



Lululemon Athletica Inc. Continues to Face a Bumpy Road

Description

A letter written by **Lululemon Athletica Inc.** ([NASDAQ:LULU](#)) to the House of Commons Finance Committee in late July which asked for an exemption from filing a labour market impact assessment application for the Temporary Foreign Workers program has found its way into the hands of the media, raising the ire of the B.C. Federation of Labour and questions about the Vancouver company's commitment to Canada.

Every time Lululemon seems to get some wind in its sails, a situation crops up that puts it on the defensive. Its most recent problem is a self-inflicted one that really shouldn't affect its stock price, but probably will, leaving CEO Laurent Potdevin groveling for forgiveness.

"As a company firmly rooted in Vancouver for 18 years, we are proud of our Canadian heritage and deeply committed to remaining here for the long term," Potdevin wrote in a statement to CTV News October 20.

There's another, more pressing problem that Lululemon is currently facing, but before I deal with that, let me address this whole brouhaha over hiring foreign workers.

The B.C. Federation of Labour argues that the various levels of government should be providing the training necessary to ensure Canadians are filling the jobs Lululemon needs for its Vancouver head office—not foreigners.

Why would a company hire foreign workers if there were enough Canadians to do the job? Because maybe, just maybe, the best talent when it comes to fashion design and apparel production doesn't exist here. Heck, we've got oil and gas experts by the thousands, but not so much when it comes to the rag trade.

It's like the Toronto Maple Leafs hiring a Danish goalie to backstop the team and someone complaining (Don Cherry comes to mind) that they should have hired a Canadian. While the jury is still out on Freddie Andersen, obviously management felt Andersen was the best talent available, nationality aside.

The same should apply to businesses in this country.

The Temporary Foreign Workers program shouldn't be like adopting a child, which I've never done, but I imagine is quite a labourious process. It should be quick and efficient, but it's not. If the government truly cares about long-term economic growth, it should get out of the way of businesses that are simply trying to be better at what they do.

In my opinion, this is a huge red herring that investors should ignore.

However, **Goldman Sachs** analyst Lindsay Drucker Mann's latest "sell" rating and \$46 target price (20% lower than the current price) is something investors should consider very seriously.

Drucker Mann sees Lululemon's same-store sales growth fading due to lower traffic as its customer base moves over to some of its competitors. Further, its re-introduction of its line of tops hasn't been nearly as successful as expected.

Of the 22 hoodies and outerwear launched on Lululemon's website in early August, eight are already being discounted by as much as 25%. Lastly, the athleisure wear champion seems to be piling up the inventory from poor fashion decisions. As a result, Lululemon is having to discount more heavily than it did in the past and this is definitely something to keep an eye on.

Lululemon doesn't report third-quarter earnings until December 7. I thought its Q2 results, which it reported on September 1, weren't all that bad. Investors thought otherwise, knocking its stock for a one-day loss of almost 10%. Since then it's fallen another 19% with potentially more losses in December should its Q3 results be as bad as Drucker Mann is predicting.

In 2017 Laurent Potdevin enters the fourth year of a five-year turnaround plan.

Personally, I believe he's done a good job given the increased competitive pressures facing the company. But that doesn't mean Lululemon's stock won't face more pain. Since Potdevin was hired on December 10, 2013, Lululemon stock has twice traded below \$57 for extended periods (months not days) before recovering. Any bad news in December will send it there a third time.

My advice: wait until it reports in December, and then buy on any weakness. Below \$48, you're getting a very good deal.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:LULU (Lululemon Athletica Inc.)

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