5.53%*	*12.02%*	*13.19%*	*10.11%*	*10.64%*											
Unredeemed gift card liability	120	156	208	251	306											
% of Revenues	*3.03%*	*3.54%*	*3.33%*	*3.10%*	*3.19%*											
Other Current Liabilities	280	198	372	421	302											
% of Revenues	*7.04%*	*4.50%*	*5.94%*	*5.19%*	*3.14%*											
Current Liabilities	620	883	1,405	1,492	1,631											
% of Revenues	*15.59%*	*20.06%*	*22.46%*	*18.40%*	*16.96%*											
Non-Cash NWC	94	91	(50)	512	185		261	277	309	309	340	372	402	430	460	480
% of Revenues	*2.36%*	*2.06%*	*-0.80%*	*6.32%*	*1.93%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
Change in NCWC	94	(3)	(141)	563	(327)		75	277	48	33	31	63	62	58	58	50

- Considering how mature LULU is becoming, we believe they'll increase their NCWC significantly as a push to reduce overall liabilities and increase their operating efficiency. This should result in higher accounts receivables, prepaids and other current assets.

DCF Matrix

DCF Matrix (Without Acquisition Expenses)

		Co Guidance	JPM	JPM	CIQ	CIQ	CIQ	Our Estimates	Our Estimates	Our Estimates	Rf Rate
usd millions		1	2	3	4	5	6	7	8	9	10
Historical		**Forecast**									
usd millions	**TTM**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Company-operated stores	4,580	4,900	5,203	5,808	5,815	6,389	6,997	7,557	8,086	8,652	9,024
% revenue	*46%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*
Direct to consumer	4,477	4,483	4,761	5,314	5,320	5,845	6,401	6,914	7,397	7,915	8,256
% revenue	*45%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*
Other	932	1,043	1,107	1,236	1,237	1,359	1,489	1,608	1,720	1,841	1,920
% revenue	*9%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Total Revenue	9,989	**10,425**	**11,071**	**12,358**	**12,373**	**13,594**	**14,887**	**16,078**	**17,203**	**18,408**	**19,199**
% Growth	*4%*	*4%*	*6%*	*12%*	*0%*	*10%*	*10%*	*8%*	*7%*	*7%*	*4.30%*
COGS	4,142	4,170	4,428	4,943	4,702	4,894	5,359	5,788	6,193	6,627	6,528
% of revenue	*41%*	*40%*	*40%*	*40%*	*38%*	*36%*	*36%*	*36%*	*36%*	*36%*	*34%*
Gross Profit	5,847	6,255	6,643	7,415	7,671	8,700	9,528	10,290	11,010	11,781	12,671
% of revenue	*59%*	*60%*	*60%*	*60%*	*62%*	*64%*	*64%*	*64%*	*64%*	*64%*	*66%*
SG&A	3,547	3,649	3,875	4,325	4,331	4,758	5,210	5,627	6,021	6,443	6,720
% of revenue	*36%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
Restructuring Costs	75	0	0	0	0	0	0	0	0	0	0
% of revenue	*1%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
D&A	1	7	8	9	9	10	10	11	12	13	13
% of revenue	*0.01%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*
Acquisition Expenses	0	0	0	0	0	0	0	0	0	0	0
% of revenue	0%	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
EBIT	2,225	2,599	2,760	3,081	3,332	3,933	4,307	4,651	4,977	5,325	5,938
% of revenue	22%	*25%*	*25%*	*25%*	*27%*	*29%*	*29%*	*29%*	*29%*	*29%*	*31%*
Other Income	69	24	25	28	28	31	34	37	40	42	44
% of revenue	0.69%	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*
Tax Expense	661	780	828	924	1,000	1,180	1,292	1,395	1,493	1,598	1,781
% of EBIT	30%	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
NOPAT	1,632	1,843	1,957	2,185	2,361	2,784	3,049	3,293	3,523	3,770	4,201
D&A		7	8	9	9	10	10	11	12	13	13
% of revenue		*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*
CapEx		626	664	741	495	544	595	482	516	552	576
% of revenue		*6%*	*6%*	*6%*	*4%*	*4%*	*4%*	*3%*	*3%*	*3%*	*3%*
Change in NCWC		75	277	48	33	31	63	62	58	58	50
FCFF		**1,150**	**1,024**	**1,404**	**1,842**	**2,219**	**2,401**	**2,760**	**2,961**	**3,172**	**3,589**
PV of FCFF = FCFF/((1+WACC)^t)		1,061	873	1,104	1,338	1,487	1,486	1,576	1,561	1,544	1,612

Terminal Growth %

- **For our DCF analysis, we chose a <u>2%</u> terminal growth rate for the following reasons:**
- The 2% rate is in line with economic and inflation growth
- Given our assumption that $LULU is in its maturity phase, we deem 2% to be a respectable threshold
- The overall industry in which $LULU is in also seems to have matured, especially for publicly traded companies. There are however, fast growing private companies in the industry (Gymshark, Alo Yoga).
- **Terminal Value Calculation:**

The terminal value was calculated using the FCFF from the final year in the DCF(2033) as follows:

$TV = FCFF_{LASTYEAR} * (1+TVG)/(WACC-TVg)$

$= \$ 3588.54 * (1+0.02)/(0.08-0.02)$

$= \$61,005.18$

DCF Implied Price (Excluding M&A Expenses)

- With the supporting calculations shown on the right of the slide, the implied intrinsic value (per share) is \$336.79 vs a current price of \$318.46.

