

Researched, Assembled and Presented by Brooke Ung, Juhee
Lee, Mathew Nyce, and Elizabeth Pedersen

LULULEMON

Financial Analysis & Recommendations

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Financial and Overall Profile of the Company:

Lululemon is a rapidly growing company and has seen an increase in financial success within the last couple of years. In 2018 the company's revenue was 2.65 billion dollars and its current revenue now sits at 6.26 billion dollars per year in 2022. This is a sales growth rate of 42.14% compared to 2021's revenue of 4.40 billion dollars. At the end of the day on Friday, October 21, 2022, Lululemon's stock price sat at \$298.63. Its stock price increased 1.88 percent compared to Thursday's stock price. Amidst the unhealthy global economic condition, Lululemon has continued to find financial success. Due to its recent innovations, such as its Studio Mirror and recently released women's sneakers, Lululemon has been able to rise above its competitors. It is apparent that the current inflation cannot stop this athleisure juggernaut. In terms of spending, Lululemon's expenses in 2022 are 4.9 billion dollars, compared to 2021 when it was 3.59 billion dollars instead. So, their spending is increasing along with their revenue, but at a slower rate, which bodes well for the company.

Type of Business Organization:

Lululemon is a corporation established in 1998 in Vancouver, British Columbia, Canada. The company operates in two segments: Company-operated stores and Direct to Consumer (Forbes, 2022). Specializing in its athletic wear, Lululemon finds much of its success in its ability to market an active, fulfilling lifestyle to its customers. Some of the company's primary channels for selling its merchandise include corporate-owned retail stores, wholesale, direct customer sales, and more. Its brand is notable, reaching globally to countries like Canada, Australia, and China (Investopedia, 2021). Lululemon follows a traditional business structure, namely a functional organizational strategy. According to Medium, Lululemon breaks down its

company into six distinct categories, including strategy, community and brand, creative, human relations and culture, retail in Americas, and visual merchandising (Medium, 2018). By creating separate departments within the organization, Lululemon can better strengthen its organizational efficiency and operate to their maximum capacity. Employees within each department possess technical expertise and report to the managers in that particular department. Elected by shareholders, Lululemon's board of directors assess the profitability of the company, vote on important business decisions, and determine ways to foster the company's growth.

Major Departments/Divisions:

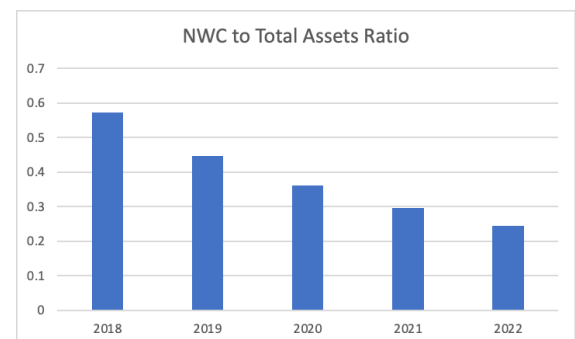
At the beginning of January 2022, Lululemon was recorded to have over 570 stores worldwide. Its presence is continually expanding into areas such as North America, Europe, Mainland China, and Asia Pacific (Lululemon). According to its website, Lululemon has over 385 divisions in North America, 85 in Mainland China, 65 in Asia Pacific, and 35 in Europe and the Middle East. Between these locations, the company has more than 25,000 employees. Their workforce is growing, such that in 2019, their workforce was 19,000. Moreover, Lululemon not only has the expected administration, operations, and accounting departments, but also a strategy department, education and retail department, creative department, and engineering department. (Forage). Additional, specialized departments include visual merchandising, community brand, human relations and culture, and retail in the Americas. Because innovation is a vital component of the company's overall success, its fabrics and technologies department focuses on developing new products and improving previous ones (Medium). This is accomplished through the innovation of materials, designs, and products, which are crucial factors adding to customers' continued interest in and preference for Lululemon.

Financial Performance of the Company:

As one can see from the graph to the right, Lululemon's cash ratio is decreasing, starting from 2018. A cash ratio falls under the category of a liquidity ratio which is "a type of financial ratio used to determine a company's ability to pay its short-term debt obligations." (CFI, p. 1) Lululemon's cash ratio of 3.2852 means that they held the ability to pay off their liabilities three times over. By 2021, Lululemon's cash ratio dipped to just a little above 1, meaning they were able to pay off all of their current liabilities with their current assets. Lulu's 2022 cash ratio decreased quite a bit from 2021, as it now stands at 0.8965, meaning that the "company is not able to satisfy its current liabilities." (CFI, p. 1) Compared to Lululemon, Under Armour's cash ratio is 1.5121, which indicates that they are better able to pay off their current liabilities than their competitor. It's possible that Lulu has taken on too many new liabilities that have created this distance between them and Under Armour.

Like cash ratio, net working capital (NWC) to total assets ratio also falls under the category of liquidity ratios. A positive NWC to total assets ratio is a good indicator for a company. Generally, the higher the better as it pertains to a company's liquidity.

This ratio "shows the amount of additional funds available for financing operations in relation to the size of the



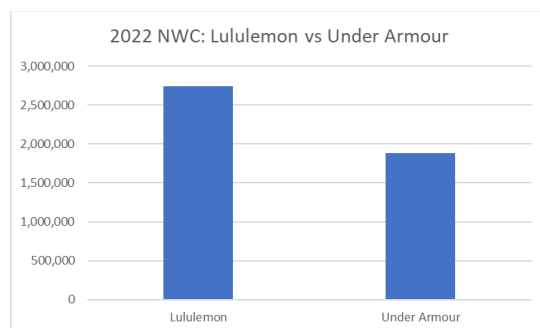
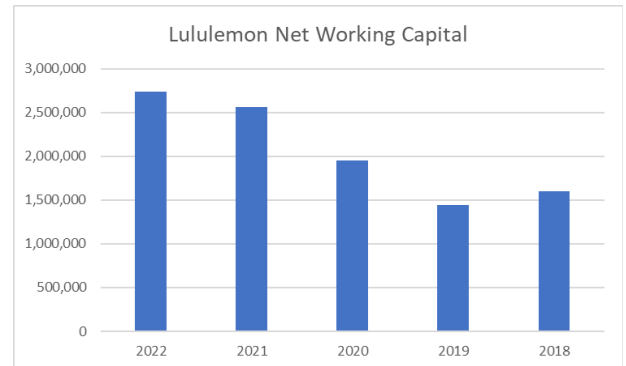
business." (Iowa State, p. 1) Lululemon's NWC to total assets ratio is trending downwards as their short-term solvency is decreasing by the year. Their 2022 ratio is 0.2447, which is a bit lower than their competitor Under Armour, whose ratio is 0.3779. Therefore Under Armour has more cash on hand for new ventures within their company.

Net working capital measures the ratio between a company's current assets and its current liabilities.

Its current assets consist of but are not limited to cash, accounts receivable, and inventories. Lululemon's current liabilities include components on the balance sheet like accounts payable, current lease liabilities,

and current income taxes payable. When examining net working capital, the primary purpose is to determine a company's potential reservoir of cash for future use. By analyzing Lululemon's net working capital from 2018 to today, we can ascertain that they had a generally positive performance over the years. Their net working capital has steadily increased which demonstrates that the company has maintained its current assets compared to the liabilities it owes. For example, in 2019, its lowest-performing year in net working capital, Lululemon's ratio was \$1,445,975. Contrast this with the following year in 2020 with Lululemon's net working capital at \$1,952,218, meaning that the company improved its capital in the following year.

