

Lululemon Athletica Inc. (LULU)

Stock Rating: **BUY**

November 10, 2020

Analysts

Jackson Castellon | Zach Graefen | Cade Chadima | Nathan Wegener | Carter Gornick
 jackson-castellon@uiowa.edu | zachary-graefen@uiowa.edu | cade-chadima@uiowa.edu | nathan-wegener@uiowa.edu | carter-gornick@uiowa.edu

Investment Thesis

We recommend a **buy** rating for Lululemon Athletica. Lulu will continue to experience growth during the pandemic and is positioned well with zero long-term debt and accelerating brand momentum. Lulu's strong e-commerce platform and global expansion opportunity will drive this growth. The stock offers a 25% upside for investors.

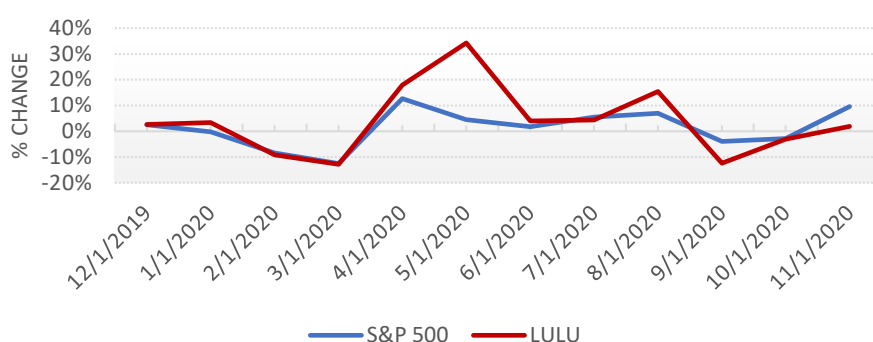
Drivers of Thesis:

- **Lulu will continue to develop global brand awareness and increase international sales by establishing a majority of new stores in international markets.** Lulu's international business grew 37% year over year in the 2020 fiscal second quarter and made up 16.2% of total revenue. Eight new stores have been opened in international markets, representing a majority of the company's openings this year. We expect international store growth to maintain levels between 15% to 20% over the next three years.
- **Lululemon e-commerce sales will continue to surge forward after the pandemic due to the company's early commitment to online sales.** With Lulu's e-commerce sales improving 157% year-over-year and total U.S. retail spending projecting to grow from 14.4% in 2020 to 19.2% by 2024, we expect Lulu to experience at least 20% direct-to-consumer growth over the next five years.

Risks of Thesis:

- **The specialty retail industry is a highly competitive market that is vulnerable to changes in fashion trends.** Due to the competitive nature of the industry, innovation and customer engagement is of critical importance. Therefore, costs could be greater than our forecasted average COGS of 40.06% of revenues and average SG&A of 30.88% of revenues.
- **Lululemon's recent acquisition of MIRROR may see a decrease in users, especially once the coronavirus dissipates.** The MIRROR acquisition is said to be dilutive in 2020 and modestly accretive by 2021; however, this may be adversely affected by a decrease in users and slightly reduce revenue expectations.

12 Month Stock Performance Compared to S&P 500



Current Price: \$322

Target Price: \$401

Forecast Outcomes

Discounted Cash Flow: \$401

Company Overview

Lululemon is a Vancouver, Canada-based retailer that sells high quality and premium-priced athletic apparel through its own stores and websites. Founded in 1998, the brand began as a line of clothes made out of technical fabric. Today, Lululemon has nearly 500 stores in Canada, U.S., Asia, Europe and Australia and is poised for significant expansion.

Statistical Highlights

Price Data

Current price	\$322.19
52 Week High	\$399.90
52 Week Low	\$128.85

Key Statistics

Market Cap	42,013 Million
Shares Outstanding	130.4 Million
Price to Earnings	80.49
Beta	1.12
WACC	6.34%
EPS 2019	4.95
Revenue 2019	3,979 Million
Net Income 2019	645 Million

Key Statistics

ROA	19.67%
ROE	33.07%
Gross Margin	55.87%
Profit Margin	16.22%

Earnings Estimates

EPS	2020	2021	2022
Forecast	4.55	6.47	8.76
Consensus	4.19	6.40	7.90

Economic Outlook

Covid-19

On March 11th, the World Health Organization (W.H.O.) declared the Covid-19 outbreak a pandemic. The outbreak was first identified in Wuhan, China and forced the nation to close its economy while also disrupting global supply chains. As the virus spread, other countries began to battle the virus by initiating lockdowns and providing stimulus. By April in the U.S., roughly 95% of Americans were under lockdown, as 42 states issued stay-at-home orders. Businesses that were determined nonessential were forced to close their doors while employees were sent home without work.

The retail industry has been hit incredibly hard, forcing many people out of work. According to The Bureau of Labor Statistics (BLS), unemployment peaked at 14.7% in April and was recorded at 6.9% most recently in October. During 2020, to combat the virus's economic impact, congress passed four coronavirus stimulus packages; the most notable was the phase three \$2.1 trillion emergency aid for businesses and consumers in need. Under a Biden administration, there is an expectation for a fifth stimulus package that would provide further direct support to those in need.

The U.S. economy experienced a downturn during the first two quarters of 2020 due to the outbreak. Since September, there has been a large increase in virus cases. According to the Centers for Disease Control and Prevention (CDC), the total case count is now beyond 10 million in the United States and gaining momentum upwards.¹ We do not expect our nation to undergo a complete lockdown, but we see areas with rising cases to undergo procedures to slow down the spread.

We believe the number of coronavirus cases will continue to increase during the winter months of 2020. This will pressure the U.S. economy, as businesses will struggle, and more people will be put out of work. Eventually, cases will slow down in February due to stay-at-home mandates in areas of rising numbers and due to the distribution of a vaccine.

In early November, Pfizer and BioNTech announced their coronavirus vaccine was more than 90% effective in preventing Covid-19.² This came as other pharmaceutical companies, such as Moderna, look to develop their own vaccines. According to the CDC, the first supply of vaccines will be available before

the end of 2020. However, there will be a limited supply that increases over time, where more people will be vaccinated later in 2021. With multiple vaccines in development, while keeping distribution challenges in mind, we expect the U.S. economy to begin to rebound in May 2021.

We don't expect the coronavirus to completely shut down Lululemon stores as it did during the first global shutdown. All of the stores in North America, Europe, and certain stores in Asia were closed for a significant portion of the company's first quarter. We see certain Lulu stores, such as in Chicago, where coronavirus cases have increased, to have limited hours. Lululemon will continue to rely on its e-commerce for sales.

2020 Election

Joe Biden has won the presidential election with 290 electoral votes over President Donald Trump's 232 electoral votes. Biden won vital states such as Arizona, North Carolina, and Georgia (where votes are being recounted). Regarding Congress, the Democrats gained one seat in the Senate, resulting in a 48 to 50, Democratic/Republican split, respectively. In the House of Representatives, the Republicans gained seven seats while the Democrats lost six. The House is currently 219 to 203 with a Democratic majority.³

With Biden as president, eyes will primarily focus on how he handles the coronavirus and any changes to fiscal policy. Biden plans to accelerate testing, increase the supplies of masks and other coronavirus equipment, and to distribute the vaccine once ready.⁴ Biden also has a priority of passing a stimulus plan.

Biden's plan for corporations is to raise taxes from 21% to 28%, impose a minimum tax, and raise taxes on foreign income. He would raise the top rate to 39.6% from 37.00% for individuals, create new limits on deductions, and impose the 12.4% Social Security payroll tax on wages above \$400,000. Finally, the capital gains tax; households with income above \$1 million would be taxed at 39.6% from the current 23.8%.⁵

With all of this in mind, we believe that Joe Biden's coronavirus plan will reduce the number of cases reported every day. Increases in shutdowns among states will decrease economic activity temporarily but will garnish a healthier country. His corporation tax plans will potentially reduce corporations' intake of new hires, as corporations will have less capital to use for wages; this decrease in capital may also decrease capital expenditures. There is a strong chance that these tax changes will slow the speed of an economic recovery.

Gross Domestic Product (GDP)

Real Gross Domestic Product (real GDP) is an inflation-adjusted measure that reflects the value of

an economy's goods and services, demonstrating that economy's overall health. A strong economy allows corporations to have the financial flexibility to improve their operations and expand their business. GDP is closely correlated with the consumer discretionary sector because consumer spending makes up over two-thirds of GDP in the U.S., and when the economy is doing well, people have more income to spend on non-essential items.

Due to the pandemic, second-quarter GDP plummeted the largest amount in history at 31.4%. Since then, the U.S. economy grew at its fastest pace ever, expanding at a 33.1% annualized rate in the third quarter.⁶ This was primarily due to increased consumer spending from government stimulus that came after many states across the country locked down to curb the spread of Covid-19. Moving forward, the International Monetary Fund expects global GDP to contract by 4.4% in 2020, a less severe contraction than forecasted in the June 2020 World Economic Outlook Update.⁷

The consumer discretionary sector relies heavily on consumer spending, which is a significant part of GDP. The pandemic forced many businesses to close and consumers to stay indoors. There will still be challenges ahead; however, with a vaccine and stimulus on the horizon, we expect the consumer discretionary will perform well during the economic recovery. With that being said, we expect real GDP to fall slightly in Q4 2020 with a decrease of around 4.0% and to rebound to around 7.0% growth in the first half of 2021.⁸

As the United States and other countries see their GDPs grow in 2021, we believe Lululemon will follow suit, as their sales are reliant on consumer spending, which is 70% of U.S. GDP.

reported a number of 14.7%. This decline is due to relaxed lockdown restrictions across the country and shows that the United States is slowly healing.

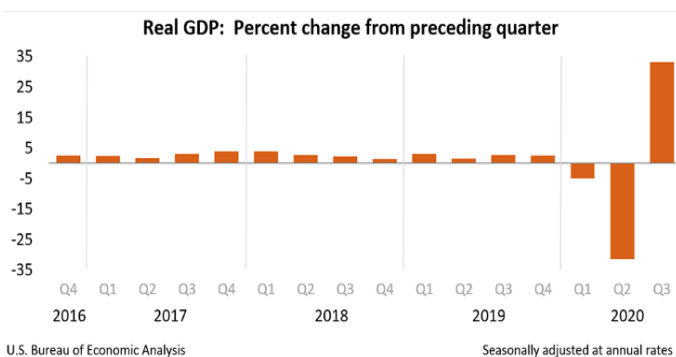
Since April, there has been a balancing act between safely opening the economy and people's safety with the novel coronavirus. The job market has recovered 12.1 million of the 22 million jobs lost since March and April.

According to the U.S. Bureau of Labor Statistics, nearly 15.7 million were employed by retailers in February. That dropped by about 2.4 million in March and April but recovered somewhat in May and June as stores began to reopen. About 14.4 million employees made up the workforce, as of June.⁹

On a different note, the recent rise in infections in many states such as Illinois, New York, Iowa, and Utah are likely to hurt a falling unemployment rate, along with the winter season approaching, which will reduce the workforce needed outside.

We foresee unemployment sitting at 7.1% at the end of 2020 due to increased lockdown measures. This number will remain in the range of 7.0% to 8.0% until May when the virus is under control and a vaccine will begin to be distributed. We predict unemployment will decrease from thereon to 6.2% in June as employers hire workers, and we expect to be around 5.6% by the end of 2021.

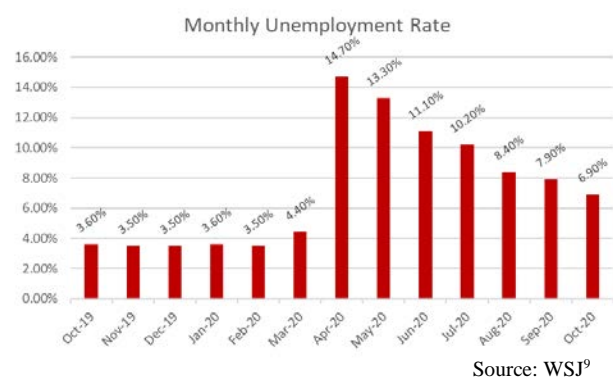
During the first nationwide lockdown, Lululemon remained committed to paying its employees through June 1st, regardless of whether stores in the area remained opened or closed. Calvin McDonald, the company's CEO, emphasized that people are the top priority. If another lockdown does occur, it will appear in areas with high case counts, and lockdowns will be less intense. We believe Lulu will lay off very little if any employees by the end of 2021.



