

Financial Analysis and Performance Evaluation of Lululemon Athletica

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Abstract. This article analyzes and evaluates the financial condition of Lululemon Athletica, focusing on aspects such as market volatility, profitability, liquidity, solvency, efficiency, growth potential, and financial leverage. The analysis aims to assist investors, analysts, and stakeholders in understanding Lululemon Athletica's financial performance and its ability to adapt to economic changes. The article emphasizes the importance of financial data and provides an overview of commonly used financial analysis tools and methods. It also includes a cash flow analysis of Lululemon and discusses the company's financial status, including key financial ratios and indicators. Overall, Lululemon's financial status is relatively stable, with minor fluctuations in certain areas. However, the company's return on assets shows high volatility, suggesting a need for improvement in asset utilization efficiency. Investors are advised to consider various financial indicators and tools when analyzing Lululemon Athletica's financial health and market performance.

Keywords: Lululemon, cash flow analysis, financial ratios, financial status.

1. Introduction

The purpose of this article is to analyze and evaluate the financial condition of Lululemon Athletica. The article will research key aspects. The aim is to assist investors, analysts, and stakeholders in understanding Lululemon Athletica's financial performance and its ability to adapt to economic changes and market challenges. Through this analysis, this paper emphasizes the importance of financial data and help readers gain a better understanding of Lululemon Athletica's financial health, enabling them to make more informed investment or business decisions.

Lululemon, a renowned sportswear company famous for its premium yoga trousers, gym outfits, and additional items, is publicly traded on the NYSE under the symbol "LULU". The brand, which originated in Vancouver, Canada in 1998, has since expanded to achieve worldwide recognition, with a significant footprint in regions such as North America, Europe, and Asia. Lululemon has successfully created a distinct brand image, emphasizing a healthy and active lifestyle. The company's commitment to promoting well-being extends beyond just apparel, as it also offers yoga classes and community events through its retail stores.

2. Literature Review

2.1. Financial Analysis

Xinxin Xie (2019) had believed that a systematic financial analysis had not been formed, and financial analysis still needed to be systematically established, with clear corporate goals and positioning. At the time, the financial analysis work of most companies only stayed at the level of financial statements, using financial management indicators for calculation and comparison, and applying the meaning of indicator sizes. However, the issues explained at a deeper level behind these numbers were not analyzed deeply and accurately enough [1].

Lu Zheng (2019) had believed that traditional financial analysis methods included ratio analysis, factor analysis, DuPont analysis, etc., and the main content of the analysis focused on profitability analysis, operational capability analysis, debt repayment ability analysis [2].

Wang Pei (2019) contended that the methodology of analyzing financial statements inherently encompasses an amalgamation of diverse kinds of corporate data. Consequently, this analysis of

financial statements is capable of fulfilling the needs of distinct information consumers. However, the accounting statements disclosing various types of corporate information mostly showed absolute data, making it difficult to directly measure corporate debt repayment capacity, fund operation capacity and so on. Financial statement analysis had precisely supplemented this shortcoming [3].

Zhou Yin (2020) had found that financial statements could fully reflect the effectiveness of corporate assets, operating conditions, and cash flow status. In financial management, the various indicators calculated by financial statement analysis could adjust the direction of financial control in a timely manner, providing data support for the management. As managers, individuals had needed to possess financial management capabilities, master financial data, and formulate corporate development plans in a timely manner [4].

2.2. About Lululemon

Yaxiao Wang's research (2017) had found that the characteristics of Lululemon's marketing model were that the brand focused on community users, particularly those offline. The primary mode of communication was to initiate community activities in the virtual space and call for potential consumers to participate, which were then carried out in the physical space. Over time, this approach had cultivated a group of loyal high-end consumers [5].

Chang Wu and Minghao Chen (2019) had argued that while primarily promoting women's yoga products, Lululemon also had a designated area for men's products, painting a precise consumer portrait and insisting on pursuing a high-end sports fashion route. Based on this product philosophy, Lululemon had performed detailed differentiation in the global market [6].

Min Qiu and Zi Wang (2019) had discovered that the prosperity of Lululemon was not a mere coincidence. By comprehending the principles of the market in depth, the company established its fundamental competitive edge by penetrating a specialized market segment, thereby deviating from conventional marketing communication paradigms. With the help of KOL's word-of-mouth influence and carefully cultivated communities, it had achieved economic benefits and customer loyalty. Moreover, through expanding product combinations and globalizing layouts in changing times, it had completed the brand's upgrade and made significant progress [7].

2.3. Why Look at Businesses from Financial Perspective

The definition and essence of financial report analysis is not just a single process, but a series of steps. These steps include observing, inspecting, evaluating, and diagnosing various economic activities and processes within the company. These activities and processes are summarized and recorded in the company's financial statements for analysis and understanding.

Specifically, the main research topics of financial report analysis involve examining the accounting records of various financial, investment, and business activities of the company. These records represent the company's business events, and these business events are detailed in the public financial statements at the end of each fiscal year.