Furthermore, when compared to Under Armour, one of Lululemon's main competitors in the athletic apparel industry, Lululemon has maintained a strong reserve of capital. This year alone,



Lululemon's current asset to current liabilities ratio has been at \$2,740,046. To put this number in context, Under Armour's net working capital in 2022 was \$1,886,123. Lululemon, therefore, has a strong potential in their reservoir of cash for future

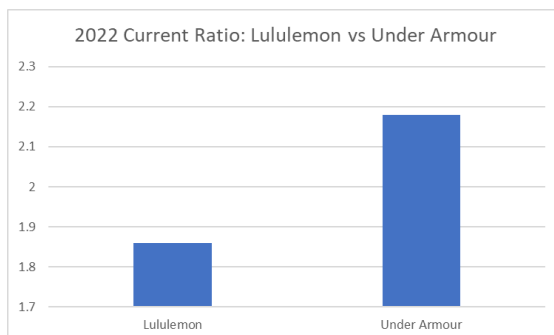
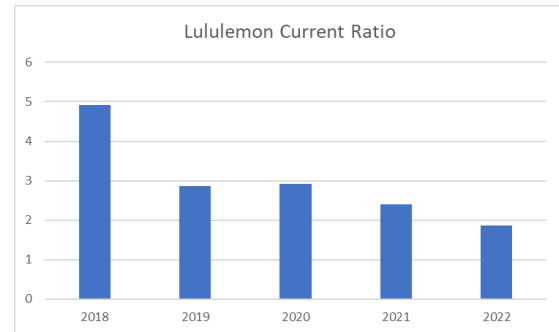
opportunities in investment and revenue generation.

Lululemon's current ratio is measured by dividing its current assets by its current liabilities.

Its total current assets include cash and cash equivalents, accounts receivable, inventories, prepaid and receivable income taxes, and prepaid expenses and other current assets. Then, its total

current liabilities include accounts payable, accrued liabilities, accrued compensation and related expenses, current lease liabilities, current income taxes payable, unredeemed gift card liability, and other current liabilities. Calculating the current ratio is valuable in the sense that it measures Lululemon's ability to pay its short-term debts. Moreover, the current ratio also illustrates how the company can maximize its current assets to pay its current obligations (Fernando, 2022). For example, in 2018 Lululemon had \$4.90 in current assets for every dollar in current liabilities.

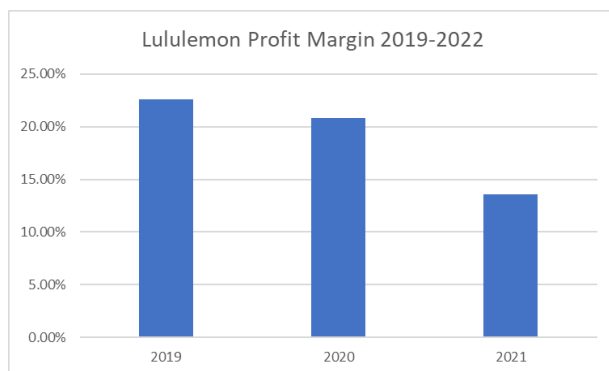
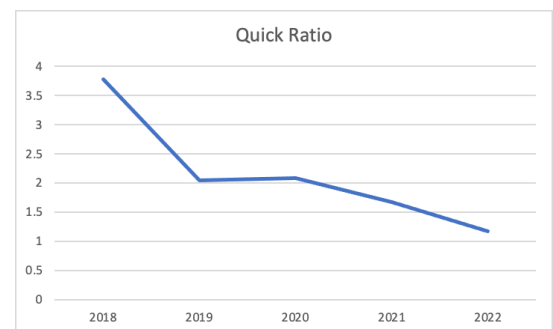
That year's current ratio was the highest compared to the next four years. The company's following current ratio dropped to \$1.76 in 2019, but increased again to \$2.91 in 2020. In the subsequent years, however, Lululemon's current ratios steadily decreased from \$2.41 in 2021 to \$1.86 in 2022. Evidently, it appears that Lululemon may face challenges in paying back its



short-term obligations if the current trend continues. In comparison, its competitor Under Armour's 2022 current ratio is \$2.18- which is higher than Lululemon's ratio for the same year.

Lululemon's quick ratio is measured by current assets minus inventory divided by current liabilities. The quick ratio measures a company's ability to quickly convert liquid assets into cash

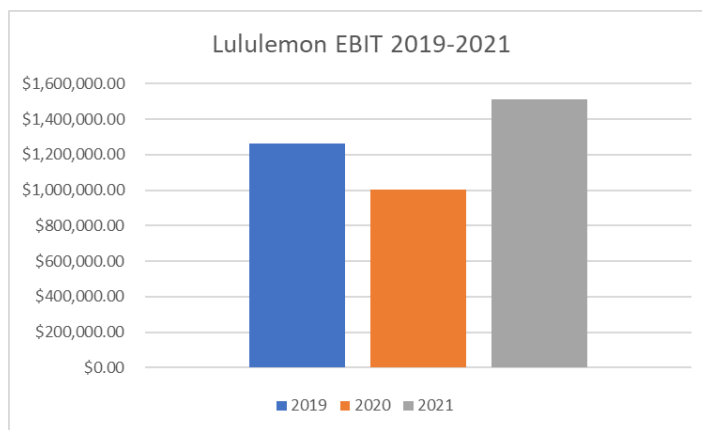
to pay for its short-term financial obligations. A positive quick ratio can indicate the company's ability to survive emergencies or other events that create temporary cash flow problems. So, if the quick ratio is under 1.0, it does not mean the company is doing poorly. If the quick ratio is 1.0, that means if their company has 1 dollar amount debt, they have the ability to pay off 1 dollar. For the Lululemon company, their quick ratio has been decreasing since 2018 from 3.78239 to 2022 1.17. Lululemon is getting lower and lower. Under Armour company's 2022 quick ratio is 1.7410 and there is 0.6 difference. The Under Armour company is bigger than the Lululemon company. To the right is Lululemon company's Quick Ratio graph and it shows their company graph is dropping so, in my opinion, soon, their company will be broken if they keep their company running like now.