Source: U.S. Bureau of Labor Statistics

Unemployment

The Bureau of Labor Statistics (BLS) measured unemployment at 6.9% after employers added 638,000 jobs last month. The U.S. has seen a steady decline in the rate since April of this year, which



Consumer Confidence

Consumer sentiment is an economic indicator that evaluates the degree of optimism consumers have regarding the outlook for the next twelve months of the economy and their financial situation expectations.

The University of Michigan's index of consumer sentiment reported a reading of 81.8 at the end of October, which is a slight increase from September's report of 80.4.¹⁰ This minute increase was driven by the decrease in the unemployment rate and a drop in weekly jobless claims. Conversely, Americans are concerned with the resurgence of coronavirus cases across the nation, as the U.S. has hit all-time highs in the daily number of cases reported in November. As of November 13th, consumer sentiment sits at 77.0, which was 5.0 below the forecasted number.¹¹

We predict that consumer sentiment will remain below current levels until the end of Q1 in 2021, even though government stimulus is on the horizon. Many states have reimpose lockdown measures to prohibit the spread of the virus, which will result in decreased business activity among businesses, especially small businesses.

We foresee the release of a vaccine in April, as many health experts have suggested. Although the vaccine distribution will take time, we believe the government will ease restrictions, and consumers will increase spending at this time. In May, we believe sentiment will hover between 85 and 95, and it will stay within that range as the economy improves.

Consumer confidence is an essential factor in the specialty retail industry. The entirety of the industry is dependent on consumer spending. Our projections imply a bounce back in spending at the end of Q2 and the start of Q3.

CPI/Inflation

The Consumer Price Index (CPI) is a measure of the average change in prices for a market basket of consumer goods and services. Changes in the CPI are used to evaluate price changes associated with the cost of living and for identifying periods of inflation or deflation. When analyzing the consumer discretionary sector, it is important to see how consumer purchasing power changes over time.

Before the pandemic, the inflation rate hovered between 1.5% and 2.5%. However, since the pandemic intensified, inflation experienced one of its greatest declines, falling to 0.3% in April. Inflation has been moving higher, but it is still lower than pre-pandemic levels. In October, inflation was recorded at 1.2%.¹²

Low inflation levels were triggered by the effects of Covid-19, as there was a decrease in the velocity of money in the economy. In other words, money is not being spent as frequently as before the pandemic. Consumer prices have been gradually recovering but

still reside below the Fed's 2.0% mark. As the number of Covid-19 cases accelerates, we may see portions of our economy shut down again. This would slow consumer spending and discourage inflation from increasing. As our nation continues to combat the virus, we expect inflation to stay below the 2% benchmark until the virus is under control and no mandated closures exist.

Industry Analysis

Industry Description

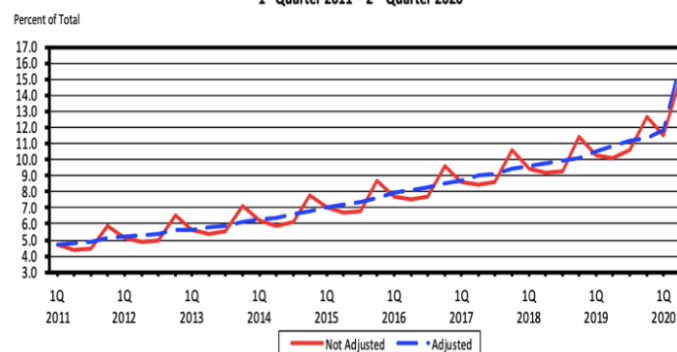
Within the consumer discretionary sector is a sub-sector of the specialty retail industry. The specialty retail industry includes companies that specialize in selling specific categories of goods to consumers, such as apparel, electronics, home improvement, automotive retail, and home furnishings.

Examples of companies in this industry consist of Best Buy, Barnes & Noble, Home Depot, and athletic retailers such as Nike, Under Armour, and Lululemon. The industry has a market capitalization of \$146.59 billion.¹³ We will be analyzing the sports apparel area of the specialty retail space.

Since fashion goods, such as the athletic retailers listed above, are discretionary, they are more sensitive to consumer spending and economic cycles than other industries. Covid-19 has forced retailers to alter their approach to sales, as many retailers have utilized e-commerce. U.S. retail e-commerce sales for the second quarter of 2020, adjusted for seasonal variation but not for price changes, was \$211.5 billion, an increase of 31.8 percent ($\pm 1.2\%$) from the first quarter of 2020.¹³

We think that the specialty retail industry will return to pre-pandemic levels at the end of 2021. As for Q4 of 2020, there will be an increase in sales due to the holiday season. We also believe another stimulus package will be agreed upon by Congress in the next few months, and the distribution of a vaccine is in sight. This will likely increase consumer spending, especially in-store shopping.

Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:
1st Quarter 2011 – 2nd Quarter 2020



Competitors

Lululemon's leading publicly traded competitors within the specialty retail industry include Nike, Adidas, Under Armour, and Gap's Athleta. Despite competing to sell their athleisure products, each company also competes to provide brand awareness. Through sponsorships and brand ambassadors, each organization skillfully markets its brand to target different athletic and athleisure markets. Nike has signed NBA athletes such as LeBron James to represent their company. Under Armour has signed golfers such as Jordan Speith. Lulu, on the other hand, has targeted more selective athletes such as competitive surfer Malia Manuel.

Porter's Five Forces

Porter's Five Forces is a model used to identify five competitive forces that shape the specialty retail industry.

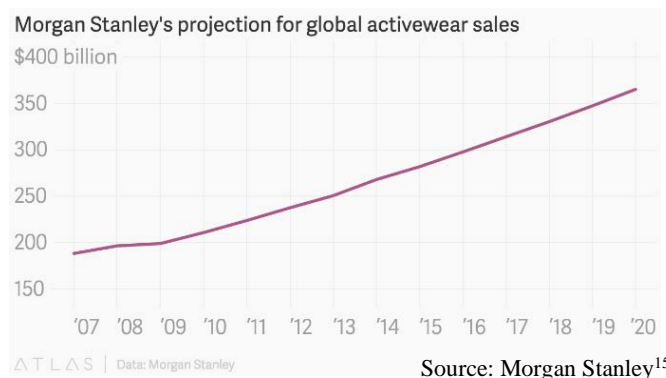
1. The threat of new entrants is moderate, as establishing new apparel and accessories businesses can be done easily. Still, brand recognition and economies of scale are difficult to replicate.
2. The threat of substitutes should concern companies in the specialty retail space. Apparel can be easily replicated, but brand recognition and loyalty are the keys to a company's success.
3. The bargaining power of the buyers is moderate in this space. Through maintaining a large customer base and continuously innovating products, firms can reduce consumers' bargaining power. Low switching costs allow consumers to search for the best possible substitutes at the lowest possible price, but brand loyalty may prevent customers from buying products from other companies.
4. The bargaining power of suppliers is low in the specialty retail space. Firms generally obtain their raw materials from numerous suppliers while experimenting with different product design materials to provide flexibility if prices of raw materials increase; however, suppliers of rare materials for accessories may have more bargaining power.
5. The degree of rivalry has intensified in the specialty retail space due to the pandemic forcing temporary closures amongst industry players. This has brought about a promotional environment to unload excess inventories and gain market share.

Athleisure

Since the early 2000s, people have become more conscious of their health. Individuals are focusing on

living a healthier lifestyle, and they are looking for durable athletic clothing that is also comfortable and fashionable. Companies such as Nike, Under Armour, Lululemon, and Adidas have recognized these trends, and they have created apparel for athleisure.

Coronavirus has sped up the move from business professional attire to athleisure. Jos. A. Bank, a retailer of men's clothing and accessories, filed for bankruptcy in August due to the lack of demand for formal attire. Casual dress has become more mainstream, as video meetings have become omnipresent due to work from home mandates. Lululemon has capitalized on this trend by offering formal wear that still has an athletic feel. Gap also offers this type of clothing.¹⁴



Omnichannel

Omnichannel retailing is a cross-channel content strategy that retailers use to improve their customer experience and drive better relationships with their audience across multiple points of content. Nike has embraced the omnichannel customer experience through their NikeID program. The program monitors and tracks its customers' health, hoping to further engage them with the Nike brand. Other specialty retailers like Adidas and Under Armour have done similar programs. Lululemon has taken this a step further and acquired the at-home fitness company MIRROR to embed the Lulu brand into its customers' lives. They have also built yoga studios within their stores as another method to embrace the omnichannel customer experience. Within the industry, customer experience and brand recognition are everything.

E-commerce

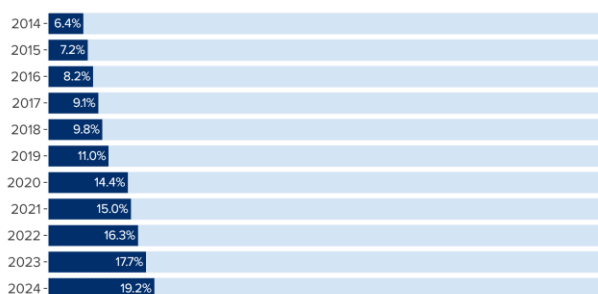
E-commerce has steadily grown and become a larger part of overall retail sales. The Covid-19 pandemic has accelerated the shift towards online sales. According to eMarketer, digital sales accounted for 14.4% of all U.S. retail spending in 2020. This is up from 11.0% in 2019 and is expected to increase to 19.2% by 2024. With fewer people making in-store purchases, retailers need to explore alternative approaches to conduct

sales. Besides the shift towards e-commerce, such methods include curbside pickup, turning stores into mini fulfillment centers, and experimenting with new technology, such as robotics, to handle distribution.

The accelerated shift to e-commerce has allowed the strong only to get stronger. eMarketer shows that the top ten e-commerce players are expected to account for 63.2% of all digital sales in the U.S. this year, up from 57.9% in 2019.¹⁶ The rise of e-commerce has also encouraged retailers to rethink their real estate. Retailers are increasing their investments towards warehouse space and fulfillment centers to pack and ship customers' online orders. This shift has hurt companies like J.C. Penny who rely on in-stores sales. J.C. Penny filed for bankruptcy in May and closed 127 stores last quarter.¹⁷

Based on the accelerated trends during the pandemic, we think that the shift towards e-commerce continues to accelerate forward and Lululemon will continue to benefit. Lulu's committed to e-commerce is the brands main point of sale and has experienced tremendous growth of 157% year-over-year in 2Q.²³ As a retailer, you must have an online presence; its convivence is incomparable. Without it, bankruptcy may arise, as we have seen with the massive number of retailers.

E-commerce sales as a percent of total retail sales
Values for 2020 and beyond are eMarketer projections



Source: eMarketer¹⁶

Company Analysis

Executive Summary

We believe LULU should continue to trade at a premium compared to other high-growth specialty retail companies, given its global growth opportunity, accelerating brand momentum, flourishing digital presence, and strong balance sheet. The Covid crisis decimated the retail industry; however, Lululemon has only been better positioned to perform resiliently and successfully. LULU has benefited from the at-home fitness trend and stay-at-home orders through their recent acquisition of the digital fitness company

MIRROR and the shift towards athleisure attire. For these reasons, we believe LULU is a BUY, with an upside of 25%.

Company Description

Lululemon is a Vancouver, Canada-based retailer that sells high quality and premium-priced athletic apparel through its stores and websites. Founded in 1998, the brand began as a line of clothes made from technical fabric. Today, Lululemon has nearly 500 stores in Canada, the U.S., Asia, Europe, and Australia and is poised for significant expansion.

Corporate Strategy

On Investor Day, April 25, 2019, LULU laid out its five-year growth trajectory. LULU's three priorities to drive revenue growth include product innovation, omni guest experiences, and market expansion.²³

Regarding product innovation, LULU expects to double the size of its men's revenues by 2023. LULU also plans to expand product collaborations into the office, travel, and commute categories, as well as pursue new opportunities in self-care.

