

THE BARATELLI INSTITUTE · MENTORING AT SCALE

Educational Case Study · Consumer / Branded Apparel · Valuation and LBO

lululemon athletica

(NASDAQ: LULU)

A Distressed Multiple on an Undistressed Balance Sheet

*A practitioner case on what an eighty percent drawdown
priced in, and what the buyout math says about it.*

*Lease-consistent enterprise value, the one-time tariff refund inside
guided EPS, the Americas comp problem, a full sources-and-uses with
a Section 163(j) interest limitation, and a stated conclusion.*

PRICED AT THE SEPTEMBER 4, 2026 CLOSE · \$100.61

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Author holds no position in LULU · Educational · Not investment advice

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THE INSTITUTE'S CONCLUSION

lululemon athletica inc. (NASDAQ: LULU)

Struck at the September 4, 2026 close of \$100.61 — the first close that reflects the second-quarter print released after the September 3 close. Every figure below is computed from filed documents and company guidance; measurement dates are stated in the notes beneath each table.

What the reader has to decide	Year-five EBITDA	vs FY2025	Value per share	Against the \$100.61 close
The decline continues	\$1,538M	57%	\$94.09 – \$108.48	-6% to +8%
The decline stops and nothing more	\$1,984M	73%	\$128.81 – \$135.98	+28% to +35%
FY2026 is a trough; five years to climb back	\$2,838M	105%	\$190.37 – \$197.02	+89% to +96%
FY2025 is the run rate; FY2026 is the aberration	\$2,989M	110%	\$205.12 – \$205.24	+104% to +104%
What the market is actually paying	\$1,621M	60%	\$100.61	—

Each row is the same discounted cash flow — same balance sheet, same cost of equity of 8.69%, same 2.0% terminal growth — run on a different view of the run rate. The two figures in the value column are the perpetuity-growth terminal and the exit-multiple terminal; neither is a target price and the Institute publishes ranges rather than points because the inputs cannot carry a point. The bottom row is the same model run backwards: the permanent level of EBITDA at which this model returns exactly the September 4, 2026 close. Cases and methodology are set out in Sections 9 and 11.

The whole case reduces to one question, and it has to be answered before any of the arithmetic means anything: is FY2026 the run rate, or is FY2025? The company earned \$2,707M of EBITDA in the year ended February 1, 2026, on a 24.4% margin. The guidance issued on September 3, 2026 implies \$1,966M on a 18.9% margin once the non-recurring tariff refund is removed. Those two numbers are 38% apart. The enterprise value sitting on top of them does not change between the two. Every valuation in this document, and every buyout return in Section 9, is a consequence of which denominator the reader accepts.

The market has already answered, and its answer is neither. Run the discounted cash flow backwards — hold the price at the September 4, 2026 close and solve for the operating result that price requires — and it resolves to EBITDA settling permanently at about \$1,621M: 60% of what the company earned last year, 82% of an FY2026 estimate that has already been cut, and a 15.6% margin the company has not printed in any year examined here. That level sits between the Institute’s own bear-case terminal of \$1,538M and its base-case terminal of \$1,984M. It is a claim of permanent impairment, not a claim about a bad year.

The Institute does not accept it. On the Institute’s own operating case — the one in which the decline stops and nothing more — the equity is worth \$116 to \$136 against a price of \$100.61. On the reading that FY2025 is the ordinary year and FY2026 the aberration, it is worth about \$205. Both are above the price, and the case is published with both rather than with an average of them, because averaging the two would hide the disagreement and the disagreement is the finding. The distance between them is also not mainly a demand problem: of the \$741M that separates the two years, \$576M — 78% — is margin and only \$165M is revenue. Revenue recovery requires customers to return, which no owner controls. Margin recovery is assortment, pricing, markdown discipline, sourcing and overhead, which is exactly what a control owner buys the right to fix. That asymmetry is why Section 9 finds a buyout that fails on the Institute’s case and works comfortably on a buyer’s.

Position disclosure. The author holds no position in lululemon athletica inc. (NASDAQ: LULU), long or short, directly or through derivatives, and the Institute received no compensation from any party in connection with this case. This document is educational. It is not investment advice, and it is not a recommendation to buy, sell, or hold any security.

VALUATION AT A GLANCE

What the Market Is Paying, and What It Is Paying It For

The capitalisation is set out first because it is the half of the calculation nobody disputes. There is no funded debt, the cash is real, and the share count is off the 10-Q cover. Whatever disagreement exists about this company, it is not about the numerator.

Measure	Value
Share price	\$100.61
One-session change	-\$21.16 (-17.38%)
Shares outstanding, including exchangeable shares	110,710,025
Market capitalisation	\$11.14B
Cash and equivalents	\$1,390M
Cash, net of the post-quarter buyback	\$1,271M
Funded debt	None
Operating lease liabilities	\$2,141M
Enterprise value, excluding leases	\$9.87B
Enterprise value, including leases	\$12.01B
Net cash per share	\$11.48
Drawdown from the December 2023 high of \$511.29	-80.3%

Measurement dates. Share price, market capitalisation, both enterprise values and the drawdown are struck at the September 4, 2026 close; the one-session change is the September 3 close to the September 4 close. The share count is the Form 10-Q cover of August 28, 2026 and includes the exchangeable shares of Lulu Canadian Holding, Inc. Cash, the absence of funded debt and the lease liabilities are read from the balance sheet of August 2, 2026 in the Form 10-Q filed September 3, 2026 (Note 4 for the debt). Cash net of the post-quarter buyback and net cash per share are struck at August 28, 2026. Sources: Form 10-Q for the quarter ended August 2, 2026; Form 10-K for the year ended February 1, 2026, filed March 17, 2026.

Two features of that table do work later in the case. **Net cash of \$11.48 a share is 11.4% of the share price**, so a buyer of the equity at \$100.61 is paying \$89.13 for the operating business and taking the cash alongside it — Section 9 sets out what a financial sponsor does with a balance sheet in that condition, and it is not what a public shareholder does with it. And the enterprise value is shown twice because the operating leases are \$2,141M of obligation that the accounting keeps off the funded-debt line while the rent that services them sits inside operating expense. Neither presentation is wrong. Pairing one of them against the wrong earnings figure is, and it is the most common error made on retailers: capitalise the leases in the numerator and you must add the rent back in the denominator, or the same obligation is counted twice.

The same enterprise value against two run rates

The denominator is the argument, so it is printed twice. Nothing in the left-hand block changes between these two columns — same shares, same cash, same absence of debt, same leases, same \$9.87B enterprise value excluding leases. Only the year changes. Read the two bolded multiple rows against the two bolded price-to-earnings rows and the size of the question becomes visible: on the guided year this is a cheap company, and on last year's actual result it is priced at a level normally reserved for businesses in liquidation.

Measure	On FY2026 guidance	On FY2025 as reported
Revenue	\$10,425M	\$11,103M
EBITDA	\$1,966M	\$2,707M
EBITDA margin	18.9%	24.4%
EV / EBITDA (ex-leases ÷ after rent)	5.0x	3.6x
EV / EBITDAR (inc-leases ÷ before rent)	5.1x	3.9x
Diluted earnings per share	\$8.75	\$13.26
Price / earnings	11.5x	7.6x
Free cash flow	\$1,063M	\$1,395M
Free cash flow yield on market capitalisation	9.5%	12.5%
Operating income against FY2025	-31.6%	—

The FY2026 column is company guidance issued September 3, 2026, at the midpoint of the stated ranges, with the \$134M tariff refund recognised in the second quarter removed — it is a non-recurring recovery and leaving it in would flatter both the margin and the multiple. The FY2025 column is the year ended February 1, 2026 as reported in the Form 10-K filed March 17, 2026; EBITDA is operating income plus depreciation and amortisation. Both enterprise values are struck at the September 4, 2026 close and are identical across the two columns. Multiples are lease-consistent: enterprise value excluding the lease liability is paired with EBITDA after rent, and enterprise value including it with EBITDAR before rent; mixing the two double-counts the leases. Free cash flow is net income plus depreciation and amortisation less capital expenditure on both columns, so that they are comparable. On the cash-flow-statement convention, FY2025 operating cash flow less capital expenditure was \$922M — \$473M lower, the difference being working capital, which is sized in Section 11 and carried in neither cash-flow model.

That is a distressed multiple on an undistressed balance sheet, and on the FY2025 denominator it is barely a multiple at all: \$9.87B of enterprise value against \$2,707M of EBITDA is 3.6x, for a business that carries no funded debt, holds \$1,271M of cash, and earned a 19.9% operating margin in the year ended February 1, 2026. The rest of this case is an examination of which of those two columns describes the company.

SECTION 1

Second Quarter Results and the Guidance Revision

On September 3, 2026, after the close, lululemon athletica reported results for the quarter ended August 2, 2026 and cut its full-year outlook. The stock closed that day at \$121.77. It closed the following session, September 4, 2026, at \$100.61 — a fall of \$21.16, or -17.38%, in one day. The session also set a new fifty-two-week low of \$97.99 intraday, replacing the \$104.44 low set on June 22, 2026. Contemporaneous coverage described the close as an eight-year low; the Institute has not independently verified the eight-year claim from primary price records and reports it as attributed rather than as established.

What can be established from arithmetic alone is the drawdown. Against the December 2023 high of \$511.29, the September 4, 2026 close of \$100.61 is -80.3%. A shareholder who bought at the top has lost four dollars in five.

Guidance revision, prior versus current

The company now expects full-year revenue of \$10,350M to \$10,500M and diluted earnings per share of \$9.48 to \$9.73. The prior outlook was \$11,000M to \$11,150M of revenue and \$10.95 to \$11.15 of earnings per share. That is a -5.9% reduction to the revenue midpoint and a -13.1% reduction to the earnings midpoint. Both figures are the outlook given with the September 3, 2026 results, and both exclude the effect of any share repurchases the company may make during the balance of the year.

The asymmetry between those two cuts is the whole story. Revenue came down 5.9%. Earnings came down 13.1% — more than twice as far. A retailer whose sales fall by six percent and whose earnings fall by

thirteen is a retailer losing operating leverage, and operating leverage in specialty apparel runs through gross margin and through the fixed cost of stores. The company operated 825 stores at August 2, 2026 against 784 a year earlier, and 3,880 thousand square feet against 3,511 thousand. It is adding fixed cost into a falling comp.

SECTION 2

Enterprise Value and the Lease Convention

Retail multiples published by data aggregators are, with striking regularity, internally inconsistent on one point, and the point matters more for lululemon than for most companies because the entire liability side of its balance sheet is leases. The error is this. Under ASC 842, operating lease cost sits inside operating expense. It is already deducted before EBITDA. An enterprise value that adds the lease liability to market capitalisation is therefore being divided into an earnings figure from which rent has already been removed. The rent gets counted twice — once in the numerator as a debt-like claim, and once in the denominator as an expense.

There are two internally consistent pairings and this case reports both.

