

## Business analysis of Lululemon Athletica Inc.

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### Abstract:

The wider embracement of a healthy lifestyle and the rise in athleisure, a combination of sports and leisure wear, have boosted the growth in the athleisure apparel industry. As one of the most popular companies in this industry, Lululemon, a Canadian sportswear company specialising in women's yoga apparel that was officially founded in 1998, has attracted investors' attention since 2017, when the stock price began to surge. However, from the beginning of 2024, Lululemon's stock price has kept dropping from its peak at \$509 per share in the last eight months. Thus, this paper aims to critically assess Lululemon's performance in the past three years and provide suggestions for investors. Two key goals are pursued: first, strategically positioning Lululemon with SWOT analysis within the industry, and second, evaluating Lululemon's performance using financial ratios. The literature review is the main method used for both strategic and financial analysis. Financial analysis results have shown that Lululemon is gradually recovering from the hit of the pandemic, with improved profitability, consistent growth in liquidity and a reduction in leverage risk over the past three years. In conclusion, Lululemon should be careful of the possible threats concluded above and use its strength to reinforce its advantages in this industry.

**Keywords:** Business analysis, Lululemon, financial ratios analysis, SWOT analysis.

## 1. Introduction

In the wake of the pandemic, there has been a notable surge in people recognising the importance of embracing fitness and prioritising an active lifestyle, including the habit of regular exercise [1]. As a complementary demand, the public is more willing to invest in sports-related products, such as athletic clothes and training accessories. Athleisure, a combination of sports and leisure wear, blends these specially designed exercise clothes with casual apparel [2]. Aligning with the notion of a healthy lifestyle, durable athleisure apparel has soon become widespread, leading to the industry's growth.

Lululemon Athletica Inc. (Lululemon), a Canadian sportswear company headquartered in Vancouver, has captured the market share at a rapid speed since its establishment in 1998. This company soon became one of the most profitable in the athleisure apparel industry. In the past twenty years, Lululemon has shown an upward trend in both gross profit margins and stock prices. The stock price reached its maximum at the end of 2023 as this stock replaced Activision Blizzard as the one in the S&P 500. However, the growth ceased at the beginning of 2024. Due to a series of incidents, Lululemon's stock price has kept dropping for eight months. This indicates some underlying problems with Lululemon's strategy or perfor-

mance. Thus, a business analysis of Lululemon to identify its position and assess its financial performance is vital.

This paper aims to critically assess Lululemon's performance in the past three years and suggest what is worth mentioning. Two objectives of the study are listed : first, using SWOT analysis to position Lululemon in the industry and second, using financial ratios to assess the performance of Lululemon.

In part one, the SWOT analysis is applied to evaluate the advantages, weaknesses, opportunities and threats of Lululemon. In part two, liquidity, solvency and profitability ratios are selected and used to evaluate Lululemon's financial performance. Concrete suggestions for future development will be provided in the last section.

## 2. Overview of Lululemon Athletica Inc.

### 2.1 Introduction of Lululemon

Lululemon Athletica Inc. (Lululemon), a Canadian sportswear company headquartered in Vancouver, has captured the market share at a rapid speed since its establishment in 1998. As an athletic apparel retail company, Lululemon holds the vision of "elevating human potential by helping people feel their best", designing and retailing athletic apparel, footwear, and accessories that are both comfortable

and stylish [3].

Known for its innovative fabric technology, fashion design and advocacy of a healthy lifestyle, the brand has a loyal customer base worldwide, particularly in North America [2, 4]. The strength in consumer loyalty allows Lululemon to charge a premium price compared to its competitors, which explains the robust growth in its sales revenue. In recent years, Lululemon's business expansion in China's mainland has seen significant rewards, which empowers its thriving growth on a wilder world scale.

Lululemon is complimented for its high-quality merchants and services, established brand recognition of premium quality athleisure outfits and a warm, helpful community [5]. Unlike its competitors, such as Nike, Puma, and Adidas, Lululemon focuses on brand identity establishment that enhances consumer engagement [6]. Lululemon mainly uses two sales channels - offline stores and online stores- which include websites that execute different product strategies.