- This DCF price suggests a moderate upside of 5.76% from current levels.

usd millions

WACC		8.33%	
TV WACC		8.00%	
TV Growth Rate		2%	
Sum of PV of FCFF		13,643	
Terminal Value		61,005	TV = (FCFFlast*(1+TVg))/(TVWACC-g)
PV of Terminal Value		28,257	PV of TV = TV / ((1 + TV WACC)^10)
Enterprise Value		41,900	
Cash		1,610	Q2'24 10Q
Debt		1,459	
Equity Value		42,051	
Shares Outstanding		124.86	
Price per Share	**$**	**336.79**	
VS Current Price	$	318.46	11-Nov
Upside		**5.76%**	

DCF Sensitivity Analysis (Excluding M&A Expenses)

- We believe that two outliers which can significantly alter the course of LULU's valuation are its 1) WACC and 2) SG&A expenses.
- Needless to say, any major change in the components of WACC will alter the DCF significantly, so calculating multiple different scenarios helps us mitigate surprising outcomes.
- We also believe that S, G & A expenses can significantly change given the nature of the industry. There are multiple scenarios (athlete and influencer sponsorships, professional sports sponsorships, bigger marketing campaigns, etc.) that can drastically increase such spending and wrong our model.

Sensitivity Analysis

S, G & A as a % of revenue	WACC: 7%	8%	9%	10%	11%	12%	13%
30%	$ 415.16	$ 407.37	$ 400.16	$ 393.47	$ 387.25	$ 381.47	$ 376.09
35%	$ 345.21	**$ 338.80**	**$ 332.86**	$ 327.35	$ 322.24	$ 317.48	$ 313.06
40%	$ 275.26	**$ 270.22**	**$ 265.56**	$ 261.23	$ 257.22	$ 253.50	$ 250.03
45%	$ 205.32	$ 201.65	$ 198.25	$ 195.11	$ 192.21	$ 189.51	$ 187.00
50%	$ 135.37	$ 133.07	$ 130.95	$ 129.00	$ 127.19	$ 125.52	$ 123.98

DCF Assumptions (Including 2025 Acquisition Expenses)

- Considering the case also includes the acquisition of a company (Unifi, Inc or NYSE: UFI in our case), a DCF which contains acquisitions and restructuring expenses related to this M&A makes sense.
- We'll be using a **$158.13 million acquisition cost** (DCF value of $UFI or the max bid).
- Historically for $LULU, they had restructuring costs of around 2.3% of the transaction deal value (2020 acquisition of Mirror, now Lulu Studio). This would imply a $3.61 million restructuring cost but given the restructuring of the supply chain of LULU, we can increase this amount to **$10 million** for safe measures.
- LULU Past Restructuring Costs, Perplexity AI

	Acquisition	
usd millions	Mirror	Unifi, Inc.
Deal Value	500	157.13
Restructiring Costs	11.5	$\boxed{3.61}$
% of deal value	*2.30%*	*2.30%*

DCF Matrix (With Acquisition Related Expenses)

		Co Guidance	JPM	JPM	CIQ	CIQ	CIQ	Our Estimates	Our Estimates	Our Estimates	Risk-Free Rate
usd millions		1	2	3	4	5	6	7	8	9	10
Historical		**Forecast**									
usd millions	**TTM**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Company-operated stores	4,580	4,900	5,203	5,808	5,815	6,389	6,997	7,557	8,086	8,652	9,024
% revenue	*46%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*	*47%*
Direct to consumer	4,477	4,483	4,761	5,314	5,320	5,845	6,401	6,914	7,397	7,915	8,256
% revenue	*45%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*	*43%*
Other	932	1,043	1,107	1,236	1,237	1,359	1,489	1,608	1,720	1,841	1,920
% revenue	*9%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Total Revenue	9,989	**10,425**	**11,071**	**12,358**	**12,373**	**13,594**	**14,887**	**16,078**	**17,203**	**18,408**	**19,199**
% Growth	*4%*	*4%*	*6%*	*12%*	*0%*	*10%*	*10%*	*8%*	*7%*	*7%*	*4.30%*
COGS	4,142	4,379	4,650	5,190	5,073	5,574	6,104	6,592	6,881	7,363	7,680
% of revenue	*41%*	*42%*	*42%*	*42%*	*41%*	*41%*	*41%*	*41%*	*40%*	*40%*	*40%*
Gross Profit	5,847	6,047	6,421	7,168	7,300	8,020	8,783	9,486	10,322	11,045	11,520
% of revenue	*59%*	*58%*	*58%*	*58%*	*59%*	*59%*	*59%*	*59%*	*60%*	*60%*	*60%*
SG&A	3,547	3,545	3,764	4,202	4,207	4,622	5,210	5,627	6,021	6,443	6,720
% of revenue	*36%*	*34%*	*34%*	*34%*	*34%*	*34%*	*35%*	*35%*	*35%*	*35%*	*35%*
Restructuring Costs	75	0	0	0	0	0	0	0	0	0	0
% of revenue	*1%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
D&A	1	7	8	9	9	10	10	11	12	13	13
% of revenue	*0.01%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.07%*
Acquisition Expenses	0	0	0	0	0	0	0	0	0	0	0
% of revenue	0%	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
EBIT	2,225	2,495	2,649	2,957	3,085	3,389	3,562	3,847	4,289	4,589	4,786
% of revenue	22%	*24%*	*24%*	*24%*	*25%*	*25%*	*24%*	*24%*	*25%*	*25%*	*25%*
Other Income	69	24	25	28	28	31	34	37	40	42	44
% of revenue	0.69%	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*
Taxe Expense	661	748	795	887	925	1,084	1,140	1,231	1,372	1,468	1,532
% of EBIT	30%	*30%*	*30%*	*30%*	*30%*	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*
NOPAT	1,632	1,770	1,880	2,099	2,188	2,336	2,457	2,653	2,956	3,163	3,299
D&A	1	7	8	9	9	10	10	11	12	13	13
Change in NCWC		75	277	48	33	31	63	62	58	58	50
FCFF		**1,702**	**1,611**	**2,059**	**2,164**	**2,314**	**2,404**	**2,602**	**2,910**	**3,118**	**3,262**
PV of FCFF = FCFF/((1+WACC)^t)		1,571	1,373	1,619	1,571	1,551	1,488	1,486	1,534	1,517	1,466

- The UFI FCFF line at the bottom of the DCF is included in the firm's total FCFF. These numbers are from the Unifi, Inc. DCF on page 79.