With omni guest, LULU set plans to double its digital sales by 2023 to integrate digital and physical channels and updates to the loyalty program. With their recent acquisition of MIRROR, they plan to integrate it with the Lulu brand to expand their customer interaction and take advantage of the shift to at-home fitness.

On market expansion, LULU laid out their objective to quadruple international sales by 2023 by expanding into markets in China and Europe. We also see tremendous potential to increase brand awareness in the U.S. and Canada by introducing experiential offerings like the launch of a yoga studio in Lululemon's Chicago store.

Due to the coronavirus pandemic, Lululemon halted its share buyback program, along with many other companies looking to cut expenses by slashing dividends and suspending share buybacks. As of September 23, LULU reinstated their buyback program and was approved for another \$263.6 million worth of shares.²³

Product Innovation

Lululemon began as a yoga-inspired activewear brand for women. Over time, the brand and its following have grown beyond just womenswear and into menswear, travel items, and at-home fitness. In an effort to access a larger market, Lululemon recently extended their size ranges beyond the standard size

14 for most clothing options. Lulu has also committed themselves to expand their men's line by doubling men's sales by 2023. They recently unveiled a line of personal care products and a membership program that starts at \$168/year. The program offers a limited number of spots based on geographic location to make the program more selective.

MIRROR Acquisition

Amid the coronavirus pandemic, Lululemon announced their acquisition of at-home fitness company MIRROR for \$500 million on June 29, 2020. Cash and Lulu's revolver funded the deal. MIRROR's full-length mirror costs \$1,495 and features unlimited live and on-demand classes, as well as one-on-one personal training at \$39 per class. After completing the transaction, MIRROR operates as a standalone company within Lululemon, and MIRROR's founder, Brynn Putnam, will remain MIRROR's chief executive officer, reporting to Lululemon's CEO Calvin McDonald.¹⁸

MIRROR launched in 2018 and began a partnership with Lululemon in mid-2019 following an initial investment. LULU and MIRROR also have a content partnership that brings sweat and meditation classes via Lululemon's Global Ambassadors to the MIRROR platform.

Like Peloton and other in-home exercise options, MIRROR's growth has accelerated with the Covid-19 outbreak in North America. MIRROR's website traffic, app downloads, and google trends have increased rapidly during 2020. LULU recently increased MIRROR's 2020 revenue from \$100 million to \$150 million with modest earnings dilution in 2020 and modest accretion in 2021. MIRROR currently sells predominantly online. Its customer base is 50% male/female and already has approximately 50% overlap with Lululemon customers.¹⁸

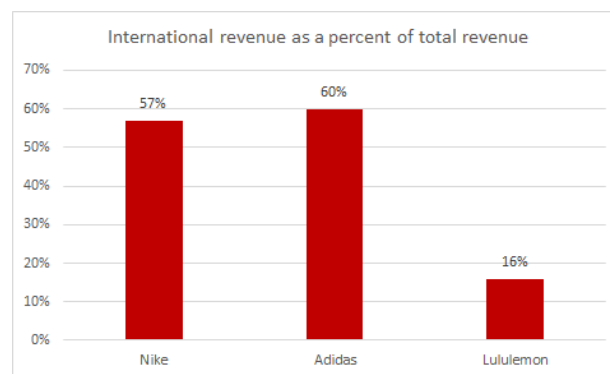
We believe LULU can enhance MIRROR's growth by providing access to LULU's large and growing active lifestyle customer base and new distribution channels. LULU also gains an additional revenue stream and an opportunity to reach new customers.

International Expansion

One of Lululemon's growth strategies is to quadruple international revenue by 2023. This will have a considerable impact on Lulu's ability to achieve global brand awareness and deliver gains to investors. Lulu's international business grew 37% year over year in the fiscal second quarter and made up 16.2% of total revenue. The bulk of its new store openings

are in Asia. So far, in fiscal 2020, Lululemon has opened eight new stores in China, representing most of the company's openings this year. With the international focus in mind, Lulu is on its way to becoming a dominant global apparel brand.¹⁹

Brands like Nike and Adidas generate a majority of their revenue outside the United States. Nike generates 57% of revenue outside the U.S., and Adidas generates 60% of their revenue outside the U.S. These numbers make Lulu's 16.2% of revenue coming from international regions look out of step.¹⁹ Still, it also gives us a hint of Lululemon's international revenue's potential size over the long-term.



Source: Nasdaq¹⁹

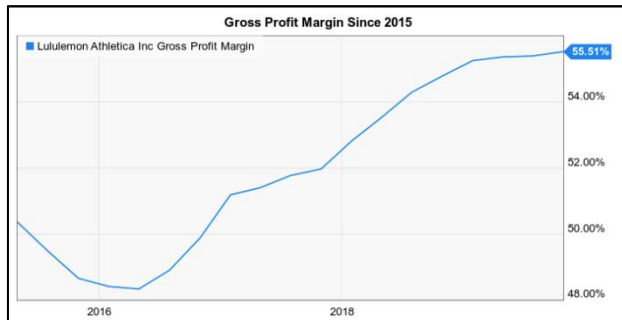
Financial Summary

E-commerce has been a bright spot for Lululemon during the Covid pandemic. In the second fiscal quarter, online sales improved 157% year over year, from an increase of 70% in the first fiscal quarter. Sales were driven by new product launches and aided by an online warehouse sale in mid-July, contributing 20% to online growth.²³

Next, sales per square foot is a crucial measure of retail success, particularly in evaluating store productivity. Lululemon is the best square footage retailer in the industry. In 2019, Lulu recorded \$1,660 sales per square foot, while most retailers' average has been \$325 in recent years. While average sales per square foot have declined, Lulu has managed to maintain their upward trend.²⁰

Additionally, Lulu has zero long-term debt on its balance sheet. This is important because it shows the company has cash inflow to cover its operational expenses and remain profitable. The lack of long-term debt also eliminates interest expense from the company's income statement. Lululemon solidified itself as a key player in the sports apparel space by acquiring MIRROR without taking on any long-term debt. They are the most liquid company in this space.

Finally, Lululemon prides itself on its profit margin. In 2019, the company reported a gross profit margin of 56% of sales, its fourth consecutive year of an increase. Lululemon cut costs despite the rising tariffs from the trade war, introduced new products that became popular quickly, and reduced its reliance on markdowns to increase this margin²⁰.



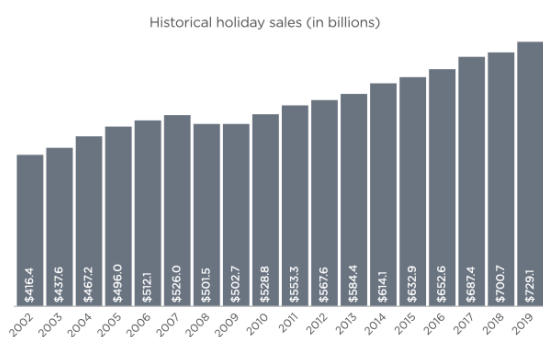
Source: Nasdaq²⁰

Holiday Demand

Lululemon is positioned well for increased holiday demand. LULU pulled forward its investments in developing its websites, building transactional omni functionality, and growing fulfillment capabilities to ensure its supply chain and infrastructure are ready to handle a meaningfully higher e-commerce penetration during the holidays.

LULU will also increase its seasonal stores to 70, up from 51 last year, to help manage holiday traffic volumes. Historical holiday sales have grown year over year since 2008, which is part of the reason why Lulu is increasing its seasonal store count this year. Currently, 97% of stores are reopened, and productivity has bounced back after the coronavirus affected these stores.²³ The threat of restricted operating hours and occupancy limits are still present in LULU's smaller stores.²³

Historical holiday sales



Source: Statista²¹

Ambassadors

Lululemon utilizes an ambassador program that connects the Lulu brand to the world to provide insightful feedback to innovate and grow. Through their program, ambassadors receive development tools and experiences, test products, and represent the brand. Industry leaders such as Nike and Under Armour have a firm grasp on mainstream sports such as professional football, basketball, and baseball. To differentiate itself, Lululemon has partnered with athletes in more niche athletics, such as with competitive surfer Malia Manuel and professional snowboarder Craig McMorris.²⁴ Lulu has also built relationships with some of the most notable yoga instructors worldwide to support their brand image. Lulu's ambassador program wants to further each customer's relationship with the brand to contribute to the omni guest experience.

Key Investment Positives and Negatives

Positives:

- Lulu has much room for growth, as it can expand further into markets such as China, countries in Europe, and Australia.
- Lululemon has strong financial statements with no long-term debt, leaving only equity in its capital structure. Their high-profit margins help enhance their financial strength.
- The company has a cult-like following, as women and men appreciate the products for their quality, flexibility, comfort, and style. As previously mentioned, Lulu has been growing its men's line. We believe they will achieve their goal of doubling men's sales by 2023.

Negatives:

- The recent acquisition of MIRROR is said to be dilutive in 2020 and modestly accretive by 2021, but in-home fitness may see a decline in users, especially once the coronavirus dissipates. This may adversely affect the results of operations.
- The sports apparel retail space is highly competitive. There are low barriers to entry, and other companies can copy Lulu's products and sell them for cheaper. Other successful companies also exist in the space that can take Lulu's market share.
- The company is vulnerable to changes in fashion trends. If they cannot successfully identify consumers' preferences, Lulu's sales and profitability will be hurt.

Valuation Analysis

Valuation Methodology

The target price for Lululemon's stock was derived from careful examination of the current economic outlook, industry trends, and several financial factors. By combining these factors, we were able to forecast LULU's financial statements and use that information to conduct several valuations: discounted cash flow and economic profit, dividend discount model, and relative valuation.

Revenue Decomposition

We broke down Lululemon's revenue into three main sections: company-operated stores, direct to consumer, and other. We also segmented Lulu's revenue by geographic location because international expansion is an area of Lulu's future growth. Women's, men's, and other products were also shown to depict the growth in men's products and MIRROR.

The coronavirus has disrupted the retail industry but has accelerated the shift towards online shopping. We expect Lulu's company operated store revenue to take a sharp decline in 2020, but it will rebound quickly in 2021 due to their accelerating brand momentum and product innovation. Direct to consumer sales are expected to be up by 75% in 2020 and maintain that momentum in the years to come, as shoppers commit to an online shopping experience. Women's products are expected to remain Lulu's main product line, but we do expect accelerating growth in their men's options, as Lulu emphasizes their product innovation for that sector.

Cost of Goods Sold

When calculating the cost of goods sold (excluding depreciation and amortization), we took the figures from the past ten years as a percentage of sales. By averaging these figures, we found that 40% of sales would be the most accurate COGS representation during our forecasted years. Each year, we did taper off 0.5% to match historical trends and represent increased economies of scale.

Selling, General & Administrative

Our forecasted SG&A number was derived by the same means as COGS. We determined that the historical average of SG&A was 31% of net revenue. This number was applied each year during the forecasted period. We did apply an additional 5% weight to this historical average starting in 2020 due

to coronavirus related expenses. We added 4% in 2021 to the historical average and tapered it off by 1% until 2023.

WACC

The weighted average cost of capital for Lululemon was computed using a 6.42% cost of equity, with a 98.38% market value weight. Additionally, the after-tax cost of debt used was 1.54%, with a 1.62% market value weight. This resulted in a WACC of 6.34%, which was used to discount the cash flows in our DCF/EP model.

Cost of Equity

We determined Lululemon's cost of equity using the capital asset pricing model (CAPM). To compute the beta, we took an average of the five year monthly, five year weekly, three year monthly, and three year weekly raw betas to arrive at a final value of 1.12. Additionally, we used the 10-year treasury yield of 0.98% for the risk-free rate and an equity risk premium of 4.86% retrieved from Aswath Damodaran. The combination of these inputs computed a 6.34% cost of equity.

Cost of Debt

Due to Lululemon having zero debt on their balance sheet, the cost of debt was calculated based on a variable rate under their revolving credit facility that ranges between 1.00% and 1.75% over the current LIBOR rate. We applied the upper end of the range to the most recent 1-year LIBOR rate of 0.3419% to calculate the pre-tax cost of debt, which was 2.09%. From there, we used our marginal tax rate of 26.6% to arrive at a 1.54% cost of debt.