Profit margin is a business' primary method to gauge profitability. This margin determines how much of every dollar in sales the company keeps from its earnings (Treece, 2022). Healthy businesses will analyze profit

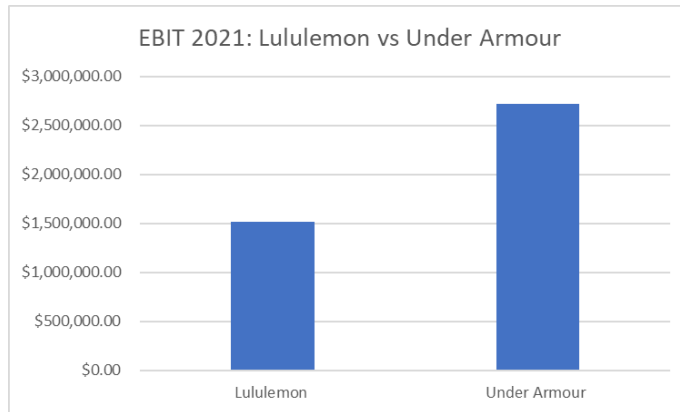
margins to determine their fiscal health and maximize profits for their future growth. The higher the profit margin that a company has, the more profits are generated from its sales (Maverick, 2021). It is calculated by looking at the company's net income and dividing the number by its sales. When looking at Lululemon's profit margin, they have steadily decreased over the last three years. According to the chart, Lululemon's profit margin was 22.62% in 2019. However,

their profit margin decreased in 2020 to a percentage of 20.79%. The following year, the company decreased their profit margin by 7.24 percentage points to arrive at their profit margin of 13.55%. Compared to a strong competitor in the athletic industry, Under Armour, Lululemon is performing generally well. In 2021, Under Armour had a profit margin of -15.78%, which means that the company's cost of production exceeded their total sales. A low profit margin like this can indicate to a company that they are not generating enough profits to compensate for their operating costs. Our recommendation for Lululemon to improve their profit margin is to reduce their operating costs. In general, because their profit margin has been decreasing over time, Lululemon should reduce their operating expenses so that they can showcase their impressive revenue earnings to investors.



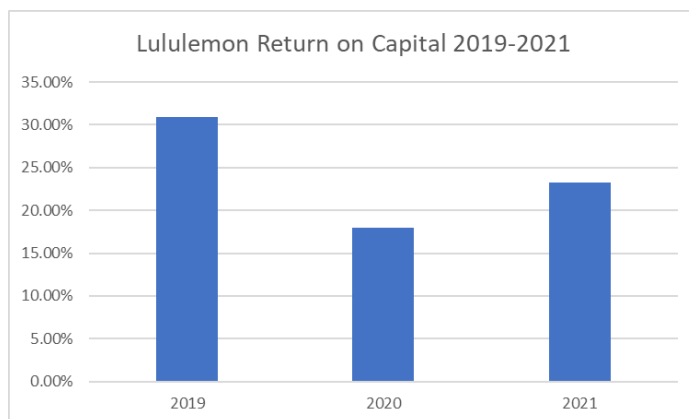
Earnings before interest and taxes, or EBIT, is calculated by taking a company's total revenues and subtracting the cost of goods sold as well as depreciation. The primary purpose of this calculation is to determine a company's profitability that

it generates from its operations (Murphy, 2022). As specified in the name, EBIT ignores taxes and interest expenses in its calculations. Based on Lululemon's financial statements, the company fluctuated in its overall performance. For instance, in 2019, Lululemon had an EBIT of \$1,259,848.00. In 2020, however, their numbers dropped to \$1,005,312.00. But the following year, in 2021, Lululemon increased their EBIT to \$1,512,157.00.



When compared to their primary competitor, Under Armour, Lululemon is underperforming. According to the chart, Under Armour had an EBIT of \$2,720,355, which is a substantial difference between Lululemon. One recommendation we have for the

company to increase their EBIT is to find areas in which they can cut their operating expenses. This could include expenses such as monthly rent or mortgage payments, insurance costs, payroll, postage, property taxes, or supplies and utilities (Rogers). Even though their numbers are not worse than industry averages, they are still underperforming against their main competitor, so it would be financially smart to increase their EBIT since it indicates to investors that they have low debt levels and high amounts of cash.



Return on capital is the measurement of a company's ability to turn capital into profits (Cain). In other words, return on capital assesses whether or not a company is utilizing its investments to create long-term profitable growth.

Return on capital is calculated by adding the after-tax interest to the net income of the company, then dividing it by the company's total capital. In 2019, Lululemon's return on capital was at a percentage of 30.97. Again, their percentage has fluctuated with its return on capital reducing to

17.95. In 2021, Lululemon's return on capital was at 23.30%. These percentages indicate that in general, Lululemon generates significant returns on investment than it costs the company to raise the capital to compensate for that investment. Comparatively, Lululemon showcases a strong return on capital. Under Armour has a return on capital rate of -7.21%, demonstrating that the company is losing more capital than it is generating return on investment. Because Lululemon has maintained a strong return on capital, our recommendation is that they continue maintaining their current levels of net income and tax interest. They do not need to focus on this particular financial piece because they are performing well, especially when compared to their main competitor, Under Armour.

Market capitalization of lululemon athletica (LULU):

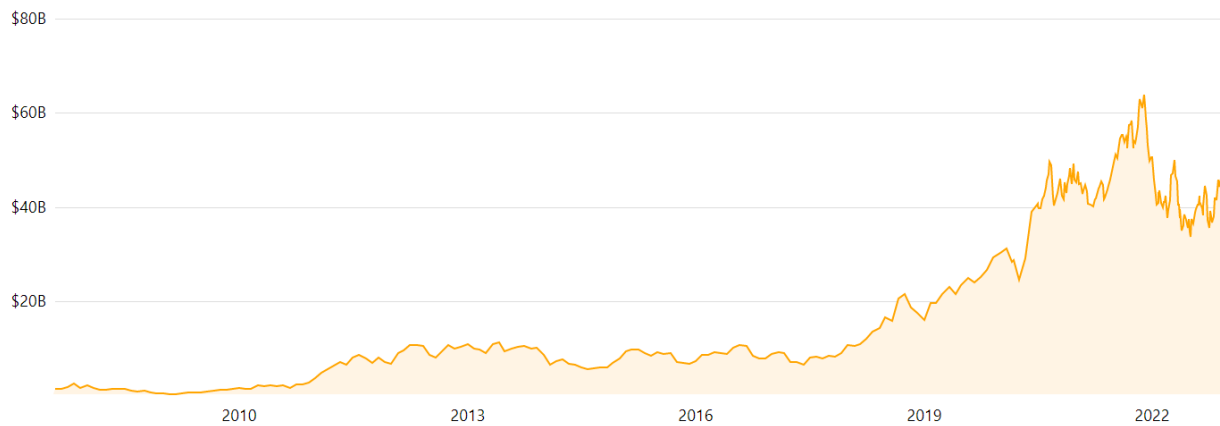
Market cap: \$46.05 Billion: As of November 2022 **lululemon athletica** has a market cap of **\$46.05 Billion**. This makes lululemon athletica the world's **353th** most valuable company by market cap according to our data. The market capitalization, commonly called market cap, is the total market value of a publicly traded company's outstanding shares and is commonly used to measure how much a company is worth.