## 2.2 Overview of past performance

### 2.2.1 Market Operation

Over the past five years, Lululemon has expanded its scale, particularly in China Mainland. The number of stores in China Mainland has increased from 22 in 2019 to 127 in 2023, seeing an almost 477% growth rate in store numbers with a 67% net revenue growth. This market shows a robust growth in net revenue proportion, taking over global sales from 7% to 10%. According to the official report, further growth in net revenue is anticipated, and mainland China is expected to be the majority of store expansion in the future [3]. China Mainland has become a vital market for Lululemon and will continue to be the focus. However, the Americas maintained its dominance in sales over the world. In 2023, out of 79% of the net sales were generated in this market. It is still expected to be the core of this business.

### 2.2.2 Stock Market Performance

Lululemon went public in 2007, with a price reached \$18 per share. The growth in its stock price continued along with the global expansion of Lululemon. Till 26th August 2024, the market value of Lululemon has reached \$33.6 billion, becoming the second most valuable company in the sportswear market, while the top is Nike. This appreciation indicated the positive attitudes of investors towards Lululemon.

Lululemon has experienced a fluctuating stock price over the past five years, peaking at \$509 per share on 26th December. However, in the following six months, the stock price of Lululemon plunged from \$509 to \$269 per share, cutting the stock price in two at the waist. The pessimism

was continued by a drop in the year-to-date return on LULU's stock of 47.48% compared to the S&P 500.

### 2.2.3 The failure of stock performance in 2024

In October 2023, Lululemon was announced to be included in the S&P 500, replacing Activision Blizzard, which Microsoft acquired. The rise in Lululemon's stock price in the following two months reflects the market's optimism, which led to the summit in stock price. On 22nd May 2024, Lululemon announced the departure of Sun Choe, Chief Product Officer of Lululemon, and an evolution of product structure [7]. After this news, the stock price of Lululemon began to drop, which showed the public's distrust of this change. However, it is simply a blasting fuse of this tragedy. The following report for the first quarter showed that Lululemon's sales growth did not achieve the anticipation [8], which is 19% lower than the growth rate in 2023. Meanwhile, the emergence of Lululemon's competitors, such as Alo Yoga and Nike, also threatens the company. Therefore, the stock price continued to fall in the following months.

## 3. Strategic Analysis

SWOT analysis is commonly used as a strategic planning tool for managers to identify the possible patterns of the entity [9], representing strengths, weaknesses, opportunities, and threats. Due to the complexity of the information provided, limitations of this method could be found, such as a failure to prioritise the problem or provide direct solutions [9].

This section considers the economic, sociological, and technological aspects to analyse Lululemon thoroughly.

### 3.1 Strength

The healthy lifestyle Lululemon encourages aligns with social pursuits [10]. This has increased the demand for stylish and comfortable clothes [11]. As a new leader in sports advocacy, Lululemon keeps attracting consumers due to its concern.

The unique technology and innovation help Lululemon differentiate itself from other competitors. Since the launch of unique fibre pants, Lululemon won a group of customers due to its comfort and ductility. Lululemon kept patenting fabrics and innovating the products that helped it stand out.

Lululemon's marketing strategy is a big success. Using sporty celebrities to transfer the image of being energetic and powerful attracts ideal and potential customer groups [6]. This self-identification of a healthy lifestyle advocator soon builds up a community and wins a loyal customer base. This brand loyalty leads to a premium price and outperforms its competitors. Brand power is a precious equity

Lululemon owns, which endows uncountable benefits to the company.

Finally, the company culture is also a stunning advantage of Lululemon, emphasising a diverse and inclusive firm culture. This leads to thoughtful consumer service and management talents, reinforcing consumer loyalty.

### 3.2 Weakness

The primary defect of Lululemon is its relatively weak supply chain [5][10]. Lululemon purchases raw materials from a third factory that produces the patented fibre. This may expose the weakness of a lack of supply if two parties fail to cooperate or have other alterations. Also, the factory has failed to satisfy the striking sales growth of Lululemon [10].

Besides, this company faces the argument of possible public scandals. The recent negative reports directed at the racist statement about the founder of Lululemon, Chip Wilson, have shown a downturn effect on Lululemon's performance [5]. Similar scandals will likely affect consumers' attitudes toward Lululemon and cause them to stop purchasing related goods.

The weak growth in segments other than the Americas is also a weakness of Lululemon [6, 10]. Sales exhaustion over the Americas and mainland China may harm the company's sustainable growth. Reliance on particular countries is relatively inelastic to inter-country changes, such as the possible conflict between two countries. Thus, spreading risk among countries should be the next step for Lululemon.

