Cabot
TURNAROUND LETTER
Out-of-Favor Stocks with Real Value

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Lululemon Athletica (LULU): Multiple Tailwinds and Catalysts in 2026

If there was a dominant investment theme for the *Cabot Turnaround Letter* in 2025, it was the focus on defensiveness, in which we showed a penchant for companies in the consumer staples arena. This, I believe, was—and still is, from a long-term perspective—justified in view of the many headwinds faced by the U.S. economy over the last 12 months.

Now that we're about to enter a new year, however, the economic winds have started to shift in a more favorable direction. With the Fed's embrace of a looser monetary policy, sectors that were out of favor or not very strong in 2025 are poised to become better performers in 2026. I'm referring particularly to some of the more economically sensitive industries within the broader consumer discretionary sector.

Indeed, consumer discretionary stocks should broadly benefit from the Federal Reserve's recent decision to stop shrinking its balance sheet and begin expanding it (to the tune of ~$40 billion a month in Treasury purchases), while cutting interest rates in an effort to stimulate the economy.

With that backdrop in mind, I think it's time to turn more of our attention toward the more discretionary areas of the market that are in a strong position to benefit from not only a looser financial backdrop, but also from several major fundamental catalysts. As of this writing, the company that stands out to me as being a strong reflection of those criteria is **Lululemon (LULU)**.

Before examining the company itself, let's first look at some of the broader industry-related trends that support its year-ahead outlook. The first of those trends is virtually impossible to ignore; in fact, you likely see it every time you go out to shop or walk down a crowded street. It's the growing embrace of athletic wear as an everyday fashion for both men and women.

Athletic wear (or activewear as it's sometimes called) is a fast-growing business as the lines are becoming increasingly blurred between gym clothing and everyday dress. The end result is what is known as "athleisure," which is the type of clothing people normally wear during gym workouts or athletic competitions, but is actually intended for everyday casual use. The softer fabrics and ideal fit of this type of clothing are most appealing to millions of people as the societal shift away from formality and towards greater comfort continues at an ever-growing pace.

According to one recent survey, the outlook for women's athletic wear alone in 2026 is expected to see robust growth as health consciousness, technological improvements, the increasing growth and visibility of women's sports, plus the continuing influence of athleisure, serve as tailwinds for this fashion category. What's more, the overall activewear market is forecast to reach over $400 billion in 2026, with women constituting around 60% of the consumers.

But it's not just women's athletic wear that's garnering all the attention; men's athleisure is also expected to grow at a very strong rate in 2026 and beyond, driven by consumer demand for comfort, versatility and social media influencer marketing. In fact, the men's segment of this clothing category is projected to grow at a fast rate (around 9%+) through 2030 to 2032.

Enter Lululemon, which is well known for its athletic apparel for yoga, running and working out, based on a "Science of Feel" platform that focuses on creating a distraction-free and weightless sensation for the wearer.

Source: Women's Wear Daily

The Vancouver-based company designs, distributes and retails technical athletic apparel, footwear and accessories for men and women, with yoga-related clothing for women being its main focus. It sells under the Lululemon brand across most of North America, China, Hong Kong, Taiwan and other countries.

Among its fashion offerings are pants, shorts, tops and jackets for athletic activities (think yoga, running, training, as well as other activities), and it also provides fitness-inspired accessories. The company sells its products through company-operated seasonal stores, pop-ups, university campus retailers and yoga and fitness studios, as well as through various e-commerce outlets.

Lululemon caught a big tailwind from the pandemic when suddenly home-bound workers began wearing its ultra-comfortable clothing (especially leggings) around the house. A combination of extended work-from-home and looser dress codes at work further resulted in booming sales for the company, allowing the brand to expand at an eye-opening compound annual growth rate during those years, led by soaring e-commerce sales.

In the years following the pandemic, the firm experienced a plethora of problems ranging from a stagnant product assortment (Lululemon failed to set new trends in the years immediately after the pandemic), increased competition from industry rivals (which crimped market share and resulted in declining comp sales), rising inflation and new tariffs. The end result of these unfavorable factors was a share price that collapsed by nearly 70% between the beginning of 2024 and late 2025, necessitating a turnaround effort.

The company's attempt at revitalizing the brand was launched in 2025, specifically in response to slowing growth in its North American market and increased competition from brands like Alo Yoga and Vuori.

