

COMPANY X

Fat pitch or value trap?

Not "is this a good company?" but "is it a good stock at this price, for us, right now?"

01 · Guess

Four clues. Write a guess after each.

02 · Learn

What broke, rivals, and what it's worth.

03 · Discuss

Yellow slide = talk with your neighbors.

04 · Vote

0% to 10% of the fund's real money.

Sushane Atmakuri · Co-President & Chief Financial Officer, Slug Fund Investment Group

Oct 1, 2026 · Data as of Sept 28–29, 2026 · Not investment advice

CLUE 1 OF 4 · THE FINANCIAL FINGERPRINT

A big, very profitable, debt-free retailer

\$11B

in annual revenue last
fiscal year

~55%

gross margin, even in a bad
quarter (Nike: ~43%)

\$0

in bank loans or bonds

825

stores it runs itself, worldwide

Write down your first guess. What kind of company earns margins like that?

CLUE 2 OF 4 · THE STOCK

...yet the market has abandoned it

-80%

from its peak in December 2023

Peak close, Dec 29, 2023

\$511

Close, Sept 28, 2026

\$100.58

On Sept 4 it fell 17% in a day and traded under \$100 for the first time since 2018.

Change your guess? Great businesses rarely lose 80%.

CLUE 3 OF 4 · WHO'S BETTING WHICH WAY

A famous contrarian vs. Wall Street

BUY · THE CONTRARIAN

"Fat pitch"

What he called it below \$100. It's now his **largest position**, and he sees 15–20% a year if growth returns.

SELL · MORGAN STANLEY

\$83

Underweight, ~17% below today. Doesn't think the reset is done. Citi \$117 · Barclays \$95.

Hint: Christian Bale played the contrarian in a 2015 movie about betting against housing. He now posts his trades on Substack.

Two guesses: who is the investor, and what is the stock?

CLUE 4 OF 4 · THE PEOPLE

New boss, angry founder

THE NEW CEO

Started **September 8, 2026** after about 27 years at the world's largest sportswear company.

Best known for building that company's women's business.

THE FOUNDER

Owns roughly **9%** of the company and ran a public proxy fight against the board this spring.

He also owns a big stake in the company behind Arc'teryx.

Final answers — hands up if you're sure.

COMPANY X IS...

Lululemon

lululemon athletica inc. · NASDAQ: LULU

The company that invented "athleisure" — and the question for today: is a great brand at an 8-year-low price a bargain, or a trap?

LULU TODAY · Q2 FY2026 REPORTED SEPT 3

Cheap, cash-rich — and every core number fell

\$100.58

Price, Sept 28

~\$11.1B

Market cap

~10x

Forward P/E (was 20–45x)

\$0 debt

\$1.4B cash; no dividend

-4%

Revenue, to \$2.42B

-9%

Comparable sales, global

-12%

Americas comparable sales

-20%

Women's leggings sales

-8%

China comps, constant currency

FY26 guidance **cut twice**: EPS \$9.48–9.73 (vs \$13.26 last year), revenue –5% to –7%, Q3 revenue –10% to –11%. Q2's EPS "beat" (\$2.92) included **\$0.86 of one-time tariff refunds**.

Sources: Lululemon Q2 FY2026 release and call; CNBC, Fortune, Yahoo Finance (Sept 2026); AD HOC NEWS (Sept 29, 2026)

WHAT BROKE · ROOT CAUSES

Four things went wrong at once

1. The product went stale

GlobalData called it "an incredibly boring assortment."
Expansion into shoes, parkas and skirts diluted focus; more items ended up discounted.

2. Challengers took share

M Science data: LULU's category share fell ~10 points to 43.9% in August. Alo gained 5.9 points, Vuori 2.2.

3. Prices went up

Tariff-driven price increases in 2025 landed as shoppers' budgets tightened — and gave customers a reason to try rivals.

4. Self-inflicted brand damage

A Great Wall event with a Japanese drum sparked backlash in China (June); "forever chemicals" headlines in Texas; a public founder fight.