DCF Matrix (With Acquisition) – Implied Price

- The merged firm's DCF value (intrinsic value), with reduced cash (transaction is all-cash), acquisition and restructuring expenses and merged FCFF is = $328.51 (+3.16% from current price)

usd millions

WACC		8.33%	
TV WACC		8.00%	
TV Growth Rate		2%	

Sum of PV of FCFF		15,177	
Terminal Value		55,461	TV = (FCFFlast*(1+TVg))/(TVWACC-g)
PV of Terminal Value		25,689	PV of TV = TV / ((1 + TV WACC)^10)
Enterprise Value		40,867	
Cash		1,610	Q2'24 10Q
Debt		1,459	
Equity Value		41,018	
Shares Outstanding		124.86	
Price per Share	**$**	**328.51**	
VS Current Price	$	318.46	11-Nov
Upside		**3.16%**	

Relative Valuation – Selection of Comparable Firms

- **Nike (NYSE: $NKE):** We chose Nike as a comparable, because it's a world-renowned sportswear company which sells similar products, in similar geographies. Nike's focus on bettering margins that'll directly translate to a higher bottom line is a key similarity and reality which we believe LULU will have to commit to.
- **Adidas (FRA: $ADS):** Very similar to Nike, Adidas is a staple and world-renowned sportswear company. One key difference though between LULU and Adidas/Nike is the discrepancy in footwear sales.
- **Puma (ETR: $PUM):** We included Puma in our comps, because of its renewed brand image as of the past few years, after a long period of stagnation. We think LULU might be headed for a similar stagnation if they don't correct their trajectory.
- **Under Armour (NYSE: $UAA):** As a comparable, Under Armour makes a lot of sense to utilize given the craze around the brand in the early 2010's. Since then, the company has actively been trying to revitalize its image by diversifying its product offerings.
- **Aritzia (TSX: $ATZ):** This firm has experienced very similar growth to $LULU in the past few years. Both firms are based out of Canada, and have similar sportswear, geographical and sales channels. Aritizia is in the same boat as LULU in terms of geographies and slower growth.

Relative Valuation – Weight of Comparable Firms

- Nike (NYSE: $NKE): 30% We gave Nike the biggest weight considering the late stage (maturity phase) it's in, quite similarly to LULU. We also think both firms have strong brand images.
- Adidas (FRA: $ADS): 20% Adidas is quite similar to Nike, thus the high weight. However, because of the different geographical operations we reduced the weight a bit.
- Puma (ETR: $PUM): 10% Puma is a legacy sportswear brand that's been in a maturity phase for a long time but is actively trying to rebrand itself in multiple new sports and even sponsoring chess professionals. The lower weight stems from the different geographies of Puma.
- Under Armour (NYSE: $UAA): 10% This sportswear firm experienced high growth in the early 2010's, but since then has seen sluggish growth. It operates in similar geographies, justifying its given weight.
- Aritzia (TSX: $ATZ): 30% Although only having a small sportswear segment, Aritzia is more similar to Lululemon than it leads to believe. Both companies are Canadian with similar online and in-person % of sales. Their stores are in similar locations and both firms have seen immense growth over the past 5 years. They also both face brand image problems and slower growth ahead.

RV Ratios Street Uses

The Street utilizes a few recurrent ratios to value retail stocks Like $LULU:

- **PE ratio**: although it uses historical data, it efficiently compares the price of the business relative to past earnings
- **P/Sales**: Evaluates price relative to revenue growth. Very important ratio, because the industry tends to have low net margins (being able to quickly evaluate sales growth is crucial to assess IV of the company.
- **Forward PE**: With educated predictions on future earnings, using this ratio makes sense to rapidly assess current valuations vs what the company is expected to generate in earnings.
- **Forward EV/Sales**: Similar to the forward PE but is individually pertinent when wanting to assess the overall top line growths of apparel retailers (with low gross, operating and net margins).
- **Forward EV/EBITDA**: This ratio is probably the most useful when taking the “true worth” of multiple companies at a quick glance in consideration. This is because we account for cash, funded debt and non-operating expenses, thus providing a more equitable business-to-business comparison.

What ratios does the Street use in a Relative Valuation analysis to value retail stocks such as Lululemon

Relative Valuation – Selection of Ratios

- **Forward P/E:** We chose this ratio, because it efficiently takes future earnings into account. Given that the business will need to increase net margins going forward (because we think there’s limited top line growth going forward), this ratio will be attributed a high weight for the implied share price.
- **Forward EV/Sales:** We consider this ratio useful, but less so than its counterparts. This is because it does take cash and funded debt into account, but disregards future earnings or FCF which is what the intrinsic value of a business ultimately stems from.
- **Forward EV/EBITDA:** We gave a bigger rating to this multiple than the previous one, partly considering the more standardized approach to determining the operating earnings of a business.