### 3.3 Opportunity

Possible prospects for Lululemon include the effect of an overall expansion of the athleisure apparel industry [6] [10]. As the awareness of an active and healthier lifestyle is becoming more popular, the whole industry is expected to keep swelling.

Additionally, Lululemon only operated in a very limited region at the time. The further internalisation of the business is expected to stimulate the more significant potential of it [5].

Since the advocacy of "superwomen" has been embedded in the 1980s, women have become increasingly important in today's world [12]. The increase in Women's power becomes the third potential of Lululemon [6, 10]. As Lululemon has been specialising in women's yoga apparel for 20 years, the company could take advantage of this and develop further under this background.

Moreover, as e-commerce is increasingly favourable to consumers due to its convenience, Lululemon could expand its sales margin by adding online channels.

Other than female outfits, product category diversification

is the next opportunity for Lululemon - Men's clothing. Data presented on Lululemon's 2023 annual report also shows robust growth in this area. Through better innovation in male apparel, there should be enhanced sales revenue.

### 3.4 Threats

Fierce competition exists among new and traditional brands, such as Alo Yoga and Nike, and has become the main threat to Lululemon. With the expansion of the industry, particularly the yoga industry, more competitors entered the race and wanted to share the profit. If Lululemon fails to expand its audience or enhance consumer loyalty, it will likely continue the turndown in the stock market.

The compounding effects of economic factors, including high inflation, interest rate change, and high unemployment rate, is another challenge Lululemon faces [12]. The economic situation is vital for businesses. If consumer pessimism continues, there will be limited spending in the market, leading to weak business growth and an increase in the unemployment rate. This creates a vicious circle that hampers both the economy and business growth.

Moreover, change in consumer preference is a potential threat [5]. Change in the athleisure apparel industry is unpredictable, as is consumer preference. If new fashion emerges, sales of Lululemon will be greatly challenged. Possible solutions could be promoting brand power that enhances customer engagement and innovation in style and texture to stay attractive.

## 4. Financial Analysis

In 20 years, Lululemon's net revenue has increased by 800% [6]. Through delving into a combination of financial ratios, Lululemon's financial health could be evaluated. This study selected liquidity, solvency, and profitability ratios to analyse Lululemon's performance from 2021 to 2023, including comparison with ratios till 2019 where necessary.

### 4.1 Profitability ratio

#### 4.1.1 Return on equity (ROE)

Return on equity measures a company's profitability using shareholder equity [13]. Calculating ROE helps investors determine the company's effective use of their money and decision-making. The formula for computing the return on equity ratio is shown as follows [14]. (Equation (1))

$$\text{Rate of return over share of capital (ROE)} = \frac{\text{Net profit}}{\text{Equity}} \quad (1)$$

The value should be multiplied by 100% to get the percentage.

The total equity demonstrates a strengthened increase

from 2021 to 2023, from approximately \$2.7 billion in 2021 to \$4.2 billion in 2023. This increase escalated the most in 2023, with a 34% rise in magnitude compared with a 15% rise in the past year. This reflects a robust performance in the stock market. Regarding the net profit, the performance fluctuated more during the period, witnessing a plummet during the accounting year 2022. The drop explains the turndown of 9% of return on equity in 2022. However, there was an improvement in the figures during 2023, rising from 27% to 37%, mainly due to the sturdy growth of net profit in 2023.

#### 4.1.2 Return on capital employed (ROCE) or Return on invested capital (ROIC)

ROCE is a critical measure to test how well all the resources are managed to finance operations [7]. Compared with ROE, long-term debt is taken into account when calculating ROCE. Equation (2) shows the return on capital invested ratio in Equation (2) [15].

$$ROCE = \frac{Profit}{CapitalEmployed} \times 100\% \quad (2)$$

A drop in ROCE from 28% to 21% was observed in 2022. However, it improved in 2023 and went back to 28%, attributing to a growth in net profit during that year.

#### 4.1.3 Profit margin (net profit ratio)

The profit margin measures the strength of expenditure management beyond the sales revenue [14]. It shows how much each dollar gained from sales is retained after expenses, interests, and taxes. The formula for computing the profit margin ratio as Equation (3) [14].

$$Netprofitratioovernetsales = \frac{NetProfit}{Netsales} \quad (3)$$

In 2021, Lululemon held a net profit margin of 16%, which is a considerable one compared with 2020. The increase in net sales is worth mentioning. Over the past three years, there has been an approximately 54% rise in sales revenue. Despite the persistent rise in net revenue, the profit margin dropped in 2022 due to a failure in expense control.