Market capitalization of Under Armour (UA):

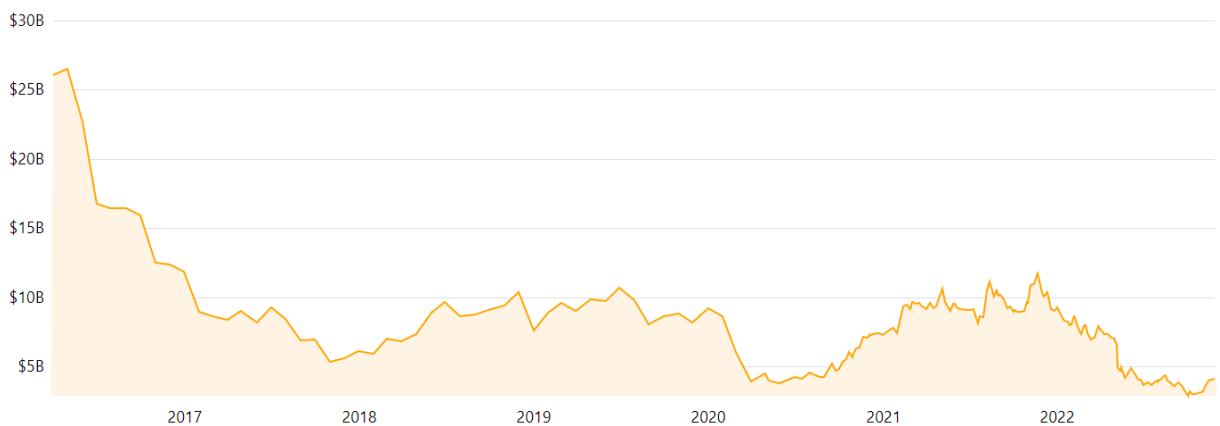
Market cap: \$4.10 Billion: As of November 2022 **Under Armour** has a market cap of **\$4.10 Billion**. This makes Under Armour the world's **2637th** most valuable company by market cap according to our data. The market capitalization, commonly called market cap, is the total market value of a publicly traded company's outstanding shares and is commonly used to measure how much a company is worth.

Recommendation, In 2016, Under Armour market capitalization was \$26.49 Billion and LuluLemon market capitalization in 2016 was only \$9 Billion. But today, the Lululemon company is 10 times higher than Under Armour.

Market cap history of lululemon athletica from 2007 to 2022



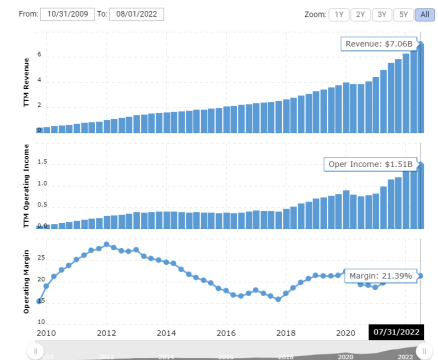
Market cap history of Under Armour from 2016 to 2022



Operating Profit Margin

Current and historical operating margin for Lululemon Athletica Inc (LULU) over the last 10 years. The current operating profit margin for Lululemon Athletica Inc as of July 31, 2022 is **21.39%**.

Current and historical gross margin, operating margin and net profit margin for Under Armour (UA) over the last 10 years. Profit margin can be defined as the percentage of revenue that a company retains as income after the deduction of expenses. Under Armour net profit margin as of September 30, 2022 is **2.51%**.

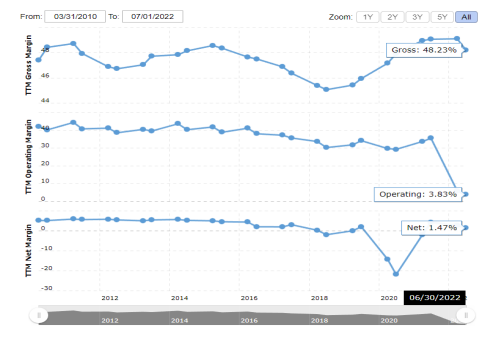


Sales to Assets

Lululemon Athletica Inc total assets from 2010 to 2022.

Total assets can be defined as the sum of all assets on a company's balance sheet.

Lululemon Athletica Inc total assets for the quarter ending July 31, 2022 were **\$4.921B**, a **11.7% increase** year-over-year.



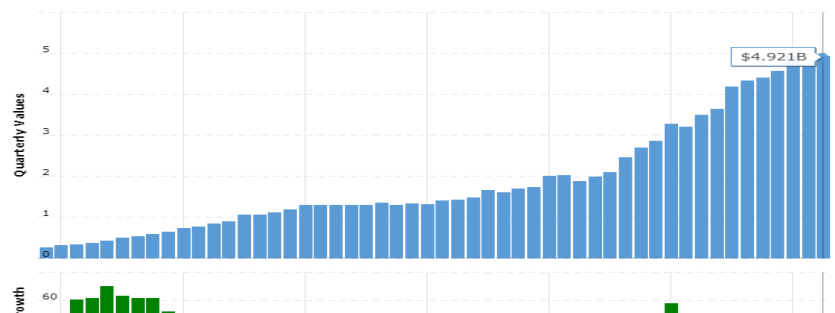
Lululemon Athletica Inc total assets for 2022 were **\$4.942B**, a **18.09% increase** from 2021.

Lululemon Athletica Inc total assets for 2021 were **\$4.185B**, a **27.55% increase** from 2020.

Lululemon Athletica Inc total assets for 2020 were **\$3.281B**, a **57.4% increase** from 2019.

Under Armour total assets from 2010 to

2022. Total assets can be defined as the

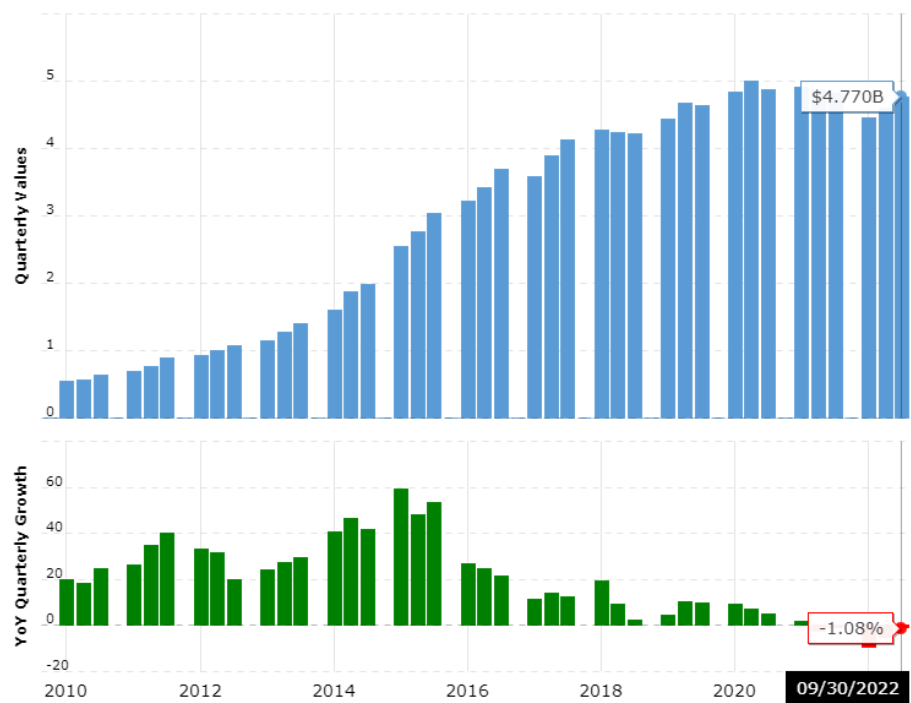
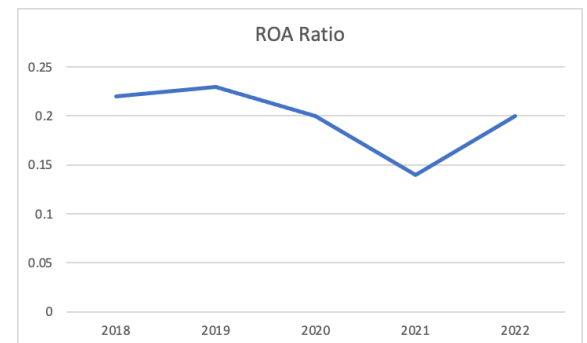


sum of all assets on a company's balance sheet.