RV Comparable Metric Calculation

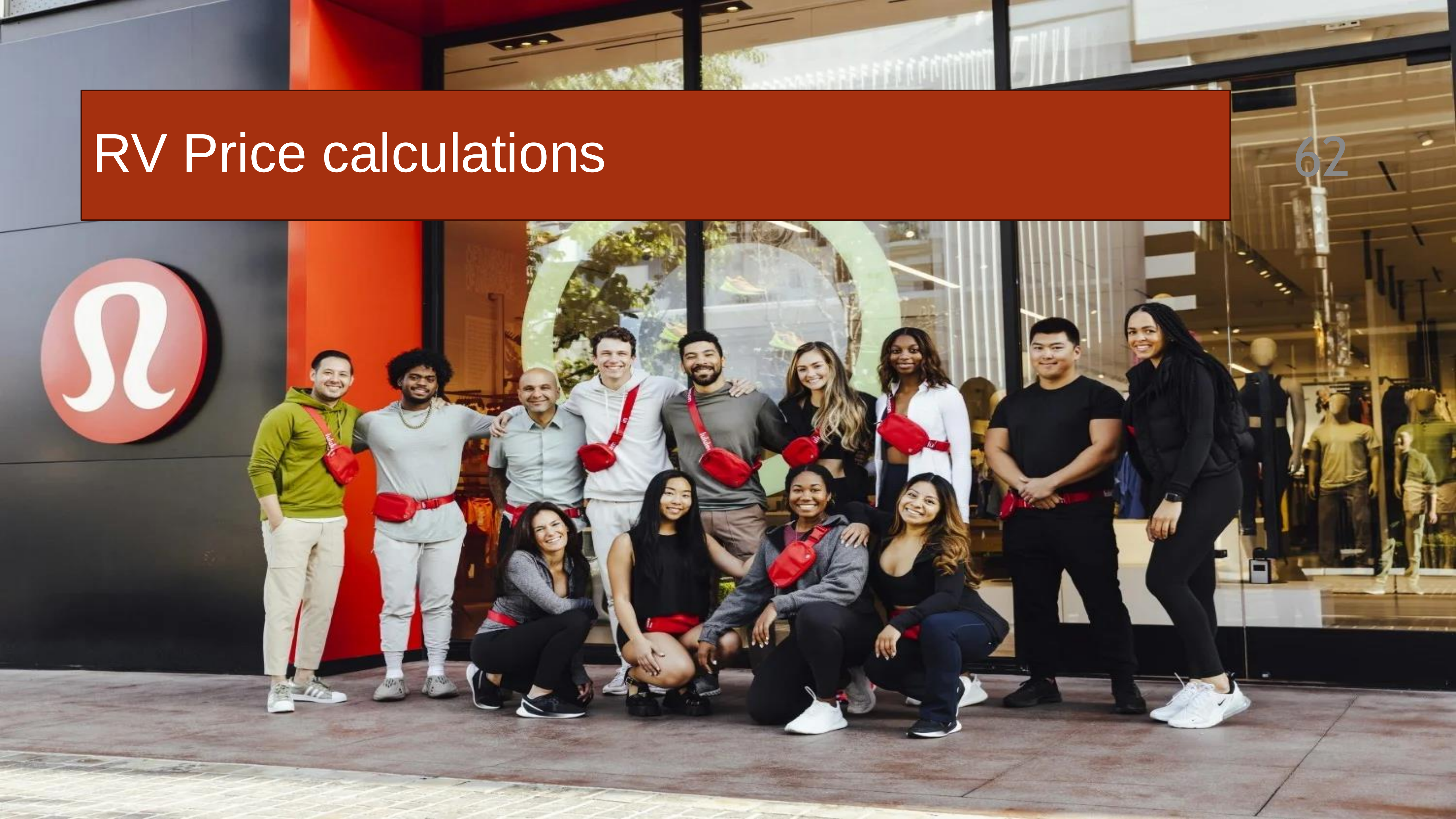
Relative Valuation and Company Weights

usd millions, except per share items, November 8th '24 (data from CAPIQ)

							Historicals				Forecast			LTM	
	Comparable Companies	**Weight**	**Price (usd)**	**Shares (M's)**	**Mkt Cap**	**EV**	**EPS**	**P/E**	**EV/S**	**Forward P/E**	**Forward EV/Sales**	**Forward EV/EBITDA**	**Gross Margin**	**Net Margin**	
	Nike (NYSE: $NKE)	30%	$ 76.26	1,488.50	$ 113,513	$ 114,839	$ 2.86	26.66x	2.30x	26.57x	2.40x	19.98x	45.00%	10.60%	
EUR/USD=1.07	Adidas (FRA: $ADS)	20%	$ 233.75	178.55	$ 41,736	$ 47,183	$ 7.34	31.85x	1.90x	32.17x	1.74x	14.42x	49.70%	1.88%	
EUR/USD=1.07	Puma (ETR: $PUM)	10%	$ 48.96	149.23	$ 7,306	$ 9,406	$ 2.78	17.61x	1.00x	17.74x	0.96x	3.05x	47.30%	3.03%	
	Under Armour (NYSE: $UAA)	10%	$ 9.88	464.79	$ 4,592	$ 5,365	$ 0.24	41.17x	1.00x	46.78x	1.05x	16.84x	46.80%	-0.33%	
CAD/USD=0.72	Aritzia (TSX: ATZ)	30%	$ 32.45	112.77	$ 3,659	$ 4,169	$ 1.46	22.23x	2.40x	22.01x	2.11x	10.42x	40.80%	4.14%	
	Weighted Mean (ex. $LULU)				**$ 44,689**	**$ 46,616**		**26.91x**	**1.99x**	**27.46x**	**1.90x**	**13.99x**	**45.09%**	**5.07%**	
	Median (ex. $LULU)				$ 7,306	$ 9,406		26.66x	1.90x	26.57x	1.74x	14.42x	0.47x	0.03x	
	Lululemon Athletica (NDAQ: LULU)		**$ 311.21**	**124.86**	**$ 38,858**	**$ 38,560**	**$ 14.40**	**21.61x**	**3.90x**	**21.90x**	**3.56x**	**13.17x**	**58.50%**	**16.34%**	

