



# Comparative study on the investment value of HM and Lululemon

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**Abstract.** According to the content of the entire text, H&M and Lululemon Athletica are two companies that have attracted considerable attention and have outstanding investment value. This study aims to analyze the investment potential of H&M and Lululemon by comparing their financial indicators and business characteristics. This research will analyze financial indicators such as P/E ratio, P/S ratio, P/B ratio, as well as operational indicators such as gross profit margin, operating profit margin, and asset turnover. These analyses will reveal the relative valuation and profitability of the two companies. Through a comprehensive analysis of H&M and Lululemon, investors can understand the investment potential of these two companies. Comparing their financial health, market positioning, and growth prospects can help investors make informed investment decisions. Additionally, this study also contributes to a more comprehensive understanding of the dynamics of the retail industry, including the challenges and opportunities faced by companies operating in different market segments.

**Keywords:** Comprehensive analysis, H&M, Lululemon, Investment potential.

## 1 Introduction

In the global retail industry, H&M (Hennes & Mauritz) and Lululemon Athletica (LULU) are two companies that have garnered significant attention, each excelling in distinct market segments. H&M is renowned for its fast-fashion offerings, providing diverse and affordable fashion products, while Lululemon specializes in high-end athletic and leisurewear and is known for its quality and innovation. As investors continually seek sustainable returns and diversified investment options, understanding the investment value of these two companies has become paramount. This research aims to analyze the investment potential of H&M and Lululemon by comparing their financial indicators and business characteristics. the author will examine financial metrics such as price-to-earnings (P/E) ratio, price-to-sales (P/S) ratio, price-to-book (P/B) ratio, as well as operational metrics including gross profit margins, operating profit margins, and asset turnover. These analyses will reveal the relative valuation and profitability of both companies. Furthermore, the author will assess their competitive positions, industry prospects, and sustainable growth potential, providing investors with valuable insights for informed decision-making. This study is intended to empower investors with

a deeper understanding of H&M and Lululemon, offering robust support for their investment decisions.

## 1.1 Analysis and discussion

This paper presents a comprehensive analysis of H&M (Hennes & Mauritz) and Lululemon Athletica (LULU) to assist in investment decision-making. It begins with an introduction that sets the research context, introduces the companies, formulates research questions, outlines the methodology, and highlights the paper's contributions.

The methodology section is divided into subsections and elaborates on the research approach, including Ratio Analysis and PESTEL Analysis, as well as details on data sources and the sample used for analysis. The financial analysis section, further divided into fundamental and specific analyses for H&M and Lululemon, assesses key financial metrics, including profitability, liquidity, risk, and market ratios[1]. The non-financial analysis explores the broader business landscape, encompassing competitive environments, consumer trends, technological advancements, and regulatory and ethical factors affecting both companies. Based on the analysis, the paper offers investment recommendations for H&M and Lululemon, emphasizing their respective strengths and weaknesses. Finally, the conclusion summarizes the paper's objectives, methodology, findings, and recommendations, providing a succinct overview of the research's key insights.

## 2 Method

### 2.1 Ratio Analysis

Ratio analysis is a fundamental method employed in this study to evaluate H&M's financial performance and investment potential of H&M (Hennes & Mauritz) and Lululemon Athletica (LULU). This method involves calculating and interpreting various financial ratios that offer insights into a company's financial health and operational efficiency [2].

**2.1.1 Liquidity Ratios.** Current Ratio: This ratio measures a company's short-term liquidity by comparing current assets to liabilities. A higher current ratio typically indicates a better ability to meet short-term obligations.

**2.1.2 Profitability Ratios.** Gross Profit Margin: This ratio assesses how efficiently a company generates profit from its cost of goods sold. A higher gross profit margin indicates better cost management. Operating Profit Margin: It indicates the profitability of core operations by comparing operating income to revenue. A higher margin signifies efficient operations. Net Profit Margin: This ratio reflects the overall profitability, considering all expenses, taxes, and interest. Higher net profit margins indicate better overall profitability.

**2.1.3 Efficiency Ratios.** Asset Turnover: This ratio evaluates how efficiently a company uses its assets to generate sales revenue. A higher asset turnover indicates better asset utilization.

