



Can Lululemon Shares Return to \$82.50?

Description

There's no denying that sometimes it helps to have lowered expectations. And **Lululemon** (TSX: LLL)([Nasdaq: LULU](#)) provides a perfect example.

The yoga-wear retailer reported earnings for the fourth quarter on Thursday, and by most standards they were mediocre at best. Diluted earnings per share was flat year-over-year at \$0.75, while comparable store sales decreased by 2%. Margins also shrunk.

Yet the shares surged in response to the news and are now trading in the low \$50s. At one point yesterday morning, the stock was up nearly 10%. So what is going on?

The bleeding may have stopped

The past year has not been a good one for Lululemon or its shareholders. The most memorable event was a product defect and recall of some of the company's black yoga pants, followed by some tasteless remarks by founder Chip Wilson. As Lululemon's customers have been turned away, the stock price has plunged, at one point down 45% over an eight-month period.

Now it seems like the company is ready to turn a corner. The \$0.75 earnings per share number is above the company's guidance of \$0.71 to \$0.73, and there was other good news. Lululemon's seasonal clothing is selling four times faster than anticipated. There are also signs that the company's products are catching on in international markets. The phrase "accelerated global expansion" was used repeatedly on CNBC in response.

With both a new chairman and a new CEO, this is not a bad start.

Still some struggles ahead

Still, after all the damage done over the past year, this is not going to be a quick fix. The international expansion will keep margins down for at least the next couple of years. As new CEO Laurent Potdevin put it, "As we move into 2014, we are reflecting on our learnings with humility... 2014 is an investment year with an emphasis on strengthening our foundation, reigniting our product engine and accelerating

sustainable and controlled global expansion.”

Mr. Potdevin also acknowledged that competition is much more fierce than in the past, saying that “unlike a few years ago, we’re not the only game in town. While we created this category and continue to lead it, we understand that our guest has choice.”

And despite the slump, Lululemon’s shares are still relatively expensive, at 27 times earnings. Clearly there is a lot of optimism that the company can turn around its fortunes and increase its presence in foreign markets.

Foolish bottom line

So should you add Lululemon to your portfolio? At this point, it remains risky. If the company is able to execute, and customers forgive the company for its past misdeeds, there’s no reason the stock can’t return to \$82.50 per share. But at this point, unless you embrace uncertainty and risk, it is probably better to stay on the sidelines.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:LULU (Lululemon Athletica Inc.)

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