- Nike is a leading global athletic brand and a key competitor to lululemon in activewear and sportswear. With a broad reach in sports products and athleisure, Nike's scale and global presence justify its high weighting of 30%, making it a highly relevant comparable.
- Adidas, like Nike, operates in sportswear and athletic apparel but focuses more on footwear and activewear. While it competes with lululemon, its slightly smaller presence in athleisure leads to a lower weighting of 20%, reflecting its competitive overlap but lesser dominance.
- Puma, with a smaller market share and a more performance-oriented focus, holds a lower weighting of 10%. Its narrower reach and different market positioning make it a less direct competitor to lululemon.
- Aritzia, focused on women's fashion and athleisure, shares a similar customer base with lululemon, especially in the premium segment. Its strong presence in North America justifies a weighting of 30%, making it a close comparable in terms of brand positioning and target market.
- Under Armour, a key player in performance apparel, competes with lululemon in athletic wear but has a narrower product focus and a U.S.-centric market. Its niche focus and limited global reach justify a lower weighting of 10%.

RV Price calculations



RV Forward PE – Implied Price

usd millions

Forward PE		
Comparable Ratio		27.46x
2025 EPS	$	15.00
Estimated Share Price	**$**	**411.90**

RV Forward EV/Sales – Implied Price

usd millions

Forward EV/Sales		
2025 Revenue (Sales)	11,071	JPM Report/Guidance
WACC	8.59%	
PV of 2025 Revenue	9,389	
Forward EV/Sales Multiple	1.90x	
Enterprise Value	17,857	
(-) Funded Debt	1,459	
(+) Cash & Equivalents	1,610	
Implied Equity Value	18,008	
Shares Outstanding	125	
Estimated Share Price	**$ 144.23**	

RV Forward EV/EBITDA – Implied Price

usd millions

Forward EV/EBITDA		
2025 EBITDA	3,000	JPM Report/Guidance
WACC	8.59%	
PV of 2025 EBITDA	2,544	
Forward EV/EBITDA Multiple	13.99x	
Enterprise Value	35,600	
(-) Funded Debt	1,459	Q2'24 10Q
(+) Cash & Equivalents	1,610	Q2'24 10Q
Implied Equity Value	35,751	
Shares Outstanding	125	Q2'24 10Q
Estimated Share Price	**$ 286.33**	

RV Weighted Average Implied Price

Relative Valuation - Weighted Average Implied Share Price

Ratio	Implied Price	Weight	Weight Rationale
Forward PE	$ 411.90	65%	High weight given direct focus on earnings and wide use
Forward EV/EBITDA	$ 286.33	20%	moderate weight, given its focus on capital structure and OpEx
Forward EV/Sales	$ 144.23	15%	lowest weight, because it disregards future earnings, still accounts for future sales growth
Average Weighted Price	**$ 346.64**		

DCF VS RV Reconciliation

- To reconcile our DCF and RV prices, we assigned a 50% weight to both, because we think the comparable firms are very similar to $LULU. These comparable firms also have a level of maturity which $LULU will face in the coming years. The forward multiples also are pricing in future expectations, similarly to the DCF.
- DCF price = $336.79
- RV price = $346.64
- Reconciled price = (336.79+346.64)/2 = $341.72

Acquisition Target Criteria and Options

- The target company LULU should acquire needs to fulfill a few roles that WILL positively impact the bottom line. The main issues/opportunities are:
- **1) increasing margins (vertical integration)**
- **2) bring the supply chain back to North America in defense of potential international conflicts in the APAC region (China/Taiwan) + natural catastrophes in those geographies (typhoons, floods, etc.)**
- **3) With Trump bringing minimum tariffs of 15-20% on every import, bringing the supplying and manufacturing in the US makes sense.**

M&A Opportunity - Problematic Supply Chain

Manufacturers

- 49 different manufacturers
- Top 5 manufacture 55% of clothes
- Biggest manufacturer makes 17% of clothes
- 42% of manufacturers are in Vietnam

Suppliers

- 67 different suppliers
- Top 5 supplied 52% of materials
- Largest supplied 19%
- 40% of suppliers from Taiwan

LULU Latest 10k

LULU April, 2024 List of Suppliers and Manufacturers

Target Company – Unifi Inc. (NYSE: UFI)

usd millions, latest SEC 10Q

11-Nov	Price	$ 5.80
	Shares	18.27
	Market Cap	106
Cash + AR	Cash	91.59
	Funded Debt	139.99
	EV	154

Funded Debt (Q1'24 10Q released Nov 6th)

Current Operating Lease Liabilities	2.43
Current Portion of LT Debt	12.15
LT Debt	119.32
NC Operating Lease Liabilities	6.09
Funded Debt	139.99

- Unifi, Inc. (NYSE: UFI) is a multinational textile manufacturing company specializing in the production of recycled and synthetic yarn products. Founded in 1969 and headquartered in Greensboro, North Carolina, Unifi has established itself as a leader in innovative and sustainable fiber solutions. "Business description of Unifi Inc.?" Perplexity AI
- We think acquiring Unifi is a strategic play on diversifying LULU's supplies of raw materials and preventing future tariffs on import to artificially decrease future gross margins.