DISCUSSION 1 OF 3 · 3 MINUTES

Lululemon has always been expensive. Why didn't "premium" protect it this time?

Price, product or rivals?

Which of the four causes matters most — and which is easiest to fix?

Rich or aspirational?

Is the core buyer wealthy (price-insensitive) or stretching (price-sensitive)?

Your own closet

Have you or friends switched to Alo, Vuori, or a cheaper dupe? Why?

Talk with 2–3 people near you · then one group reports back

COMPETITION · LISTED PEERS AND PRIVATE CHALLENGERS

LULU is priced on growth, not quality

Company	Latest growth	Valuation	Gross margin	Balance sheet
Lululemon	-4% Q2; FY -5 to -7%	~10x fwd P/E	~55% Q2 ex-refund	\$1.4B cash, no debt
Deckers (Hoka, UGG)	+10% FY26	~11x trailing	57.7% FY26	No debt, net cash
Nike	Flat FY26	~17x	42.9% FY26	Some debt; 4.6% dividend
Ralph Lauren	+13% Q1 FY27	~18x fwd	Not compared	Debt/equity ~1.1x
Amer (Arc'teryx)	~+24% 2026 guide	~29x trailing	60.5–61% guide	\$573M net cash
Alo Yoga (private)	Share +5.9 pts (Aug)	~\$10B, 2023 report	Private	Private
Vuori (private)	Share +2.2 pts (Aug)	\$5.5B, 2024 round	Private	Private

The whole group de-rated: Deckers grows 10% and still trades near 11x. The market pays up only for 20%+ growth.

Incumbent priced like a challenger: LULU (~\$11.1B) is valued about like Alo, with roughly 10x its revenue.

P/E bases differ; private figures are unaudited estimates; share data from M Science via Fortune. Sources: company filings; Yahoo Finance, Motley Fool, PortfolioAI (Sept 2026)

COMPETITION · LEVERAGE (DEBT-TO-EQUITY)

No debt buys a turnaround time



\$2.0B liquidity

\$1.4B cash + ~\$594M unused credit; nothing to refinance.

\$688M buybacks

In H1 FY26 — over 2% of the company in Q2 alone.

0 forced sales

VF sold Supreme and Dickies to cut debt; Hanesbrands was absorbed by Gildan.

The catch: Q2 buybacks at ~\$120 are already ~16% underwater. Cash buys time, not customers.

Industry average ~0.5x. Definitions vary (some include leases). *Hanesbrands pre-Gildan (2025). Sources: filings and data providers, mid-2026; Lululemon Q2 FY2026

DISCUSSION 2 OF 3 · 3 MINUTES

Is LULU cheap — or priced exactly right?

Amer · growing ~24% · ~29x

What must be true?

What would LULU need to show to earn a 15x multiple again?

Deckers · growing ~10% · ~11x

Value trap?

Is a low P/E meaningful when the "E" is still falling?

LULU · shrinking ~6% · ~10x

Is safety worth more?

Should zero debt earn LULU a higher multiple than a levered peer?

Talk with 2–3 people near you · then one group reports back

THE CASE · BOTH WAYS

Fat pitch or value trap?

BULL · FAT PITCH

Priced for decline

~10x forward EPS and ~1x sales. ~\$1.3B trailing free cash flow ≈ 12% FCF yield.

Fortress and buybacks

No bank debt; retiring ~2% of shares a quarter lifts EPS for holders who stay.

Clean slate, right CEO

Inventory units -7%, so no fire sale. O'Neill built Nike's women's business — LULU's core customer.

BEAR · VALUE TRAP

No bottom yet

Q3 revenue guided -10% to -11%; leggings, the highest-margin line, fell 20%.

Flattered earnings

\$0.86 of FY26 EPS guidance is a one-time refund; gross margin guided down ~80 bps.

China turned; Wall Street waits

China comps -8%. No analyst Buy ratings; short interest ~12.8%. New CEOs often "shrink to grow."