**2.1.4 Valuation Ratios.** Price-to-Earnings (P/E) Ratio compares a company's stock price to its earnings per share (EPS). A lower P/E ratio may indicate an undervalued stock. Price-to-Sales (P/S) Ratio: This ratio relates a company's market capitalization to its annual revenue. A lower P/S ratio may suggest a more attractive valuation. Price-to-Book (P/B) Ratio: It compares a company's market value to its book value (total assets - total liabilities). A lower P/B ratio may imply a better valuation. The ratio analysis will involve calculating these financial ratios for both H&M and Lululemon, allowing for a direct comparison of their financial performance and valuation metrics. This analysis will cover multiple fiscal years to provide a historical perspective and identify trends[3].

Additionally, the ratio analysis results will be interpreted in the context of industry benchmarks and market dynamics to provide a more comprehensive assessment of the investment potential of H&M and Lululemon.

Overall, ratio analysis is a robust method that helps quantify companies' financial health, profitability, and valuation, enabling investors to make informed decisions based on quantitative data.

## 2.2 PESTEL Analysis

In addition to the ratio analysis, this study employs a PESTEL analysis as a strategic tool to evaluate the macro-environmental factors that may impact H&M (Hennes & Mauritz) and Lululemon Athletica (LULU). PESTEL stands for Political, Economic, Social, Technological, Environmental, and Legal factors, and it helps understand the external forces that can influence a company's performance and strategic decisions.

**Political Factors.** This aspect assesses how government policies, regulations, and political stability can affect the operations of both companies. For instance, changes in trade policies or labour laws can impact production costs and supply chains.

**Economic Factors.** Economic indicators like inflation rates, exchange rates, and economic growth can significantly affect consumer spending patterns. This analysis will consider economic conditions in regions where H&M and Lululemon operate.

**Social Factors.** Examining social trends, consumer behaviour, and cultural influences is crucial. For instance, changing consumer preferences toward sustainable and ethical fashion can affect both companies' strategies.

**Technological Factors.** Assessing technological advancements and their impact on the retail industry is essential. This includes e-commerce trends, digital marketing, and innovations in supply chain management.

**Environmental Factors.** Environmental concerns, sustainability practices, and the companies' efforts to reduce their environmental footprint will be considered. Sustainability initiatives can influence consumer perception and brand reputation[4].

**Legal Factors.** Analyzing relevant laws and regulations, including labour, intellectual property rights, and consumer protection laws, is crucial for understanding potential legal risks and compliance issues.

PESTEL analysis helps provide a holistic view of the external forces affecting H&M and Lululemon, guiding strategic decisions and risk management. By considering these factors alongside the financial and operational analyses, investors can make well-informed investment choices that account for internal and external influences on the companies' performance. This comprehensive approach ensures a more thorough evaluation of the investment potential of H&M and Lululemon in the context of the broader business environment.

## 2.3 Sample

The data for this study was sourced from Yahoo Finance 2022 year, a widely recognized and reliable platform for financial information. Yahoo Finance provides access to historical stock prices, financial statements, key ratios, and other essential data points for publicly traded companies, including H&M and Lululemon Athletica. This data source ensures the accuracy and comprehensiveness of this analysis.

# 3 Financial analysis

## 3.1 Introduction of Lululemon and HM

**Lululemon Athletica (LULU).** Lululemon Athletica, often referred to simply as Lululemon, is a leading Canadian athletic apparel and yoga wear retailer. Founded in 1998 in Vancouver, British Columbia, Lululemon has gained international recognition for its high-quality activewear and commitment to promoting a healthy and active lifestyle. The brand's signature yoga pants and athleisure clothing have garnered a loyal customer base, primarily comprising fitness enthusiasts and yoga practitioners.

Lululemon is known not only for its stylish and functional apparel but also for its strong brand identity and retail experience. The company emphasizes innovation in fabric technology and design, making its products fashionable and performance-oriented. Lululemon stores often offer yoga classes and community events, creating a unique shopping environment that fosters customer engagement and loyalty.

In recent years, Lululemon has expanded its product offerings beyond yoga wear to include items for running, training, and other athletic pursuits. This diversification has broadened its customer base and revenue streams.

The company's commitment to sustainability and ethical sourcing has also resonated with socially-conscious consumers. As a result, Lululemon's financial performance and stock price have seen significant growth, making it an attractive option for investors seeking exposure to the athleisure market.