Unifi, Inc. – DCF

Alongside precedent ratios (past transactions), we’ve conducted a DCF analysis of $UFI to determine what its intrinsic value is, and ultimately what the maximum bid should be for the company.

Unifi, Inc. WACC Calculations

WACC

Rf	4.30%	November 4th 10Y Treasuries
Beta	0.81	5Y Historical
ERP	4.04%	Damodaran November

Cost of Equity Ke = Rf + B(ERP)

Risk free rate	4.30%	November 4th 10Y US Treasury
Beta	0.810	5Y Historical
Equity Risk Premiu	4.04%	November '24 Damodaran
Cost of Equity (Ke)	7.57%	

Cost of Debt Kd = Rf + Credit Spread

Credit Rating	5.20%	Weighted Average Operating Lease Discount Rate
Credit Spread	1.07%	Damodaran Credit Spread
Risk Free Rate	4.30%	
Cost of Debt (Kd)	5.37%	

Debt/Equity Weightings

Funded Debt (usd millions)	139.99	
Market Cap (usd millions)	106	
Firm Value	246	= mkt cap + funded debt
Debt Weighting	56.92%	
Equity Weighting	43.08%	

WACC Calculations FCFF

Cost of Debt	5.37%
Weight of Debt	56.92%
Marginal Tax Rate	25.00%
Cost of Equity	7.57%
Weight of Equity	43.08%
WACC	5.55%

WACC = (Ke*Weight of Equity) + [(Kd*Weight of Debt)*(1-tax rate)]

WACC Calculations TV (Should be lower, because Co is in maturity phase)

Cost of Debt	5.37%
Weight of Debt	56.92%
Marginal Tax Rate	25.00%
Cost of Equity	7.57%
Weight of Equity	43.08%
WACC	5.55%

WACC = (Ke*Weight of Equity) + [(Kd*Weight of Debt)*(1-tax rate)]

TV WACC Adjustment	5.00%

Unifi, Inc. Forecasts

- **Revenue**: We expect a considerable growth in revenue for the next two fiscal years, because of the succinct surge in demand from the LULU demand.
- **COGS**: We gradually decreased the COGS spending considering cheaper sourcing of raw materials. This idea stems from the recycling of old or used LULU clothes that will directly be used as raw materials for UFI, transformed and shipped back to manufacturers.
- **Operating Expenses**: We also expect a gradual decrease of such expenses as the two businesses merge and join workforces.
- **D&A**: Considering Unifi, Inc. has spent gargantuan amounts of capital towards revitalizing its machinery in the past 4 years, the company should be facing linear D&A.
- **CAPEX**: Again, because of the recent CAPEX aimed at revitalizing its factories, UFI is immune to significant CAPEX in the next 10 fiscal years.

Unifi, Inc. NCWC

NCWC

usd millions	Q124	Q224	Q324	Q424	Q125	Assumptions	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Revenue	**138.84**	**136.92**	**148.99**	**157.46**	**147.37**		**640**	**686**	**734**	**786**	**841**	**900**	**963**	**1,020**	**1,071**	**1,117**
Receivables	80.3	72.06	80.93	79.33	79.25											
Inventory	136.09	135.68	134.13	131.18	145.35											
Other CA	9.42	12.29	9.46	11.62	12.92											
Non-Cash Current Assets	225.81	220.03	224.52	222.13	237.52											
% of revenue	*163%*	*161%*	*151%*	*141%*	*161%*											
Accounts Payable	38.06	36.97	44.22	44.37	42.76											
Other Current Liabilities	16.44	17.41	19.17	17.66	18.92											
Current Liabilities	54.50	54.38	63.39	62.03	61.68											
% of revenue	*39%*	*40%*	*43%*	*39%*	*42%*											
Non-Cash Working Capital	171.31	165.65	161.13	160.1	175.84		736	789	845	904	967	1035	1107	1173	1232	1285
% of revenue	*123%*	*121%*	*108%*	*102%*	*119%*	*115%*	*115%*	*115%*	*115%*	*115%*	*115%*	*115%*	*115%*	*115%*	*115%*	*115%*
Change in NCWC		(5.66)	(4.52)	(1.03)	15.74		78	53	55	59	63	68	72	66	59	53

Unifi, Inc. DCF Matrix

		Guidance	CIQ	Our estimates	Our estimates	Our estimates	Our estimates	Our estimates	Our estimates	Our estimates	Risk-Free Rate
						Periods					
usd millions	**TTM**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
REPREVE Fiber	190.8	205	220	231	243	255	267	281	295	310	323
All other products	399.94	435	466	490	514	540	567	595	625	656	684
Total Revenue	**590.74**	**640**	**686**	**721**	**757**	**795**	**834**	**876**	**920**	**966**	**1,007**
% growth		*8%*	*7%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*4.30%*
COGS		548	587	613	620	636	667	701	736	773	806
% of revenue		*86%*	*86%*	*85%*	*82%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*
Operating Expenses		98	76	79	83	87	92	96	101	106	111
% of revenue		*15%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*
EBIT		(5)	23	29	53	72	75	79	83	87	91
Taxes		0	7	9	16	21	23	24	25	26	27
% of EBIT		*0%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
NOPAT		(5)	16	20	37	50	53	55	58	61	63
D&A		25	25	26	27	29	30	32	33	35	36
CapEx		12	27	20	19	18	17	16	15	15	14
Change in NCWC		78	53	55	59	63	68	72	66	59	53
FCFF		(69)	(39)	(29)	(14)	(2)	(2)	(2)	9	22	33
PV of FCFF = FCFF/((1+WACC)^t)		-65.56	-34.85	-24.65	-11.00	-1.90	-1.50	-1.25	6.06	13.78	19.13

