



Rating  
**Buy**

North America  
Canada

Consumer  
Retailing / Specialty

Company  
**lululemon athletica  
inc.**

Reuters LULU.OQ    Bloomberg LULU US    Exchange NMS    Ticker LULU

Date  
30 November 2018

**Results**

Price at 29 Nov 2018 (USD)	129.46
Price target	163.00
52-week range	162.49 - 66.36

## Longevity of Growth Opportunity Is Where the Focus Should Be

We believe LULU has the potential to beat 3Q guidance driven by both comps and margin and expect the company to raise the full year and guide 4Q EPS above the Street (we are now modeling \$1.70 vs. prior \$1.69 and the Street at \$1.64). That said, there is a debate around the comp bar for 3Q with some investors thinking that 15% (guided to low-teens) may not be enough to move the stock higher as it implies a deceleration in the two-year stack (up 22% vs. up 26% in 2Q). We argue that 2Q was the company's strongest two-year stack performance (accelerated 800 bps from 1Q) since LULU combined the two segments (online and brick & mortar), and we note that we are consistently modeling HSD-LDD comps ahead, implying a re-acceleration of the two-year stack in the quarters ahead. We think the focus should be on the longevity of growth opportunities for this business model, which is experiencing significant EBIT dollar growth (among the highest in retail; we are modeling 2018 up 39% with 20%+ growth annually in the next two years) as the company is benefiting from product innovation and expansion, enhanced supply chain capabilities, and favorable mix shift along with international growth, which is still in its infancy stage. We reiterate our Buy rating and remain confident in LULU's superior growth, which could potentially drive LDD comps over the next two years.

[See 3Q Upside Driven by Strong Comps and Margin Gains \(see charts on pages 3-5\)](#)

We are raising our 3Q EPS estimate to \$0.70 from \$0.67 (the Street \$0.69; guidance \$0.65-\$0.67) as we are now modeling total comp up 15% vs. prior 13% (the Street 13.8%) with digital up 45% and brick and mortar up 6%. We believe cooler-than-average temperatures in October across much of the US led to strong sell-throughs in jackets and outerwear, which are accretive to AUR given their above-average price points. In addition, we think the company had opportunities in women's tops this quarter given the underperformance last year and expect robust growth in men's. Turning to margins, we believe LULU could beat our GPM estimate of 53.5% (up 130 bps YOY) as a number of retailers have demonstrated solid results on this line item in 3Q (e.g., DKS, FL, M). For SG&A, we are forecasting dollars up 20.7% equating to 54 bps of deleverage, which takes our EBIT margin estimate to 18.2% (up 76 bps YOY). Recall, the company expects pressure on the SG&A line this quarter due to cycling FX benefits and timing related to certain strategic initiative investments.

[Valuation & Risks](#)

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[Key changes](#)

TP	162.00 to 163.00	↑	0.6%
EPS (USD)	3.61 to 3.66	↑	1.3%
Revenue (USDm)	3,224 to 3,241	↑	0.5%

Source: Deutsche Bank

[Price/price relative](#)



Performance (%)	1m	3m	12m
Absolute	-4.3	-7.0	91.5
TSE Composite	1.9	-7.2	-5.4

Source: Deutsche Bank

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### Expect Solid Holiday Outlook and Full-Year Guidance Raise

For 4Q, we anticipate LULU to guide EPS above the Street and are raising our estimate to \$1.70 from \$1.69 and vs. the Street at \$1.64. We expect the 4Q outlook to include HSD-LDD comp guidance and GPM expansion of at least 50 bps (we are modeling 60 bps). The company will begin to cycle tougher comp compares in 4Q, but we are confident that momentum will continue as we have observed robust trends QTD particularly over the Black Friday weekend. Moreover, we point out that following Black Friday, Simon Property Group (SPG) commented that "certain sportswear and athleisure brands had their best Black Friday ever and exceeded their own high expectations". We are modeling total comp up 11% for the quarter with 28% growth in digital and 5% in brick & mortar. For the full year, we expect the company to raise EPS guidance (currently \$3.45-\$3.53) and are modeling \$3.66 vs. the Street at \$3.59 based on a 15% comp and EBIT expansion 251 bps.

