



Lululemon Athletica Inc. Stretches to \$100

Description

Last September, I'd called **Lululemon Athletica, Inc.** ([NASDAQ:LULU](#)) the [best](#) Canadian retail stock to hold for the next 10 years. Since then, former CEO Laurent Potdevin resigned due to an inappropriate relationship at the company.

Lululemon is one of those businesses that always seems to be facing some kind of internal stress that holds it back from being a true retail success story.

However, thanks to a very specific corporate culture, no person, regardless of their position, is bigger than the company itself. Potdevin had to go, despite doing a good job getting Lululemon back on its feet after a slew of quality control issues rocked the athleisure company in the waning years of former CEO Christine Day's leadership.

Lululemon has a deep bench, which gives Executive Chairman Glenn Murphy the luxury of time while recruiting its new chief executive. Originally rumoured to be former **Ralph Lauren Corp.**, CEO Stefan Larsson, who's had a hand in growing several global retail businesses, Lululemon's fourth-quarter results suggest Murphy needn't rush the process.

At the end of the day, what retail veteran wouldn't want to run what is arguably one of North America's most successful brands?

Analyst's tune changes slightly

Also, last September, I [took](#) **Canaccord Genuity Group Inc.** analyst Camilo Lyon to task for reiterating his sell rating on LULU stock, suggesting he was barking up the wrong tree.

I've seen all the arguments why Lululemon's business is about to take a tumble.

Denim is hot, people are spending less on their yoga pants, competitors such as Athleta are taking market share, the big players such as **Nike Inc.** and **Under Armour Inc.** will wipe the floor with them, etc.

However, after Lululemon came out with strong Q4 2017 earnings March 27 that included a 44% increase in online sales, an 18% increase in revenue, a 30% increase in operating profits, and a 33% increase in adjusted diluted earnings per share, handily beating the analyst estimate by six cents.

Lyon, who now has a hold rating on LULU stock, was a little less negative after the latest earnings, suggesting the company did a better job with its merchandise assortment in the fourth quarter.

“An improved product assortment (particularly in outerwear and tops) drove a +LDD [low double-digit increase] comp in women’s with men’s maintaining mid-teens [increase in] comps,” Lyon said in a note to clients. “Furthermore, traffic turned positive in Q4 and accelerated further in Q1.”

Interestingly, while Lyon raised his 12-month price target to \$85, he still isn’t exactly jumping on the LULU bandwagon.

“We view the risk/reward as balanced, particularly without a CEO in place,” wrote Lyon. “While LULU certainly appears to be hitting on all cylinders, we can’t ignore the fact that at least once per year since 2014, it has hit a speed bump that has derailed its momentum and caused it to lower guidance.”

Next stop, \$100

The uncertainty around the CEO position definitely hurt LULU stock leading up to its March 27th announcement.

However, it’s clear margins are moving higher as a result of a new and improved online presentation, which leads me to believe the analyst’s negative view of the company’s past failures suggests he ought to spend less time looking in the rear-view mirror and more time focusing on a business that’s expected to generate \$4 billion annually by 2020.

Whomever Lululemon hires to continue growing the company will bring the latest headwind its stock faces to a rest — and you can sure \$100 will come in short order thereafter.

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