



## Should You Buy Lululemon Athletica (TSX:LLL) After Stellar Q3 Earnings?

### Description

**Lululemon Athletica Ltd** (TSX:LULU)(NYSE:LULU) [has been on fire](#) in 2018. Starting off the year at \$79, it has since reached as high as \$140—a 77% gain.

This month, the bullish trend seems to be bending, as the stock has fallen about 5% since Monday. But despite the falling stock price, the news coming out of the company is better than ever. On Thursday, Lululemon released a stellar earnings report that beat Wall Street's expectations on every measure. Whether you're looking at revenue, net income, same store sales, or any other metric, the company was well ahead of what everybody had anticipated.

When you've got a steep downturn in a stock that's posting blowout earnings, the natural tendency is to buy the dip. But perhaps the markets know something that the Q3 earnings report doesn't betray. Before examining that possibility, let's review the good news from Lululemon in more detail.

### Red-hot growth

If anything was clear in Lululemon's Q3 earnings announcement, it's that the company is growing like a wildfire. Net income was up 60%; operating income was up 59%; and revenue was up 21%. Gross profit was up 26%. Basically, in the third quarter, Lululemon grew according to every relevant metric. And by many of those metrics, the growth was huge.

The one sour note in all this is the matter of taxes: because the company made more than ever before, it paid more to the tax man as well: net tax burden grew from \$27.7 million to \$43.5 million. However, the company's tax RATE actually declined from 32% to 31.6%, so this is arguably even more good news in disguise.

### Same-store sales

It's one thing for a company to grow its revenue, net income and gross profit. But for retailers, there's another metric that's arguably even more important: [same store sales](#). Same store sales is a measure of revenue from stores that have been open a year or more. It's a valuable metric, as it indicates the demand for a company's products, as opposed to revenue that comes from opening more stores,

which may reflect people buying out of convenience.

For Q4, analysts were expecting Lululemon to grow same-store sales by 13.8 per cent. And by this metric, too, the company exceeded expectations, by growing at 18% year-over-year. This indicates that customers are spending more money at Lululemon stores (or alternatively that more people are shopping at them), which is great because it shows that the company can grow without the risk and expenses of opening brand new stores.

### **Outlook cut**

So Q3 was a massive success for Lululemon by almost every metric. Which begs the question: why did the price fall on the same day these numbers were released?

One possibility is the fact that the company changed its outlook for Q4. In Thursday's report, management said that they expected Q4's diluted EPS to be in the \$1.64 to \$1.67 range. This was weaker than Wall Street expected; however, it still represents phenomenal growth.

In Q3, Lululemon earned just \$.071 per share, and in Q4 last year, it earned about \$0.88 per share. I think nearly doubling EPS year-over-year counts as a win, even if Wall Street expected more. Expect Lululemon's strong returns to continue into 2019.

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andrewbutton

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