Pairing	Numerator	Denominator	Result
Lease-excluded	Market cap less cash, \$9.87B	EBITDA after rent, \$1,966M	5.0x
Lease-included	Plus lease liabilities, \$12.01B	EBITDAR before rent, \$2,372M	5.1x
Inconsistent (do not use)	Plus lease liabilities, \$12.01B	EBITDA after rent, \$1,966M	6.1x

All four inputs measured as stated: enterprise value at the September 4, 2026 close; cash at August 28, 2026, net of the post-quarter repurchase; lease liabilities of \$2,141M at August 2, 2026; operating lease expense of \$406M for the year ended February 1, 2026, used as the rent add-back. EBITDA is the guided figure with the one-time tariff refund removed — see Section 3.

The two consistent pairings land within a quarter of a turn of one another, at 5.0x and 5.1x. The inconsistent construction reports 6.1x — over a full turn higher, and wrong. The difference is not academic when the question on the table is whether a business is cheap: it is the difference between a multiple that looks like a distressed retailer and one that looks like an ordinary one.

Derivation of FY2026 estimated EBITDA

Guidance is given as earnings per share, not as EBITDA, so the bridge has to be constructed and it should be visible rather than asserted. Guided diluted earnings per share of \$9.61 at the midpoint, applied to the 112,919,000 diluted weighted average shares reported for the quarter ended August 2, 2026, gives net income of \$1,085M. Grossing that up at the 30% tax rate the company guided on September 3, 2026 gives pre-tax income of \$1,549M. Other income, net ran \$23M in the six months ended August 2, 2026, of which \$4M was interest on a tariff refund that does not recur; stripping the interest and annualising the remainder gives \$37M, which leaves operating income of \$1,512M. Depreciation and amortisation ran \$278M in the first half; applying the second-half-to-first-half ratio observed in the year ended February 1, 2026 gives \$588M for the year. Operating income plus depreciation is EBITDA of \$2,100M.

The share count carries its own trap. The 112,919,000 diluted weighted average used above averages a quarter during which the company retired 2,747,000 shares. The 10-Q cover page states an actual count at August 28, 2026 of 105,594,064 common shares plus 5,115,961 exchangeable shares, or 110,710,025 in total, after a further 1,000,000 shares were repurchased between the balance sheet date and the cover date. Market capitalisation is computed on the actual count, not the weighted average. Using the weighted average would have overstated it by roughly \$222M at the September 4, 2026 close. Earnings per share, by contrast,

is properly divided by the weighted average, which is why both counts appear in this document and each is labelled.

SECTION 3

Earnings Quality: the Non-Recurring Tariff Refund

The Supreme Court invalidated tariffs imposed under the International Emergency Economic Powers Act on February 20, 2026. lululemon had paid \$230M of those tariffs. It filed refund claims, and in the quarter ended August 2, 2026 it received \$134M of refunds, recognised in cost of goods sold, together with \$4M of associated interest, recognised in other income. The company disclosed the earnings effect as \$0.86 per diluted share.

That \$0.86 is inside the guided full-year range of \$9.48 to \$9.73. It will not recur. A multiple computed on guided earnings is therefore a multiple on a number that contains a one-time legal recovery, and the correct denominator for a recurring-earnings multiple is \$8.75 rather than \$9.61. The distinction moves the price-to-earnings ratio from 10.5x to 11.5x and the EV-to-EBITDA multiple from 4.7x to 5.0x. Neither version is dramatic; both are reported here because a reader who compares this case against a screen quoting 10.5x should be able to see exactly where the difference comes from.

Filed refund claims unrecognised under ASC 450

The more interesting half of the tariff position is what is missing from the balance sheet. The company paid \$230M of IEEPA tariffs and has recovered \$134M. The difference is \$96M. The 10-Q states that as of August 2, 2026 the company “has not recognized an asset in relation to further IEEPA tariff refund claims.” The claims are filed. The Supreme Court has ruled. The amount is not on the balance sheet, and it is not in guidance.

This is accounting conservatism operating exactly as designed and there is no criticism of the treatment implied here. A gain contingency is not recognised until realisation is assured, and the company is right not to book it. But an analyst is not bound by the recognition threshold, and \$96M against a market capitalisation of \$11.14B is 0.9% of the equity sitting in a filed claim that no screen and no guided figure reflects. Separately, on August 13, 2026 the U.S. Court of International Trade upheld the de minimis provisions, which bears on the scope of what remains recoverable. Both dates are stated because both clocks matter: the claim was filed on one, and its legal footing moved on another.

SECTION 4

Comparable Sales by Region and the Store Base

Total comparable sales fell 9% in the quarter ended August 2, 2026, or 10% on a constant-dollar basis. Underneath that single number the regions diverge sharply, and the divergence is what a valuation has to price.

Revenue by geography	Q2 FY2026	Q2 FY2025	Change
United States	\$1,302M	\$1,415M	-8.0%
Canada	\$286M	\$321M	-11.0%
Mexico	\$29M	\$22M	+31.8%
China Mainland	\$407M	\$393M	+3.6%
Hong Kong / Taiwan / Macau	\$51M	\$48M	+7.9%
Other geographic areas	\$340M	\$326M	+4.3%
Total net revenue	\$2,416M	\$2,525M	-4.3%

Form 10-Q, quarter ended August 2, 2026, filed September 3, 2026. Both columns are thirteen-week periods; the comparative quarter ended August 3, 2025.

The United States, the largest single market at 53.9% of the quarter's revenue, fell 8.0%. Canada fell 11.0%. Against that, China Mainland grew 3.6%, Hong Kong, Taiwan and Macau grew 7.9%, Mexico grew 31.8%, and other geographic areas grew 4.3%. Comparable sales tell the same story: the Americas comp was -12% while China Mainland was -2% and the rest of the world -4%.

Read the China Mainland comparable on a constant-dollar basis. The -2% reported becomes -8% once currency is stripped out. The reported figure flatters; the constant-dollar figure is the operating result, and international strength quoted from the currency-assisted number is an artefact rather than a finding.

Revenue by category	Q2 FY2026	Q2 FY2025	Change
Women's	\$1,488M	\$1,547M	-3.8%
Men's	\$621M	\$625M	-0.5%
Accessories and other	\$306M	\$353M	-13.4%
Company-operated stores	\$1,174M	\$1,255M	-6.5%
E-commerce	\$935M	\$993M	-5.9%
Other channels	\$307M	\$277M	+10.9%

Form 10-Q, quarter ended August 2, 2026. Categories and channels each sum to total net revenue of \$2,416M for the quarter.

Two observations. The weakness is broad but not uniform by product: accessories fell hardest at -13.4% while men's was close to flat at -0.5%. And the channel split matters for the fixed-cost argument — company-operated stores fell -6.5% and e-commerce fell -5.9%, while outlets, wholesale and licensing grew +10.9%. A retailer adding 41 net stores into a store comp of that shape is spending fixed cost to defend a declining base.

Store roll-forward, FY2022 through Q2 FY2026

The net store count is the figure the annual and quarterly reports disclose, and on its own it hides the two movements that produced it. The roll-forward below separates them. A provenance note is owed before the table is read: neither the Form 10-K nor the Form 10-Q discloses gross openings and gross closures. Those appear only in the quarterly earnings release, Exhibit 99.1 to Form 8-K, in the table headed 'Company-operated Store Count and Square Footage' — material *furnished* to the Commission rather than *filed* with it. The annual columns are the Institute's own sums of the four disclosed quarterly figures. That is arithmetic performed across furnished numbers, which is a weaker provenance than the rest of this case runs on, and it is labelled rather than blended in.

Fiscal year	Period end	Begin	Opened	Closed	End	Gross sq ft (000s)
FY2022	January 29, 2023	574	87	6	655	2,575
FY2023	January 28, 2024	655	63	7	711	2,967
FY2024	February 2, 2025	711	65	9	767	3,372
FY2025	February 1, 2026	767	52	8	811	3,736
FY2026 H1	August 2, 2026	811	22	8	825	3,880

Quarterly earnings releases, Exhibit 99.1 to Form 8-K, table 'Company-operated Store Count and Square Footage'. Annual opened and closed are the sums of the four disclosed quarterly figures. Every line foots: beginning plus opened less closed equals ending. **One adjustment the arithmetic will not surface:** the FY2024 additions include 14 stores that arrived with the acquisition of the Mexico operations — acquired, not opened — so an opening rate computed off that line without the adjustment overstates it. The final line is the twenty-six weeks ended August 2, 2026 and is a half year, not a full one.

Two things fall out of the table, and the second is the more important. First, closures are not the story: they have run at 8 stores a year on average, roughly 1.1% of the opening fleet, which is ordinary lease-expiry and relocation churn. No closure or fleet-optimisation programme is disclosed anywhere in the filings, and a reader looking for evidence that the company has begun retrenching will not find it here.

Second, and this is the finding: gross square footage has compounded at roughly 12.4% a year since the year ended January 29, 2023, and revenue has not kept pace with it. Net revenue per gross square foot was \$3,150 in the year ended January 29, 2023. On the FY2026 guidance midpoint against the footprint at August 2, 2026 it is \$2,687 — a decline of 14.7%. The average store has also grown, from 3,931 square feet to 4,703. The company has been buying revenue with square footage, and the price of that revenue has been rising. That is the mechanism underneath the comparable-sales number rather than a restatement of it: a comparable-sales decline tells a reader that the existing stores are selling less, while the productivity decline tells them the new ones are not making up for it.

The comparison is not clean. The numerator is a full year of revenue and the denominator is a point-in-time square-footage count that grew through that year, so the FY2026 figure is understated by construction. The direction survives the objection — the distortion runs the same way in both periods and footage grew faster in the later one — but the magnitude is an indication rather than a measurement.

SECTION 5

Balance Sheet and Liquidity

The multiple in Section 2 belongs to a company the market expects to keep deteriorating. The balance sheet does not, and that contrast is the reason this case exists.

The distinction worth holding on to is between a business under operating pressure and a business under financial pressure. They look similar in a headline and they behave nothing alike. A company with falling margins and funded debt is on a clock set by its lenders: covenants tighten, maturities arrive, and the equity can be worth nothing long before the operating question is resolved either way. A company with falling margins and net cash is on no clock at all. It can be wrong for three years and still be there at the end of them. Nothing in the statements below says the operating problem is small; what they say is that the company gets to take as long as it needs to answer it, and that nothing on this page is forcing anyone to sell.