CEO Calvin McDonald outlined the turnaround strategy in September, with further details emerging in December in the wake of his resignation announcement, effective January 31, 2026. (McDonald's departure came amidst criticism over product execution and market share losses.) As of this writing, the company doesn't yet have a new permanent CEO, but Lululemon's CFO Meghan Frank and CCO André Maestrini will serve as interim co-CEOs while the company's board conducts a comprehensive search for a suitable replacement.

Underpinning the outfit's revitalization effort is a returning focus on the product innovation and speed-to-market for new styles that Lululemon was once famous for. Another key focus is on revitalizing the critical U.S. market while also working to expand lagging international growth.

In particular, its "Power of Three x 2" growth strategy (which was initially launched in 2022) was recently modified to emphasize better product innovation along with an acceleration of the design process, with an end goal of improving enterprise efficiency and broadening its international presence. Management expects the positive impacts from this plan to be more evident by mid-2026.

On the latter front, Lululemon intends to launch six new international markets in 2026 using a franchise model as a key part of its return to growth strategy. Specifically, it plans to expand its presence into Greece, Austria, Poland, Hungary, Romania and India in the year ahead.

These market entries will be executed through partnerships—including with Arion Retail Group in several European countries and Tata CLiQ in India—instead of through strictly company-owned stores. This initiative represents the largest number of new-country launches in a single year for Lululemon.

Yet another aspect of Lululemon's strategy for 2026 includes shifting its product sourcing away from tariff-exposed countries and negotiating with vendors to offset the impact of recent tariffs. It plans to diversify production across multiple regions, including various parts of Asia, plus other near-shore options, so that no single country represents an outsized risk for the firm. Moreover, it plans to reallocate specific product categories to factories where cost, duty structure and lead times are more favorable.

Pivotal to the plan's success is finding an ideal CEO to lead the charge. Or to put it another way, sustained success at Lululemon beyond 2026 will depend largely on strong leadership that is capable of guiding the firm through its next phase of global, margin-conscious growth. The search for new management is, ironically, the basis for the recent entrée of another key catalyst: activist investors.

As you can probably guess, it was the entrance of Paul Singer's Elliott Investment Management hedge fund into Lululemon that really attracted me to the stock's turnaround potential. (An established activist of this caliber is simply too hard—and too enticing—to ignore.)

As reported a couple of weeks ago in *The Wall Street Journal*, Elliott established a more than $1 billion stake in Lululemon, making it one of the company's largest shareholders, with an emphasis on finding a suitable replacement for the chief executive position. According to the report, Elliott "is pushing for leadership changes at the struggling athletic apparel retailer, including proposing Jane Nielsen—a former CFO and COO at Ralph Lauren and currently a Lululemon advisor—as a potential new CEO."

On that score, Nielsen told WSJ, "Lululemon is one of the most powerful brands in retail, defined by exceptional products, deeply engaged communities and significant global potential. I would welcome the chance to discuss this opportunity with the Lululemon board."

Meanwhile, as reported on December 29 by *Bloomberg*, Chip Wilson, who founded Lululemon in 1998 and is one of its largest shareholders, nominated three director candidates for election at the 2026 annual meeting. The nominees include former On Holding co-CEO Marc Maurer, former ESPN Chief Marketing Officer Laura Gentile and former Activision CEO Eric Hirshberg. (It should be noted that Wilson ran a full-page WSJ ad in October blaming Lululemon's leadership for the massive drop in its share price, in turn signaling a potential proxy battle or alliance with another major investor.)

Aside from the obvious (potentially) bullish activist investor catalyst, Lululemon enters 2026 with solid momentum behind its three-pillar growth strategy, a refreshed product lineup from a new creative team and the likelihood of a strong CEO to be soon named. All told, I view it as an ideal catalyst combination too exciting to ignore, and I'm recommending Lululemon stock for participants with a medium-to-long-term outlook.

Recommendations
Purchase Recommendation: Lululemon (LULU)

1818 Cornwall Avenue
Vancouver, BC Canada V6J 1C7
Website: https://shop.lululemon.com

Symbol: LULU
Market Cap: $24.9 Billion
Category: Large-Cap
Business: Athletic Apparel & Footwear
Revenues (2026e): $11 Billion
Earnings (2026e): $1.45 Billion
12/30/25 Price: 212.50
52-Week Range: 159.25-423.30
Dividend Yield: NA
Price target: 260

Background:

Lululemon first went public in July 2007 with an IPO on the Nasdaq, raising about $328 million by selling shares at 18 each to fund its initial expansion.

After an initial post-IPO surge into the later part of that year, which saw it rise to around 30, the stock fell out of favor and collapsed in 2008 during the credit crisis, ultimately bottoming at the lowly price of around 1 a share by early 2009. From there began a massive bull market, which carried it to a then-record high around 80 by 2013.

