# Are Lululemon's Shares Now a Bargain?

## Description

It seems that the news can't get much worse for yoga wear retailer **Lululemon Athletica** (NASDAQ: LULU) or its shareholders. On Thursday, after reporting its first-quarter results, the company reduced its full-year outlook, and the stock fell more than 15% in response.



So are the shares now a bargain?

**A look back**

First, it is worth taking a look back at where Lululemon is coming from. Last year, the company was flying high, briefly trading above $80 per share, despite earning only $1.85 per share the previous year. Net revenue had increased 37% year over year, driven by 16% growth on a comparable store basis and growth of 86% in online sales. The company was also making fat margins, with a gross profit of 55.7%. In comparison, **Nike** (NYSE: NKE) was making a gross profit in the low 40s, despite being known for premium products as well.

The tide started to turn against Lululemon later in 2013, when the company announced a product recall of its black yoga pants for being too sheer. Founder Chip Wilson compounded the problem by blaming the customer, claiming that the pants don't work well on "certain body types".

Suddenly the brand was suffering — not good news for a company that relies on its brand for such strong growth and margins.

**The current problems**

Fast forward to today, and the news isn't any better. Deep-pocketed competitors like Nike have been attacking the yoga wear market, drawn in by the high margins. Lululemon's brand still hasn't recovered, and this shows up in the numbers.

In the most recent quarter, net revenue growth slowed to 11% year over year, while the gross margin is now about 50%. Same-store sales actually decreased by 4%, and online sales growth has slowed to 25%. For the full year, diluted earnings per share are expected to be between $1.71 and $1.76

(adjusted), which is below the number achieved two years prior.

**Are the shares undervalued?**

There is no denying that Lululemon's shares have gotten hammered, down more than 50% since reaching $80 last year. Are they now a bargain?

Not necessarily — based on Lululemon's full-year outlook, the company still trades at over 20 times earnings, a big multiple for a retailer with declining same-store sales. Furthermore, the company's gross margin remains very high, meaning there's plenty of room for it to fall as competition continues to heat up.

So at this point, there are plenty of better options for your portfolio. If you already own the shares, you might want to do some extra yoga today.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. NASDAQ:LULU (Lululemon Athletica Inc.)
2. NYSE:NKE (NIKE Inc.)



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1. Investing

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