**H&M.** Hennes & Mauritz AB, commonly known as H&M, is a Swedish multinational fashion retailer founded in 1947. H&M has become one of the world's largest fast-fashion retailers, with a presence in over 70 countries. The company is renowned for its affordable and trend-driven clothing, catering to various demographics. H&M operates a vast network of stores globally and offers a diverse range of fashion items, including clothing, accessories, and footwear for men, women, and children. The brand's business model revolves around quickly delivering the latest fashion trends at competitive prices, attracting a broad customer base, from budget-conscious shoppers to fashion-forward consumers. H&M has also ventured into sustainable fashion with initiatives like its Conscious Collection, aimed at reducing the environmental impact of its products. The company's efforts to promote sustainability align with the growing consumer demand for eco-friendly fashion. While H&M faces competition from online retailers and changing consumer preferences, it continues to adapt to the evolving retail landscape, including expanding its online presence and exploring new markets.

The primary research question driving this study is: Which company, Lululemon Athletica (LULU) or Hennes & Mauritz (H&M), presents a more compelling investment opportunity based on a comprehensive analysis of financial and operational metrics, industry positioning, and growth prospects? This research seeks to provide investors with a thorough evaluation of both companies to assist in making informed investment decisions. To address the research question, this study employs a mixed-method approach. It involves a quantitative analysis of financial metrics, including but not limited to P/E ratio, P/S ratio, P/B ratio, profitability margins, and asset turnover, for both Lululemon and H&M. The analysis will cover a specified period, allowing for historical trend assessment. Furthermore, qualitative elements will be examined, including competitive positioning, market trends, and growth strategies. Industry reports, company filings, and relevant news sources will support these qualitative aspects. The sample for this research includes historical financial data of Lululemon and H&M, industry reports related to athletic apparel and fast fashion sectors, and any other publicly available information necessary for a comprehensive analysis.

This research aims to contribute to the investment decision-making process by providing a comparative analysis of Lululemon and H&M, two companies representing different segments within the retail industry. The study's findings are expected to shed light on each company's investment potential, considering their financial health, market positioning, and growth prospects. Additionally, the research contributes to the broader understanding of the retail industry's dynamics, including the challenges and opportunities faced by companies operating in distinct market niches.

### 3.2 Financial analysis

**Fundamental analysis.** H&M, one of the world's largest fashion retailers, has been a prominent player in the fast-fashion segment. A key indicator of its financial health is its impressive liquidity, reflected in a consistently high current ratio. H&M has maintained a healthy gross profit margin, showcasing efficient cost management. However, its net profit margin has experienced fluctuations, indicating challenges in managing overall expenses. With a strong global presence and focus on sustainability, H&M seeks to adapt to changing consumer preferences and industry trends. The company's valuation ratios, such as P/E and P/B, reflect its attractiveness to investors, potentially presenting a compelling investment opportunity.

Lululemon Athletica, a leader in the athletic and leisurewear market, demonstrates robust financial performance. The company boasts a consistently high gross profit margin, underscoring its efficient production and pricing strategies. LULU's net profit margin has shown stability, indicating effective cost control. Its asset turnover reflects efficient asset utilization. With a focus on innovation, Lululemon continually expands its product offerings. Its valuation ratios, such as P/E and P/B, suggest the market values its premium brand and growth prospects. Lululemon's strong financials and market positioning make it an enticing investment option.

#### Profitability.

**Table 1.** Profitability ratio of Lululemon and H&M

	<b>Lululemon</b>	<b>H&amp;M</b>
Profit Margin	11.40%	1.51%
Return on Asset	22.40%	2.11%
Return on Equity	31.52%	2.67%

The profitability analysis reveals a stark contrast between Lululemon and H&M. (Table 1) Lululemon impressively boasts higher profit margins, indicating efficient cost management and stronger pricing power. LULU's return on assets and equity also significantly outperforms H&M, highlighting its ability to generate more substantial profits from its assets and equity capital.

#### Liquidity.

**Table 2.** Liquidity ratio of Lululemon and H&M

	<b>Lululemon</b>	<b>H&amp;M</b>
Current ratio	2.40	1.05

The liquidity analysis demonstrates that Lululemon maintains a considerably higher current ratio than H&M. (Table 2) Lululemon's current ratio of 2.40 indicates a strong ability to cover its short-term obligations with its current assets. In contrast, H&M's current ratio of 1.05 suggests a relatively lower liquidity position, potentially facing challenges in meeting immediate financial obligations.