The shares, and the company's offerings, fell out of favor in 2014, which necessitated a formal turnaround effort.

During that year, the company underwent several management changes, including founder Chip Wilson stepping down as chairman, along with the announcement of a retiring CFO.

An activist investor also stepped in, plus Lululemon announced a $450 million share buyback program, which, along with other restructuring efforts, led to a successful turnaround over the next couple of years.

What followed was yet another extended upward trend in the share price, with LULU eventually topping at just under 500 at the beginning of 2024. The nearly two-year decline that followed necessitated the company's latest turnaround effort, as described above.

Analysis:

The successful installation of a new CEO should go a long way toward convincing investors that Lululemon is on its way to revitalizing its brand and establishing its footing as a leader in the athleisure retail segment on the domestic front. Internationally, by contrast, is where a substantial part of the firm's growth is likely to be seen in the next few years.

As one Wall Street analyst recently observed, "International earnings growth is set to offset a good part of the current U.S. weakness, while Lululemon is focusing on fixing its domestic issues." The foundation for this growth was reflected in its latest earnings: In Q3, international sales rose 33% year over year to $833 million, thanks in part to an 18% increase in comp sales, plus the firm's continued store expansion in China and in other markets.

Meanwhile, total revenue in Q3 was nearly $2.6 billion, up 7%, with per-share earnings of $2.59 beating estimates by a whopping 17%. Needless to say, the report was well received by investors.

Commenting on the earnings performance, outgoing CEO McDonald said he was encouraged by the company's performance during the holiday season to date, adding that Lululemon is beginning to make progress against its action plan with further expectations for greater progress in 2026. He concluded, "The timing is right for a change as we near the end of our 5-year plan cycle."

Noting the strong overseas performance during the quarter, Lululemon said revenue in Mainland China was up by 46%, with the rest of its international market up 19%. By contrast, U.S. revenue was down 3% and Canada revenue was down 1%.

Even more impressively, Lululemon has grown its revenue by nearly 9% over the past 12 months, which represents a 2.5x outperformance versus the sector peer average of 3.4%. It's also approaching the historical revenue growth rate of the average of S&P 500 companies at 10%.

Looking ahead, the consensus view among analysts is for the company's revenue to increase by just 4% in 2025 and by the same amount next year. That's a low bar, and I suspect it was at least partly influenced by the Fed's tightening cycle and its perceived negative influence on the overall retail sales picture. But with a new loosening cycle underway, I believe Wall Street's sales expectations for the firm in 2026 will be decisively exceeded.

Another key attraction here is the company's generous shareholder return policy. For instance, Lululemon returned $189 million in Q3 alone to its shareholders via stock repurchases (around 1% of total shares outstanding), with $1.6 billion remaining on the current buyback authorization. As another Wall Street analyst remarked, the company's shareholder returns policy "is positively influencing bottom-line growth, and that makes Lululemon even more compelling from a valuation standpoint."

Finally, from a valuation perspective, Lululemon's valuation can be considered "cheap" relative to peers, with a P/E ratio of 14.5 compared to a sector median of 16.7—quite favorable versus other athleisure and sportswear brands.

All in, I'm recommending that we add LULU to the portfolio with an intermediate-term upside target of 260, with 340 being an obtainable target from a longer-term vantage point. **BUY**

The chief analyst of the *Cabot Turnaround Letter* does not yet personally hold shares of every company on the Current Recommendations List, but that will change over time subject to the following guidelines. The chief analyst may purchase securities discussed in the "Purchase Recommendation" section or sell securities discussed in the "Sell Recommendation" section but not before the fourth day after the recommendation has been emailed to subscribers. However, the chief analyst may currently hold and may purchase or sell securities mentioned in other parts of the *Cabot Turnaround Letter* at any time.

Performance

The following tables show the performance of all our currently active recommendations, plus recently closed out recommendations.

Recommendation	Symbol	Rec. Issue	Buy Issue	Current Price	Total Return	Current Yield	Rating and Target
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[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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Notes to ratings:
1. Based on market capitalization on the Recommendation date.
2. Total return includes price changes and dividends, with adjustments as necessary for stock splits and mergers.
* Indicates mid-month change in Recommendation rating. For Sells, price and returns are as-of the Sell date.
*** GE total return includes spin-off value of GEHC shares at January 6, 2023 closing price to reflect our sale.
**** Indicates a partial sell.

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