### Stock & option liquidity data

Market Cap (USD)	17,422.8
Shares outstanding (m)	134.6
Free float (%)	100
Volume (29 Nov 2018)	452,934
Option volume (und. shrs., 1M avg.)	1,861,542

Source: Deutsche Bank

### Recent Pullback Is Attractive Heading Into the Print

Since LULU's all-time high in late September, the stock has pulled back 20% (S&P down 6%) and is now trading at 28.9x our 2019 EPS estimate of \$4.48 (prior \$4.43; the Street \$4.25), which is ~1.5 turns below the 1-year average of 30.5x (see Figure 5 on page 5). Our PT goes up a dollar to \$163, which is based on 30.0x our revised 2020 EPS estimate of \$5.43 (prior \$5.40; the Street \$5.05). We believe our multiple is appropriate given good visibility around EBIT expansion through accelerating comp trends, GPM gains, and SG&A leverage. Downside risks include SG&A expenses rising faster than sales; GPM contraction due to a promotional environment; operating margin expansion failing to develop; and a shift in trends away from athletic apparel.

### Forecasts and ratios

Year End Jan 31	2018A	2019E	2020E
1Q EPS	0.32	0.55A	0.66
2Q EPS	0.39	0.71A	0.84
3Q EPS	0.56	0.70	0.90
4Q EPS	1.33	1.70	2.08
FY EPS (USD)	2.59	3.66	4.48
P/E (x)	24.0	35.4	28.9

Source: Deutsche Bank estimates, company data



# LULU 3Q Preview Charts

We forecast EPS of \$0.70 vs. the Street at \$0.69

Figure 1: LULU 3Q17 Actuals vs. 3Q18 Estimates (\$M except per share data)

LULU Quarterly Results	3Q18E DB	3Q17A	YOY Growth	3Q18E Street	YOY Growth
<b>Net revenue</b>	<b>\$735.7</b>	<b>\$619.0</b>	<b>18.8%</b>	<b>\$737</b>	<b>19.1%</b>
Cost of goods sold	\$342.1	\$297.1	15.2%	\$344	15.8%
<b>Gross profit</b>	<b>\$393.6</b>	<b>\$323.1</b>	<b>21.8%</b>	<b>\$393</b>	<b>21.6%</b>
SG&A	\$259.9	\$215.4	20.7%	\$263	22.1%
<b>Operating income</b>	<b>\$133.7</b>	<b>\$107.8</b>	<b>24.0%</b>	<b>\$131</b>	<b>21.6%</b>
Other (expense) income, net	\$0.4	\$1.1			
<b>Income before taxes</b>	<b>\$134.1</b>	<b>\$108.8</b>	<b>23.2%</b>	<b>\$131</b>	<b>20.4%</b>
Tax expense	\$40.2	\$33.5	20.1%	\$39	16.4%
<b>Net income</b>	<b>\$93.9</b>	<b>\$75.3</b>	<b>24.6%</b>	<b>\$92</b>	<b>22.2%</b>
Reported EPS	\$0.70	\$0.43	61.2%	\$0.69	58.7%
Adjustments to EPS	\$0.0	\$0.13			
<b>Operating EPS (Non-GAAP)</b>	<b>\$0.70</b>	<b>\$0.56</b>	<b>24.1%</b>	<b>\$0.69</b>	<b>22.2%</b>
Weighted average diluted shares outstanding	133.9	135.6	(1.2%)		

Margin Analysis	3Q18E DB	3Q17A	YOY Growth	3Q18E Street	YOY Growth
<b>Gross profit margin</b>	<b>53.5%</b>	<b>52.2%</b>	<b>130 bps</b>	<b>53.3%</b>	<b>112 bps</b>
SG&A as a % of sales	35.3%	34.8%	54 bps	35.7%	89 bps
<b>Operating margin</b>	<b>18.2%</b>	<b>17.4%</b>	<b>76 bps</b>	<b>17.8%</b>	<b>36 bps</b>
Other (expense) income as a % of sales	0.1%	0.2%	(11) bps		
<b>Pre-tax income margin</b>	<b>18.2%</b>	<b>17.6%</b>	<b>65 bps</b>	<b>17.8%</b>	<b>19 bps</b>
Tax rate	30.0%	30.8%	(79) bps	29.8%	(102) bps
Reported EPS growth	61.2%	(12.6%)			
<b>Operating EPS growth</b>	<b>24.1%</b>	<b>20.8%</b>		<b>22.2%</b>	