## 4.2 Liquidity and solvency ratio

### 4.2.1 Rapid ratio

Rapid ratio (also called acid test or quick ratio) is a more stringent test that measures the immediate ability of a firm to pay for its short-term debts. As a retailer, Lululemon captures a huge storage of inventory. Holding the concern that inventory may not be converted into cash immediately, a rapid ratio is more significant for assessment and is applied instead of the current ratio. The formula for computing rapid ratios is shown as Equation (4) [14].

$$Rapidratio = \frac{Currentassets - stocks}{Currentliabilities} \quad (4)$$

Overall, Lululemon's ability to pay debts has been improved considerably from 2021 to 2023. The rapid ratio is approximately 1.17 in 2021, followed by a subtle decrease to 1.15 in 2022, which peaked at 1.68 in 2023. Compared with 2020, however, there is a significant plunge in the rapid ratio from 1.67 to 1.17 within the period. This indicates that Lululemon is recovering from the hit of COVID-19, showing both an enhancement in liquidity management and a more liquid cash flow.

### 4.2.2 Debt-to-equity ratio

The debt-over-equity ratio is essential in evaluating a company's solvency, reflecting the financing capital's leverage level. The more a company borrows to finance its operations rather than using equity, the higher the interest payments, which can negatively impact its long-term growth. The formula for computing the Debt-to-equity ratio is Equation (5) [14].

$$Debratioovertime = \frac{Totaldebt}{ShareCapital} \quad (5)$$

Over the past three years, Lululemon's financial health has kept recovering from the pandemic in 2020, with a steady decline in the debt-over-equity ratio from 0.62 to 0.52. Lululemon's total debts have continued to rise, increasing by \$657 million from \$2.2 billion in 2021 to \$2.9 billion in 2023. However, this increase has been outweighed by a more rapid one of around \$1.5 billion in equity, which underlines a growth in stock value and a positive market outlook.

## 4.3 Summary of the overall performance

In summary, Lululemon's financial performance has been gradually recovering from the 2020 recession, and continued growth is expected in 2024. Lululemon has demonstrated a strengthened ability to generate profit, supported by several optimistic profitability outcomes. The company's liquidity has shown a consistent upward trend from 2021 to 2023, although it still lags behind the levels seen in 2019. Additionally, the debt-to-equity ratio has improved over the past three years, indicating that leverage risk has been reduced through a robust generation of shareholder equity.

## 5. Conclusion

The wider embracement of a healthy lifestyle and the rise in athleisure, a combination of sports and leisure wear, have boosted the growth in the athleisure apparel industry. As one of the most popular companies in this industry, Lululemon, a Canadian sportswear company specialising in women's yoga apparel that was officially founded in 1998, has attracted investors' attention since 2017, when the stock price began to surge. However, from the begin-

ning of 2024, Lululemon's stock price has kept dropping from its peak at \$509 per share in the last eight months. Thus, this paper aims to critically assess Lululemon's performance in the past three years and provide suggestions for investors. Two objectives are aimed: first, using SWOT analysis to position Lululemon in the industry, and second, using financial ratios to assess the performance of Lululemon. The literature review is the main method used for both strategic and financial analysis.

The SWOT method is used for strategic analysis. Overall, Lululemon's strength is its healthy lifestyle that aligns with social pursuits, unique technology, enhanced brand loyalty, and a warm brand culture. Weaknesses are concluded as a relatively weak supply chain, public scandals, weak growth in segments other than the Americas, and a limited audience due to the premium price. Opportunities could be found as the effect of an overall expansion of the athleisure apparel industry, a further internalisation of the business, taking advantage of ascending women's power, the convenience of e-commerce, and a wide field in the Men's area. Ultimately, it is threatened by fierce industry competition, the compounding effects of economic factors, and possible changes in consumer preferences.

Financial analysis has shown that Lululemon is gradually recovering from the hit of the pandemic. The company has shown improved profitability and consistent growth in liquidity from 2021 to 2023, although it remains below the levels of 2019. Furthermore, the debt-to-equity ratio has decreased over the last three years, indicating a reduction in leverage risk due to strong growth in shareholder equity.

In conclusion, Lululemon should be careful of the possible threats concluded above and use its strength to reinforce its advantages in this industry.

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