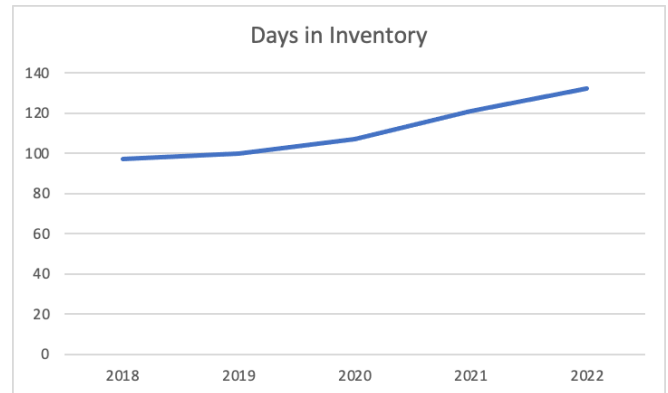
Return on Assets evaluates “how profitable a company is in relation to its assets.” (Hargrave, p. 1) The desired ROA ratio is somewhat dependent on the industry a company is in, but in general over 5% is considered good, and anything above 20% is outstanding. (Hargrave, p. 1)

As one can see from the graph to the right, Lululemon’s ROA is quite good as it has been well above 5 % for the last four years. Although it saw some decline starting in 2019, it has quickly gained a considerable amount of

momentum. When compared to Under Armour's most recent ROA of 7 percent, Lululemon seems to be quite ahead of their competitor as their 2022 Return on Assets is 20 percent.

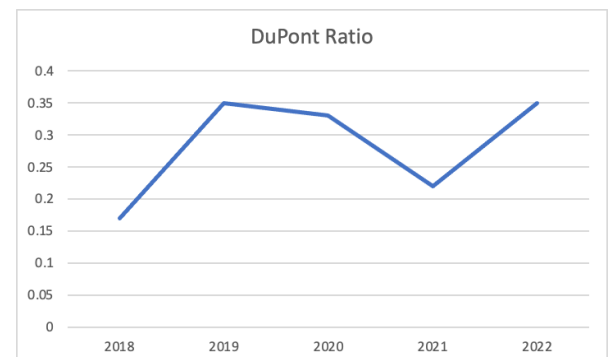


Days in Inventory “indicates the average time in days that a company takes to turn its inventory, including goods that are a work in progress, into sales.” (Hayes, p. 1) While this ratio is very industry based and varies depending on the size of a company, a favorable range is from 30 and 60 days. (Hayes, p.

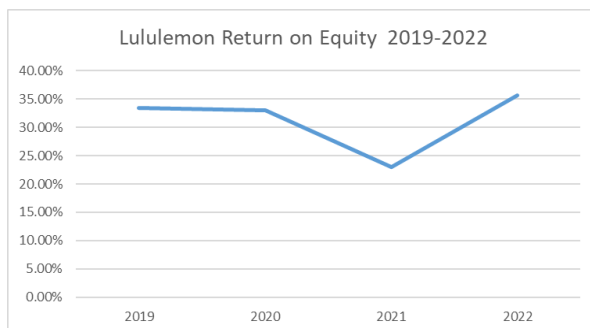


1) Taking a look at the graph to the right, we can see that Lululemon’s Days in Inventory is quite high and is continuing to climb. This may be because they are not a fast fashion company like Zara, and are not trying to sell their apparel at the lowest possible prices. There also may be some supply chain issues within Lululemon as well that may also be causing these high numbers. While not within the favorable range of 30 to 60 days, Under Armour’s most recent Days in Inventory ratio stands at 105 days, which is 27 days shorter than Lululemon’s 2022 ratio. Under Armour sells less durable and less expensive apparel than Lululemon, so this may be the reason for the difference between the two company’s Days in Inventory Ratio. Our recommendation for Lululemon would be to not stress too much over how long their apparel stays in inventory. As a luxury brand with expensive prices, there isn’t too much cause for concern as they are not banking on quantity of sales, but rather quality or price of sales. Additionally, they do not frequently implement seasonal apparel, and so much of their inventory can last for many seasons before being purchased.

The DuPont formula is often utilized by investors “to compare operational efficiency of two similar firms.” (Hargrave, p. 1) It is also used by managers to determine the strength and weaknesses of their firm. (Hargrave, p.



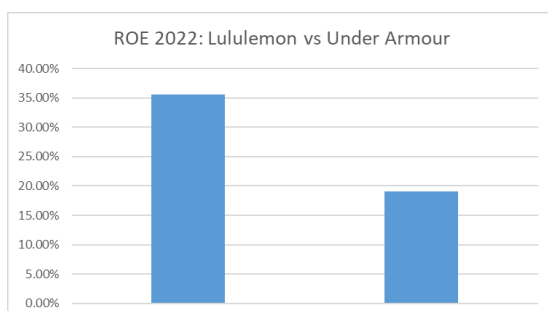
1) It allows one to see what are the drivers on ROE for a specific company. In general, the higher a DuPont ratio the better. Although Lululemon's ratio began to dip in 2019, it started trending upward in 2021 quite steeply, which is a good sign for the entity. Compared to Under Armour's most recent DuPont ratio of 0.16, Lulemon looks to be ahead of the game as their 2022 ratio is 0.35. I don't think this speaks to any failures of Under Armour, but rather the recent successes of Lululemon that has put the company almost in a category of its own. Our recommendation to Lululemon concerning their DuPont ratio would be to continue in the trajectory they are headed. It is currently increasing at a steady rate, and they should continue to implement the same drivers for ROE that they are currently using. As mentioned previously, generally the higher the DuPont ratio the better, so there is no cause for concern if it continues to increase.



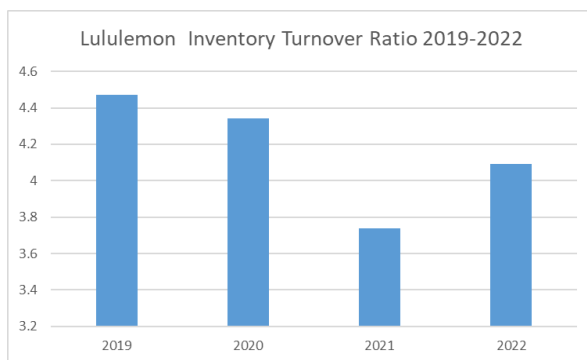
Return on Equity (ROE) is expressed as a percentage and calculated by dividing a company's net income by its stockholders' equity. This ratio is valuable to an organization because ROE serves as a gauge of profitability

and efficiency in generating shareholders' profits (Fernando, 2022b). As shown in the chart, Lululemon's ROE began at a healthy 33.46% in 2019, but decreased the slightest amount to 33.07% in 2020. After this, the company's ROE dropped by 10.05% in 2021 to 23.02%. Although this was Lululemon's lowest recorded percentage, as illustrated in the chart, the company's ROE increased by 12.58% in 2022. Then in the second chart, Lululemon's most recent ROE is compared to that of Under Armour's (its leading

competitor). When discussing ROE, a higher percentage is preferred, so Lululemon's 35.60%



outperformed Under Armour's 19.10%. This indicates that Lululemon is generating profits more efficiently than its competitor, so one recommendation is that it should continue to grow its earnings proportionally to its equity. Lululemon can do this by “generating more profit with fewer assets, increasing profit margin, or effectively using leverage” (Tsang, 2022). Consequently, if Lululemon continues to find new opportunities to profitably reinvest its earnings, it may achieve long-term success.