Top-Line Analysis	3Q18E DB	3Q17A	YOY Growth	3Q18E Street	YOY Growth
<b>Comp</b>					
Total company (constant currency)	15.2%	7.0%	820 bps	13.8%	680 bps
Online (constant currency)	45.0%	25.0%	2000 bps	37.0%	1200 bps
Brick & mortar (constant currency)	6.0%	1.0%	500 bps	7.3%	630 bps

Source: Deutsche Bank, Company Filings, FactSet

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Figure 2: LULU Guidance Summary

lululemon athletica inc. (LULU) Guidance (\$M, except where noted)	3Q18		3Q18		FY18		FY18		FY18		FY18	
	LULU	DB Ests.	LULU	DB Ests.	LULU	DB Ests.	LULU	DB Ests.	LULU	DB Ests.	LULU	DB Ests.
Date issued	8/30/2018				3/27/2018		5/31/2018		8/30/2018			
Net revenue	\$720-\$730M	\$735.7			\$2,985-\$3,022B	\$3,040-\$3,075B	\$3,185-\$3,235B	\$3,241				
Combined comp (B&M and e-com, cFX)	+Low-teens	15.2%			+MSD to HSD	+HSD	+Low-teens	14.9%				
E-commerce comp (cFX)												
GPM	100 bps improvement	130 bps improvement			Expand modestly	Expand modestly	100 to 150 bps improvement	173 bps improvement				
SG&A rate	100 bps of deleverage	54 bps SG&A deleverage			Leverage	Leverage modestly	Leverage modestly	(78) bps SG&A leverage				
Operating margin		76 bps improvement						251 bps improvement				
Tax rate (non-GAAP)	30.0%	30.0%			29.0%	30.0%	30.0%	29.9%				
EPS (non-GAAP)	\$0.65-\$0.67	\$0.70			\$3.00-\$3.08	\$3.10-\$3.18	\$3.45-\$3.53	\$3.66				
Share count (does not include share repurchases)	133.0M	133.9			136.3M	136.3M	134.0M	134.6				
Inventory growth												
FX												
Capex					\$240 to \$250M	\$240 to \$250M	\$240 to \$250M	\$244				
lululemon International stores opened					20 to 30	20 to 30	20 to 25					
lululemon North America stores opened					20 to 30							
Total net new stores opened	10	11			40 to 50	40 to 50	40	41				
Square footage growth												

Source: Deutsche Bank, Company Filings

Figure 3: LULU Condensed Statement (2016-2019E) (\$M except per share data)