**Risk.**

**Table 3.** Risk ratio of Lululemon and H&M

	<b>Lululemon</b>	<b>H&amp;M</b>
Market Cap	49.34B	259.84B
Beta	1.39	1.30
D/E ratio	33.78%	168.82%

The risk analysis reveals notable differences between Lululemon and H&M. (Table 3) Lululemon, with a market capitalization of \$49.34 billion and a beta of 1.39, exhibits a smaller market presence and relatively higher price volatility. However, its debt-to-equity (D/E) ratio is significantly lower at 33.78%, indicating a more conservative capital structure. In contrast, H&M boasts a larger market capitalization of \$259.84 billion but has a higher beta of 1.30, reflecting moderate price volatility. However, its D/E ratio is relatively high at 168.82%, suggesting higher financial leverage and potentially greater financial risk [5].

**Market Ratio.**

**Table 4.** Market ratio for Lululemon and H&M

	<b>Lululemon</b>	<b>H&amp;M</b>
PE ratio	49.23	73.47
PB ratio	13.96	5.80
PEG ratio	1.76	0.39

The market ratio analysis provides insights into the relative valuations and investor sentiments towards Lululemon and H&M. (Table 4).

Price-to-Earnings (PE) Ratio: Lululemon’s PE ratio of 49.23 is relatively high, indicating that investors are willing to pay a premium for its earnings. This may reflect high growth expectations for the company. In contrast, H&M’s PE ratio of 73.47 is even higher, suggesting that it trades at a more significant premium than its earnings. It is important to note that a high PE ratio can signify overvaluation.

Price-to-Book (PB) Ratio: Lululemon’s PB ratio of 13.96 is substantially higher than H&M’s 5.80. This suggests that Lululemon’s stock is trading at a premium concerning its book value, indicating a strong investor belief in its brand and growth potential. H&M’s lower PB ratio suggests trading closer to its book value.

Dividend Yield: H&M offers a dividend yield of 3.78%, making it an attractive choice for income-focused investors. Lululemon does not provide dividends, reflecting its focus on reinvesting in growth and capital appreciation.

PEG Ratio: Lululemon’s PEG ratio of 1.76 is relatively higher than H&M’s 0.39. A PEG ratio above 1.0 may indicate that Lululemon’s stock price does not fully align with its expected future growth, potentially signalling overvaluation. In contrast, H&M’s lower PEG ratio implies it may be trading more in line with its growth potential.

**Gearing ratio.** The gearing ratio analysis highlights a significant difference between Lululemon and H&M regarding financial leverage. Lululemon's gearing ratio of 33.78% indicates a relatively conservative capital structure, with a lower debt level than equity. In contrast, H&M's high gearing ratio of 168.82% suggests a substantial reliance on debt financing, potentially increasing financial risk. This discrepancy underscores H&M's higher financial leverage, which could expose it to greater challenges in managing debt and interest payments while Lululemon maintains a more balanced capital structure [6].

### 3.3 Non-financial analysis

The business environment for companies like H&M (Hennes & Mauritz) and Lululemon Athletica (LULU) is influenced by various non-financial factors [7]. This paper will examine four key aspects of the business environment that impact both companies.

**Competitive Landscape.** The competitive landscape in the fast-fashion and athleisure segments is highly dynamic. H&M faces stiff competition from other fast-fashion retailers like Zara and Forever 21. However, its extensive global presence and rapid inventory turnover have allowed it to maintain a strong market position. In contrast, Lululemon operates in a niche market with competition from brands like Nike and Adidas [8]. Its focus on yoga and athleisurewear has helped it carve out a unique space in the industry. Understanding and navigating this competitive environment is crucial for both companies to sustain growth and profitability.

**Consumer Trends and Preferences.** Consumer preferences are evolving, with an increasing emphasis on sustainability and ethical practices. Lululemon has quickly adapted by incorporating sustainable materials into its products and emphasizing ethical sourcing. The company's commitment to these trends has resonated with socially conscious consumers. H&M, on the other hand, has faced criticism for its fast-fashion model's environmental impact. As consumers become more environmentally aware, H&M is under pressure to adopt sustainable practices throughout its supply chain. Adapting to shifting consumer preferences is vital for long-term success in the retail industry [9].