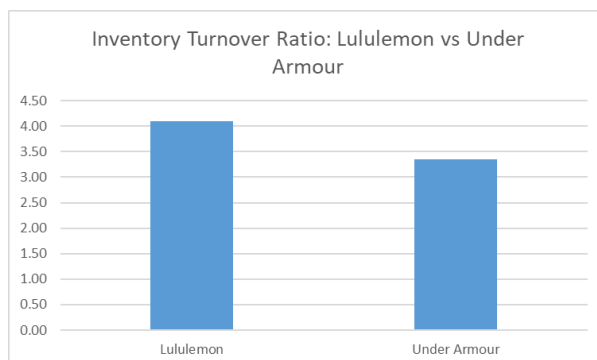


The Inventory Turnover Ratio is calculated by dividing an organization's cost of goods sold (COGS) by its inventory at the start of the year.

This financial ratio is significant in the sense that it measures “how often a company replaces inventory relative to its cost of goods sold” in a

specified period (Fernando, 2022a). Therefore, companies generally prefer a higher ratio, as it signals strong sales. However, it is important to determine whether the ratio truly does reflect successful sales or if it comes from inadequate inventory stocking (Fernando, 2022a).

Alternatively, a lower ratio signals weak sales or excess inventory. As pictured above, the chart emphasizes the fact that Lululemon was doing well in 2019, with an inventory turnover ratio of

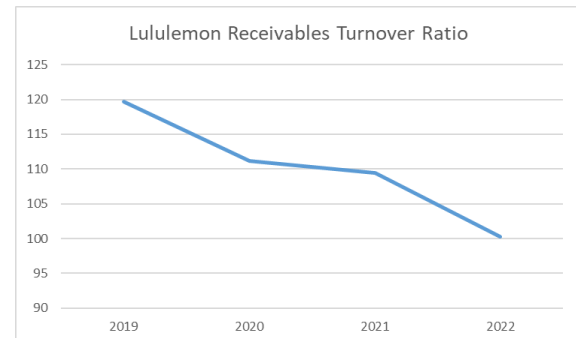


4.47. Nevertheless, the following two years show that the organization's ratio dropped first to 4.34 in 2020, and then to 3.74 in 2021.

However, this trend did not continue into 2022 as the ratio climbed once more to a reasonable 4.09. Compared to Under Armour's inventory

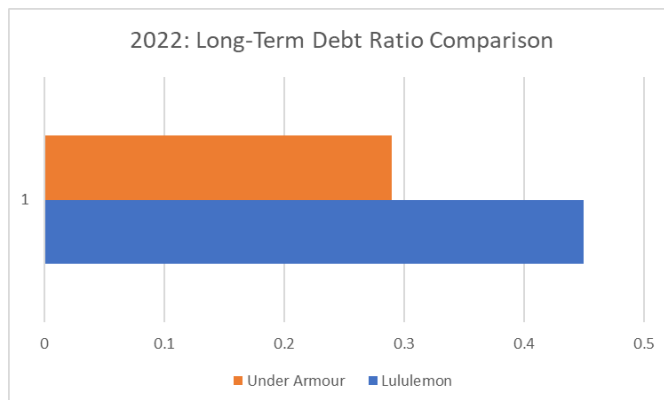
turnover ratio from 2022, Lululemon performed better. While Under Armour came in with a ratio of 3.35, Lululemon had 4.09. Thus, Lululemon is better able to use its inventory and should therefore maintain its strategic decision-making processes (i.e., in marketing, pricing, purchasing, etc.) as its main recommendation.

The Receivables Turnover Ratio is calculated by dividing the business's sales by its receivables at the end of the year, and this measures how many times a business collects on its accounts receivable balance. Hence, it is essential for its “quantification of a company's



effectiveness in collecting outstanding balances from clients and managing its line of credit process” (Murphy, 2021). A high receivables turnover ratio suggests that a business does its collection processes efficiently and that customers are paying back debts in a timely manner. On the other hand, a low ratio may indicate “inefficient collection processes, inadequate credit policies, or customers who are not financially viable or creditworthy” (Murphy, 2021). Looking at the chart, it is evident that Lululemon’s receivables turnover ratios steadily declined over the years. In 2019, the business had its highest ratio of 119.66, but by 2022 it had fallen to 100.27. While this decline is not encouraging, Lululemon is performing astronomically better than its competition. Lululemon’s lowest ratio is 100.27 while Under Armour’s ratio comes in at a dismal 8.61. Even though Lululemon is outperforming Under Armour, this downward-sloping trend should not continue. To mitigate risk, a critical recommendation is for Lululemon to allocate more time to ensuring its collection processes are efficient as well as confirming customers are creditworthy.

Long-term debt ratio compares a company's long-term debt to its assets. In other words, it is the extent to which the company has leverage (Hayes, 2022). The higher the number, the greater the amount of liabilities that the company has to pay off. For example, a ratio that is greater than 1 is a company that generally has a considerable amount of debt (Hayes, 2022). According to the graph, Lululemon has maintained a good debt ratio. Because they keep their numbers below 1.0, their debt-to-assets ratio would be considered a relatively safe company to invest in. This remains consistent from 2019-2022. Based on the information from the graph, their weakest debt-ratio was this year in 2022 with a long-term debt ratio at 0.45. Because Lululemon has managed to keep its long-term debt ratio at around 0.4, they will maintain this trend for the next three years. Our recommendation for the company is to invest more because they have sufficient assets to pay off those debts. Lululemon should focus more on growth for the company, which might mean acquiring more debt in the beginning. Compared to Under Armour, Lululemon is underperforming. Under Armour's long-term debt ratio is at 0.29 this

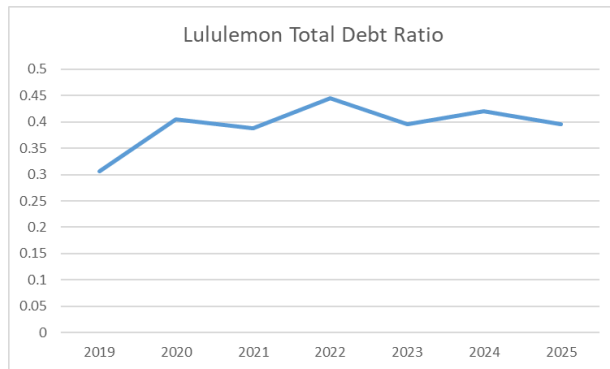


year, which means their assets exceed the amount of long-term debt owed.

Therefore, investors would consider Under Armour as a strong financial prospective because they are at a low risk of not being able to meet financial obligations.