ASSETS — consolidated balance sheet, August 2, 2026	Amount
Cash and cash equivalents	\$1,390M
Inventories	\$1,711M
Receivables, prepaid income taxes and other current assets	\$844M
Total current assets	\$3,946M
Property and equipment, net	\$2,046M
Right-of-use lease assets	\$1,947M
Goodwill, intangibles, deferred tax and other non-current assets	\$546M
Total assets	\$8,485M
LIABILITIES AND STOCKHOLDERS' EQUITY	
Accounts payable, accrued liabilities and compensation	\$1,054M
Current lease liabilities	\$367M
Unredeemed gift cards, income taxes payable and other current liabilities	\$381M
Total current liabilities	\$1,802M
Non-current lease liabilities	\$1,774M
Deferred income tax and other non-current liabilities	\$117M
Total liabilities	\$3,693M
Total stockholders' equity	\$4,791M
Total liabilities and stockholders' equity	\$8,485M

Form 10-Q for the quarter ended August 2, 2026, page 3, condensed. The statement foots: total liabilities of \$3,693M plus stockholders' equity of \$4,791M equals total assets of \$8,485M. Prepaid and receivable income taxes are \$480M of the combined current-asset line and are not netted against enterprise value anywhere in this case; they are a receivable from a taxing authority, not spendable cash. **There is no funded-debt line at all, because there is no funded debt** — no term loan, no bond and no drawn revolver, confirmed at Note 4. The \$600M revolving facility was amended and restated on October 15, 2025 and matures October 15, 2030; availability of \$594M is net of \$6M of letters of credit issued under it, and a further \$1,000M accordion is uncommitted. This balance sheet is struck at August 2, while the share count on the cover of the same filing is struck at August 28, by which date the company had spent a further \$119M retiring 1,000,000 shares. Cash of \$1,271M at August 28 is the figure netted against the market capitalisation everywhere in this document.

There is no funded debt. There is \$1,390M of cash. There is a \$600M revolver, effectively undrawn, with a further \$1,000M uncommitted accordion, running to October 15, 2030. Whatever is wrong with this company, it is not the financing. That single fact is what separates lululemon from most of the specialty retailers that have traded at five times EBITDA, and it is why the multiple deserves a second look rather than a shrug.

Free cash flow and its application, FY2023 through Q2 FY2026

There is no dividend on the financing line of any of the three years in the FY2025 Form 10-K, and the company states at Item 5 that it does not anticipate paying one in the foreseeable future. There is no interest and no principal either, because there is no debt. Every dollar of free cash flow is therefore discretionary, which makes the record below the whole of capital allocation rather than a selected slice of it.

Period	Operating cash flow	Capital expenditure	Free cash flow	Share repurchases	Repurchases as % of FCF
FY2023 (ended January 28, 2024)	\$2,296M	\$652M	\$1,644M	\$559M	34.0%
FY2024 (ended February 2, 2025)	\$2,273M	\$689M	\$1,583M	\$1,637M	103.4%
FY2025 (ended February 1, 2026)	\$1,602M	\$681M	\$922M	\$1,178M	127.8%
FY2026 H1 (ended August 2, 2026)	\$589M	\$277M	\$312M	\$695M	222.6%
Three and a half years	\$6,761M	\$2,299M	\$4,462M	\$4,069M	91.2%
FY2026E full year (estimated)	not guided	\$610M	\$1,063M	not guided	—

Operating cash flow and capital expenditure from the Consolidated Statements of Cash Flows — Form 10-K for the fiscal year ended February 1, 2026 (filed March 17, 2026), page 47, and Form 10-Q for the quarter ended August 2, 2026 (filed September 3, 2026), page 7. Free cash flow is operating cash flow less purchases of property and equipment. Repurchases are the financing-activity cash line and include commissions and excise tax. The FY2026E row is the Institute's estimate, not guidance: operating cash flow is not guided, so free cash flow is guided net income plus estimated depreciation less estimated capital expenditure, working capital neutral, with capital expenditure the first-half figure of \$277M doubled and raised ten percent for the seasonal second-half weighting. Repurchases are not forecast; no pace has been committed to.

Over three and a half years the business generated \$4,462M of free cash flow and returned \$4,069M of it — 91.2% of everything it earned. In two of the four periods it spent more on its own stock than it produced, funding the gap from the cash balance, which is why a company holding \$1,155M at the start holds \$1,390M now. Nothing was borrowed to do any of it.

Shares outstanding, FY2023 through August 2026

Balance sheet date	Common shares outstanding	Shares retired	Change	Cumulative since Jan 29, 2023
January 29, 2023 (opening)	122,205,000	—	—	—
January 28, 2024	121,106,000	(1,482,000)	-0.9%	-0.9%
February 2, 2025	116,166,000	(5,147,000)	-4.1%	-4.9%
February 1, 2026	111,380,000	(4,964,000)	-4.1%	-8.9%
August 2, 2026	106,566,000	(4,918,000)	-4.3%	-12.8%
August 28, 2026 (10-Q cover)	105,594,000	(1,000,000)	-0.9%	-13.6%

Consolidated Statements of Stockholders' Equity — 10-K page 46 and 10-Q page 6 — and the 10-Q cover page for the August 28, 2026 count. Repurchased shares are retired; the company holds no treasury stock. These are common shares only. A constant 5,116,000 exchangeable shares sit alongside them at every one of these dates and are added to the common count wherever this case computes a market capitalisation, so the decline shown here is not an artefact of which class is counted. Repurchases retired 16,511,000 common shares through August 2 while settlement of stock-based compensation net of shares withheld for tax issued 872,000 back, and the difference is the 15,639,000 net reduction to that date.

16,611,000 shares have gone, 13.6% of the company, and the retirement was paid for out of operating cash flow and the cash balance rather than out of a credit agreement. Calling that a leveraged recapitalisation would be wrong, and the distinction is the argument rather than a quibble. A leveraged recapitalisation borrows against the business to retire equity, then services the borrowing out of the cash flow that equity used to have a claim on. This company retired the equity and skipped the borrowing: not one dollar of the \$4,069M came out of a credit agreement. Section 9 works through why the borrowing is the step that does not survive contact with the tax code.

One figure in that record deserves stating plainly rather than leaving for the reader to compute. The \$4,069M spent retiring 16,511,000 shares is an average of \$246.44 a share. The stock closed at \$100.61 on September 4, 2026. Across the whole programme the company has been a buyer well above the current price. That is simultaneously an argument that the remaining authorisation will be spent at better prices than the ones already paid, and an argument that management's judgement of value has not so far been ratified by the market. Both readings are available on the same number and the case does not pretend otherwise.

Note the shape of the cash generation underneath all of this. Free cash flow fell from \$1,644M in the year ended January 28, 2024 to \$922M in the year ended February 1, 2026 — a decline of 43.9% over two years, driven by capital expenditure that stayed near \$681M while operating cash flow fell. The estimated \$1,063M for the current year is a partial recovery, and it is a recovery only because capital expenditure is assumed to grow more slowly than it did. A reader who disbelieves that assumption should discount the free cash flow yield of 9.5% accordingly.

SECTION 6

Capital Allocation

In the six months ended August 2, 2026 the company repurchased 4,918,000 shares for \$695M, an average of \$141.34 per share. Between the balance sheet date and the 10-Q cover date of August 28, 2026 it repurchased a further 1,000,000 shares for \$119M, an average of \$118.80. The second average is the more informative of the two, because it is the price the company was willing to pay within weeks of the close this case is struck at.

Cumulative repurchase authorisations since November 29, 2023 total \$4,000M, of which \$712M remained available at August 2, 2026. At the September 4, 2026 close of \$100.61, the remaining authorisation would retire approximately 7,081,801 shares, or 6.4% of the shares outstanding. That figure is not an extrapolation of any run rate. It is simply the arithmetic of the authorisation the board has already approved divided by the price the market is now offering.

This matters more than it first appears, and Section 9 returns to it. A company retiring six percent of itself out of operating cash flow, carrying no funded debt, is already delivering the mechanical part of what a leveraged buyout delivers — a shrinking share count against a fixed earnings stream — without the leverage, without a control premium, and without the interest expense. Any buyer proposing to take this company private has to beat that, and the comparison is less favourable to the buyer than it sounds.

SECTION 7

Stale Figures Inside the Filings

Three figures in lululemon's own disclosure are older than the filing they appear in. None of the three is an error — all three treatments are correct — but an analyst who reads past them will carry a stale number forward into every ratio built on it.

Lease maturity schedule versus the lease balance

The most recent filed lease maturity schedule is in the Form 10-K for the year ended February 1, 2026. The Form 10-Q for the quarter ended August 2, 2026 carries no lease note. In the six months between those two dates, right-of-use assets rose 19.4% and total lease liabilities rose 19.1%. The schedule below is therefore the best available and it understates the current obligation by roughly a fifth.

Fiscal year	Undiscounted lease payments
2026	\$371M
2027	\$392M
2028	\$334M
2029	\$287M
2030	\$182M
Thereafter	\$538M
Total undiscounted	\$2,104M
Less imputed interest	(\$305M)
Present value at February 1, 2026	\$1,798M
Actual liability at August 2, 2026	\$2,141M

Rows one through nine are from the Form 10-K for the year ended February 1, 2026, filed March 17, 2026, and are measured at that date. The final row is from the Form 10-Q balance sheet at August 2, 2026 and is measured six months later. The gap between the last two rows — \$343M — is what the schedule above does not capture. Weighted average remaining lease term at February 1, 2026 was 6.59 years at a weighted average discount rate of 4.4%. A further \$278M of leases were signed but not yet commenced at that date.

Filed refund claims carried on no balance sheet

Section 3 covers this in full. In summary, \$96M of IEEPA tariff refund claims are filed and unrecognised as of August 2, 2026, on the correct application of gain-contingency accounting. The recognition decision is struck at August 2, 2026; the legal ruling that supports the claim is dated February 20, 2026. A reader working from the balance sheet alone sees nothing.

Beneficial ownership percentage versus share count

The founder's stake is the clearest instance. The identical block of 9,904,856 shares was reported as three different percentages of the company across three amendments, because the denominator was shrinking under the buyback while the numerator sat still.

Filing date	Filing	Shares held	Percent reported
February 27, 2026	13D/A Amendment No. 13	9,904,856	8.4%
March 19, 2026	13D/A Amendment No. 16	9,904,856	8.6%
May 21, 2026	13D/A Amendment No. 21	9,904,856	8.7%
August 3, 2026	13D/A Amendment No. 24	9,576,564	8.4%

Schedule 13D/A amendments as filed. The first three rows report an unchanged holding at three different percentages. The fourth reflects an actual sale, and the percentage returns to 8.4% only because the denominator had fallen far enough to offset it. Citing "the founder's 8.7% stake" without a date is citing a number that has meant three different things in three months.

SECTION 8

Ownership and Governance

No going-private process is under way. Nothing in the Form 10-Q filed September 3, 2026, in the Schedule 13D/A chain, or in the cooperation agreement of May 26, 2026 describes one. The leveraged buyout in Section 9 is a constructed test of whether the arithmetic works at a price a board could be asked to accept, not a report of a transaction anyone is pursuing.

What is on the record is this. The founder held 9,576,564 shares, or 8.4% of the company, at August 3, 2026, having sold down from 9,904,856 earlier in the year. A cooperation agreement was entered on May 26, 2026

carrying a standstill of 18 months, which on its face runs into late 2027. The annual meeting was held June 25, 2026. The prior chief executive stepped down January 31, 2026; a successor was announced April 22, 2026 and starts September 8, 2026 — four days after the close this case is struck at.