Discounted Cash Flow (DCF) & Economic Profit (EP)

The DCF and EP models were built by forecasting Lululemon's free cash flow and discounting them by the weighted average cost of capital. Free cash flow was expressed by subtracting the change in Lulu's invested capital from their net operating profits, less adjusted taxes (NOPLAT). Economic profit was defined as Lulu's invested capital, multiplied by the spread between their return on invested capital and WACC. Based on our DCF and EP models, we determined an implied price as of today to be \$400.69 per share.

Dividend Discount Model

For the Dividend Discount Model (DDM), we projected a target stock price of \$293.78 after the partial adjustment. This projection is 9.67% below the current stock price of \$322.19, and it is 26.68% below our DFC projection of \$400.69. We don't find the DDM to be useful, as Lululemon does not plan on offering a dividend in the foreseeable future. This, in turn, results in a lower stock price as of today.

Relative Valuation

Our relative valuation model contains five comparable companies to Lulu. These companies are Nike, Hanesbrand, Adidas, Gap, and Under Armour. We used the forward price to earnings ratio, enterprise to EBITDA, and market cap within this industry to find the stock price, which yielded three different results. Our analysts believe that the relative valuation does not do Lululemon's stock price justice, as all three of the valuation methods gave low stock prices due to Lulu trading at a premium.

Lululemon stands out from its peers when looking at the 2020 and 2021 earnings per share. Lulu's 2020 EPS of \$4.55 is well above competitors' 2020 EPS, with the closest competitor, Nike, having an EPS of \$2.91. In 2021, Lulu's EPS is once again well above its competitors.

We believe that it justified that Lululemon is trading at a premium compared to its competitors because its sales per square foot are the highest in the industry, and it has an impressive profit margin, which helps facilitate profitability.

Sensitivity Analysis

Beta vs. Equity Risk Premium

This sensitivity analysis shows the changes in the stock price based on beta and equity risk premium. These two figures are components of the cost of equity. These are of great importance to Lulu's WACC, as Lulu has no long-term debt on its balance sheet. The cost of equity holds 98.38% of the weight in the WACC. Lulu's current beta is 1.12, according to Bloomberg's analysis, and its equity risk premium is 4.86%, which was taken from Aswath Damodaran.²²

		Beta							
		\$ 400.69	0.97	1.02	1.07	1.12	1.17	1.22	1.27
Equity Risk Premium	4.56%	577.67	527.03	483.94	446.83	414.55	386.23	361.18	
	4.66%	555.08	506.92	465.86	430.43	399.57	372.46	348.45	
	4.76%	534.06	488.17	448.96	415.08	385.53	359.53	336.49	
	4.86%	514.44	470.63	433.14	400.69	372.35	347.38	325.24	
	4.96%	496.10	454.21	418.29	387.16	359.94	335.94	314.63	
	5.06%	478.91	438.79	404.33	374.43	348.26	325.15	304.62	
	5.16%	462.77	424.28	391.18	362.43	337.22	314.96	295.15	

COGS % of Revenue CV vs. CV Growth of NOPLAT

We wanted to analyze the influence cost of goods sold as a percent of revenue into perpetuity and the growth of NOPLAT into perpetuity on Lululemon's stock price. As mentioned earlier, Lulu's profit margin is among the best in the industry due to its notoriously high-end clothing. As COGS decrease due to economies of scale, the stock price increases. Secondly, the growth of NOPLAT into perpetuity has a significant influence on the stock price, as a 0.80% increase increases the stock price \$71.12.

		COGS % of Revenue CV							
		\$ 400.69	33.11%	33.61%	34.11%	34.61%	35.11%	35.61%	36.11%
CV Growth of NOPLAT	2.30%	381.39	376.35	371.32	366.28	361.25	356.22	351.18	
	2.45%	392.50	387.29	382.08	376.87	371.66	366.45	361.24	
	2.60%	404.50	399.10	393.70	388.30	382.90	377.51	372.11	
	2.75%	417.50	411.89	406.29	400.69	395.09	389.49	383.88	
	2.85%	426.78	421.04	415.29	409.54	403.79	398.04	392.29	
	2.95%	436.62	430.72	424.81	418.91	413.01	407.10	401.20	
	3.10%	452.51	446.36	440.20	434.05	427.90	421.74	415.59	

Direct to Consumer CV Growth vs. Additional International Stores CV

Our analysts wanted to test Lulu's product distribution channels. The direct-to-consumer channel has become a major point of focus moving forward as our world becomes more digital, along with their focus on international store growth into relatively untapped markets. While both channels influence the stock price in the near-term, these factors do not display much of an impact into perpetuity. Changes to the direct-to-consumer were made by increments of 0.25%, while changes to the international stores were made by three.

		Direct to Consumer CV Growth							
		\$ 400.69	1.55%	1.80%	2.05%	2.30%	2.55%	2.80%	3.05%
Additional International Stores	12	398.34	398.90	399.46	400.02	400.59	401.15	401.71	
	15	398.56	399.12	399.68	400.25	400.81	401.37	401.94	
	18	398.78	399.34	399.90	400.47	401.03	401.59	402.16	
	21	399.00	399.56	400.13	400.69	401.25	401.82	402.38	
	24	399.22	399.79	400.35	400.91	401.47	402.04	402.60	
	27	399.44	400.01	400.57	401.13	401.70	402.26	402.82	
	30	399.67	400.23	400.79	401.36	401.92	402.48	403.04	

CV of ROIC vs. CV SG&A % of Revenue

We compared the CV of ROIC with the CV of SG&A as a percent of revenue because Lulu's SG&A could differ from our projections into the future. A difference in SG&A would affect our company's NOPLAT and then impact the ROIC. We forecasted the CV of ROIC to be 43.21% and CV SG&A % of revenue to be 30.88%. By applying 0.5% and 1% changes, respectively, we found that changes to the CV of ROIC cause very little influence on the stock price, while modifications to CV SG&A % of revenue causes around a 4.00% change in stock price.

		CV of ROIC							
		\$ 400.69	41.71%	42.21%	42.71%	43.21%	43.71%	44.21%	44.71%
CV SG&A % of Revenue	27.88%	443.99	444.30	444.60	444.90	445.19	445.48	445.75	
	28.88%	429.28	429.58	429.88	430.16	430.45	430.72	430.99	
	29.88%	414.57	414.86	415.15	415.43	415.70	415.97	416.23	
	30.88%	399.86	400.14	400.42	400.69	400.95	401.21	401.46	
	31.88%	385.15	385.43	385.69	385.95	386.21	386.46	386.70	
	32.88%	370.44	370.71	370.96	371.22	371.46	371.70	371.94	
	33.88%	355.73	355.99	356.24	356.48	356.72	356.95	357.17	

Cost of Equity vs. Risk-free Rate

This sensitivity analysis shows how the stock price is influenced by changes in the cost of equity and the risk-free rate. Ultimately, we saw that alterations to the cost of equity did not affect the stock price that greatly, but changes in the risk-free rate had a notable impact. A 0.90% decrease, a change from the highest percent to the lowest percentage of the risk-free rate, altered the stock price \$113.60. This immense change is due to the increased spread between the risk-free rate and expected return of the investment, which, in turn, increases the market risk premium.

		Cost of Equity						
		6.12%	6.22%	6.32%	6.42%	6.52%	6.62%	6.72%
Risk-Free Rate	\$	400.69						
	0.53%	463.72	464.06	464.39	464.73	465.06	465.40	465.74
	0.68%	440.49	440.81	441.13	441.45	441.77	442.09	442.40
	0.83%	419.27	419.58	419.88	420.18	420.49	420.79	421.10
	0.98%	399.82	400.11	400.40	400.69	400.98	401.27	401.56
	1.13%	381.92	382.20	382.48	382.76	383.03	383.31	383.59
	1.28%	365.41	365.67	365.94	366.20	366.47	366.73	367.00
	1.43%	350.12	350.37	350.63	350.88	351.14	351.39	351.64

Important Disclaimer

This report was created by students enrolled in the Applied Equity Valuation class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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Lululemon Athletica Inc.

Revenue Decomposition

Scale: Thousands

Fiscal Years Ending Feb. 2	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Company-Operated Stores	1,837,065	2,126,363	2,501,067	1,675,715	2,153,515	2,665,282	3,146,514	3,552,354	3,750,286	3,925,299	4,042,749	4,126,131	4,185,571
Company-Operated Stores Growth %	7.8%	15.7%	17.6%	-33.0%	28.5%	23.8%	18.1%	12.9%	5.6%	4.7%	3.0%	2.1%	1.4%
% of Revenue	69.3%	64.7%	62.9%	41.5%	41.6%	41.3%	40.1%	38.7%	36.1%	34.1%	33.2%	32.6%	32.4%
Direct to Consumer	577,590	858,856	1,137,822	1,991,189	2,580,580	3,272,176	4,067,315	4,892,979	5,817,752	6,649,691	7,175,017	7,540,943	7,714,384
Direct to Consumer Growth %	27.4%	48.7%	32.5%	75.0%	29.6%	26.8%	24.3%	20.3%	18.9%	14.3%	7.9%	5.1%	2.3%
% of Revenue	21.8%	26.1%	28.6%	49.4%	49.9%	50.6%	51.9%	53.3%	55.9%	57.8%	58.9%	59.5%	59.7%
Other	234,526	303,100	340,407	366,795	438,396	522,922	629,956	728,001	831,553	927,042	969,153	1,002,476	1,026,116
Other Growth %	25.6%	29.2%	12.3%	7.8%	19.5%	19.3%	20.5%	15.6%	14.2%	11.5%	4.5%	3.4%	2.4%
% of Revenue	8.9%	9.2%	8.6%	9.1%	8.5%	8.1%	8.0%	7.9%	8.0%	8.1%	8.0%	7.9%	7.9%
Net Revenue	2,649,181	3,288,319	3,979,296	4,033,698	5,172,492	6,460,380	7,843,785	9,173,335	10,399,591	11,502,032	12,186,919	12,669,549	12,926,071
Net Revenue Growth %	13.0%	24.1%	21.0%	1.4%	28.2%	24.9%	21.4%	17.0%	13.4%	10.6%	6.0%	4.0%	2.0%