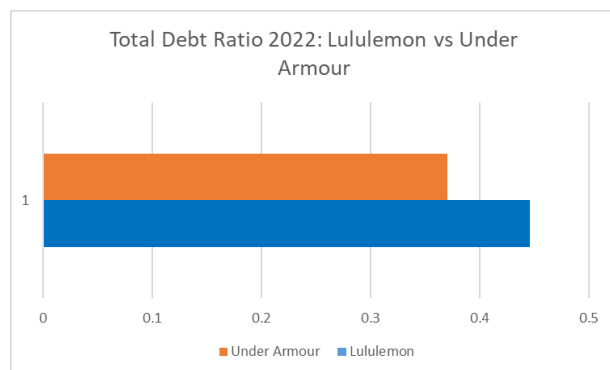
However, even though Under Armour's long-term debt ratio is slightly better than Lululemon's in 2022, that does not mean that it would be financially unwise to invest in Lululemon. For recommendations, since Lululemon is performing above industry averages, they should maintain their current ratios of debt to assets. Because the company has consistently performed well

within the last 5 years, if they maintain their existing levels of long-term debt as compared to assets, they will be in good economic standing.



The total debt ratio measures a company's total liabilities to its total assets. It can be expressed as either a decimal or a percentage, and is used to determine the "proportion of a company's assets that are financed by debt" (Hayes, 2022). Consequently, a lower debt ratio is

preferable because one that exceeds 1.00 or 100% reveals that the organization's liabilities exceed its assets. This becomes a problem when there is an unexpected increase in interest rates because creditors view a higher ratio as the company being "at risk of default on its loans" (Hayes, 2022). Hence, the total debt ratio can identify a company's level of risk which then helps determine its overall financial health. Therefore, an organization in the retail industry should strive to have more of its assets "funded by equity" than by debt, which translates to a ratio below 1.00 (Hayes, 2022). As illustrated



by the graph, a greater amount of Lululemon's assets is financed by equity, seeing as the four ratios fall below 1.00. In 2019, it had its lowest ratio at 0.3064 and its highest at 0.4456 in 2022. Considering the U.S. retail industry's average total debt ratio in 2021 was 0.68,

Lululemon is doing well (Ready Ratios, 2021). If Lululemon continues this trajectory three years out from now (preferably maintaining total debt ratios between 0.30 and

0.45), it will be able to handle its debt load. However, when compared to its major competitor Under Armour, Lululemon has a higher debt ratio. As pictured in the second graph, Under Armour currently has a ratio of 0.3707 while Lululemon is at 0.4456. Nevertheless, Lululemon is still below the industry average, so a recommendation is to make sure its debt ratio remains lower than 1.00 by not borrowing more money than it can pay back.

Times interest earned

EBIT/Interest payment.

Lululemon EBIT

2022	\$1,333
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Under Armour EBIT

2022	\$644
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Lululemon's EBIT is two times higher than Under Armour so, it is better to invest in Lululemon than Under Armour.

Lululemon Athletica Inc annual and quarterly EBIT history from 2010 to 2022. EBIT can be defined as earnings before interest and taxes. Lululemon Athletica Inc EBIT for the quarter ending July 31, 2022 was \$0.401B, a 37.86% increase year-over-year. Lululemon Athletica Inc EBIT for the twelve months ending July 31, 2022 was \$1.510B, a 31.58% increase

year-over-year.

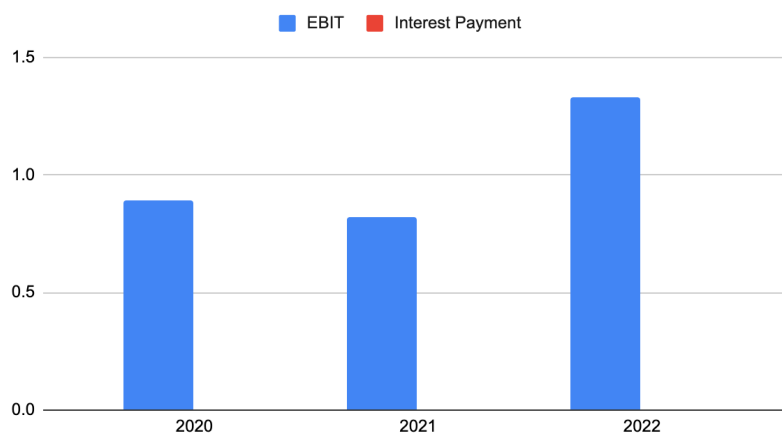
Lululemon Athletica Inc 2022 annual EBIT was \$1.333B, a 62.61% increase from 2021.

Lululemon Athletica Inc 2021 annual EBIT was \$0.82B, a 7.77% decline from 2020.

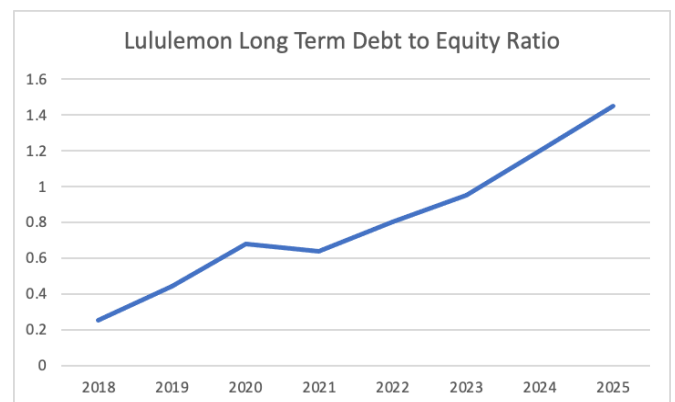
Lululemon Athletica Inc 2020 annual EBIT was \$0.889B, a 25.97% increase from 2019.

Recommendation for Lululemon to increase EBIT: They have increased EBIT over 70% since 2019, so they are on the right track. They do not have interest payment but I recommend they have interest payment so more people and investors can invest in Lululemon.

EBIT and Interest Payment



Long-term debt to equity ratio, also known as debt-to-equity (D/E), “is used to evaluate a company’s financial leverage and is calculated by dividing a company’s total liabilities by its shareholder equity.” (Fernando, p. 1) The ratio identifies whether a company is financing its



endeavors “with debt rather than its own resources.” (Fernando, p. 1) While the optimal debt-to-equity ratio varies by industry, however, most would agree that it should not exceed 2.0. Companies in industries that require expensive machinery may exceed this threshold, but most entities would be wise not to go above a ratio of 2.0. A ratio of 2.0 means that a company “borrows twice as much funding as it owns (2 debt units for every 1 equity unit).” (Investopedia, p. 1) As one can tell from the graph above, Lululemon’s debt-to-equity ratios are considerably lower than the threshold of a ratio of 2.0, despite the recent climb. This seems to be the case given the industry that they are in. Unlike an industry such as construction, the materials needed to make athletic wear is considerably inexpensive, meaning Lululemon will not have to rely heavily on financing through debt. Under Armour’s most recent debt-to-equity ratio stands at 1.39, which is considerably higher than Lululemon’s 2022 D/E ratio of 0.80. This is very surprising considering Lululemon is known for creating higher quality athletic wear, so it would make them have to use debt as a way of financing in order to acquire materials.

My recommendation for Lululemon as it pertains to their debt equity ratio would be to continue in the direction they are headed. The increase in their D/E ratio may be a sign that the company is quickly expanding and needs more funds to finance various projects. Lululemon’s D/E ratio increase is not something to be wary of as it is climbing at a moderate pace instead of a rapid one. For Under Armour, I would recommend that they evaluate their spending. Since they have a greater debt equity ratio than Lululemon, who most likely spends more money on materials than them, then they should look more closely into their spending habits. It’s very possible that they are acquiring more debt than is actually necessary to run and grow their company.