	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18E	4Q18E	2018E	2019E
<b>Net revenue</b>	<b>\$2,344.4</b>	<b>\$520.3</b>	<b>\$581.1</b>	<b>\$619.0</b>	<b>\$928.8</b>	<b>\$2,649.2</b>	<b>\$649.7</b>	<b>\$723.5</b>	<b>\$735.7</b>	<b>\$1,132.4</b>	<b>\$3,241.3</b>	<b>\$3,739.1</b>
Cost of goods sold	\$1,144.8	\$263.4	\$283.6	\$297.1	\$406.3	\$1,250.4	\$305.0	\$327.3	\$342.1	\$488.7	\$1,463.1	\$1,667.9
<b>Gross profit</b>	<b>\$1,199.6</b>	<b>\$256.9</b>	<b>\$297.4</b>	<b>\$322.0</b>	<b>\$522.5</b>	<b>\$1,398.8</b>	<b>\$344.7</b>	<b>\$396.2</b>	<b>\$393.6</b>	<b>\$643.7</b>	<b>\$1,778.2</b>	<b>\$2,071.2</b>
SG&A	\$778.5	\$199.1	\$225.5	\$215.4	\$264.2	\$904.3	\$240.4	\$262.0	\$259.9	\$318.6	\$1,081.0	\$1,218.6
<b>Operating income</b>	<b>\$421.2</b>	<b>\$45.4</b>	<b>\$68.7</b>	<b>\$85.6</b>	<b>\$256.3</b>	<b>\$456.0</b>	<b>\$104.3</b>	<b>\$134.2</b>	<b>\$133.7</b>	<b>\$325.0</b>	<b>\$697.2</b>	<b>\$852.6</b>
Other (expense) income, net	\$1.6	\$0.9	\$0.8	\$1.1	\$1.2	\$4.0	\$2.9	\$1.6	\$0.4	\$0.5	\$5.4	\$1.9
<b>Income before taxes</b>	<b>\$422.7</b>	<b>\$46.3</b>	<b>\$69.5</b>	<b>\$86.6</b>	<b>\$257.5</b>	<b>\$460.0</b>	<b>\$107.2</b>	<b>\$135.8</b>	<b>\$134.1</b>	<b>\$325.5</b>	<b>\$702.6</b>	<b>\$854.5</b>
Tax expense	\$119.3	\$15.1	\$20.8	\$27.7	\$137.7	\$201.3	\$32.1	\$40.0	\$40.2	\$97.7	\$210.0	\$256.4
<b>Net income</b>	<b>\$303.4</b>	<b>\$31.2</b>	<b>\$48.7</b>	<b>\$58.9</b>	<b>\$119.8</b>	<b>\$258.7</b>	<b>\$75.2</b>	<b>\$95.8</b>	<b>\$93.9</b>	<b>\$227.9</b>	<b>\$492.7</b>	<b>\$598.2</b>
Reported EPS	\$2.21	\$0.23	\$0.36	\$0.43	\$0.88	\$1.90	\$0.55	\$0.71	\$0.70	\$1.70	\$3.66	\$4.48
Adjustments to EPS	(\$0.07)	\$0.09	\$0.03	\$0.13	\$0.45	\$0.69	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Operating EPS (Non-GAAP)</b>	<b>\$2.14</b>	<b>\$0.32</b>	<b>\$0.39</b>	<b>\$0.56</b>	<b>\$1.33</b>	<b>\$2.59</b>	<b>\$0.55</b>	<b>\$0.71</b>	<b>\$0.70</b>	<b>\$1.70</b>	<b>\$3.66</b>	<b>\$4.48</b>
Diluted shares outstanding	137.3	137.2	136.3	135.6	135.7	136.2	135.9	134.5	133.9	133.9	134.6	133.5
<b>Sales and Margin Analysis</b>	<b>2016</b>	<b>1Q17</b>	<b>2Q17</b>	<b>3Q17</b>	<b>4Q17</b>	<b>2017</b>	<b>1Q18</b>	<b>2Q18</b>	<b>3Q18E</b>	<b>4Q18E</b>	<b>2018E</b>	<b>2019E</b>
<b>LULU Total SSS (cFX)</b>	<b>7.0%</b>	<b>(1.0%)</b>	<b>7.0%</b>	<b>7.0%</b>	<b>11.0%</b>	<b>7.0%</b>	<b>19.0%</b>	<b>19.0%</b>	<b>15.2%</b>	<b>11.4%</b>	<b>14.9%</b>	<b>8.9%</b>
LULU Online SSS (cFX)	13.0%	0.0%	30.0%	25.0%	42.0%	27.0%	60.0%	47.0%	45.0%	28.0%	41.6%	26.1%
LULU B&M SSS (cFX)	5.0%	(1.0%)	2.0%	1.0%	1.0%	1.0%	6.0%	10.0%	6.0%	5.0%	6.6%	2.3%
<b>GPM</b>	<b>51.2%</b>	<b>50.4%</b>	<b>51.6%</b>	<b>52.2%</b>	<b>56.2%</b>	<b>53.1%</b>	<b>53.1%</b>	<b>54.8%</b>	<b>53.5%</b>	<b>56.8%</b>	<b>54.9%</b>	<b>55.4%</b>
SG&A as % of sales	33.2%	38.3%	38.8%	34.8%	28.4%	34.1%	37.0%	36.2%	35.3%	28.1%	33.4%	32.6%
<b>EBIT</b>	<b>18.0%</b>	<b>12.1%</b>	<b>12.8%</b>	<b>17.4%</b>	<b>27.8%</b>	<b>19.0%</b>	<b>16.1%</b>	<b>18.5%</b>	<b>18.2%</b>	<b>28.7%</b>	<b>21.5%</b>	<b>22.8%</b>
Tax Rate	30.3%	30.8%	29.6%	30.8%	30.6%	43.8%	29.9%	29.5%	30.0%	30.0%	29.9%	30.0%