Segments

United States Net Revenue	1,911,763	2,363,374	2,854,364	2,976,946	3,506,218	4,028,380	4,587,105	5,054,632	5,589,928	5,941,206	6,150,065	6,296,417	6,370,113
Revenue Growth	10.8%	23.6%	20.8%	4.3%	17.8%	14.9%	13.9%	10.2%	10.6%	6.3%	3.5%	2.4%	1.2%
Percent of Revenue	72.2%	71.9%	71.7%	73.8%	67.8%	62.4%	58.5%	55.1%	53.8%	51.7%	50.5%	49.7%	49.3%
Number of Stores	274	285	305	319	341	356	370	372	380	386	389	391	393
Store Growth %	-4.9%	4.0%	7.0%	4.6%	6.9%	4.4%	3.9%	0.5%	2.2%	1.6%	0.8%	0.5%	0.5%
Estimated Stores Sales	1,282,498	1,363,545	1,580,339	1,016,261	1,274,911	1,510,893	1,707,053	1,835,383	1,870,221	1,893,957	1,887,910	1,882,517	1,867,116
Canada Net Revenue	491,779	565,105	649,114	698,471	780,237	862,393	946,384	1,041,382	1,131,218	1,213,537	1,257,259	1,290,026	1,308,976
Revenue Growth	10.0%	14.9%	14.9%	7.6%	11.7%	10.5%	9.7%	10.0%	8.6%	7.3%	3.6%	2.6%	1.5%
Percent of Revenue	18.6%	17.2%	16.3%	17.3%	15.1%	13.3%	12.1%	11.4%	10.9%	10.6%	10.3%	10.2%	10.1%
Number of Stores	60	64	63	62	65	67	68	70	72	74	75	76	77
Store Growth %	-6.3%	6.7%	-1.6%	-1.6%	4.8%	3.1%	1.5%	2.9%	2.9%	2.8%	1.4%	1.3%	1.3%
Estimated Stores Sales	280,839	306,200	326,431	197,518	243,018	284,353	313,729	345,368	354,358	363,090	363,993	365,911	365,822
Outside of North America Net Revenue	245,639	359,840	475,818	358,282	886,037	1,569,607	2,310,297	3,077,321	3,678,446	4,347,289	4,779,595	5,083,106	5,246,982
Revenue Growth	43.5%	46.5%	32.2%	-24.7%	147.3%	77.1%	47.2%	33.2%	19.5%	18.2%	9.9%	6.4%	3.2%
Percent of Revenue	9.3%	10.9%	12.0%	8.9%	17.1%	24.3%	29.5%	33.5%	35.4%	37.8%	39.2%	40.1%	40.6%
Number of Stores	70	91	123	145	170	205	244	278	310	340	369	390	411
Store Growth %	29.6%	30.0%	35.2%	17.9%	17.2%	20.6%	19.0%	13.9%	11.5%	9.7%	8.5%	5.7%	5.4%
Estimated Stores Sales	327,645	435,378	637,317	461,937	635,586	870,036	1,125,732	1,371,603	1,525,707	1,668,252	1,790,846	1,877,703	1,952,633
Total Revenue	2,649,181	3,288,319	3,979,296	4,033,698	5,172,492	6,460,380	7,843,785	9,173,335	10,399,591	11,502,032	12,186,919	12,669,549	12,926,071
Total Stores	404	440	491	526	576	628	682	720	762	800	833	857	881
New Stores	-2	36	51	35	50	52	54	38	42	38	33	24	24
Total Store Growth	-0.5%	8.9%	11.6%	7.1%	9.5%	9.0%	8.6%	5.6%	5.8%	5.0%	4.1%	2.9%	2.8%
Sales Per Store Square Foot	1.55	1.58	1.66	1.01	1.16	1.30	1.40	1.52	1.48	1.45	1.41	1.37	1.32
Growth %	2.2%	1.6%	4.9%	-39.1%	15.1%	12.4%	7.6%	8.0%	-2.2%	-2.3%	-3.0%	-2.7%	-3.3%
Average Square Foot Per Store	3,012.00	3,030.00	3,127.00	3,158.27	3,221.44	3,253.65	3,286.19	3,253.32	3,318.39	3,384.76	3,452.45	3,521.50	3,591.93
Growth %	2.4%	0.6%	3.2%	1.0%	2.0%	1.0%	1.0%	-1.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Ivivva Store Count

Ivivva Store Count	7	7	5	0	0	0	0	0	0	0	0	0	0
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Categories

Women's Products	1,892,624	2,352,788	2,790,997	2,830,166	3,456,503	4,126,205	4,748,737	5,373,626	6,072,592	6,767,130	7,143,817	7,447,874	7,601,788
Women's Growth	N/A	24.3%	18.6%	1.4%	22.1%	19.4%	15.1%	13.2%	13.0%	11.4%	5.6%	4.3%	2.1%
% of Revenue	71.4%	71.5%	70.1%	70.2%	66.8%	63.9%	60.5%	58.6%	58.4%	58.8%	58.6%	58.8%	58.8%
Men's Products	526,535	694,921	933,767	944,647	1,297,674	1,709,798	2,193,989	2,619,445	2,913,747	3,189,357	3,394,823	3,520,307	3,597,264
Men's Growth	N/A	32.0%	34.4%	1.2%	37.4%	31.8%	28.3%	19.4%	11.2%	9.5%	6.4%	3.7%	2.2%
% of Revenue	19.9%	21.1%	23.5%	23.4%	25.1%	26.5%	28.0%	28.6%	28.0%	27.7%	27.9%	27.8%	27.8%
Other Categories	230,022	240,610	254,532	258,884	418,315	624,377	901,058	1,180,264	1,413,253	1,545,546	1,648,278	1,701,368	1,727,020
Other Growth	N/A	4.6%	5.8%	1.7%	61.6%	49.3%	44.3%	31.0%	19.7%	9.4%	6.6%	3.2%	1.5%
% of Revenue	8.7%	7.3%	6.4%	6.4%	8.1%	9.7%	11.5%	12.9%	13.6%	13.4%	13.5%	13.4%	13.4%
Total Revenue	2,649,181	3,288,319	3,979,296	4,033,698	5,172,492	6,460,380	7,843,785	9,173,335	10,399,591	11,502,032	12,186,919	12,669,549	12,926,071

Lululemon Athletica Inc.

Balance Sheet

Scale: Thousands

Fiscal Years Ending Feb. 2	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Assets													
Cash & Cash Equivalents	990,501	881,320	1,093,505	1,271,638	1,608,814	1,935,224	2,477,304	3,312,013	5,348,179	7,053,692	8,990,125	11,103,085	13,355,763
Accounts Receivable	19,173	35,786	40,219	37,953	48,668	60,786	73,803	86,312	97,850	108,223	114,667	119,208	121,622
Inventories	329,562	404,842	518,513	518,692	665,130	830,739	1,008,631	1,179,597	1,337,281	1,479,044	1,567,113	1,629,175	1,662,161
Prepaid & Receivable Income Taxes	48,948	49,385	85,159	101,262	143,629	193,663	250,497	309,234	361,598	411,828	439,682	461,029	474,605
Other Prepaid Expenses & Other Current Assets	48,098	57,949	70,542	82,905	97,434	114,510	134,578	158,163	185,882	218,459	256,744	301,740	354,621
Total Current Assets	1,436,282	1,429,282	1,807,938	2,012,450	2,563,675	3,134,922	3,944,812	5,045,320	7,330,791	9,271,245	11,368,333	13,614,237	15,968,772
Property & Equipment, Net	473,642	567,237	671,693	747,604	877,304	1,055,358	1,274,330	1,519,014	1,775,255	2,031,568	2,260,291	2,455,884	2,612,806
Right-of-Use Lease Assets	-	-	689,664	855,486	1,003,902	1,207,650	1,458,222	1,738,214	2,031,432	2,324,732	2,586,460	2,810,278	2,989,845
Goodwill	24,606	24,239	24,423	24,423	24,423	24,423	24,423	24,423	24,423	24,423	24,423	24,423	24,423
Intangible Assets, Net	73	-	-	85	85	85	84	84	84	84	83	83	83
Deferred Income Tax Assets	32,491	26,549	31,435	29,938	42,464	57,257	74,060	91,425	106,907	121,758	129,993	136,304	140,318
Other Non-Current Assets	31,389	37,404	56,201	57,005	57,820	58,647	59,485	60,336	61,199	62,074	62,962	63,862	64,775
Total assets	1,998,483	2,084,711	3,281,354	3,726,991	4,569,673	5,538,341	6,835,417	8,478,817	11,330,091	13,835,884	16,432,545	19,105,071	21,801,021
Liabilities and Stockholders Equity													
Accounts Payable	24,646	95,533	79,997	49,956	64,060	80,010	97,143	113,609	128,796	142,450	150,932	156,909	160,086
Accrued Inventory Liabilities	13,027	16,241	6,344	23,484	29,726	36,633	43,866	50,572	56,491	61,531	64,173	65,633	65,839
Accrued Compensation & Related Expenses	70,141	109,181	133,688	108,520	135,279	164,117	193,378	219,277	244,690	266,316	282,174	293,349	299,288
Current Lease Liabilities	-	-	128,497	152,440	161,519	138,188	111,877	87,275	227,826	260,719	290,072	315,173	335,312
Current Income Taxes Payable	15,700	67,412	26,436	43,929	62,308	84,014	108,669	134,150	156,866	178,657	190,740	200,001	205,890
Unredeemed Gift Card Liability	82,668	99,412	120,413	109,767	140,756	175,803	213,449	249,629	282,999	312,999	331,637	344,770	351,751
Other Current Liabilities	86,416	112,698	125,043	128,930	165,329	206,494	250,712	293,209	332,404	367,641	389,532	404,959	413,158
Total Current Liabilities	292,598	500,477	620,418	617,026	758,978	885,259	1,019,094	1,147,722	1,430,071	1,590,313	1,699,260	1,780,794	1,831,324
Non-Current Lease Liabilities	-	-	611,464	725,399	768,602	657,579	532,376	415,306	1,084,127	1,240,655	1,380,333	1,499,779	1,595,610
Non-Current Income Taxes Payable	48,268	42,099	48,226	40,957	58,093	78,330	101,318	125,075	126,188	127,311	128,444	129,587	130,741
Deferred Income Tax Liabilities	1,336	14,249	43,432	15,388	21,827	29,430	38,067	46,993	54,951	62,584	66,817	70,061	72,124
Other Non-Current Liabilities	59,321	81,911	5,596	6,128	6,710	7,348	8,046	8,811	9,649	10,566	11,570	12,670	13,874
Total Liabilities	401,523	638,736	1,329,136	1,404,898	1,614,210	1,657,947	1,698,902	1,743,907	2,704,986	3,031,429	3,286,424	3,492,891	3,643,673
Stockholders Equity													
Common Stock	284,881	315,893	356,162	373,055	389,947	406,840	423,733	440,625	444,173	444,173	444,173	444,173	444,173
Retained Earnings (Accumulated Deficit)	1,455,002	1,346,890	1,820,637	2,173,619	2,790,096	3,698,135	4,937,363	6,518,866	8,405,513	10,584,863	12,926,529	15,392,588	17,937,757
Accumulated Other Comprehensive Income (Loss)	(142,923)	(216,808)	(224,581)	(224,581)	(224,581)	(224,581)	(224,581)	(224,581)	(224,581)	(224,581)	(224,581)	(224,581)	(224,581)
Total Stockholders Equity	1,596,960	1,445,975	1,952,218	2,322,093	2,955,463	3,880,394	5,136,515	6,734,910	8,625,105	10,804,454	13,146,120	15,612,180	18,157,349
Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities and Stockholders Equity	1,998,483	2,084,711	3,281,354	3,726,991	4,569,673	5,538,341	6,835,417	8,478,817	11,330,091	13,835,884	16,432,545	19,105,071	21,801,021

Lululemon Athletica Inc.*Historical Cash Flow Statement*

Scale: Thousands

Fiscal Years Ending Feb. 2	2017	2018	2019
Cash Flows From Operating Activities			
Net Income (Loss)	258,662	483,801	645,596
Depreciation & Amortization	108,235	122,484	161,933
Stock-Based Compensation Expense	17,610	28,568	45,593
Derecognition of Unredeemed Gift Card Liability	(6,202)	(6,859)	(11,939)
Asset Impairment for Ivivva Restructuring	11,593	-	-
Settlement of Derivatives Not Designated in a Hedging Relationship	6,227	(14,876)	(1,925)
Changes in Operating Assets and Liabilities:			
Deferred Income Taxes	(11,416)	16,786	24,129
Inventories	(21,178)	(85,942)	(117,591)
Prepaid & Receivable Income Taxes	32,242	(437)	(35,775)
Other Prepaid Expenses & Other Current & Non-Current Assets	-	(30,653)	(81,606)
Accounts Payable	(1,551)	71,962	(14,810)
Accrued Inventory Liabilities	3,680	4,312	(9,598)
Accrued Compensation & Related Expenses	12,873	41,600	25,326
Current Income Taxes Payable	(16,470)	52,597	(40,264)
Unredeemed Gift Card Liability	17,282	24,885	33,289
Non-Current Income Taxes Payable	48,268	(6,169)	6,127
Right-of-Use Lease Assets & Current & Non-Current Lease Liabilities	-	-	17,422
Other Current & Non-Current Liabilities	30,810	44,580	23,409
Net Cash Provided by Operating Activities	489,337	742,779	669,316
Cash Flows From Investing Activities			
Purchase of Property & Equipment	(157,864)	(225,807)	(283,048)
Settlement of Net Investment Hedges	(7,203)	(16,216)	347
Other Investing Activities	(8,325)	(771)	4,293
Net Cash Flows From Investing Activities	(173,392)	(242,794)	(278,408)
Cash Flow From Financing Activities			
Proceeds From Settlement of Stock-Based Compensation	5,628	17,650	18,170
Taxes Paid Related to Net Share Settlement of Stock-Based Compensation	(3,229)	(8,779)	(21,944)
Repurchase of Common Stock	(100,261)	(598,340)	(173,399)
Other Financing Activities	-	-	-
Net Cash Flows From Financing Activities	(97,862)	(590,214)	(177,173)
Effect of Exchange Rate Changes on Cash	37,572	(18,952)	(1,550)
Increase (Decrease) in Cash & Cash Equivalents	255,655	(109,181)	212,185
Cash & Cash Equivalents, Beginning of Period	734,846	990,501	881,320
Cash & Cash Equivalents, End of Period	990,501	881,320	1,093,505

Lululemon Athletica Inc.