The relevance to valuation is narrow and should not be overstated. A standstill agreement restricts the largest holder from accumulating or from launching a proxy contest for its term. An incoming chief executive who has not yet spent a day in the seat has not yet set a strategy, which means the guidance issued September 3, 2026 was issued by the outgoing administration and is not a commitment the new one has made. A reader pricing this company on guidance should hold that lightly, in both directions.

The buyback is quietly enlarging the founder's position

The percentage the founder last reported and the percentage he now holds are not the same number, and the difference is not a sale. Amendment No. 24 reported 9,576,564 shares as 8.4% of the company, computed against the share count in force on August 3, 2026. Against the 110,710,025 shares outstanding at the most recent measurement the identical block is 8.65% — a position worth \$963M at the close this case is struck at. The holding did not change. The denominator did. The company is retiring stock underneath a holder who is contractually barred from adding to his position, with the arithmetic result that a standstill signed to hold the founder's influence flat is running alongside a buyback that increases it.

A reported marital proceeding and why it belongs in a valuation case

The following is reported, not filed. Press accounts describe a divorce proceeding between the founder and his spouse, commenced in April 2026 in the Supreme Court of British Columbia, and describe it as proceeding without a prenuptial agreement. Nothing in the Schedule 13D/A chain, the proxy statement or the Form 10-Q filed September 3, 2026 discloses any of this, and the Institute has not obtained a court record. A reader should treat the whole of this paragraph at the standard of a press report and not at the standard of a filing.

It is carried here for one reason and no other. A claim on marital property, if it reaches the shares, is a mechanism by which the largest block on the register can move without the holder having formed any view about the company. That is a different kind of supply than a founder selling because he thinks the stock is expensive, and it is not restrained by the standstill, which governs what the holder may acquire and how he may campaign rather than what a court may divide. An 8.65% block is roughly \$963M at the close, set against the buyback authorisation the Institute sized in Section 6. The Institute has not obtained a trading volume series and therefore states no view on how long such a block would take to absorb.

The Institute draws no further inference. It does not model a sale, does not forecast an outcome in a court whose proceedings it has not read, and does not treat a private matter as a signal about the business. The valuation in this case is unchanged by it. What changes is the completeness of the register a reader is looking at: the largest holding on it is subject to a restriction that expires, and to a reported claim that has not been adjudicated.

SECTION 9

Leveraged Buyout Analysis

A company trading at 5.0x clean EBITDA with no funded debt, \$1,271M of cash and a 9.5% free cash flow yield reads, at first glance, as an obvious buyout candidate. This section builds the transaction and runs it twice — once on the operating path the market is pricing, and once on the operating path a buyer would underwrite. Those are different paths, they produce opposite answers, and the distance between them is the entire transaction.

The load-bearing question is whether FY2026 is the level or the trough. Every operating case in this section is an answer to it. A path extrapolated from the trailing quarter says the level. A path that treats the year as abnormal says the trough. No amount of care with the financing arithmetic decides between them, and a reader who wants to argue with this section should argue there.

Derivation of the entry price

The \$130.00 offer used throughout this section is triangulated from three references, each computed independently of the others and of the buyout model itself.

Reference	Implied price	Measured at
Precedent premium — 3G Capital's acquisition of Skechers, 30% to a 15-day VWAP, applied to the September 4 close	\$130.79	May 5, 2025
Discounted cash flow, midpoint of the two terminal methods (Section 11)	\$128.63	September 4, 2026
Peer multiple — Deckers at 7.95x lease-consistent EV/EBITDA (Section 10)	\$133.29	September 4, 2026
Test price used in this section	\$130.00	—

The three references span \$128.63 to \$133.29 and average \$130.90. The test price is -0.7% against that average. They are independent: the first is a transaction multiple observed in the market, the second is a discounted cash flow built from the company's own operating drivers, and the third is a trading multiple taken from the closest listed peer. Three methods with nothing in common land within \$4.67 of each other.

One convention point, and it cuts against the sponsor rather than for it. The Skechers premium was struck against a 15-day volume-weighted average price, not against a single close, and the close this case is struck at fell 17.4% in the session. A board negotiating a sale anchors on an undisturbed reference, not on the trough print. The same 30% premium applied to the pre-earnings close of \$121.77 implies \$158.30 a share — 21.8% above the price tested here. \$130.00 is therefore at the generous end for a buyer and the stingy end for a board. That matters for how the rest of this section reads: the arithmetic below fails at a friendly price, which means it fails harder at a realistic one.

Sources and uses

The transaction below is an offer of \$130.00 per share, a 29% premium to the September 4, 2026 close, financed with debt of 5.0x times FY2026 estimated clean EBITDA.

Sources	Amount	Uses	Amount
New debt at 5.0x clean EBITDA	\$9,828M	Purchase of equity at \$130.00	\$14,392M
Excess balance sheet cash	\$871M	Fees and expenses at 2.5%	\$360M
Sponsor equity	\$4,053M		
Total sources	\$14,752M	Total uses	\$14,752M

Excess cash is total cash of \$1,271M at August 28, 2026 less \$400M retained as operating cash, which a retailer of this size cannot sweep. Sponsor equity is 27% of total uses. Operating lease liabilities of \$2,141M at August 2, 2026 are not repaid in a take-private — they ride along — so the transaction leaves total capitalisation including leases at \$15.26B, or 6.4x FY2026 estimated EBITDAR.

Debt service and cash taxes, years one through five

The base case does not assert an EBITDA path. It builds one from three drivers — comparable sales, square-footage growth and EBITDA margin — and lets the earnings fall out of the arithmetic. The derivation is set out in full further down this section. What it produces is a first sponsor year 7.1% below the current run rate, a second year 2.6% lower again, and a return to growth from year three. That is not a recovery assumption. It is an assumption that the decline ends.

Year	EBITDA	EBIT	Interest	Deductible	Disallowed	Cash tax	Capex	Free cash	Debt at year end	Coverage
1	\$1,826M	\$1,238M	\$835M	\$548M	\$288M	\$207M	\$610M	\$174M	\$9,654M	1.80x
2	\$1,778M	\$1,189M	\$821M	\$533M	\$287M	\$197M	\$610M	\$151M	\$9,504M	1.78x
3	\$1,820M	\$1,231M	\$808M	\$546M	\$262M	\$206M	\$610M	\$197M	\$9,307M	1.83x
4	\$1,885M	\$1,297M	\$791M	\$566M	\$226M	\$219M	\$610M	\$265M	\$9,042M	1.91x
5	\$1,984M	\$1,396M	\$769M	\$595M	\$173M	\$240M	\$610M	\$366M	\$8,676M	2.04x

*Free cash is EBITDA less cash interest, less cash tax, less capital expenditure, and the row foots across the page: in year one, \$1,826M less \$835M less \$207M less \$610M is \$174M. Interest is a blended 8.5% on the full balance. Capital expenditure is held flat at the FY2026 estimate of \$610M throughout, which is a deliberately undemanding assumption for a chain still opening stores. Cash tax at 30% on taxable income after the deduction actually allowed. Coverage is EBITDAR divided by the sum of cash interest and rent of \$406M — the fixed-charge test that includes the store base rather than the one that pretends 825 leases are not a fixed charge. **There is no change-in-working-capital line, and the omission runs in the sponsor's favour.** The company carries roughly \$744M of operating working capital, about 7.1% of estimated FY2026 revenue, and a retailer that grows revenue funds that ratio out of the same cash the table is using to retire debt. Held at a constant percentage of revenue, the base case would absorb roughly \$79M over the five years and the bull case roughly \$263M — sized here rather than deducted, because no forward working-capital guidance exists to derive it from. The direction is not in doubt: **the free cash shown here is the generous case, and the returns computed from it are the high end.***

Section 163(j) carryforward and cash tax leakage

Section 163(j) of the Internal Revenue Code limits the deduction for business interest to thirty percent of adjusted taxable income. Adjusted taxable income is computed with the addback for depreciation and amortisation — an EBITDA base — for tax years beginning after December 31, 2024, and the addback is permanent. It is worth stating the base plainly, because the stricter EBIT base that applied to tax years 2022 through 2024 is still widely quoted and would overstate the cash tax in every year of this hold. On the correct and more generous base the limitation still binds. In the first sponsor year the structure incurs \$835M of interest and may deduct \$548M of it. The remaining \$288M is disallowed, and the company pays \$207M of cash tax in a year in which interest expense consumes 67.5% of its \$1,238M of EBIT.

That word disallowed has to be read precisely, because the statute does not throw the deduction away. Under Section 163(j)(2) business interest disallowed in one year is carried forward indefinitely and treated as business interest paid or accrued in the succeeding taxable year. It is a timing difference and it books as a deferred tax asset. This case does not claim the deduction is lost, and a reader who has seen the limitation described that way elsewhere should discard the description.

What makes the limitation bind here is that the carryforward has nowhere to go. A carryforward is only worth something in a later year that has spare capacity under the thirty percent test, and this structure has none: interest exceeds thirty percent of EBITDA in every one of the five years above, so the balance accumulates instead of unwinding. It reaches \$1,236M by exit, a deferred tax asset of roughly \$371M at the assumed rate. Meanwhile the cash leaves on schedule — \$207M in year one and \$1,069M across the hold. A sponsor return is computed on cash, and a deduction that becomes usable after the exit does not service debt before it.

The model credits nothing for that asset at exit, which understates value and is stated here rather than hidden. Two things bound how much. An ownership change at the exit brings the carryforward within Section 382, which caps annual use at a rate applied to the equity value of the loss corporation, and a buyer will only pay for a shield it can absorb — any buyer running comparable leverage inherits the same capacity problem that created the balance. The conservatism is not doing the work in the conclusion either. Handing the sponsor the entire \$371M at exit, with no Section 382 haircut and no discount for the buyer's own capacity, lifts the base case from 2.4% to 4.0%. The hurdle is twenty percent.

The consequence runs straight through to deleveraging, which is the engine of every leveraged buyout return. Free cash flow after interest, capital expenditure and tax is \$174M in year one against debt of \$9,828M. Over the full five years the structure repays \$1,152M of a \$9,828M balance. Leverage goes from 5.0x at close to 4.4x at exit. There is essentially no deleveraging, and a sponsor that does not deleverage is relying entirely on either multiple expansion or EBITDA growth.

Fixed-charge coverage including rent runs 1.80x in year one. That is thin. It is not a covenant breach on any customary formulation, but it leaves very little room, and the rent component of \$406M a year across 825 stores is the least negotiable cost in the structure. Store leases cannot be repriced in a downturn the way a term loan can be amended.

Returns on the Institute's base case

The grid below holds the operating case constant and varies the two things a sponsor controls: what it pays and how much debt it uses. Exit is at the entry multiple after five years, which assumes no multiple arbitrage in either direction. The operating case is the Institute's own, which extrapolates from the trailing quarter and reaches 73% of the EBITDA the company actually reported in FY2025 by the end of year five.