Source: Deutsche Bank, Company Filings

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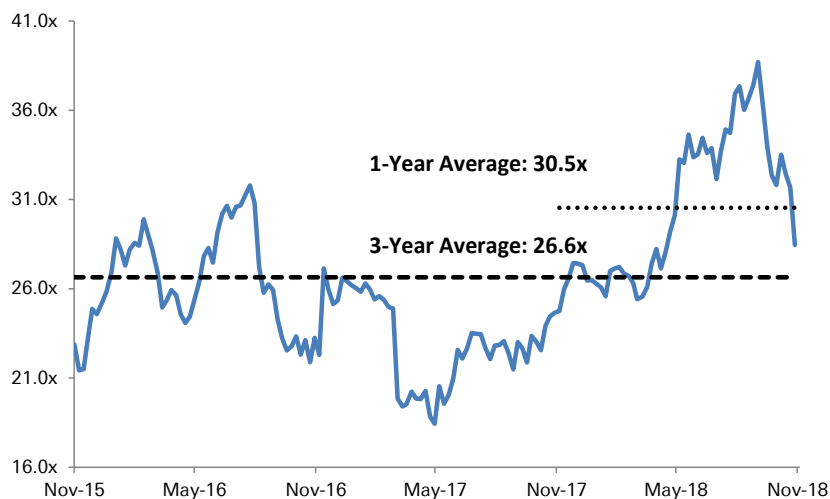


Figure 4: LULU Reported Results vs. Expectations (1Q15-3Q18E)

Quarter	Date Reported	Actual	DB	Street	Delta	Result
1Q15	6/6/2015	\$0.34	NA	\$0.33	\$0.01	Beat
2Q15	9/10/2015	\$0.34	NA	\$0.33	\$0.01	Beat
3Q15	12/9/2015	\$0.35	NA	\$0.37	(\$0.02)	Miss
4Q15	3/30/2016	\$0.85	NA	\$0.80	\$0.05	Beat
1Q16	6/8/2016	\$0.30	NA	\$0.31	(\$0.01)	Miss
2Q16	9/1/2016	\$0.38	NA	\$0.38	\$0.00	Met
3Q16	12/7/2016	\$0.47	NA	\$0.43	\$0.04	Beat
4Q16	3/29/2017	\$1.00	\$1.00	\$1.01	(\$0.01)	Miss
1Q17	6/1/2017	\$0.32	\$0.30	\$0.28	\$0.04	Beat
2Q17	8/31/2017	\$0.39	\$0.34	\$0.35	\$0.04	Beat
3Q17	12/6/2017	\$0.56	\$0.54	\$0.52	\$0.04	Beat
4Q17	3/27/2018	\$1.33	\$1.27	\$1.27	\$0.06	Beat
1Q18	5/31/2018	\$0.55	\$0.46	\$0.46	\$0.09	Beat
2Q18	8/30/2018	\$0.71	\$0.51	\$0.49	\$0.22	Beat
3Q18E	12/5/2018	TBD	\$0.70	\$0.69	TBD	TBD

Source: Deutsche Bank, Company Filings, FactSet

Figure 5: LULU Forward P/E (Past 3 Years)



Source: Deutsche Bank, FactSet

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# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
lululemon athletica inc.	LULU.OQ	128.99 (USD) 28 Nov 2018	2, 6, 9

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

## Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

2. Deutsche Bank and/or its affiliate(s) makes a market in equity securities issued by this company.
6. Deutsche Bank and/or its affiliate(s) owns one percent or more of a class of common equity securities of this company calculated under computational methods required by US law.