Forecasted Cash Flow Statement

Scale: Thousands

Fiscal Years Ending Feb. 2	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Cash Flows From Operating Activities										
Net Income (Loss)	590,081	836,969	1,128,530	1,459,720	1,801,994	2,107,139	2,399,842	2,562,158	2,686,552	2,765,660
Depreciation & Amortization	29,187	21,599	36,904	50,662	62,305	69,621	72,909	72,930	65,079	55,653
Accounts Receivable	2,266	(10,715)	(12,118)	(13,017)	(12,510)	(11,538)	(10,373)	(6,444)	(4,541)	(2,414)
Inventories	(179)	(146,437)	(165,609)	(177,892)	(170,967)	(157,684)	(141,763)	(88,069)	(62,061)	(32,986)
Prepaid & Receivable Income Taxes	(16,103)	(42,368)	(50,034)	(56,834)	(58,736)	(52,365)	(50,230)	(27,854)	(21,347)	(13,576)
Other Prepaid Expenses & Other Current Assets	(12,363)	(14,529)	(17,076)	(20,068)	(23,585)	(27,719)	(32,577)	(38,286)	(44,995)	(52,881)
Deferred Income Taxes	(26,547)	(6,088)	(7,189)	(8,166)	(8,440)	(7,524)	(7,217)	(4,002)	(3,067)	(1,951)
Accounts Payable	(30,041)	14,104	15,950	17,133	16,466	15,187	13,653	8,482	5,977	3,177
Accrued Inventory Liabilities	17,140	6,242	6,907	7,233	6,706	5,919	5,041	2,642	1,460	207
Accrued Compensation & Related Expenses	(25,168)	26,759	28,838	29,261	25,899	25,413	21,626	15,858	11,175	5,939
Current Income Taxes Payable	17,493	18,380	21,705	24,655	25,481	22,717	21,790	12,084	9,261	5,889
Non-Current Income Taxes Payable	(7,269)	17,136	20,237	22,988	23,757	1,113	1,123	1,133	1,143	1,153
Unredeemed Gift Card Liability	(10,646)	30,989	35,047	37,646	36,180	33,370	30,000	18,637	13,134	6,981
Other Current Liabilities	3,887	36,399	41,165	44,218	42,497	39,195	35,238	21,891	15,426	8,199
Other Non-Current Liabilities	532	582	638	698	765	837	917	1,004	1,100	1,204
Net Cash Provided by Operating Activities	532,270	789,023	1,083,896	1,418,238	1,767,813	2,063,680	2,359,981	2,552,163	2,674,294	2,750,256
Cash Flows From Investing Activities										
Capital Expenditures	(105,098)	(151,299)	(214,958)	(269,635)	(306,989)	(325,862)	(329,222)	(301,653)	(260,673)	(212,575)
Other Non-Current Assets	(804)	(815)	(827)	(839)	(851)	(863)	(875)	(888)	(900)	(913)
Intangible Assets, Net	(85)	0	0	0	0	0	0	0	0	0
Right-of-Use Lease Assets	(165,822)	(148,416)	(203,748)	(250,572)	(279,993)	(293,218)	(293,300)	(261,728)	(223,818)	(179,566)
Net Cash Flows From Investing Activities	(271,809)	(300,530)	(419,532)	(521,045)	(587,832)	(619,942)	(623,397)	(564,268)	(485,391)	(393,054)
Net Cash Flows From Financing Activities										
Current Lease Liabilities	23,943	9,079	(23,331)	(26,311)	(24,602)	140,551	32,894	29,353	25,101	20,138
Non-Current Lease Liabilities	113,935	43,203	(111,023)	(125,203)	(117,071)	668,822	156,527	139,678	119,446	95,830
Proceeds From Issuance of Common Stock	16,893	16,893	16,893	16,893	16,893	3,547	-	-	-	-
Repurchase of Common Stock	(237,099)	(220,492)	(220,492)	(220,492)	(220,492)	(220,492)	(220,492)	(220,492)	(220,492)	(220,492)
Net Cash Flows From Financing Activities	(82,329)	(151,317)	(337,953)	(355,113)	(345,272)	592,428	(31,071)	(51,461)	(75,944)	(104,523)
Net Increase (Decrease) in Cash	178,133	337,176	326,411	542,080	834,709	2,036,166	1,705,512	1,936,434	2,112,959	2,252,679
Cash, Beginning of Year	1,093,505	1,271,638	1,608,814	1,935,224	2,477,304	3,312,013	5,348,179	7,053,692	8,990,125	11,103,085
Cash & Cash Equivalents, End of Period	1,271,638	1,608,814	1,935,224	2,477,304	3,312,013	5,348,179	7,053,692	8,990,125	11,103,085	13,355,763

Lululemon Athletica Inc.

Common Size Income Statement

<i>Fiscal Years Ending Feb. 2</i>	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	43.11%	41.04%	40.06%	39.56%	39.05%	38.53%	38.00%	37.46%	36.91%	36.35%	35.78%	35.20%	34.61%
Depreciation & Amortization	4.09%	3.72%	4.07%	4.74%	4.11%	3.86%	3.83%	3.95%	4.16%	4.39%	4.74%	5.08%	5.41%
Gross Profit	52.80%	55.23%	55.87%	55.70%	56.84%	57.61%	58.17%	58.59%	58.93%	59.26%	59.48%	59.72%	59.98%
Selling, General & Administrative Expenses	34.13%	33.77%	33.53%	35.88%	34.88%	33.88%	32.88%	31.88%	31.38%	30.88%	30.88%	30.88%	30.88%
Asset Impairment & Restructuring Costs	1.45%	-	-	-	-	-	-	-	-	-	-	-	-
Income (Loss) from Operations	17.21%	21.46%	22.34%	19.83%	21.96%	23.73%	25.30%	26.71%	27.56%	28.38%	28.60%	28.85%	29.11%
Other Income (Expense), Net	0.15%	0.29%	0.21%	0.10%	0.08%	0.07%	0.06%	0.05%	0.05%	0.04%	0.04%	0.04%	0.04%
Income Before Income Tax Expense	17.36%	21.75%	22.55%	19.93%	22.05%	23.80%	25.35%	26.76%	27.60%	28.43%	28.64%	28.89%	29.15%
Income Tax Expense	7.60%	7.04%	6.33%	5.30%	5.86%	6.33%	6.74%	7.12%	7.34%	7.56%	7.62%	7.68%	7.75%
Net Income (Loss)	9.76%	14.71%	16.22%	14.63%	16.18%	17.47%	18.61%	19.64%	20.26%	20.86%	21.02%	21.20%	21.40%
Foreign Currency Translation Adjustments	2.21%	-2.25%	-0.20%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Comprehensive Income	11.97%	12.47%	16.03%	14.63%	16.18%	17.47%	18.61%	19.64%	20.26%	20.86%	21.02%	21.20%	21.40%

Lululemon Athletica Inc.
Common Size Balance Sheet

Fiscal Years Ending Feb. 2	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
% of Sales													
Assets													
Cash & Cash Equivalents	37.39%	26.80%	27.48%	31.53%	31.10%	29.96%	31.58%	36.10%	51.43%	61.33%	73.77%	87.64%	103.32%
Accounts Receivable	0.72%	1.09%	1.01%	0.94%	0.94%	0.94%	0.94%	0.94%	0.94%	0.94%	0.94%	0.94%	0.94%
Inventories	12.44%	12.31%	13.03%	12.86%	12.86%	12.86%	12.86%	12.86%	12.86%	12.86%	12.86%	12.86%	12.86%
Prepaid & Receivable Income Taxes	1.85%	1.50%	2.14%	2.51%	2.78%	3.00%	3.19%	3.37%	3.48%	3.58%	3.61%	3.64%	3.67%
Other Prepaid Expenses & Other Current Assets	1.82%	1.76%	1.77%	2.06%	1.88%	1.77%	1.72%	1.72%	1.79%	1.90%	2.11%	2.38%	2.74%
Total Current Assets	54.22%	43.47%	45.43%	49.89%	49.56%	48.53%	50.29%	55.00%	70.49%	80.61%	93.28%	107.46%	123.54%
Property & Equipment, Net	17.88%	17.25%	16.88%	18.53%	16.96%	16.34%	16.25%	16.56%	17.07%	17.66%	18.55%	19.38%	20.21%
Right-of-Use Lease Assets	-	-	17.33%	21.21%	19.41%	18.69%	18.59%	18.95%	19.53%	20.21%	21.22%	22.18%	23.13%
Goodwill	0.93%	0.74%	0.61%	0.61%	0.47%	0.38%	0.31%	0.27%	0.23%	0.21%	0.20%	0.19%	0.19%
Intangible Assets, Net	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred Income Tax Assets	1.23%	0.81%	0.79%	0.74%	0.82%	0.89%	0.94%	1.00%	1.03%	1.06%	1.07%	1.08%	1.09%
Other Non-Current Assets	1.18%	1.14%	1.41%	1.41%	1.12%	0.91%	0.76%	0.66%	0.59%	0.54%	0.52%	0.50%	0.50%
Total assets	75.44%	63.40%	82.46%	92.40%	88.35%	85.73%	87.14%	92.43%	108.95%	120.29%	134.84%	150.80%	168.66%
Liabilities and Stockholders Equity													
Accounts Payable	0.93%	2.91%	2.01%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%
Accrued Inventory Liabilities	0.49%	0.49%	0.16%	0.58%	0.57%	0.57%	0.56%	0.55%	0.54%	0.53%	0.53%	0.52%	0.51%
Accrued Compensation & Related Expenses	2.65%	3.32%	3.36%	2.69%	2.62%	2.54%	2.47%	2.39%	2.35%	2.32%	2.32%	2.32%	2.32%
Current Lease Liabilities	-	-	3.23%	3.78%	3.12%	2.14%	1.43%	0.95%	2.19%	2.27%	2.38%	2.49%	2.59%
Current Income Taxes Payable	0.59%	2.05%	0.66%	1.09%	1.20%	1.30%	1.39%	1.46%	1.51%	1.55%	1.57%	1.58%	1.59%
Unredeemed Gift Card Liability	3.12%	3.02%	3.03%	2.72%	2.72%	2.72%	2.72%	2.72%	2.72%	2.72%	2.72%	2.72%	2.72%
Other Current Liabilities	3.26%	3.43%	3.14%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%
Total Current Liabilities	11.04%	15.22%	15.59%	15.30%	14.67%	13.70%	12.99%	12.51%	13.75%	13.83%	13.94%	14.06%	14.17%
Non-Current Lease Liabilities	-	-	15.37%	17.98%	14.86%	10.18%	6.79%	4.53%	10.42%	10.79%	11.33%	11.84%	12.34%
Non-Current Income Taxes Payable	1.82%	1.28%	1.21%	1.02%	1.12%	1.21%	1.29%	1.36%	1.21%	1.11%	1.05%	1.02%	1.01%
Deferred Income Tax Liabilities	0.05%	0.43%	1.09%	0.38%	0.42%	0.46%	0.49%	0.51%	0.53%	0.54%	0.55%	0.55%	0.56%
Other Non-Current Liabilities	2.24%	2.49%	0.14%	0.15%	0.13%	0.11%	0.10%	0.10%	0.09%	0.09%	0.09%	0.10%	0.11%
Total Liabilities	15.16%	19.42%	33.40%	34.83%	31.21%	25.66%	21.66%	19.01%	26.01%	26.36%	26.97%	27.57%	28.19%
Stockholders Equity													
Common Stock	10.75%	9.61%	8.95%	9.25%	7.54%	6.30%	5.40%	4.80%	4.27%	3.86%	3.64%	3.51%	3.44%
Retained Earnings (Accumulated Deficit)	54.92%	40.96%	45.75%	53.89%	53.94%	57.24%	62.95%	71.06%	80.83%	92.03%	106.07%	121.49%	138.77%
Accumulated Other Comprehensive Income	-5.39%	-6.59%	-5.64%	-5.57%	-4.34%	-3.48%	-2.86%	-2.45%	-2.16%	-1.95%	-1.84%	-1.77%	-1.74%
Total Stockholders Equity	60.28%	43.97%	49.06%	57.57%	57.14%	60.06%	65.49%	73.42%	82.94%	93.94%	107.87%	123.23%	140.47%
Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities and Stockholders Equity	75.44%	63.40%	82.46%	92.40%	88.35%	85.73%	87.14%	92.43%	108.95%	120.29%	134.84%	150.80%	168.66%

Lululemon Athletica Inc.