Offer per share	Premium to Sep 4, 2026 close	4.0× leverage	5.0× leverage	6.0× leverage
\$110.00	9%	+7.1%	+5.5%	not financeable
\$120.00	19%	+5.5%	+3.4%	-10.9%
\$130.00	29%	+4.5%	+2.4%	-4.6%
\$140.00	39%	+3.8%	+1.9%	-3.0%

Five-year hold, base operating case, exit at the entry multiple, blended interest of 8.5%, no rollover. "Not financeable" means the debt and excess cash alone exceed total uses, so there is no equity cheque to compute a return on — an arithmetic artefact rather than a transaction.

No combination of price and leverage in the base case produces a return a sponsor would underwrite. The best cell on the grid returns 7.1% — at \$110.00 per share and 4.0x leverage, which is to say the lowest price and the least debt on offer — and the return falls as either price or leverage rises. The second half of that sentence is the diagnostic. When additional debt reduces the return rather than magnifying it, the binding constraint is the earnings, not the capital structure, and no financing structure repairs it. At six turns the interest burden exceeds what the cash flows carry and the returns turn sharply negative.

That result is real, and it is also entirely a function of the operating case behind it. A path that never recovers cannot produce a buyout return no matter how it is financed. The question the grid does not answer is whether that path is the right one to underwrite.

Derivation of the operating cases

The three cases below are not percentage guesses applied to an EBITDA line. Each is built from the three drivers a sponsor's own model would carry — comparable sales, square-footage growth, and EBITDA margin — and the earnings path falls out of the arithmetic rather than being asserted at the top of it. The starting values are the observed ones. Comparable sales ran -9% in the quarter ended August 2, 2026. Square footage compounded at 12.4% a year across the four fiscal years to February 1, 2026, and the company has not signalled a stop. Revenue in each year is the prior year grown by comp and by square footage; EBITDA is that revenue at the stated margin; the growth column on the right is what the resulting path implies, printed so the derivation can be checked rather than taken on trust.

Case	Year	Comp	Sq ft	Revenue	Margin	EBITDA	Growth
Bear	1	-9%	+8%	\$10,246M	17.0%	\$1,742M	-11.4%
	2	-6%	+6%	\$10,209M	15.8%	\$1,613M	-7.4%
	3	-4%	+4%	\$10,192M	15.0%	\$1,529M	-5.2%
	4	-2%	+2%	\$10,188M	14.8%	\$1,508M	-1.4%
	5	+0%	+2%	\$10,392M	14.8%	\$1,538M	+2.0%
Base	1	-7%	+7%	\$10,374M	17.6%	\$1,826M	-7.1%
	2	-4%	+5%	\$10,457M	17.0%	\$1,778M	-2.6%
	3	-1%	+4%	\$10,766M	16.9%	\$1,820M	+2.4%
	4	+0%	+3%	\$11,089M	17.0%	\$1,885M	+3.6%
	5	+1%	+3%	\$11,536M	17.2%	\$1,984M	+5.3%
Bull	1	-3%	+6%	\$10,719M	18.6%	\$1,994M	+1.4%
	2	+2%	+5%	\$11,480M	19.2%	\$2,204M	+10.6%
	3	+3%	+4%	\$12,297M	19.6%	\$2,410M	+9.4%
	4	+3%	+4%	\$13,173M	19.8%	\$2,608M	+8.2%
	5	+3%	+4%	\$14,111M	19.8%	\$2,794M	+7.1%

Year zero is FY2026 estimated revenue of \$10,425M at clean EBITDA of \$1,966M, a margin of 18.86%. The driver starting values are measured at August 2, 2026 (Q2 FY2026), for the observed starting values. Note what separates the cases: the Base case never assumes a margin above the 18.86% the business earns today, while the Bull case assumes margin expands past it from year two onward. That single assumption, not the comp line, is what does the work in the Bull case.

Returns by operating case

Operating case	Exit revenue	Exit EBITDA	Exit margin	Multiple of money	Sponsor return
Bear	\$10,392M	\$1,538M	14.8%	0.14x	-32.7%
Base	\$11,536M	\$1,984M	17.2%	1.13x	+2.4%
Bull	\$14,111M	\$2,794M	19.8%	3.04x	+24.9%

All three at an offer of \$130.00 per share and 5.0x leverage, five-year hold, exit at the entry multiple.

At \$130.00 per share and 5.0x leverage the Bull case returns 24.9%, above the twenty percent a sponsor would ordinarily underwrite. Working backwards, the highest price that clears twenty percent is \$130.72 at four turns and \$147.81 at five — premiums of 30% and 47% to the September 4, 2026 close. In the Base and Bear cases no price clears at any leverage, including the market price itself.

A sponsor can pay roughly \$130.72 and earn its hurdle — a price that lands within \$2.09 of the midpoint of the intrinsic value range in Section 11. The convergence is not a coincidence. Both calculations are pricing the same recovery, from opposite directions.

The operating case a buyer would underwrite

Every path above is a public-market path. Each extrapolates forward from the quarter ended August 2, 2026 and therefore embeds an assumption a control buyer does not share: that FY2026 describes the level of the business rather than a bad year in it. That assumption is the correct default for a minority holder, who has no ability to change anything. It is the wrong default for a buyer paying a control premium, because paying one is a statement that the current earnings are not the right earnings.

The company's own record is the argument. FY2026 estimated clean EBITDA of \$1,966M is a margin of 18.9%. The three fiscal years before it ran 26.1%, 27.9% and 24.4%. A single year that sits five and a half points below the weakest of the three preceding it, in a year carrying tariff cost and elevated markdowns, is the profile of a trough rather than a plateau — and the board acted as though it agreed. The chief executive stepped down January 31, 2026 and a successor was named April 22, 2026, starting September 8, 2026. Boards do not replace a chief executive over a normal year. The change of seat is not proof that FY2026 is abnormal, but it is the directors' own revealed judgment on the question, and it points one way.

Year or case	Revenue	EBITDA	Margin	vs FY2025 EBITDA
FY2023 actual	\$9,619M	\$2,512M	26.1%	93%
FY2024 actual	\$10,588M	\$2,952M	27.9%	109%
FY2025 actual	\$11,103M	\$2,707M	24.4%	100%
FY2026 estimated	\$10,425M	\$1,966M	18.9%	73%
Bear case, year five	\$10,392M	\$1,538M	14.8%	57%
Base case, year five	\$11,536M	\$1,984M	17.2%	73%
Bull case, year five	\$14,111M	\$2,794M	19.8%	103%
Sponsor case, year five	\$12,898M	\$2,838M	22.0%	105%

Actual EBITDA is reported operating income plus depreciation and amortisation for each fiscal year. The right-hand column is the single number that decides the transaction: what each path recovers against the last full year the company actually reported. The Institute's Base case reaches 73% of it. The Sponsor case reaches 105%.

The Sponsor case is built on the same three drivers as the others, so it can be argued with on the same terms. Comparable sales trough at -5% in year one, reach zero in year two and hold at +2% thereafter.

Square-footage growth decelerates from 7% to 3% as the fleet stops being the growth engine. EBITDA margin climbs from 19.5% to 22.0% over the five years. That exit margin is deliberately short of the 24.4% the company earned in FY2025 and far short of the 27.9% it earned in FY2024. The Sponsor case does not assume the business returns to its best year. It assumes it recovers most of the way back to an ordinary one.

Offer per share	Premium to Sep 4, 2026 close	4.0× leverage	5.0× leverage	6.0× leverage
\$110.00	9%	+26.9%	+40.1%	not financeable
\$120.00	19%	+23.4%	+30.9%	+54.4%
\$130.00	29%	+20.9%	+25.9%	+36.7%
\$140.00	39%	+19.1%	+22.7%	+29.1%

The same grid, the same financing, the same five-year hold and the same exit-at-entry convention. Only the operating case has changed.

On its own underwriting the deal works, and comfortably. At \$130.00 a share and 5.0x leverage the sponsor case returns 25.9% and a multiple of money of 3.16 times. Every cell in the grid that is financeable at all clears twenty percent except one, and the highest price that still clears at four turns is \$134.70 — a 34% premium to the September 4, 2026 close, and well above any of the three reference prices this section triangulated from. That is what it means to say a sponsor would compete for this asset: the arithmetic supports a bid materially above where a board would be able to refuse one.

Two features of that result are worth separating out, because they are commonly conflated. The first is that the leverage now helps. On the Institute's base case the return fell as debt rose; on the sponsor case it rises, from 20.9% at four turns to 36.7% at six. That reversal is the signature of an operating case that grows into its capital structure rather than being crushed by it, and it is the reason the same grid produces opposite answers. The second is that the Sponsor case and the Bull case arrive at almost the same exit EBITDA — \$2,838M against \$2,794M — by opposite routes. The Bull case gets there on revenue, requiring \$14,111M of it against the Sponsor case's \$12,898M. The Sponsor case gets there on margin. Only one of those two routes is something a new owner can act on directly.

The Institute does not adopt the Sponsor case, and it is not the case behind the valuation in Section 11. It is printed because a buyout analysis run only on paths a buyer would reject is not a test of the buyout — it is the valuation restated in different units. The honest conclusion is narrower than either grid on its own: this is not a deal that fails on financing or on price. It is a deal that resolves entirely on whether FY2026 is the trough. A buyer who believes it is has a large return available at a large premium. A buyer who believes it is not has no price at all.

How a sponsor would try to make the case true

The Sponsor case above is an assumption, not a plan. What converts one into the other is a post-close operating playbook, and those playbooks are not improvised — the levers are standard across the industry and are pulled in a standard order. The table below lists them and states what each would mean at this specific company. None of them is modelled. The grid does not credit a single one of these actions; it simply assumes an outcome that some combination of them would have to produce.

The order matters as much as the list. A sponsor does not attempt every lever at once, and the sequence is not arbitrary: the diagnostic work and the pricing and assortment analysis run first because they are cheap, fast and reversible; the structural decisions — footprint, sourcing, organisation design — run later because they are none of those things. A playbook executed in the wrong order tends to produce the cost savings before the revenue understanding that would have told the owner which costs were load-bearing. That failure is common enough to have its own signature in the returns data, and it is the reason the levers below are presented as a sequence rather than a menu.

It is worth being explicit about what this table is not. It is not a plan the Institute has constructed for a buyer, it is not a claim that any of these levers is available at this company in the quantum a sponsor would want, and above all it is not an input to the arithmetic. Every number in this section was computed before this table was written and none of them moves because of it. The purpose is to let a reader see what has to be true underneath an operating case that otherwise appears in the model as nothing more than a margin assumption. Readers who want the full treatment of each lever will find it in the *Practitioner's Guide to Private Equity*, and the right-hand column below gives the chapter.