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9. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by India law.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>

## Analyst Certification

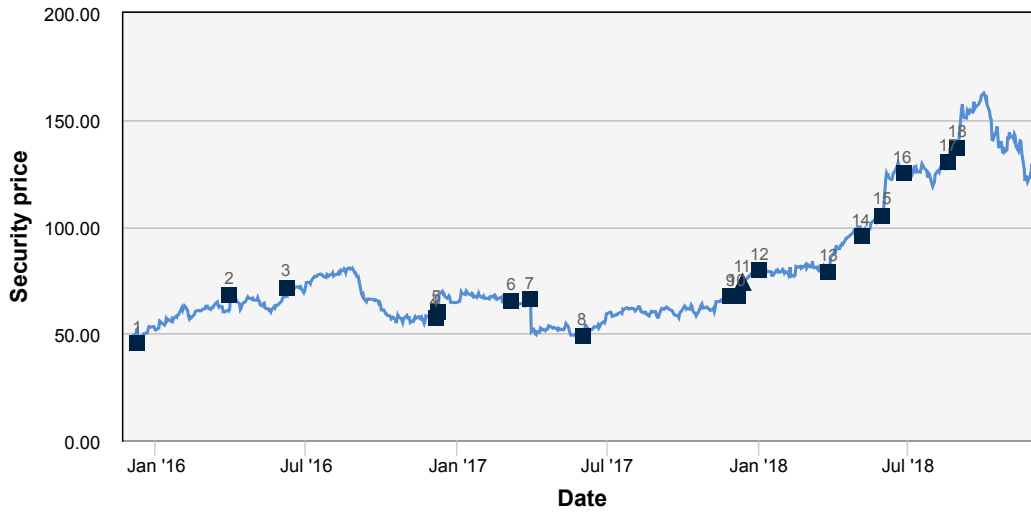
The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Paul Trussell

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Historical recommendations and target price. lululemon athletica inc. (LULU.OO)

(as of 11/29/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	12/10/2015	Hold, Target Price Change USD 53.00 David Weiner**	10.	12/07/2017	Hold, Target Price Change USD 72.00 Paul Trussell
2.	03/31/2016	Hold, Target Price Change USD 60.00 David Weiner**	11.	12/14/2017	Upgraded to Buy, Target Price Change USD 89.00 Paul Trussell
3.	06/09/2016	Hold, Target Price Change USD 65.00 David Weiner**	12.	01/03/2018	Buy, Target Price Change USD 95.00 Paul Trussell
4.	12/06/2016	Hold, Target Price Change USD 62.00 David Weiner**	13.	03/28/2018	Buy, Target Price Change USD 96.00 Paul Trussell
5.	12/08/2016	Hold, Target Price Change USD 64.00 David Weiner**	14.	05/07/2018	Buy, Target Price Change USD 104.00 Paul Trussell
6.	03/08/2017	Hold, Target Price Change USD 65.00 Paul Trussell	15.	06/01/2018	Buy, Target Price Change USD 117.00 Paul Trussell
7.	03/30/2017	Hold, Target Price Change USD 58.00 Paul Trussell	16.	06/26/2018	Buy, Target Price Change USD 137.00 Paul Trussell
8.	06/02/2017	Hold, Target Price Change USD 59.00 Paul Trussell	17.	08/20/2018	Buy, Target Price Change USD 138.00 Paul Trussell
9.	11/29/2017	Hold, Target Price Change USD 68.00 Paul Trussell	18.	08/31/2018	Buy, Target Price Change USD 162.00 Paul Trussell

Equity Rating Key

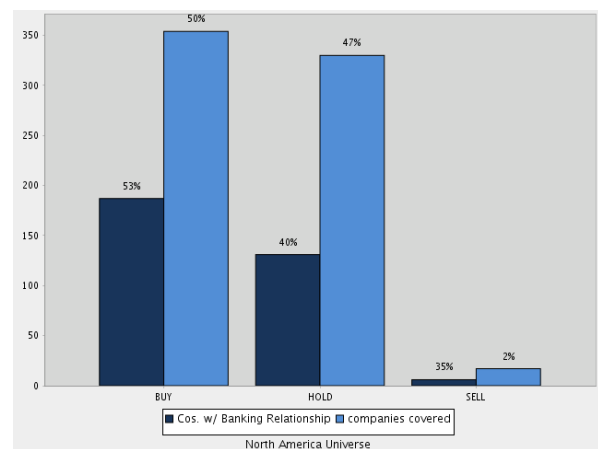
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



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