Value Driver Estimation

Scale: Thousands

Fiscal Years Ending Feb. 2

	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
NOPLAT:													
Sales	2,649,181	3,288,319	3,979,296	4,033,698	5,172,492	6,460,380	7,843,785	9,173,335	10,399,591	11,502,032	12,186,919	12,669,549	12,926,071
Cost of Goods Sold	1,142,156	1,349,548	1,593,977	1,595,731	2,019,858	2,489,184	2,980,638	3,436,331	3,838,489	4,180,989	4,360,480	4,459,681	4,473,713
Depreciation & Amortization	108,235	122,484	161,933	191,120	212,719	249,623	300,286	362,591	432,212	505,121	578,051	643,131	698,784
Selling, General & Administrative Expenses	904,264	1,110,451	1,334,276	1,447,110	1,803,933	2,188,487	2,578,684	2,924,047	3,262,925	3,551,311	3,762,773	3,911,788	3,990,991
Implied Interest on Leases	10,163	11,997	15,269	16,079	17,896	21,000	25,263	30,504	36,361	42,495	48,631	54,106	58,788
EBITA	504,689	717,833	904,379	815,816	1,153,877	1,554,086	2,009,439	2,480,869	2,902,326	3,307,106	3,534,245	3,709,054	3,821,371
Income Tax Expense	201,336	231,449	251,797	213,844	303,316	408,977	528,999	653,039	763,623	869,697	928,520	973,600	1,002,269
Add: Tax Shield on Implied Lease Interest	2,998	3,191	3,838	4,760	5,586	6,720	8,114	9,672	11,304	12,936	14,392	15,638	16,637
Add: Asset Impairment & Restructuring Costs	11,365	-	-	-	-	-	-	-	-	-	-	-	-
Less: Tax on Other Income, net	1,179	2,504	2,203	1,114	1,145	1,176	1,208	1,242	1,276	1,311	1,347	1,384	1,422
Less: Adjusted Taxes	214,520	232,136	253,431	217,490	307,757	414,521	535,905	661,469	773,650	881,322	941,566	987,854	1,017,484
Add: Change in Deferred Taxes	11,142	(17,563)	(11,416)	(26,547)	(6,088)	(7,189)	(8,166)	(8,440)	(7,524)	(7,217)	(4,002)	(3,067)	(1,951)
NOPLAT	301,311	468,134	639,532	571,779	840,033	1,132,376	1,465,368	1,810,961	2,121,152	2,418,566	2,588,677	2,718,133	2,801,937
Tax Rate:	29.5%	26.6%	26.6%	26.6%	26.6%	26.6%	26.6%	26.6%	26.6%	26.6%	26.6%	26.6%	26.6%
Invested Capital (IC):													
Operating Current Assets:													
Normal Cash (2% of Sales)	52,984	65,766	79,586	80,674	103,450	129,208	156,876	183,467	207,992	230,041	243,738	253,391	258,521
Accounts Receivable	19,173	35,786	40,219	37,953	48,668	60,786	73,803	86,312	97,850	108,223	114,667	119,208	121,622
Inventories	329,562	404,842	518,513	518,692	665,130	830,739	1,008,631	1,179,597	1,337,281	1,479,044	1,567,113	1,629,175	1,662,161
Prepaid & Receivable Income Taxes	48,948	49,385	85,159	101,262	143,629	193,663	250,497	309,234	361,598	411,828	439,682	461,029	474,605
Other Prepaid Expenses & Other Current Assets	48,098	57,949	70,542	82,905	97,434	114,510	134,578	158,163	185,882	218,459	256,744	301,740	354,621
Operating Current Liabilities:													
Accounts Payable	24,646	95,533	79,997	49,956	64,060	80,010	97,143	113,609	128,796	142,450	150,932	156,909	160,086
Accrued Inventory Liabilities	13,027	16,241	6,344	23,484	29,726	36,633	43,866	50,572	56,491	61,531	64,173	65,633	65,839
Accrued Compensation & Related Expenses	70,141	109,181	133,688	108,520	135,279	164,117	193,378	219,277	244,690	266,316	282,174	293,349	299,288
Current Income Taxes Payable	15,700	67,412	26,436	43,929	62,308	84,014	108,669	134,150	156,866	178,657	190,740	200,001	205,890
Unredeemed Gift Card Liability	82,668	99,412	120,413	109,767	140,756	175,803	213,449	249,629	282,999	312,999	331,637	344,770	351,751
Non-current Income Taxes Payable	48,268	42,099	48,226	40,957	58,093	78,330	101,318	125,075	126,188	127,311	128,444	129,587	130,741
Other Current Liabilities	86,416	112,698	125,043	128,930	165,329	206,494	250,712	293,209	332,404	367,641	389,532	404,959	413,158
Net Operating Working Capital	157,899	71,152	253,872	315,943	402,759	503,504	615,849	731,252	862,170	990,689	1,084,314	1,169,335	1,244,777
Add: Property & Equipment, net	473,642	567,237	671,693	747,604	877,304	1,055,358	1,274,330	1,519,014	1,775,255	2,031,568	2,260,291	2,455,884	2,612,806
Add: Other Long-Term Operating Assets													
Right-of-Use Lease Assets	573,506	729,923	689,664	855,486	1,003,902	1,207,650	1,458,222	1,738,214	2,031,432	2,324,732	2,586,460	2,810,278	2,989,845
Other Non-Current Assets	31,389	37,404	56,201	57,005	57,820	58,647	59,485	60,336	61,199	62,074	62,962	63,862	64,775
Less: Other Long-Term Operating Liabilities													
Non-Current Income Taxes Payable	-	-	48,226	40,957	58,093	78,330	101,318	125,075	126,188	127,311	128,444	129,587	130,741
Other Non-Current Liabilities	59,321	81,911	5,596	6,128	6,710	7,348	8,046	8,811	9,649	10,566	11,570	12,670	13,874
Invested Capital (IC):	1,177,114	1,323,805	1,617,608	1,928,953	2,276,981	2,739,480	3,298,522	3,914,930	4,594,219	5,271,186	5,854,012	6,357,103	6,767,588
Free Cash Flow (FCF):													
NOPLAT	301,311	468,134	639,532	571,779	840,033	1,132,376	1,465,368	1,810,961	2,121,152	2,418,566	2,588,677	2,718,133	2,801,937
Change in IC	62,815	146,691	293,803	311,345	348,029	462,499	559,042	616,408	679,289	676,967	582,826	503,091	410,486
FCF	238,496	321,443	345,729	260,434	492,004	669,877	906,326	1,194,553	1,441,863	1,741,599	2,005,851	2,215,043	2,391,451
Return on Invested Capital (ROIC):													
NOPLAT	301,311	468,134	639,532	571,779	840,033	1,132,376	1,465,368	1,810,961	2,121,152	2,418,566	2,588,677	2,718,133	2,801,937
Beg. IC	1,114,299	1,177,114	1,323,805	1,617,608	1,928,953	2,276,981	2,739,480	3,298,522	3,914,930	4,594,219	5,271,186	5,854,012	6,357,103
ROIC	27.0%	39.8%	48.3%	35.3%	43.5%	49.7%	53.5%	54.9%	54.2%	52.6%	49.1%	46.4%	44.1%
Economic Profit (EP):													
Beg. IC	1,114,299	1,177,114	1,323,805	1,617,608	1,928,953	2,276,981	2,739,480	3,298,522	3,914,930	4,594,219	5,271,186	5,854,012	6,357,103
x (ROIC - WACC)	20.7%	33.4%	42.0%	29.0%	37.2%	43.4%	47.1%	48.6%	47.8%	46.3%	42.8%	40.1%	37.7%
EP	230,628	393,466	555,559	469,170	717,674	987,941	1,291,595	1,601,726	1,872,817	2,127,143	2,254,311	2,346,797	2,398,688

Lululemon Athletica Inc.*Weighted Average Cost of Capital (WACC) Estimation***Cost of Equity:**

Risk-Free Rate	0.98%
Beta	1.12
Equity Risk Premium	4.86%
Cost of Equity	6.42%

ASSUMPTIONS:

10-year Treasury Bond
Monthly Returns vs S&P Oct 2015-Sep 2020
1928-2019 Geometric Average Over 10-Year Treasury

Cost of Debt:

Risk-Free Rate	0.98%
Implied Default Premium	1.11%
Pre-Tax Cost of Debt	2.09%
Marginal Tax Rate	26.6%
After-Tax Cost of Debt	1.54%

10-Year Treasury Bond
1928-2019 Geometric Average Over 10-Year Treasury
Stated LIBOR Rate +1.75% Revolving Facility Rate

Market Value of Common Equity:

Total Shares Outstanding	130,393
Current Stock Price	\$322.19
MV of Equity	42,011,321

MV Weights

98.38%

Market Value of Debt:

Short-Term Debt	0
Current Portion of LTD	0
Long-Term Debt	0
PV of Operating Leases	689,664
MV of Total Debt	689,664

1.62%

Market Value of the Firm**42,700,985**

100.00%

Estimated WACC

6.34%

Lululemon Athletica Inc.*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models**Scale: Thousands*

Key Inputs:

CV Growth of NOPLAT	2.75%
CV Year ROIC	43.21%
WACC	6.34%
Cost of Equity	6.42%

Fiscal Years Ending Feb. 2	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
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DCF Model:

Free Cash Flow (FCF)	260,434	492,004	669,877	906,326	1,194,553	1,441,863	1,741,599	2,005,851	2,215,043	2,391,451
Continuing Value (CV)										73,015,103
PV of FCF	244,899	435,059	557,013	708,670	878,325	996,928	1,132,343	1,226,362	1,273,479	41,978,070

Value of Operating Assets:	49,431,149
Non-Operating Adjustments	
Excess Cash	1,013,919
ESOP	(177,025)
PV of Operating Leases	(689,664)
Value of Equity	49,578,379
Shares Outstanding	129,806
Intrinsic Value of Last FYE	381.94
Implied Price as of Today	\$ 400.69

EP Model:

Economic Profit (EP)	469,170	717,674	987,941	1,291,595	1,601,726	1,872,817	2,127,143	2,254,311	2,346,797	2,398,688
Continuing Value (CV)										66,658,001
PV of EP	441,184	634,610	821,488	1,009,918	1,177,710	1,294,897	1,383,014	1,378,268	1,349,228	38,323,225

Total PV of EP	47,813,541
Invested Capital (last FYE)	1,617,608
Value of Operating Assets:	49,431,149
Non-Operating Adjustments	
Excess Cash	1,013,919
ESOP	(177,025)
PV of Operating Leases	(689,664)
Value of Equity	49,578,379
Shares Outstanding	129,806
Intrinsic Value of Last FYE	\$ 381.94
Implied Price as of Today	\$ 400.69

Lululemon Athletica Inc.

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending Feb. 2	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
EPS	\$ 4.55	\$ 6.47	\$ 8.76	\$ 11.37	\$ 14.07	\$ 16.52	\$ 18.88	\$ 20.23	\$ 21.28	\$ 21.97

Key Assumptions

CV growth of EPS	2.75%
CV Year ROE	15.23%
Cost of Equity	6.42%

Future Cash Flows

P/E Multiple (CV Year)																						22.32	
EPS (CV Year)																							\$ 21.97
Future Stock Price																							\$ 490.34
Dividends Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Discounted Cash Flows	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	280.03

Intrinsic Value as of Last FYE	\$ 280.03
Implied Price as of Today	\$ 293.78

Lululemon Athletica Inc.

