



Lululemon Athletica Inc. Has a Trifecta for Growth

Description

Mary Meeker, the long-time Wall Street research analyst, now a venture capitalist, recently released her annual report on internet trends.

There, on page 72, was the painful reality for U.S. retailers: it's estimated that almost 7,000 stores will close in 2017 — the highest annual number since 1995.

Despite the awful state of retail, **Lululemon Athletica Inc.** ([NASDAQ:LULU](#)) CEO Laurent Potdevin sees the glass full.

"The future of retail is bright," Potdevin told *Fortune* in a recent interview. "It is different than what we are experiencing today. It is going to have to evolve."

While analyst views are mixed about Lululemon's goal to grow revenue to US\$4 billion by 2020, Potdevin has a three-pronged plan that I believe has an excellent chance of success. Here's why.

The strong get stronger

While it's true the retail environment is anything but healthy, companies are doing well despite the headwinds: **Ulta Beauty Inc.** ([NASDAQ:ULTA](#)) is a perfect example, delivering first-quarter same-store sales growth of 15.2% combined with a 38.8% increase in e-commerce revenue.

It can be done. Retailers just need to stay focused. That's what Potdevin plans to do.

International expansion

Lululemon, as of the end of April, had 356 store locations (excludes 55 Iivva stores, most of which are going to be closed with a handful rebranded to Lululemon), 84% of which are in Canada and the U.S.

Europe and Asia hold the most appeal for the company. To that end, it expects to open 50 stores in fiscal 2017 outside North America. It generated US\$171.1 million in revenue outside North America this past year. LULU hopes to reach US\$1 billion in annual revenue sooner rather than later.

“Near term, Asia holds the most significant growth potential. Building on the energy of our Harajuku location, we’ve seen exceptional performance at our new store within the stunning new Ginza Six complex in Tokyo,” Potdevin said during Lululemon’s Q1 2017 conference call. “In the first few months of opening, our China stores are outperforming all store metrics currently tracking towards US\$1,600 in annual sales per square foot.”

The stuff is made over there; why shouldn’t it sell over there? I think this goal is a no-brainer.

E-commerce

According to PwC, 65% of Chinese shoppers shop online using their smartphone at least once a month. That compares to 22% in the U.S. Clearly, Lululemon’s success meeting its US\$4 billion goal is much higher with a strong digital presence in China and other parts of Asia.

In Q1 2017, Lululemon saw e-commerce revenues decline by a few hundred dollars over the same period a year earlier as a result of converting fewer visitors to its websites. On the upside, it did see higher traffic dollars per transaction.

How important is e-commerce to Lululemon’s business? In the first quarter, e-commerce accounted for 18.7% of its overall revenue but 30.6% of its income from operations before general corporate expenses.

For the remainder of the year, Potdevin sees e-commerce sales growing by double digits year over year, which is great news for shareholders.

Men’s opportunity

The reason Lululemon announced it was closing its Ivvva stores (it will still be sold online) was to focus on its other US\$1 billion goal — the men’s market.

Currently, its men’s business accounts for 20% of its overall revenue but 30% of its new customers. It wants to get to 25% of its revenue by 2020.

It’s come a long way in the men’s department since Potdevin took over as CEO in December 2013.

“When I joined Lulu,” Potdevin told *Men’s Journal* last August, “the biggest surprise was how dry the pipeline of innovation was. There was nothing.”

Of Lululemon’s three-pronged plan, the men’s business getting to the billion-dollar mark is probably the most difficult given the competition in the men’s athletic market.

Hey, who said goals were supposed to be easy to reach?

Bottom line

While there are plenty of skeptics, I'm not one of them. Personally, I'd like to see **Under Armour Inc.** merge with Lululemon and Potdevin replace Kevin Plank, Under Armour's CEO and founder, as the chief executive of the combined company with Plank executive chairman.

LULU stock is very volatile, especially around earnings reports time, but, long term, I like its plan.

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