**Technological Advancements.** Technology plays a pivotal role in the retail sector. H&M and Lululemon have invested in e-commerce platforms and digital marketing to enhance customer engagement. H&M has introduced AI-driven inventory management to optimize stock levels, while Lululemon has leveraged technology to create immersive in-store and online experiences, including virtual yoga classes. As technology evolves, staying at the forefront of digital innovation is essential for remaining competitive and meeting customer expectations.



**Regulatory and Ethical Considerations.** The fashion industry faces increasing scrutiny regarding labour practices, supply chain transparency, and sustainability. H&M has tried to improve its ethical and sustainable practices by incorporating eco-friendly materials and ensuring fair labour conditions. Lululemon has similarly focused on responsible sourcing and transparency. Compliance with evolving regulations and addressing ethical concerns is paramount to maintaining brand integrity and mitigating reputational risks for both companies[10].

### 3.4 Investment Recommendations

Based on the comprehensive analysis of H&M (Hennes & Mauritz) and Lululemon Athletica (LULU), as well as considering the non-financial factors, I would offer the following investment recommendations:

**Lululemon Athletica (LULU).** Lululemon has consistently demonstrated robust financial performance with impressive profitability margins, efficient asset utilization, and a strong focus on sustainability. It has carved a niche in the athleisure market and is well-positioned for future growth. Therefore, I recommend considering Lululemon as an attractive investment option for the following reasons: Lululemon's profitability ratios, including profit margin, return on assets, and return on equity, significantly outperform H&M. This indicates efficient operations and a healthy financial position. Lululemon's commitment to sustainability aligns with evolving consumer preferences. This focus enhances brand reputation and attracts environmentally-conscious consumers. The company's premium athleisure brand and loyal customer base provide a competitive advantage, allowing for pricing power and growth potential.

**H&M (Hennes & Mauritz).** H&M while facing challenges in the fast-fashion sector, H&M remains a global retail giant with a wide customer reach. It offers an attractive dividend yield and has taken steps towards sustainability. However, I recommend a cautious approach for potential investors, considering the following factors: H&M's relatively low current ratio suggests potential challenges in meeting short-term obligations. Investors should closely monitor its liquidity management. H&M's substantial debt-to-equity ratio indicates significant financial leverage. This could pose risks in a changing economic environment or if profitability weakens. H&M faces fierce competition in the fast-fashion sector. It must continually innovate and adapt to shifting consumer preferences to maintain its market position. While H&M has made sustainable strides, it must accelerate efforts to address environmental concerns and ethical sourcing to align with industry trends.

In conclusion, Lululemon is a more compelling investment option due to its strong financial performance, niche market positioning, and alignment with sustainability trends. However, investors should conduct thorough research, consider their risk tolerance, and diversify their portfolios to make informed investment decisions. For H&M, cautious monitoring of its financial health and strategies is advisable as it navigates challenges in the fast-fashion industry.

## 4 Conclusion

The purpose of this study was to conduct a comprehensive analysis of H&M (Hennes & Mauritz) and Lululemon Athletica (LULU) to evaluate their investment potential. I employed a range of financial and non-financial metrics, including profitability, liquidity, risk, market ratios, and assessments of their business environments.

This research used fundamental, ratio, and non-financial analysis methods to assess both companies. Data was sourced from reputable financial platforms, primarily Yahoo Finance, ensuring the reliability and accuracy of the findings. The sample included historical financial data, industry reports, and publicly available information relevant to the companies.

Lululemon emerged as a more compelling investment option, demonstrating strong profitability, a niche market presence, and alignment with sustainability trends. In contrast, H&M, while a global retail giant, H&M faces challenges related to liquidity, financial leverage, and intense competition in the fast-fashion sector. Both companies need to adapt to changing consumer preferences and regulatory considerations.

In summary, I recommend considering Lululemon Athletica for investment due to its robust financial performance and niche market positioning. However, investors should conduct thorough research and assess their risk tolerance. For H&M, a cautious approach is advisable, with close monitoring of financial health and strategies as it navigates challenges in the fast-fashion industry. Diversification of investment portfolios remains a prudent strategy in light of industry dynamics and uncertainties.

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