FCF ~\$1.3B trailing as of mid-2026 (ChartRow). Sources: Lululemon Q2 FY2026 release and call; Yahoo Finance (Sept 20, 2026); Fortune (Sept 12, 2026)

The right résumé, and a ~9% wild card

Heidi O'Neill · CEO since Sept 8

FOR

- ~27 years at Nike; built Nike Women into a multibillion-dollar business
- Day-one memo: back to the core, "starting with product"

AGAINST

- First-time CEO; tied to Nike's direct-to-consumer misstep
- Stock fell ~5% when she was named

Chip Wilson · founder, ~8.6%

TIMELINE

- **Dec 2025–May 2026:** public proxy fight over product focus
- **May 2026:** settled; 2 of his nominees join the board; he stays quiet until ~Nov 2027
- **Sept 2026:** divorce with no prenup; his ~\$1B stake may be split or partly sold

Why it matters: O'Neill has about a year before her loudest critic can speak again.

Four legal threads, ranked by cost

Matter	Alleged	Stage	Our read
1. Patel v. Lululemon (securities class action, SDNY)	Misled investors on inventory and the Breezethrough launch (2023–24)	Dismissal partly denied (Mar 2026); now in discovery	High — likeliest to settle for cash
2. Tariff-refund class actions (Neuman, Mich.; Alsaady, Wash.)	Raised prices for tariffs, then kept the refunds (\$134.5M booked in Q2)	Early; similar suits target Costco, FedEx, Walmart	Medium — facts admitted, theory untested
3. Texas AG PFAS inquiry	"Forever chemicals" vs. wellness marketing	Investigative demand (Apr 2026); no lawsuit filed	Low legally, high for the brand
4. Post-crash law-firm probes	Firms soliciting investors after the Sept 4 drop	Ads and "investigations," not suits	Watch — could become a second class action

Also: a 2023 California PFAS matter shows no recent activity. Sources: Lululemon 10-Q (Q2 FY2026); Kessler Topaz case page; Bloomberg Law (Mar 30, 2026); Hagens Berman; GlobeNewswire (Sept 2026)

DISCUSSION 3 OF 3 · 4 MINUTES

For a 2–3 year hold, which risk would actually break the thesis?