Unifi, Inc. DCF Implied Price (Ceiling Bid)

- With the calculations showcased on the right, we determined a $8.66 per share intrinsic value.
- This $8.66 per share represents a total market cap of $158.13 million USD, and the maximum bid LULU should offer for UFI.

usd millions

WACC	5.56%	
TV WACC	5.00%	
TV Growth Rate	1.00%	

Sum of PV of FCFF		(102)	
Terminal Value		502	TV = (FCFFlast*(1+TVg))/(TVWACC-g
PV of Terminal Value		308	PV of TV = TV / ((1 + TV WACC)^10)
Enterprise Value		207	
(+) Cash		92	Q1'25 10Q
(-) Debt		140	
Equity Value		158	
Shares Outstanding		18.27	
Price per Share	**$**	**8.66**	----> Max Acquisition Price To Pay
VS Current Price	$	5.80	11-Nov
Upside		**49.23%**	

Precedent Ratios – Past Transactions + Weight Rationale

- **Kate Spade acquired by Tapestry, Inc.**: We chose this transaction, because the pool of retail apparel and big brand company transactions is quite small. Although relatively recent and in similar industries we gave a **weight of 10%** to this transaction.
- **Tiffany & Co acquired by LVMH**: We chose this transaction because of how recent it is. But, given its slightly different industries than LULU and UFI and the very inflated deal values, we gave it a **weight of 5%**.
- **G&K Services acquired by Cintas**: We chose this transaction, because Cintas aimed to vertically integrate itself (like we want LULU to do), but since it's quite dated and relates to work apparel, we gave it a **weight of 15%.**
- **Reebok acquired by Authentic Brands group**: This deal was completed in 2022 and had a plethora of financial data available to us. Since the financials of the target company closely apparent that of UFI, we gave it a **weight of 45%.**
- **Moderna Holdings B.V. acquired by Elis SA**: This acquisition is extremely recent and is a vertical integration of a textile supplier. However, given the different geographies and very similar capitalization of the target we reduced an otherwise high weight, at **25%.**

Precedent Ratios – Choice of Ratios

- **P/E**: Although we calculated the P/E of the past transaction, we disregarded it for the implied price because UFI isn't profitable for the LTM period.
- **P/Sales**: We chose this ratio because of its simplicity and the overall price paid (deal value) for the different types of industries.
- **EV/EBITDA**: We emphasized this ratio, because of how it takes the cash and debt of the firms relative to their standardized revenue before significant non-operating expenses.
- **EV/Sales**: This is in the same category of easy-to-use and fast to compare as P/Sales, but with more effectiveness when determining the "true" price of the target by subtracting cash and adding back debt.
- **P/EBITDA**: Although a good measure, we deem it less precise in an acquisition because it disregards cash and debt.
- **P/FCF**: Both this and the next ratio are very pertinent as they showcase the ultimate revenue generation of the firms, but they fail to take potentially high interest and D&A expenses into account.
- **EV/FCF**: We considered this ratio pertinent to calculate the implied price to pay for UFI, but since it included non-operating expenses (interest and D&A) into account we gave it a lesser weight than other ratios.

Unifi, Inc. Precedent Ratios

Precedent Ratios (*usd millions*)

Target Company	Industry	Acquirer	Transaction Date	Deal Value	LTM at acquisition date: Revenue of Target	LTM at acquisition date: Earnings of Target	LTM at acquisition date: FCF	LTM at acquisition date: EBITDA	P/Sales	P/E	EV/EBITDA	EV/Sales	P/EBITDA	P/FCF	EV/FCF	Weight
Kate Spade & Co	Luxury goods	Tapestry Inc.(NYSE: TPR)	July 10th, 2017	2,776	1,359	120	111	210	2.04x	23.19x	10.29x	1.70x	13.25x	25.04x	17.92x	10%
Tiffany & Co	Jewelry	LVMH (EPA: MC)	Jan 7th, 2021	18,920	3,669	288	275	723	5.16x	65.81x	15.28x	4.78x	26.15x	68.70x	63.62x	5%
G&K Services	Work apparel manufacturer	Cintas (NYSE: CTAS)	Mar 21st, 2017	2,201	983	57	55	162	2.24x	38.62x	12.79x	2.11x	13.56x	40.09x	35.52x	15%
Reebok	Retail Apparel (Sportswear)	Authentic Brands Group	Mar 1st, 2022	2,500	3,818	246	208	329	0.65x	10.18x	10.53x	0.91x	7.59x	12.05x	16.71x	45%
Moderna Holding B.V.	Linen Manufacturer	Elis SA (ENXTPA: ELIS)	Feb 26th, 2024	38.69	43.2	1.4	7.1	7.6	0.90x	27.64x	4.56x	0.80x	5.09x	5.45x	4.87x	25%
Weighted Average									**1.32x**	**22.89x**	**9.59x**	**1.34x**	**9.36x**	**18.74x**	**19.04x**	
Median									**2.04x**	**27.64x**	**10.53x**	**1.70x**	**13.25x**	**25.04x**	**17.92x**	