Post-close lever	What it would mean at this company	Practitioner's Guide to Private Equity, ch.
The 100-day plan	The operating agenda is set before the first owned quarter closes. A buyer here would be writing it alongside a chief executive who started September 8, 2026, not against a strategy already in place.	26
Operating partners placed in the business	Merchandising and supply chain are the two functions the Americas comparable implicates. The operating-partner model puts named people against those two lines rather than against the company in general.	27
Monthly cadence and KPI dashboards	Comparable sales reported weekly by category and by door, to the owner, replacing quarterly guidance issued to the market.	28
Assortment, pricing and markdown discipline	The largest single lever here. One point of EBITDA margin is roughly \$104M at FY2026 estimated revenue, so the whole of the Sponsor case's margin recovery is worth about \$406M a year by exit.	41
Overhead and procurement cost-out	Selling, general and administrative expense ran \$4,067M in FY2025, or 36.6% of revenue. Public-company costs, corporate headcount and non-merchandise procurement are the customary targets.	41
Capital expenditure and fleet re-underwriting	Capital expenditure of \$610M runs close to depreciation of \$588M. Slowing footage growth converts to free cash almost immediately; the 825-store fleet is worked through the lease renewal calendar rather than through closures, because the leases ride along in a take-private.	21
Working capital release	Inventory and payables terms. Real, and small relative to the equity cheque — the five-year drag the model carries on the sponsor path is \$177M.	41
Add-on acquisitions and platform building	Bolt-ons in adjacent categories, funded from the same structure. Constrained here by leverage in the early years and by the size of the platform relative to anything worth buying.	29
Brand extension into adjacent categories	The largest lever the model cannot express at all. See the paragraph below.	30
Capital structure and interest deductibility	The binding constraint identified earlier in this section. Section 163(j) at the portfolio-company level is a structuring decision made before signing, not a problem discovered afterwards.	22, 44
The exit, decided at entry	Sale to a strategic, a secondary to another sponsor, a return to the public market, or a dividend recapitalisation once leverage falls. Exit here is modelled at the entry multiple, which credits none of these.	35

Chapter references are to the Baratelli Institute's Practitioner's Guide to Private Equity, a 45-chapter reference in eight parts, which treats the post-close playbook across Part V and Chapter 41, and interest deductibility at the portfolio-company level in Chapter 44. This case is a worked example of the arithmetic that guide sets out; the guide is where the playbook itself lives.

The lever the model cannot price. Revenue in every path above compounds as the prior year grown by comparable sales and by square footage. That identity says “the same products, in more stores.” It has no term for a new category, which means every case in this section — including the Sponsor case — values brand extension at exactly zero. That is a conservative construction and it is also a real omission, because brand extension is one of the two or three things sponsors most often underwrite in a consumer asset. Yeti is the reference: a company built on a cooler that now sells drinkware as its largest category, alongside bags, cargo and a newly launched fitness line. The counter-evidence has to be carried alongside it. Yeti's drinkware category declined in its most recent fiscal year, and Under Armour's extension into footwear did not restore its multiple. Extension is a lever that has worked and a lever that has failed, and a reader should treat the model's zero as a floor rather than as an estimate.

Founder rollover sensitivity

The natural structural answer is a rollover by the founder, on the pattern of recent branded-apparel take-privates in which a founding family contributed rather than sold its stake. Running the same base case with the founder's 9,576,564 shares rolled at the offer price produces an identical return to the no-rollover case. The reason is arithmetic and worth stating because it is commonly misunderstood: a rollover reduces the sponsor's cheque and reduces the sponsor's share of exit proceeds in exactly the same proportion. It solves a fundraising problem. It does not create a return. At \$130.00 per share the founder's stake is worth \$1,245M, which would cut the sponsor cheque from \$4,053M to \$2,808M — useful for syndication, irrelevant to the internal rate of return.

Transaction size versus precedent

Even setting the returns aside, the transaction would be the largest of its kind ever attempted in this sector. At the illustrative \$130.00 per share the equity cheque alone is \$14.39B and total uses are \$14.75B. The largest branded-apparel take-private on record is the acquisition of Skechers by 3G Capital, announced May 5, 2025 at approximately \$9.4B including a rollover by the founding family. This transaction would be roughly 1.6 times that size, and it would require a debt raise of \$9.83B against an EBITDA stream that has fallen 31.6% year over year. Financing markets have absorbed larger deals in other sectors; they have not absorbed one of these in this one, and not against a declining comp.

SECTION 10

Comparable Company Analysis

Section 9 concluded that the buyout resolves on a single operating question rather than on price or on financing, and that the answer flips depending on whether FY2026 is read as the level or as the trough. That leaves the question of what the business is worth on the Institute's own reading, and the first of the two answers is the one the market itself supplies: what comparable companies trade for.

Before any multiple is printed, one convention has to be settled, and getting it wrong would overstate this case by roughly a factor of two. Every peer enterprise value below is lease-inclusive — the data provider adds the operating lease liability to net debt. Deckers proves it arithmetically: a market capitalisation of \$11.69B, less \$1.60B of cash, plus \$472M of reported total debt against zero funded borrowings, produces the \$10.56B enterprise value shown. That reported debt is the lease. Meanwhile every EBITDA in the denominators is after rent, because generally accepted accounting principles put operating lease cost in operating expense.

So the peer set pairs a lease-inclusive numerator with an after-rent denominator. The consequence for this case is direct: LULU's headline 5.0x, computed excluding leases, is **not** the number to set against Deckers at 7.95x. On the peer set's own convention the company trades at 6.11x — enterprise value including leases of \$12.01B over clean FY2026 estimated EBITDA of \$1,966M. The discount to the closest structural analogue is 23%, not the 37% the mismatched pair would imply. The Institute prints the smaller figure. An analyst who wanted the headline would print the other one, and would be wrong.

Company	Price	Measured at	EV inc. leases	LTM EBITDA	EV / EBITDA	Fwd P/E	Margin	Net cash
Deckers Outdoor	\$85.81	Sep 4 close	\$10.56B	\$1.33B	7.95x	11.2x	24.0%	\$1.60B
Columbia Sportswear	\$57.79	Sep 3 close -- one day stale	\$2.80B	\$0.34B	8.16x	14.9x	10.1%	\$0.16B
Nike	\$38.40	Sep 4 close	\$58.98B	\$4.93B	12.01x	22.6x	10.6%	-\$2.02B
On Holding	\$27.99	Sep 4 close	\$8.52B	\$0.61B	14.04x	15.2x	15.2%	\$0.84B
Under Armour	\$5.23	Sep 4, 1:54pm -- intraday, not a close	\$3.23B	\$0.17B	18.55x	68.3x	3.5%	-\$0.98B
lululemon	\$100.61	Sep 4 close	\$12.01B	\$1.97B	6.11x	11.5x	18.9%	\$1.27B

Peer data from StockAnalysis.com / S&P Global Market Intelligence, measured September 4, 2026 except where the table says otherwise. Enterprise values are lease-inclusive on every line, including lululemon's, so the column is internally consistent. lululemon's EBITDA is the FY2026 estimate with the one-time tariff refund removed, as computed in Section 3; the peers are last twelve months as reported. Forward price-to-earnings for lululemon is on clean estimated earnings per share of \$8.75.

Limitations of the peer set

Columbia Sportswear runs on a different clock, and its denominator is contaminated in exactly the way this case corrects for in lululemon. The price is a September 3 close, one day stale against the rest of the set. More consequentially, its last-twelve-months EBITDA of \$342M includes roughly \$78M of non-recurring tariff refunds — 23% of the denominator. Removing them moves the multiple from 8.2x to 10.6x. The reported figure understates by more than two turns. Section 3 performs the identical adjustment to lululemon's own guided earnings; it would be indefensible to make it there and not here.

Under Armour's price is an intraday quote, not a close. It was measured at 1:54pm on September 4, 2026, while the market was open. Its market capitalisation, enterprise value and both multiples inherit that clock. It is left in the table because removing an inconvenient name is worse than labelling it, but nothing in this case is argued from it: a multiple of 18.6x on a 3.5% EBITDA margin is not a valuation signal, it is a company whose earnings have nearly disappeared.

On Holding's multiple is not a single number. Published estimates range from 12.79x to 15.8x. That spread is a definitional disagreement about lease treatment, share-based compensation, and international-versus-domestic accounting standards — not a rounding difference — and the figure in the table is one provider's, not a consensus.

Five names are absent and the reasons differ. VF Corp and Gap were dropped on judgment: a levered multi-brand wholesale turnaround and a mass-market value retailer share neither the direct-to-consumer model nor the debt-free balance sheet, and would have widened the range without informing it. Abercrombie & Fitch, Ralph Lauren and Amer Sports were dropped *for cause*: no price and multiple measured on the same day could be obtained for any of them. In one case a September 4 share price arrived beside a market capitalisation implying roughly half that price. They are named here rather than quietly omitted, because a comparables table is as much about which names were excluded as which were kept.

Forward earnings: the offsetting evidence

Deckers is the tightest structural analogue in the set and the comparison has to be made on its full terms. It is direct-to-consumer led, carries net cash and no funded debt, and earns a 24.0% EBITDA margin against lululemon's 18.9%. On enterprise value to EBITDA, lululemon is cheaper by 23%. **On forward earnings it is not cheaper at all.** Deckers trades at 11.24x and lululemon at 11.50x — lululemon is the more expensive of the two, by 0.26 of a turn.

That is printed early and in bold because it is the strongest available objection to this case and a reader is entitled to it before the valuation rather than after. The reconciliation is that the two metrics treat the balance sheet differently: enterprise value to EBITDA credits lululemon for \$1,271M of net cash and charges it for the lease liability, while the earnings multiple does neither. Anyone arguing this stock is cheap has to argue it on enterprise value, free cash flow and the balance sheet, and has to concede the earnings multiple. The Institute concedes it.

On the precedent, one number is printed and one is refused. The acquisition of Skechers by 3G Capital, announced May 5, 2025 at \$63.00 a share, was described by the parties as approximately a 30% premium to the 15-day volume-weighted average price. That is the issuer's own reference and it is defensible. A premium to the unaffected closing price is not printed here: the widely repeated figure could not be tied to an exchange record or to the merger proxy, and a premium computed from an unverified base is precisely the kind of number this case refuses to carry.

SECTION 11

Discounted Cash Flow Analysis

The comparables say what the market pays for similar businesses. A discounted cash flow says what this one produces. The two are built from entirely different inputs and the case is stronger where they agree, which is the only reason to run both.

Cost of capital

The company has no funded debt. That is not a detail here — it means the weighted average cost of capital collapses to the cost of equity, because there is nothing to weight it against. One entire source of dispute disappears and the argument lands where it belongs, on beta.

And beta is where the honest answer is a range. Published estimates for this company run from 0.76 to 1.01 depending on the window, the observation frequency and the reference index. That is a spread of roughly 33% on the single most contested input, and it moves the cost of equity by 110 basis points — from 8.14% to 9.24%. A point estimate would be false precision dressed as rigour, so both ends are carried through to a value and the reader can choose.