The main goal of financial report analysis is to prevent potential problems that may arise in the company's operations through detailed analysis of the financial statements, such as deviations from company regulations. At the same time, for companies that have already been observed, the analysis can also provide further work guidance to help them improve and optimize their operations.

Overall, financial report analysis is a very important business decision-making tool. Its main purpose is to help prevent potential problems by observing, inspecting, evaluating, and diagnosing the company's financial, investment, and business activities, and to provide further operational guidance for the company [8].

3. Commonly Used Financial Analysis Tools And Methods

3.1. Financial Ratios

Financial ratios are a potent tool that leverages information from a company's financial statements to provide significant insight about the company, critical for both investors and company managers. The data is gleaned from various financial statements of the company, including the balance sheet, income statement, and cash flow statement. Through this data, this paper can perform quantitative analysis, assessing various financial states of the company, such as liquidity, leverage, growth, profit margins, returns, valuations, and more.

3.1.1. Liquidity ratios

Liquidity ratios are financial ratios that assess a company's capacity to settle its short-term and long-term debts. Recognizing and assessing liquidity is crucial for both investors and company managers as it can indicate the overall financial well-being of the company. Key liquidity ratios encompass the cash ratio, current ratio, quick ratio, and operating cash flow ratio.

3.1.2. Leverage financial ratios

The leverage ratio measures the part of a company's capital that is provided by debt, used to assess the company's level of indebtedness. Common leverage ratios include the debt ratio, debt-to-equity ratio, interest coverage ratio, and debt service coverage ratio.

The leverage ratio is an essential tool for assessing the financial position of a company, providing valuable insights into its debt level and repayment capacity. Through the computation of ratios such as the debt ratio, debt-to-equity ratio, interest coverage ratio, and debt service coverage ratio, this research can gain a comprehensive understanding of the company's overall financial well-being.

3.1.3. Efficiency ratios

Common efficiency ratios, also known as activity financial ratio include: asset turnover ratio, inventory turnover ratio, accounts receivable turnover ratio, and days sales in inventory ratio.

The efficiency ratio is a vital tool for evaluating the optimal utilization of a company's assets and resources, encompassing ratios such as the asset turnover ratio, inventory turnover ratio, accounts receivable turnover ratio, and days sales in inventory ratio. By analyzing these ratios, this research can gain valuable insights into the company's operational efficiency and overall financial state.

3.1.4. Profitability ratios

Common profitability ratios gauge a company's ability to generate earnings in relation to its revenue, assets, operating costs, and equity, include gross profit margin, operating profit margin, return on assets, and return on equity.

Profitability ratios play a critical role in evaluating a company's financial performance, providing valuable insights into its earning potential, operational efficiency, and the effective utilization of assets and equity. By comprehending and accurately utilizing these ratios, decision-makers can gain profound understandings of the company's financial condition.

3.2. Cash Flow Analysis

There is no universally accepted definition of cash flow [9]. If the cash flow is negative, it may indicate that the company is having difficulties generating sufficient cash to cover its expenses.

Investing cash flow refers to the cash flow from investing activities, including the buying and selling of long-term assets and investments. This part of the cash flow statement reveals the amount of cash inflows and outflows resulting from investment activities.

A positive investing cash flow could suggest that the company is selling assets or investments. Conversely, a negative investing cash flow may indicate that the company is investing in new assets to expand its business.

The financing cash flow section encompasses activities related to financing, including debt issuance or repayment, stock issuance or repurchase, and dividend payment.

A positive financing cash flow may suggest that the company is generating capital by issuing debt or stocks. On the other hand, a negative financing cash flow could indicate that the company is repaying debt, repurchasing stocks, or distributing dividends.

Interpreting the cash flow statement and analyzing its three different sections, by providing valuable insights into a company's financial health and its cash generation capacity, it can aid investors in making well-informed investment decisions.

It is also essential to monitor how cash flow increases as sales increase since it's important that they move at a similar rate over time [10].

To conclude, the analysis of cash flow is a crucial aspect of understanding a company's financial situation. It offers insights into the generation and utilization of cash by a company. By examining the operating, investing, and financing sections of the cash flow statement, one can gain a comprehensive understanding of a company's financial health and performance.

4. Lululemon's Financial Status

4.1. Cash Flow Analysis of Lululemon

Although cash flow analysis may encompass numerous ratios, the following indicators provide a benchmark for investors when assessing the investment quality of a company's cash flow. Looking at the number from 2020 to 2022 in table 1.