A · Sales keep falling in the Americas

B · China keeps shrinking

C · New CEO's plan fails

D · Securities lawsuit payout

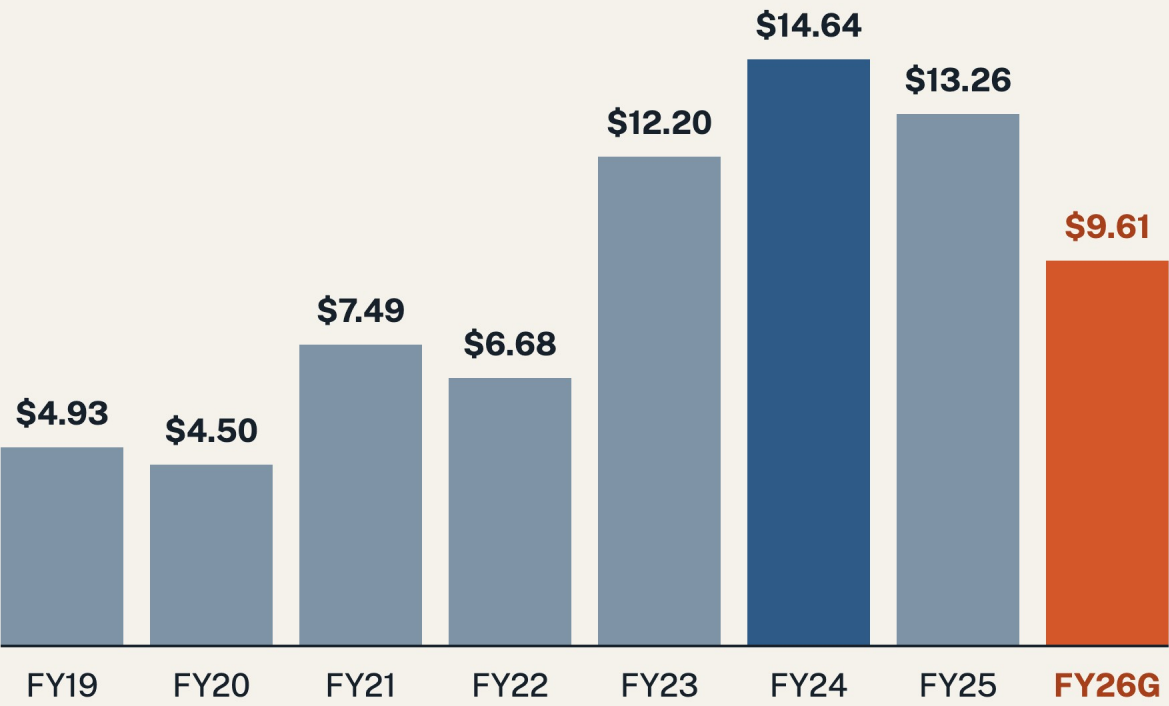
E · Tariff suits and PFAS headlines

F · Founder's stake is dumped

In your group: rank A–F from "thesis-breaking" to "noise," then defend your #1.

Groups of 3 · two groups report their #1 and #6

Which "E" do you believe?



EPS basis	P/E at \$100.58
FY25 actual (\$13.26)	7.6x
7-year average (\$9.10)	11.1x
FY26 guide, midpoint (\$9.61)	10.5x
FY26 ex-refund (~\$8.75)	11.5x

7-year average EPS × 20 = **\$182** · × 25 = **\$227.50** — both far above today's price, if average earnings return.

Diluted EPS by fiscal year from company year-end releases; FY26G = guidance midpoint \$9.48–9.73. Blue = peak year, orange = this year

VALUATION · 2-3 YEAR SCENARIOS

Downside ~30%, upside ~115%

BEAR

\$70 -30%

EPS \$7 × 10x

Decline runs through FY27; margins compress; China stays weak.

BASE

\$126 +25%

EPS \$9 × 14x

Sales stabilize in FY27; buybacks help; multiple recovers partly.

BULL

\$216 +115%

EPS \$12 × 18x

Product reset works; Americas comps turn positive; near FY25 earnings.

Example weights 30 / 50 / 20: expected return ≈ +26% over 2-3 years. Change the weights and the answer moves fast.

How much of the fund goes into LULU?

First, 1 minute: write one thing that would make you **buy more** and one that would make you **sell**.

Option	\$ invested	-50% stress	Bear -30%	Base +25%	Bull +115%
A · 0% — pass	\$0	0.0%	0.0%	0.0%	0.0%
B · 2% — starter	Chosen	-1.0%	-0.6%	+0.5%	+2.3%
C · 5% — staged: half now, half after Q3	—	-2.5%	-1.5%	+1.3%	+5.7%
D · 8% — conviction	—	-4.0%	-2.4%	+2.0%	+9.2%
E · 10% — Burry-lite	—	-5.0%	-3.0%	+2.5%	+11.5%

DECISION · RECORD AND CATALYSTS

What we decided, and when we check it

Sept 8, 2026

O'Neill starts (done)

Oct 2026

New product director on the board

Early Dec 2026

Q3 earnings; her first call

Late Mar 2027

FY27 outlook: her first full plan

~Nov 2027

Wilson free to speak again

The decision

Option B · Size 2% · Hold 1 year

Approved by member vote · **Oct 1, 2026**

Review triggers

Sell if: **max drawdown reaches 20%**

Hold until: **Oct 2027 (1 year)**

Report dates estimated from LULU's history; confirm on its investor site. Main sources: Lululemon Q2 FY2026 release, call, 10-Q; Fortune; Reuters/Yahoo Finance; Bloomberg; peer filings