Input	Value	Measured at
Risk-free rate, 10-year Treasury	4.78%	September 3, 2026
Equity risk premium	4.42%	July 1, 2026 -- a monthly series, two months stale at publication
Beta, low estimate	0.76	September 2026, across published five-year and two-year estimates
Beta, high estimate	1.01	September 2026, across published five-year and two-year estimates
Cost of equity at the low beta	8.14%	Derived
Cost of equity at the high beta	9.24%	Derived
Weighted average cost of capital	8.69%	Equals cost of equity; no funded debt
Terminal growth band	1.5% to 2.5%	Institute assumption
10-year breakeven inflation	2.35%	September 3, 2026
Cash tax rate	30%	Company guidance of September 3, 2026

One input is stale. The equity risk premium is the implied United States figure measured July 1, 2026, on a series republished monthly — two months old at the publication date of this case. It is the best available, and its age is stated so the reader can weigh it. The terminal growth band is capped below breakeven inflation of 2.35%: a mature specialty retailer growing faster than the price level in perpetuity is a claim nobody should make in print.

Unlevered free cash flow projection

Unlevered free cash flow is EBITDA, less cash tax on operating income, less capital expenditure. There is no interest line, and that is the point of an unlevered figure: it is indifferent to how the business is financed, which matters here because Section 9 has already shown that financing it changes the answer. The EBITDA path is the base case derived in Section 9 from comparable sales, square-footage growth and margin — not a separate set of assumptions invented for this section.

Year	EBITDA	EBIT	Cash tax	Capex	Unlevered FCF	Discount factor	Present value
1	\$1,826M	\$1,238M	\$371M	\$610M	\$845M	0.920	\$777M
2	\$1,778M	\$1,189M	\$357M	\$610M	\$811M	0.846	\$687M
3	\$1,820M	\$1,231M	\$369M	\$610M	\$841M	0.779	\$655M
4	\$1,885M	\$1,297M	\$389M	\$610M	\$887M	0.716	\$635M
5	\$1,984M	\$1,396M	\$419M	\$610M	\$956M	0.659	\$630M
Sum							\$3,384M

Discounted at the mid-point cost of equity of 8.69%. Capital expenditure is held flat at the FY2026 estimate of \$610M, which is undemanding for a chain still opening roughly 67 stores a year. **There is no change-in-working-capital line, on the same basis and with the same direction as the buyout model in Section 9:** operating working capital stands at \$744M, or 7.1% of estimated FY2026 revenue, at August 2, 2026, and a business growing revenue funds that ratio out of the cash shown here. Held at a constant percentage of revenue it would absorb roughly \$79M across these five years — sized rather than deducted, because no forward working-capital guidance exists to derive it from. Treat the cash flows above as the generous case, not the conservative one.

Terminal value: perpetuity growth and exit multiple

Terminal value is 74% of enterprise value in this model. That is high and it is normal for a five-year explicit period, but it means most of the valuation is an argument about year six onward rather than about the next five years. It is also why the terminal is computed twice.

Terminal method	Terminal value	PV of terminal	PV of years 1–5	Enterprise value	Equity value	Per share
Perpetuity growth at 2.0%	\$14,571M	\$9,605M	\$3,384M	\$12,989M	\$14,260M	\$128.81
Exit multiple at 7.95x	\$15,775M	\$10,399M	\$3,384M	\$13,783M	\$15,054M	\$135.98

Enterprise value is the sum of the two present-value columns, and the row foots across the page: on the perpetuity-growth terminal, \$9,605M of discounted terminal value plus \$3,384M of discounted forecast-period cash flow is \$12,989M. The forecast-period figure is the same \$3,384M that closes the table above. Both rows use the same five years of cash flow and the same 8.69% discount rate; only the terminal method differs. Equity value adds back cash of \$1,271M, net of the post-quarter repurchase, and there is no funded debt to deduct. Per share divides by 110.7 million shares. The exit multiple is 7.95x, which is what Deckers — the closest structural analogue in Section 10 — trades at today, and it is used precisely because a perpetuity-growth terminal is so sensitive to two inputs nobody can observe. The two methods land within \$7.17 of each other.

Sensitivity: cost of equity versus terminal growth

Cost of equity	Terminal growth 1.5%	Terminal growth 2.0%	Terminal growth 2.5%
8.14%	\$131.75	\$139.49	\$148.61
8.69%	\$122.41	\$128.84	\$136.31
9.24%	\$114.39	\$119.80	\$126.02

Equity value per share, perpetuity-growth terminal, base-case cash flows. The rows are the cost of equity at the low beta, the mid-point and the high beta from the input table above. **All 9 cells sit above the September 4, 2026 close of \$100.61**, with the lowest at \$114.39 and the highest at \$148.61. That is also the grid's limitation: a grid in which every cell agrees may have bounds that are too narrow, which is why the bear case below is run outside them.

Bear case, run outside the grid

The grid above varies the discount rate and the terminal growth while holding the cash flows fixed. The larger risk is not that the discount rate is wrong; it is that the base-case operating path is wrong. Running the same discounted cash flow on the bear path from Section 9 — comparable sales deteriorating for another year, margin giving up most of the operating leverage the growth years built, EBITDA ending the period at \$1,538M against \$1,966M today — produces \$94.09 a share. That is 6.5% below the current price, and it is the floor of the range rather than a figure sitting beneath it.

The same discounted cash flow, run a second time off FY2025

Everything above compounds from the FY2026 estimate. That is a choice, and it is the choice the whole case turns on. The year ended February 1, 2026 produced EBITDA of \$2,707M on revenue of \$11,103M, a margin of 24.4%. The FY2026 guidance midpoint is \$1,966M on \$10,425M, a margin of 18.9%. The gap is \$741M. **A buyer of the stock and a sponsor underwriting a buyout have to answer the same question before either can price anything: is FY2026 the level, or is it a bad year measured against a level this business has already demonstrated?** The Institute does not think that question can be settled from the outside, so it is answered twice.

What has to be believed about that gap depends on what is in it, and it decomposes exactly, with no residual:

Component of the FY2025 to FY2026 decline	Amount	Share of the gap
Margin compression: 5.52 points of margin lost, applied to FY2026 revenue	\$576M	77.7%
Revenue decline: 6.1% less revenue, at the FY2025 margin	\$165M	22.3%
Total EBITDA gap	\$741M	100.0%

The identity is $EBITDA_{FY2025} \text{ less } EBITDA_{FY2026E} \text{ equals revenue}_{FY2026E} \text{ times the change in margin, plus the FY2025 margin times the change in revenue}$. It is exact by construction and carries no plug. Revenue figures are FY2025 as reported and the midpoint of company guidance for FY2026; margin figures are the reported FY2025 margin and the margin implied by that guidance.

More than three quarters of the decline is margin, not demand. That distinction is the difference between a business with fewer customers and a business with the same customers and worse economics, and it is not a rhetorical difference: a margin point is precisely what a control owner buys the right to attack, and a departed customer is not. It is the arithmetic underneath Section 9's otherwise strange result that the same buyout fails on the Institute's operating case and clears comfortably on a buyer's. Within the margin term, the tariff cost management has quantified but not yet absorbed is \$95.5M, or 0.92 points of guided revenue — 16.6% of the 5.52 points of compression. The remainder is not attributed here to any single cause, because the filings do not support attributing it.

Run the model a second time and hold FY2025 as the level. The schedule below starts from reported FY2025 EBITDA of \$2,707M and grows it at the terminal rate of 2.0% — no recovery, no operating leverage, no store-growth arithmetic, nothing but inflation. It is deliberately the least imaginative version of the recovery case: it does not ask the business to earn back anything it did not already earn in the year just closed. **Two conventions cut against the answer and are used anyway.** Depreciation is FY2025's own \$496M rather than the FY2026 estimate of \$588M, which raises taxable operating income and therefore cash tax; capital expenditure is FY2025's own \$681M rather than the FY2026 estimate of \$610M, which takes more cash out. A schedule anchored on a year is handed that year's own reinvestment, or the run rate and the reinvestment rate are being measured on two different clocks.

Year	EBITDA	EBIT	Cash tax	Capex	Unlevered FCF	Discount factor	Present value
1	\$2,761M	\$2,265M	\$679M	\$681M	\$1,401M	0.920	\$1,289M
2	\$2,816M	\$2,320M	\$696M	\$681M	\$1,439M	0.846	\$1,218M
3	\$2,873M	\$2,376M	\$713M	\$681M	\$1,479M	0.779	\$1,152M
4	\$2,930M	\$2,434M	\$730M	\$681M	\$1,519M	0.716	\$1,088M
5	\$2,989M	\$2,492M	\$748M	\$681M	\$1,560M	0.659	\$1,028M
Sum							\$5,776M

Same cost of equity, same tax rate, same terminal methods and the same five-year structure as the base case above. The only change is the starting EBITDA level and the two reinvestment inputs that travel with it. Year-five EBITDA of \$2,989M is 110% of FY2025 — the excess over 100% is compounding at the terminal rate, not recovery. Revenue is implied at the reported FY2025 margin of 24.4% and is shown nowhere in the table because nothing in the valuation depends on it.

Terminal method	Terminal value	PV of terminal	PV of years 1–5	Enterprise value	Equity value	Per share
Perpetuity growth at 2.0%	\$23,780M	\$15,676M	\$5,776M	\$21,451M	\$22,722M	\$205.24
Exit multiple at 7.95x	\$23,759M	\$15,662M	\$5,776M	\$21,438M	\$22,709M	\$205.12

The two terminal methods agree to \$0.12 a share here, against \$7.17 in the base case. That is not a virtue of the model — it is a consequence of a flat schedule, in which the exit multiple and the perpetuity are being applied to almost the same terminal cash flow. At the low and high ends of the cost-of-equity range from the input table, the perpetuity-growth read runs from \$190.41 to \$222.74. Every cell of that range is at least 89% above the September 4, 2026 close.

On the FY2025 run rate the business is worth \$205.24 a share, or 104% above the close. That figure is not a forecast and should not be read as one. It is the price of a single proposition: that a company which earned \$2,707M of EBITDA in the year ended February 1, 2026 will, at some point, earn approximately that again. Nothing in the model asks it to earn more.

The question asked backwards

Two valuations that differ by more than \$76 a share are not a range; they are a disagreement about a fact. The way to arbitrate it is to stop valuing the company and ask instead what the market is already paying for. Hold the price fixed at the \$100.61 close, hold every other input in this section unchanged, and solve for the one number that makes the model return exactly that price — the permanent EBITDA level the marginal buyer is underwriting.

What the reverse discounted cash flow returns	Level	Reference
EBITDA level implied by the \$100.61 price	\$1,621M	—
As a percentage of FY2025 as reported	59.9%	\$2,707M
As a percentage of the FY2026 guidance midpoint	82.5%	\$1,966M
Implied margin on guided FY2026 revenue	15.55%	guided 18.86%
Against the bear case terminal from Section 9	105.4%	\$1,538M
Against the base case terminal from Section 9	81.7%	\$1,984M

Solved by bisection on a flat EBITDA level growing at the terminal rate, at the mid-point cost of equity, with FY2025 depreciation and capital expenditure — the identical machinery as the run-rate table above, with the price held and the level released instead of the reverse. On an exit-multiple terminal the implied level is \$1,375M. The higher of the two is used in the text because it is the more forgiving reading of what the market believes.

