



## Lululemon Athletica Inc.: Next Stop \$100

### Description

Should you buy a stock before or after earnings?

Well, if you were interested in buying **Lululemon Athletica Inc.** ([NASDAQ:LULU](#)) at a great price December 7, the answer, in hindsight, is painfully clear: BEFORE.

After Lululemon announced its Q2 2016 earnings in early September, analysts became antsy about the athleisure champion's ability to grow, citing competitive pressures and poor fashion decisions as reasons its stock would continue to trend downward. **Goldman Sachs** analyst Drucker Mann gave Lululemon a "sell" rating and a \$46 target price.

I too had my reservations about buying Lululemon stock, despite the fact I believe CEO Laurent Potdevin has done a great job turning around the company after its quality control debacles in 2013 led to the departure of then CEO Christine Day.

In late October, I [recommended](#) that investors wait until it reported its third-quarter earnings December 7, so you could buy on weakness should it have another mediocre result.

Of course, we know this didn't happen.

Lululemon delivered a great quarter—online revenue jumped 16% on the back of 7% comps, brick-and-mortar comps were up 4%, and operating profits increased by 36% thanks to a 420-basis-point increase in gross margins to 51.1%—and Lululemon stock jumped big time (18% gain) December 8 as a result.

"Our third-quarter results demonstrated strong execution across all areas of our business as we delivered continued topline momentum, outperformed in gross margin and inflected meaningfully in EPS," said Potdevin. "This success is a result of our team's ongoing effort and commitment to delivering on our long-term strategies."

This result should put to rest some of the hand-wringing that's taking place with retail and institutional investors alike. The turnaround is real—and it's sustainable.

So, despite my miss on Lululemon stock in October, I'm going to make another suggestion for investors who weren't lucky enough to buy prior to December 8.

If your full position is \$5,000, put half of that (approximately 25 shares) towards Lululemon stock at current prices; then wait for it to come back a little, say the low \$60s, and fill the second half of your full position. Since 2011, Lululemon stock has had six corrections of 20% or more—an average of one per year.

Potdevin did suggest that Q4 shopping got off to a slow start, although it has improved, so it's unlikely Lululemon will deliver a mediocre end-of-year result in March. It's more likely that Trump will do something to scare the heck out of investors, and that will provide your entry point.

Will it go to \$100? Absolutely.

I'd say there's more than a 50/50 chance it will happen sometime in 2017. That said, Lululemon hasn't had an annual total return of 40% or more since 2012. So, it will probably take one or two good earnings reports for that to happen.

I like its chances.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

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1. Investing

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