Table 1. Cash flow statement

Activities	2020	2021	2022
Operating Cash Flow	651.89M	790.07M	1.38B
Investing Cash Flow	(278.41M)	(695.53M)	(427.89M)
Financing Cash Flow	(177.17M)	(80.79M)	(844.99M)

The rise in cash flow from operations is primarily attributable to a \$726.1 million increase in cash flow resulting from modifications in operating assets and liabilities. This alteration is mainly influenced by adjustments in accounts payable, inventories, and income taxes. Simultaneously, a decline in cash inflows associated with derivatives not categorized as hedging relationships also contributed to this occurrence. Nevertheless, an upturn in depreciation and stock-based compensation costs partially counteracted this surge in cash flow. The rise in cash flow from investments is primarily driven by the growth in capital expenses, although this has been partially counteracted by the resolutions of net investment hedges and other investment activities, resulting in a reduced overall impact. The increase in capital expenditures is mainly due to increased spending by the company and its store operations department. These expenditures are primarily used to establish new company-operated stores, refurbish or relocate certain stores, continue store renovations, and increase investment in distribution facilities. It is expected that the company will open 45 to 50 new company-operated stores in 2023.

The decrease in cash flow from financing activities is primarily due to a decrease in share buybacks.

The company's increase in cash flow is primarily due to an increase in cash inflows from operating and investing activities, including changes in operating assets and liabilities and an increase in capital expenditure. However, the rise in depreciation and stock compensation costs have partially counterbalanced these increases. and a decrease in share buybacks. The company expects to continue expanding the number of its operating stores in the coming year.

4.2. Financial Ratios of Lululemon

Looking at the data from 2021 to 2022 in table 2 And analyze Lululemon with financial ratio tools.

Table 2. Financial ratio statement

Ratio	2021	2022
Debt to Equity Ratio	0.75	0.781
Net Current Assets as Percentage of Total Assets	31.26	29.735
Current Ratio	2.38	2.117
Inventory Turnover	3.33	2.9979
Receivables Turnover	86.06	77.4896
Accounts Payable Turnover	36.93	35.1719

Lululemon Athletica's accounts receivable turnover ratio is relatively stable, with small fluctuations. This denotes that the company is doing quite well in managing its accounts receivable, maintaining consistency and efficiency, thereby assuring its liquidity. Though market conditions may change, Lululemon's accounts receivable management strategy has proven to be dependable and steady. From 2021 to 2023, the company's recorded allowance for doubtful accounts was negligible. This suggests that the company's clients are extremely reliable in terms of account payment performance, with very low bad debt risk.

In 2021 and 2022, the company faced supply chain disruptions, resulting in delays in inbound product delivery and manufacturing. These disruptions led to the use of higher-cost transportation methods, including increased air freight usage. The disruptions in the supply chain led to a 50% rise in the inventory balance as of January 29, 2023, in comparison to the balance on January 30, 2022. This significant increase in inventory had a negative impact on cash flow. Nonetheless, the firm anticipates that the acceleration in inventory will outpace the rise in net revenue during the first half of 2023. However, it is expected to align closely with the net revenue growth in the latter half of the same year.

The majority of Lululemon Athletica's total assets consist of Property, Plant, and Equipment (PPE), with computer software accounting for the largest portion of the PPE. In the years 2020, 2021, and 2022, the firm capitalized on costs related to computer software, amounting to \$23.5 million, \$35.8 million, and \$67.9 million respectively, for software developed in-house. An increase in PPE leads to accumulated depreciation, which in turn decreases net profit in the income statement.

Accounts payable decreased by nearly 40% from 2021 to 2022. This indicates that Lululemon has good repayment ability to its suppliers, even during the pandemic and supply chain challenges.

Looking at the chart, Lululemon's total assets have been increasing year by year. However, this is not solely due to an increase in cash, but rather the company's acquisition of more fixed assets. While having less cash in the short term may not be favorable, purchasing more fixed assets can improve production efficiency and generate higher profits for the company in the long run.

In terms of receivables and payables, Lululemon's payable amount has increased, indicating more cash on hand. The increase in receivables accounts for a larger portion of Lululemon's cash. However, the cash flow from accounts payable is not sufficient to offset the cash flow from accounts receivable, which is one of the reasons for the decrease in cash flow.

5. Conclusion

Overall, Lululemon's financial status is relatively stable, albeit with some fluctuations. For most financial indicators, Lululemon exhibits slight volatility, which may suggest that its operating conditions have experienced minor ups and downs in recent years but remain generally steady.

With regard to key financial metrics such as market value, invested capital, free cash flow, and enterprise value, Lululemon also demonstrates minor fluctuations. This could suggest that the company's overall value and profitability have oscillated somewhat over the past few years but without any significant swings. It might also imply that Lululemon's market performance and investment returns are somewhat stable.

However, it is important to note that Lululemon's return on assets shows high volatility. This suggests that the company's efficiency in utilizing its assets has experienced significant fluctuations in recent years. Improving this aspect could be an area of focus for the company.

When analyzing the price of Lululemon Athletica, it is recommended to assess its market volatility, profitability, liquidity, solvency, efficiency, growth potential, financial leverage, and other important indicators. There are various tools available to determine the current health of Lululemon Athletica. A significant portion of the value assessment zeroes in on examining historical and current price trends to forecast prospective price fluctuations. Furthermore, a comparison of Lululemon Athletica with its competitors and the broader financial market can help pinpoint elements that shape its price.

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