At \$100.61 the market is not paying for a bad year. It is paying for a permanent level 17.5% below the FY2026 figure the company itself has guided to for the year already in progress — a level that sits between the bear terminal and the base terminal of Section 9, and implies a margin of

15.55% the business has not printed and management has not guided to. That is a defensible thing to believe. It is not the same thing as believing FY2026 is a difficult year, and a reader who holds the milder view is not holding the view the price expresses.

This run-rate read is not folded into the stated range below, and the omission is deliberate. The published bracket stays anchored on FY2026, because FY2026 is the only year for which the company has given guidance and the Institute has no defensible basis for asserting when, or whether, the FY2025 margin returns. Averaging a \$205.24 read into a \$128.63 bracket would produce a midpoint nobody holds and would bury the disagreement, which is the finding. The two are set side by side on page one instead, with the reverse-DCF level beneath them, so the reader can see which proposition each number is the price of.

Valuation summary and stated range

Four independent reads of the same business — two from the discounted cash flow and two from the comparables — are set out below. What they form is a bracket rather than a point estimate, because a point estimate would imply a precision the inputs cannot carry. All four are struck on the FY2026 anchor; the run-rate read above sits outside this table by design.

Method	Implied value per share	Against the close of \$100.61
Comparables, at 7.0x — a discount to Deckers	\$116.43	+15.7%
DCF, perpetuity growth terminal	\$128.81	+28.0%
Comparables, at the Deckers multiple of 7.95x	\$133.29	+32.5%
DCF, exit multiple terminal	\$135.98	+35.2%
Midpoint of the four	\$128.63	+27.8%
Bear case, for contrast	\$94.09	-6.5%

Discounted cash flow reads are at the mid-point cost of equity of 8.69% and terminal growth of 2.0%. Comparable reads convert an enterprise value at the stated multiple back to equity per share by removing the lease liability of \$2,141M and adding cash of \$1,271M.

The Institute's position is that lululemon athletica is worth between \$116.43 and \$135.98 a share, with a midpoint of \$128.63, against a September 4, 2026 close of \$100.61. That is 16% to 35% of upside, and it is a statement about value rather than about price: nothing in this case predicts when or whether the market will agree, and the bear path at \$94.09 is a live possibility rather than a rhetorical one.

The peer median is not used, and the reason matters. The median multiple of the peer set is 12.01x, which applied to this company implies \$205.38 a share — more than double the current price. It is arithmetically available and it is not defensible: the median is Nike, a business carrying net debt on a 10.6% EBITDA margin against lululemon's 18.9%. The upper bound of the range above is the discounted cash flow on an exit-multiple terminal instead, and the lower bound is a discount to Deckers — 7.00x against 7.95x — taken because lululemon's margin is thinner and its comparable sales are falling while Deckers' are not.

Reconciliation with the leveraged buyout analysis

Section 9 ran the buyout twice. On the Institute's own operating case no combination of offer price and leverage returns a sponsor's cost of capital; this section concludes the equity is worth materially more than it trades for. **Those look like opposing findings and they are the same one.** A sponsor offering \$130.00 would be paying 1.1% above the midpoint of the Institute's own estimate of intrinsic value — inside the range, with no discount left to fund a return. A company can be simultaneously undervalued by the public market and unbuyable by a financial sponsor, and for the same reason: the gap between price and value is real but not wide enough to pay a control premium, a 2.5% fee load, and 8.5% interest on the debt required to close it.

The sponsor case in Section 9 breaks that reconciliation, and it is worth being explicit about how. A buyer who treats FY2026 as a trough is not valuing the same earnings stream this section values. It is buying a business it expects to earn 105% of FY2025 EBITDA by year five rather than 73%, and against that stream \$130.00 is not a full price. The disagreement is not about the discount rate, the multiple, or the financing. It is about which year is representative.

A reported third-party position

Michael Burry is widely reported as long lululemon and bullish on it. Both halves of that sentence need qualifying, and the qualifications are the reason this passage runs to several paragraphs rather than one line.

What the filings show is a position being cut, not built. Scion Asset Management's Form 13F for the second quarter of 2025 disclosed 50,000 shares alongside a 400,000-share call position — 450,000 share equivalents in total. By the third-quarter filing the calls had gone and the disclosed position was 100,000 share equivalents. That is a reduction of 78%. Any account describing the position as having been doubled or added to across that period is contradicted by the filings themselves.

And there is nothing newer, because the filing obligation ended. The third-quarter 2025 report, filed November 3, 2025 (for the quarter ended September 30, 2025), is the last one. The investment adviser's registration was terminated November 10, 2025 and no 2026 Form 13F exists. The disclosed evidence chain stops there, and it stops with the position smaller than it had been.

The bullish 2026 commentary is therefore not a filing. It comes from a subscription newsletter post dated September 3, 2026, reported second-hand by four outlets and not verified against the primary text, and it describes a personal portfolio, not Scion fund capital. Those are different pockets of money carrying different disclosure obligations and they must not be conflated. The Institute has not verified the primary text.

The honest construction is this: a well-known investor is reported to hold a personal position at a materially higher cost basis than the current price, on evidence that is a newsletter rather than a filing, after his fund's disclosed position had already been cut by more than three quarters and his filing obligation had ended. It is not corroboration of anything in this case. The value range above is derived from the cash flows and the comparable companies; it would read the same if no well-known investor had ever mentioned the name, and a reader who finds the range persuasive because of who else is reported to hold the stock has been persuaded by the wrong thing.

SECTION 12

Conditions Required and Falsification Tests

The conditions under which this case is wrong are stated before the conclusion, so a reader can test the conditions rather than argue with the conclusion.

For the value case to work, the Americas comparable of -12% has to stop deteriorating. That is the whole of it. The Americas produced 70.7% of FY2025 segment revenue and 71.0% of segment operating income; nothing else on the income statement is large enough to offset it. International is not the problem — China Mainland and the rest of the world together grew in the quarter ended August 2, 2026 and now represent 34.3% of revenue — but international is not yet large enough to carry the company either. The value case does not require growth. It requires the decline to stop.

For the value case to fail, the operating margin has to keep compressing. FY2025 delivered 19.9%. The FY2026 guidance implies 14.5%. If the second figure is a waypoint rather than a floor — if adding stores into a negative comp continues — then the earnings the multiple is computed on will keep falling and a 10.5x multiple will prove to have been expensive rather than cheap. Ten times a declining number is not cheap. It is a warning.

For the buyout case to work, FY2026 has to be a trough rather than a level. That is the whole of it, and it reduces to one printed number: EBITDA margin has to climb from the 18.9% the business earns today back toward the 24.4% it earned in FY2025. On the sponsor case in Section 9 it reaches 22.0% by year five, the transaction returns 25.9% at \$130.00 a share and 5.0x leverage, and a buyer could pay up to \$134.70 at four turns and still clear twenty percent. On the Institute's own base case the margin never recovers and no price clears at any leverage, including the market price itself. The two grids run the same arithmetic on the same financing. Only that one assumption separates them.

The falsification test for the buyout case is therefore cheap and public. Comparable sales are reported quarterly. Four quarters of that single line will settle which grid was the right one, and they will settle it long before any transaction of this size could be negotiated, financed and closed.

SECTION 13

Conclusion and Stated Value

At the September 4, 2026 close of \$100.61, lululemon athletica trades at 5.0x enterprise value to clean FY2026 estimated EBITDA and 11.5x clean earnings, with no funded debt, \$1,271M of net cash, \$11.48 of net cash per share, and a 9.5% free cash flow yield. Those are the multiples of a business the market expects to continue deteriorating, attached to a balance sheet that could withstand a great deal of deterioration.

The Institute's reading is that the market is pricing a declining business correctly and a durable brand incorrectly, and that these are not the same proposition. Operating income is falling 31.6% year over year on the company's own guidance, and \$0.86 of guided earnings per share is a one-time legal recovery that will not repeat. Anyone describing this as ten times earnings without saying both of those things is not describing it accurately. But the deterioration is regional and identifiable — a -12% Americas comparable against international operations that grew — rather than a general collapse in brand demand.

On the buyout question the arithmetic does not settle the argument. It locates it. Section 9 ran the same transaction twice. On the Institute's own operating case — the one that extrapolates from the quarter ended August 2, 2026 and recovers 73% of FY2025 EBITDA by year five — the best cell in the grid returns 7.1%, no cell of any price or leverage reaches a sponsor hurdle, and raising leverage makes the return worse rather

than better. The mechanism is specific: Section 163(j) defers the deduction on \$288M of the \$835M first-year interest bill and forces \$207M of cash tax onto a business whose entire operating profit is already consumed by interest, leaving \$174M of free cash flow against \$9.83B of debt and therefore no deleveraging at all. The deferred deduction is carried forward and is not lost, but it cannot be used inside the hold and it does not pay interest in the meantime.

Run the identical structure on the case a buyer would underwrite — FY2026 as a trough, margin recovering to 22.0% by exit, still short of the 24.4% the company earned in FY2025 — and the same grid returns 25.9% at \$130.00 a share and 5.0x leverage, on a 3.16x multiple of money. Leverage now helps rather than hurts, and a buyer could pay \$134.70 at four turns and still clear twenty percent. Nothing in the price, the fee load, the interest rate or the tax code moved between those two grids. One assumption did. That is the finding: **a leveraged buyout of lululemon is not a financing question and it is not a price question. It is a bet on whether the year now closing was the trough**, and it is settled by four quarters of the Americas comparable rather than by anything in a model.

The Institute's own answer to that question is the Base case, not the Sponsor case, and the valuation in Section 11 is built on it. But the Sponsor case is not a straw man. It is the underwriting any buyer would bring, its assumptions are printed in full so they can be disputed line by line, and the board's replacement of the chief executive is a point in its favour rather than against it. A reader who concludes the trough case is the right one should conclude that this asset is competitively biddable, and the analysis above supports that conclusion on its own terms.

Which returns the matter to the company itself. lululemon is already executing the part of the buyout thesis that requires no assumption at all — retiring shares against a fixed earnings stream — and it is doing so out of operating cash flow, without a control premium, without interest expense, and without a non-deductible interest problem. The remaining authorisation of \$712M would retire 6.4% of the company at the September 4, 2026 close. On the Institute's operating view that is the better use of the same balance sheet and the equity story here is the buyback rather than the buyout. On a buyer's view it is not, which is the same disagreement stated one final time.

The Institute's conviction is limited to what the evidence supports, which is this: the balance sheet is not the risk, the Americas comparable is, and a reader who wants to know whether this was cheap should watch that single line rather than the multiple. The multiple is a consequence. The comparable is the cause.

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