Unifi, Inc. Implied Prices

usd millions

	Implied P/Sales Price	
SEC 10Qs	LTM Revenue	590.74
	Comparable ratio	1.32x
	Equity Value	777.76
	Shares Outstanding	18.27
	Price per share	$ 42.57

usd millions

	Implied P/EBITDA Price	
CIQ	LTM EBITDA	4.6
	Comparable ratio	9.36x
	Equity Value	43.04
	Shares Outstanding	18.27
	Price per share	$ 2.36

usd millions

	Implied EV/EBITDA Price	
	Comparable Ratio	9.59x
CIQ	LTM EBITDA	4.6
	Enterprise Value	44.114
Latest 10Q	(+) Cash	91.59
Latest 10Q	(-) Funded Debt	139.99
	Market Value	-4.286
	Shares Outstanding	18.27
	Price per share	$ (0.23)

usd millions

	Implied EV/Sales	
SEC 10Qs	LTM Revenue	590.74
	Comparable ratio	1.34x
	Enterprise Value	788.64
Latest 10Q	(+) Cash	91.59
Latest 10Q	(-) Funded Debt	139.99
	Market Value	740.24
	Shares Outstanding	18.27
	Price per share	$ 40.52

usd millions

	Implied P/FCF Price	
CIQ	FCF	27.5
	Comparable ratio	18.74x
	Equity Value	515.25
	Shares Outstanding	18.27
	Price per share	$ 28.20

usd millions

	Implied EV/FCF Price	
CIQ	LTM FCF	27.5
	Comparable ratio	19.04x
	Enterprise Value	523.53
Latest 10Q	(+) Cash	91.59
Latest 10Q	(-) Funded Debt	139.99
	Market Value	475.13
	Shares Outstanding	18.27
	Price per share	$ 26.01

Unifi, Inc. Weighted Average Share Price (Precedent Ratios)

Precedent Ratios - Average Acquisition Price Weighted *usd millions*

Weight	5.13%	5.13%	74.33%	5.13%	5.14%	5.14%	Weighted Average price per share
Ratios	**P/Sales**	**P/EBITDA**	**EV/EBITDA**	**EV/Sales**	**P/FCF**	**EV/FCF**	
Implied Pirce per Share	$ 42.57	$ 2.36	$ (0.23)	$ 40.52	$ 28.20	$ 26.01	$ 7.00

- To calculate the implied share price LULU should pay for UFI, we weighted all the precedent ratios.
- We gave EV/EBITDA a **74.33% weight**, because it allows for better comparisons between companies with different capital structures and tax situations, which is particularly useful in the apparel and textile industry.
- We gave the rest of the ratios similar **weights of 5.13%**.
- **The weighted average implied share price based on precedent ratios is $7.00 (premium of 20.69%)**

usd millions	Current Valuation (Nov 11th, '24)	Weighted Average Implied Price	**Premium**
Share Price	$ 5.80	$ 7.00	**20.69%**
Shares	18.27	18.27	
Equity Value (Mkt Cap)	$ 105.97	$ 127.89	**20.69%**
(-) Cash	91.59	91.59	
(+) Funded Debt	139.99	139.99	
Enterprise Value	$ 154.37	$ 176.29	**14.20%**

M&A Summary

- We believe $LULU should acquire $UFI at an **initial offer** of $127.89 millions ($7.00 per share), based on precedent ratios of similar transactions. This would constitute a **premium of 20.69%** relative to the current price of $5.80.
- The **maximum bid** $LULU should offer for $UFI is $158.13 millions ($8.66 per share), which represents a **premium of 49.23%** relative to the current price of $5.80 (DCF).
- $LULU should carry out this acquisition in an all-cash deal as the $127.89 - $158.13 millions constitutes less than 10% of their current cash holdings of $1,610 millions (latest 10Q). We don't anticipate LULU to have significant cash needs short-term, so going though with this all-cash deal is safe.
- We think $LULU should acquire $UFI, because the majority of $LULU's suppliers are based in Taiwan which poses a geopolitical risk (potential war with China). The Trump tariffs against China are also a threat to future COGS and gross margins.

Unifi, Inc. Segmented Historicals (SEC 10Qs)

TTM Segmented Revenue

usd millions	Q124	Q224	Q324	FY24	Q424	Q125	**TTM**
REPREVE Fiber	42.46	45.73	46.75	188.52	53.58	44.74	**190.8**
% of revenue	*31%*	*33%*	*31%*	*32%*	*34%*	*30%*	*32%*
All other products	96.38	91.19	102.24	393.69	103.88	102.63	**399.94**
% of revenue	*69%*	*67%*	*69%*	*68%*	*66%*	*70%*	*68%*
Total Revenue	138.84	136.92	148.99	582.21	157.46	147.37	**590.74**
COGS	139.42	135.28	144.23	565.59	146.66	137.91	**564.08**
Gross Profit	-0.58	1.64	4.76	16.62	10.8	9.46	**26.66**
SG&A	11.61	12.41	11.37	46.63	11.24	11.84	**46.86**
Other Operating Expenses	-0.155	6.87	0.32	7.4	0.365	0.832	**8.387**
EBIT	-12.035	-17.64	-6.93	-37.41	-0.805	-3.212	**-28.587**
Interest Income (expense)	-1.904	-1.916	-1.975	-7.72	-1.925	-2.25	**-8.066**
Pretax Income (EBT)	-13.939	-19.556	-8.905	-45.13	-2.73	-5.462	**-36.653**
Taxes	-0.46	0.38	0.79	1.86	1.15	2.177	**4.497**
Net Income	-13.479	-19.936	-9.695	-46.99	-3.88	-7.639	**-41.15**
Shares	18.116	18.158	18.251	18.255	18.255	18.27	**18.27**
EPS	$ (0.74)	$ (1.10)	$ (0.53)	$ (2.57)	$ (0.21)	$ (0.42)	**$ (2.25)**

Gross Margin %	-0.42%	1.20%	3.19%	2.85%	6.86%	6.42%	4.51%
Operating Margin %	-9%	-13%	-5%	-6%	-1%	-2%	-5%
Net Margin %	-10%	-15%	-7%	-8%	-3%	-6%	-7%