Canada’s Best Retailer Does it Again

Description

What does it say about a company that in a market environment where beating estimates have gone largely unrewarded that **Lululemon Athletica, Inc.** (NASDAQ:LULU) stock gained more than 16% June 1 after announcing Q1 2018 earnings?

It says a lot — and all of it good.

Analysts were expecting revenues of US$616.3 million; Lululemon delivered US$649.7 million. On the bottom line, the pros expected $0.46 a share; they came in 20% higher at $0.55.

The really good stuff

However, those aren’t even the most impressive stats from the first quarter.

To me, what really jumps out is the performance of its direct-to-consumer (DTC) business, which saw revenues increase 62% in the quarter and now account for 24.3% of its overall revenue, 570 basis points higher than a year earlier. Equally impressive is the fact that DTC operating margins increased by 440 basis points in the quarter to 39.5%, 72% higher than its brick-and-mortar stores.

You can see how that’s good, right?

As DTC continues to become a larger part of its business with margins that are significantly higher, I don’t even want to think about what its overall earnings would look like if DTC accounted for 50% of its overall revenue. They’d be huge.

So, if you are a doubting Thomas, that’s something to keep in mind as you throw cold water on the Lululemon investment thesis.

Momentum killers

In early April, after the company announced its Q4 2017 earnings, I suggested that its stock would hit $100 shortly after a CEO was hired. Apparently, Lululemon doesn’t need a CEO to be successful because its first-quarter earnings were first rate and its stock trades 20% above that number.

To keep the stock's momentum going, I think it's important that the company does hire a CEO sooner rather than later, but only to put all the speculation to rest. I think I read somewhere that Elvis was in contention for the top job.

You'd have to be nuts not to be interested in the CEO job at what is arguably one of the best-performing retailers/brands on the planet.

Don't bet against it

Last September I wrote a piece entitled *Analyst Blows Lululemon Athletica Inc. Call* in which I argued that **Canaccord Genuity Group Inc.** (TSX:CF) analyst Camilo Lyon's sell rating was completely off base.

I had several reasons for calling the analyst on the carpet, but my biggest argument against the thesis was the tired explanation that denim was taking over. I think you can see by the company's first-quarter results that that's simply not the case.

Lululemon stock is up 110% since Lyon's September 22 sell reiteration.

Heck, we all make bad calls in this business, but if the analyst is contemplating doubling down on his September call, he might want to think twice.

"Our first-quarter results reflect the ongoing strength of our business and our continued focus on product innovation, global growth, digital acceleration, and, most importantly, investing in our people," said COO Stuart Haselden. "Our momentum remains strong, and we are optimistic for 2018 and beyond."

Ya think?

If you own Lululemon stock, I would let your position ride and buy more should it retrace some of its gains over the next 2-3 months.

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