Relative Valuation Models

Scale: Thousands

Ticker	Company	Price	2020E EPS	2021E EPS	P/E 20	P/E 21	2020E EV	2020E EBITDA	2020E EV/EBITDA	2020E P/S	2021E P/S
NKE	Nike Inc.	\$129.99	\$2.91	\$3.72	44.7	34.9	203,888,000	3,677,000	55.4	4.8	4.3
HBI	Hanesbrands Inc.	\$12.85	\$1.40	\$1.57	9.2	8.2	8,250,700	985,300	8.4	0.7	0.7
ADDYY	Adidas	\$148.69	\$1.36	\$5.12	109.3	29.0	70,810,000	2,319,300	30.5	2.8	2.4
GPS	Gap Inc.	\$21.42	-\$2.03	\$1.30	-10.6	16.5	14,518,900	394,000	36.9	0.6	0.5
UAA	Under Armour	\$14.66	-\$0.71	\$0.12	-20.6	122.2	7,358,200	109,200	67.4	1.5	1.3
Averages					54.4	42.2			39.7	2.1	1.8

LULU	Lululemon Athletica Inc.	\$322.19	\$	4.55	\$	6.47	70.9	49.8	44,131,600	918,700	48.0	7.9	10.8
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Implied Relative Value:

P/E (EPS20)	\$	247.30
P/E (EPS21)	\$	272.99

LULU 2020 EV at Industry Multiples	36,488,355.82
Less: Debt	0
Less: Minority Interest	0
Plus: Cash	1,093,505
Equity Value	37,581,860.82
Implied Relative Price Per Share	\$ 288.22

LULU 2020 Market Cap at Industry P/S	\$8,607.04
Number of Shares Outstanding	130.393
Implied Relative Price Per Share	\$66.01

Lululemon Athletica Inc.

Key Management Ratios

<i>Fiscal Years Ending Feb. 2</i>	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Liquidity Ratios:													
Current Ratio	4.91	2.86	2.91	3.26	3.38	3.54	3.87	4.40	5.13	5.83	6.69	7.65	8.72
Quick Ratio	3.78	2.05	2.08	2.42	2.50	2.60	2.88	3.37	4.19	4.90	5.77	6.73	7.81
Cash Ratio	3.39	1.76	1.76	2.06	2.12	2.19	2.43	2.89	3.74	4.44	5.29	6.23	7.29
Asset-Management Ratios:													
Asset Turnover	1.45	1.61	1.48	1.15	1.25	1.28	1.27	1.20	1.05	0.91	0.81	0.71	0.63
Receivables Turnover	186.74	119.66	104.71	103.20	119.43	118.05	116.56	114.58	112.94	111.63	109.35	108.34	107.35
Financial Leverage Ratios:													
Debt to Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt to Equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity Ratio	0.80	0.69	0.59	0.62	0.65	0.70	0.75	0.79	0.76	0.78	0.80	0.82	0.83
Interest Coverage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profitability Ratios:													
Gross Margin	52.80%	55.23%	55.87%	55.70%	56.84%	57.61%	58.17%	58.59%	58.93%	59.26%	59.48%	59.72%	59.98%
Net Profit Margin	9.76%	14.71%	16.22%	14.63%	16.18%	17.47%	18.61%	19.64%	20.26%	20.86%	21.02%	21.20%	21.40%
Pretax Margin	17.36%	21.75%	22.55%	19.93%	22.05%	23.80%	25.35%	26.76%	27.60%	28.43%	28.64%	28.89%	29.15%
ROA	12.94%	23.21%	19.67%	15.83%	18.32%	20.38%	21.36%	21.25%	18.60%	17.35%	15.59%	14.06%	12.69%
ROE	16.20%	33.46%	33.07%	25.41%	28.32%	29.08%	28.42%	26.76%	24.43%	22.21%	19.49%	17.21%	15.23%
Payout Policy Ratios:													
Dividend Payout Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	2.00	3.00	4.00
Total Payout Ratio	0.39	1.24	0.27	0.40	0.26	0.20	0.15	0.12	0.10	0.09	0.09	0.08	0.08

Ratio Definitions

Current Ratio	Total Current Assets / Total Current Liabilities
Quick Ratio	(Total Current Assets - Inventory) / Total Current Liabilities
Cash Ratio	Cash / Total Current Liabilities
Asset Turnover	Net Sales / Total Average Assets
Receivables Turnover	Net Sales / Average Accounts Receivables
Debt to Assets	Total Liabilities / Total Assets
Debt to Equity	Total Liabilities / Total Shareholders' Equity
Equity Ratio	Total Shareholders' Equity / Total Assets
Interest Coverage	EBITDA / Interest Expense
Gross Margin	(Revenue - COGS) / Revenue
Net Profit Margin	Net Income / Net Sales
Pretax Margin	Income before Taxes / Revenue
Return on Assets	Net Income / Total Assets
Return on Equity	Net Income / Total Shareholders' Equity
Dividend Payout Ratio	Dividends per Share / EPS
Total Payout Ratio	(Dividends + Repurchases) / Net Income

Lululemon Athletica Inc.*Present Value of Operating Lease Obligations*

Fiscal Years Ending Feb. 2		2017	2018	2019
Year	1	143,428	169,822	152,440
Year	2	127,641	147,541	161,519
Year	3	105,720	123,032	138,188
Year	4	81,595	99,471	111,877
Year	5	59,058	73,213	87,275
Thereafter		94,375	170,834	174,797
Total Minimum Payments		611,817	783,913	826,096
Less: Cumulative Interest		38,311	53,990	57,475
PV of Minimum Payments		573,506	729,923	768,621
Implied Interest in Year 1 Payment		10,163	11,997	15,269
Pre-Tax Cost of Debt		0	0	0
Years Implied by Year 6 Payment		2	2	2
Expected Obligation in Year 6 & Beyond		59,058	73,213	87,275
Present Value of Lease Payments				
PV of Year 1		140,489	166,342	149,316
PV of Year 2		122,464	141,557	154,968
PV of Year 3		99,354	115,623	129,866
PV of Year 4		75,110	91,565	102,985
PV of Year 5		53,250	66,013	78,693
PV of 6 & beyond		82,839	148,822	152,792
Capitalized PV of Payments		573,506	729,923	768,621

Lululemon Athletica Inc.

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	776,000
Average Time to Maturity (years):	<u>5.21</u>
Expected Annual Number of Options Exercised:	148,969

Current Average Strike Price:	\$ 113.40
Cost of Equity:	6.42%
Current Stock Price:	\$322.19

Fiscal Years Ending Feb. 2	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Increase in Shares Outstanding:	148,969	148,969	148,969	148,969	148,969	31,283				
Average Strike Price:	\$ 113.40	\$ 113.40	\$ 113.40	\$ 113.40	\$ 113.40	\$ 113.40	\$ 113.40	\$ 113.40	\$ 113.40	\$ 113.40
Increase in Common Stock Account:	16,893	16,893	16,893	16,893	16,893	3,547	-	-	-	-
Change in Treasury Stock	237,099	220,492	220,492	220,492	220,492	220,492	220,492	220,492	220,492	220,492
Expected Price of Repurchased Shares:	\$322.19	\$ 342.88	\$ 364.90	\$ 388.34	\$ 413.28	\$ 439.82	\$ 468.06	\$ 498.12	\$ 530.11	\$ 564.16
Number of Shares Repurchased:	736	643	604	568	534	501	471	443	416	391
Shares Outstanding (beginning of the year)	130,393	129,806	129,312	128,857	128,438	128,053	127,583	127,112	126,670	126,254
Plus: Shares Issued Through ESOP	149	149	149	149	149	31	0	0	0	0
Less: Shares Repurchased in Treasury	736	643	604	568	534	501	471	443	416	391
Shares Outstanding (end of the year)	129,806	129,312	128,857	128,438	128,053	127,583	127,112	126,670	126,254	125,863

Lululemon Athletica Inc.*Valuation of Options Granted under ESOP*

Current Stock Price	\$322.19
Risk Free Rate	0.98%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	39.79%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	155,000	51.91	4.00	\$ 272.58	\$ 42,249,628
Range 2	82,000	70.95	3.80	\$ 254.75	\$ 20,889,909
Range 3	180,000	88.86	5.20	\$ 242.04	\$ 43,568,014
Range 4	73,000	137.35	5.50	\$ 207.74	\$ 15,164,887
Range 5	286,000	168.22	6.20	\$ 192.84	\$ 55,152,714
Total	776,000	\$ 113.40	5.21	\$ 223.18	\$ 177,025,153

Lululemon Athletica Inc.
Sensitivity Tables

		Beta							
		\$ 400.69	0.97	1.02	1.07	1.12	1.17	1.22	1.27
Equity Risk Premium	4.56%	577.67	527.03	483.94	446.83	414.55	386.23	361.18	
	4.66%	555.08	506.92	465.86	430.43	399.57	372.46	348.45	
	4.76%	534.06	488.17	448.96	415.08	385.53	359.53	336.49	
	4.86%	514.44	470.63	433.14	400.69	372.35	347.38	325.24	
	4.96%	496.10	454.21	418.29	387.16	359.94	335.94	314.63	
	5.06%	478.91	438.79	404.33	374.43	348.26	325.15	304.62	
	5.16%	462.77	424.28	391.18	362.43	337.22	314.96	295.15	

		COGS % of Revenue CV							
		\$ 400.69	33.11%	33.61%	34.11%	34.61%	35.11%	35.61%	36.11%
CV Growth of NOPLAT	2.30%	381.39	376.35	371.32	366.28	361.25	356.22	351.18	
	2.45%	392.50	387.29	382.08	376.87	371.66	366.45	361.24	
	2.60%	404.50	399.10	393.70	388.30	382.90	377.51	372.11	
	2.75%	417.50	411.89	406.29	400.69	395.09	389.49	383.88	
	2.85%	426.78	421.04	415.29	409.54	403.79	398.04	392.29	
	2.95%	436.62	430.72	424.81	418.91	413.01	407.10	401.20	
	3.10%	452.51	446.36	440.20	434.05	427.90	421.74	415.59	

		Direct to Consumer CV Growth							
		\$ 400.69	1.55%	1.80%	2.05%	2.30%	2.55%	2.80%	3.05%
Additional International Stores	12	398.34	398.90	399.46	400.02	400.59	401.15	401.71	
	15	398.56	399.12	399.68	400.25	400.81	401.37	401.94	
	18	398.78	399.34	399.90	400.47	401.03	401.59	402.16	
	21	399.00	399.56	400.13	400.69	401.25	401.82	402.38	
	24	399.22	399.79	400.35	400.91	401.47	402.04	402.60	
	27	399.44	400.01	400.57	401.13	401.70	402.26	402.82	
	30	399.67	400.23	400.79	401.36	401.92	402.48	403.04	

		CV of ROIC							
		\$ 400.69	41.71%	42.21%	42.71%	43.21%	43.71%	44.21%	44.71%
CV SG&A % of Revenue	27.88%	443.99	444.30	444.60	444.90	445.19	445.48	445.75	
	28.88%	429.28	429.58	429.88	430.16	430.45	430.72	430.99	
	29.88%	414.57	414.86	415.15	415.43	415.70	415.97	416.23	
	30.88%	399.86	400.14	400.42	400.69	400.95	401.21	401.46	
	31.88%	385.15	385.43	385.69	385.95	386.21	386.46	386.70	
	32.88%	370.44	370.71	370.96	371.22	371.46	371.70	371.94	
	33.88%	355.73	355.99	356.24	356.48	356.72	356.95	357.17	

		Cost of Equity							
		\$ 400.69	6.12%	6.22%	6.32%	6.42%	6.52%	6.62%	6.72%
Risk-Free Rate	0.53%	463.72	464.06	464.39	464.73	465.06	465.40	465.74	
	0.68%	440.49	440.81	441.13	441.45	441.77	442.09	442.40	
	0.83%	419.27	419.58	419.88	420.18	420.49	420.79	421.10	
	0.98%	399.82	400.11	400.40	400.69	400.98	401.27	401.56	
	1.13%	381.92	382.20	382.48	382.76	383.03	383.31	383.59	
	1.28%	365.41	365.67	365.94	366.20	366.47	366.73	367.00	
	1.43%	350.12	350.37	350.63	350.88	351.14	351.39	351.64	