Concerning Lululemon's long-term debt to equity ratio, we project them to reach a ratio of 1.5 by the year of 2025. This is because their ratio has increased quite a bit within the recent years and as the "athleisure" industry becomes more and more competitive, there will be more reason for them to finance out of debt. We think our projection is both conservative, yet sound in that it takes into account the increase in debt compared to equity being used for the company. We do not believe this to be a hindrance for the company, but instead will allow them to grow for the future- which in the present- appears to be quite bright for them.

Short-term financial condition

A thorough analysis of Lululemon's operations reveals the organization's financial condition over the last few years. Examining each ratio provides valuable insight for where Lululemon can improve as a company and any opportunities that it might consider for future growth. To begin, an analysis of the organization's short-term financial condition revealed that Lululemon is performing well financially but still has some issues in their operations that could be improved. According to data in 2022, they have maintained a strong and steady financial performance. For example, in analyzing their financial records from 2018 to 2022, they have increasingly improved their Net Working Capital, which means that their assets are exceeding their liabilities; a sign that they have enough short-term assets to pay for its short-term debt and even invest in its growth. However, while they have had success in their operations, there are still some areas that are financially lacking. Lululemon's short-term financial condition is performing well but has potential issues in meeting short-term financial obligations that might look risky to potential investors. For example, for the past five years, Lululemon's Quick Ratio – the measurement of the company's ability to quickly convert liquid assets into cash – has steadily declined. In 2018, Lululemon's Quick Ratio was at 3.78239, but today, in 2022, the company's

Quick Ratio is at 1.17, which means that they went from \$3.7 recoverable liquid assets to \$1.7.

The lower the number, the higher the risk- indicating poor financial health to investors.

Lululemon's low quick ratio indicates that they might be overleveraged, collecting receivables too slowly, or struggling to grow sales. The company may not be financially strong enough to meet its short term financial obligations and may experience issues further down the road. One notable aspect of Lululemon's short-term financial condition was its numbers regarding the cash ratio. The cash ratio is the measurement of a company being able to cover its short-term financial obligations using cash. It decreased quite significantly between 2018 to 2022. In 2018, Lululemon's cash ratio was at 3.3 and then decreased to 0.9 in 2022. In general, a company that reports a cash ratio lower than 1 faces some financial struggles and indicates low cash reserves. However, it could be an indicator for Lululemon's desire to expand, especially since they have continually invested in their women's apparel and added on to their selection in branching out to menswear.

Financial performance

When assessing Lululemon's financial performance, they have some gaps that they should correct. Other areas of improvement include Lululemon's profit margin. Over the past three years, Lululemon's Profit Margin has decreased, indicating that the firm is making less money per dollar of sales. From 2020 to 2021, the company's profit margin has decreased by 7.24 percentage points and from 2019 to 2021, it was a decrease of 9.07 percentage points.

Lululemon's receivables turnover ratio can also be improved. While their numbers are not bad, they have been on a declining trend. This ratio measures how effective the company is in collecting receivables from clients. Compared to Under Armour, Lululemon is performing adequately. However, since 2019, their receivables turnover ratio has steadily decreased. For

example, they had their highest ratio at 119.66, but this year, that number has decreased to 100.27. Lululemon can improve its ease and efficiency for clients to pay them back.

Long-term financial condition

Lululemon has had a consistently healthy long-term financial condition. Generally speaking, we noticed that they are performing at industry averages and have maintained a good balance in paying off their long-term debts, while continuing to grow as a company. Even though they are underperforming in their long-term debt condition compared to Under Armour, in general, they have kept their numbers around industry averages. Long-term financial measurements such as long-term debt-to-equity ratio and long-term debt ratio have remained at typical levels. In our research, we determined that Lululemon is operating at normal levels for the industry that they are in.

Financial Initiatives

Based on our extensive research, there are three overarching initiatives that Lululemon should undertake to begin its strategy for long-term success. The first main area that should be addressed is Lululemon's relationship with its short and long-term financial obligations. For example, based on our findings derived from Lululemon's Cash Ratio, Current Ratio, and Quick Ratio, the company appears to be facing high levels of current liabilities. What this means is that the organization is having problems paying back its short-term debt obligations. In addition to this, findings from the Long-Term Debt Ratio underscore the fact that Lululemon's long-term financial condition will continue to be affected by its increased liabilities needing to be paid off. Therefore, we suggest the company begin an initiative to address its relationship with its current and long-term liabilities.

The second area that requires Lululemon's attention is its operating expenses. According to our research, the entity has greater operating costs which affect both its profit margin and EBIT. For instance, Lululemon's profit margin has been steadily decreasing since 2019, so one initiative should focus on reducing its high operating expenses and increasing its profit margin to maximize profits for future growth. The same is true for Lululemon's EBIT which needs to be addressed since investors want to work with companies with low debt levels and high amounts of cash.

The third area that Lululemon should focus on is its handling of accounts receivable. Using the Receivables Turnover Ratio, we determined that Lululemon may be facing an issue in collecting its outstanding balances from clients and/or managing its line of credit process. For this reason, receivables turnover ratios continue to decrease over the years and this may lead to greater problems for the organization going forward. Hence, our research leads us to believe that a financial initiative must be pursued to deal with Lululemon's challenge with accounts receivable.

Specific Financial Goals

Lululemon announced plans to double its 2021 revenue from \$6.25 billion by 2026. We expect significant growth across key factors, including product innovation, guest experience, and market expansion. In addition to tripling digital revenue between 2018 and 2021, the company plans to double its digital revenue by 2026. To achieve this goal, Lululemon will continue to create a world-class experience by leveraging the power of guest relationships to build stronger connections across both physical and digital, foster communities, and inspire innovation. Last week, the company announced the expansion of Lululemon Like New, the brand's first trade-in and resale program available across the United States from April 22. The company's 3×2 growth

strategy includes plans to double its male and digital revenue and quadruple its international revenue compared to 2021. The company's women's business, store channels, and North American operations will continue to play a key role in its strategy, with stores expected to grow in for those in their mid-teens, while women and North America are expected to achieve low double-digit compound annual growth over the next five years. Lululemon will launch a new two-stage membership program later this year, based on the company's vision to create a new path for connected fitness, along with a strong interest in the pilot membership program. The goal of this program is to create the most immersive fitness market in the industry by building stronger relationships with their brands, communities, and products.

Moreover, Lululemon's initiative to address its high levels of current liabilities can be achieved through the implementation of three financial goals. Considering that excessive borrowing may cause Lululemon to lose its ability to invest, lose the confidence of stakeholders, reduce the value of the company, etc. this issue must be dealt with strategically. From the available courses of action which Lululemon may choose to pursue, we believe the organization should reduce costs where it can (i.e., those that are unnecessary), increase its capital (i.e., converting assets into those that will produce greater value), and increase its income (through marketing efforts like those listed above) (Reduce Business Debt). In addition to these goals, more should be included to solve Lululemon's issue with its high operating expenses. Because the company is well-known for its quality products, these reductions should not jeopardize this key feature. Nonetheless, three goals to help combat increased operating costs may be through auditing expenses (to determine which are not as important and therefore can be reduced), seeing if the company can negotiate lower rates for its products from suppliers, and investing in

marketing channels that cost less (i.e., social commerce) (Popson, 2021). Thus, these three goals may help Lululemon reduce its operating expenses going forward.

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