

In the Spotlight - lululemon athletica (NYSE: LULU)

By William Mitchell CIM®, Portfolio Manager – The Palos-Mitchell Alpha Fund

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*For more information on investing in Palos funds, please contact wmitchell@palos.ca
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lululemon athletica is a Vancouver based, specialty retailer that manufactures and sells athletic and casual apparel. Since the company's modest beginning as a standalone retail store and yoga studio, lululemon has become a premier brand. While the company is best known for its high-end yoga, fitness, and casual attire, there's much more to the "LULU story" than just selling clothes.

The company's vision is to create a premium experience where "guests" can explore and share common interests, follow a healthy lifestyle, and practice "sweaty pursuits", the LULU buzzword for physical activity. The company aims to enshrine a sense of community amongst its passionate customers. LULU "ambassadors" complement in-store "educators" by offering complementary yoga and fitness sessions, many of which are held in-store. Further enhancing the LULU experience is a digital marketing strategy that's designed to engage lululemon enthusiasts and augment the client-facing experience. The company's e-commerce platform is cutting edge and offers a superior virtual experience which adds to client engagement and retention. Virtual education sessions and private fittings have filled the void that resulted from the Covid pandemic. This online strategy has bolstered sales while stores face temporary closures or restricted hours of operation.

LULU reported its first quarter results on June 11 and the company announced a decline in sales of 17% for Q1 and earnings per share (EPS) of US\$0.22, slightly below expectations. The shortfall was clearly attributable to the impact of Covid-19 on retail shopping habits. However, according to Bloomberg Intelligence, the sales decline experienced in Q1 should ease in subsequent quarters as online sales are expected to rise by double-digits and stores will continue to reopen. While the pace of reopening the economy remains uncertain, the company has managed to buffer in-store weakness by capitalizing on its expertise in digital marketing. Other tailwinds include a successful foray into men's wear, expansion of the athletic and fashion footwear line, and growing demand for "stay-at-home" attire.

On July 8, the company completed its acquisition of New York based Mirror, an at-home fitness company, for USD\$500 million in cash. Mirror's platform runs an interactive home workout app on proprietary equipment (i.e. the "mirror") and provides subscribers with both "live" and "on demand" fitness classes. While Mirror will continue to operate as a stand-alone entity, the synergies are obvious. LULU can leverage Mirror's growing client base, a demographic that's a natural fit with LULU's product lines and interactive digital platform.

LULU's unique vision, corporate culture, premium branding, and expertise in digital marketing checks all the boxes in the rapidly changing retail industry. Following the Q1 earnings release, we took advantage of price weakness to add LULU to the Palos-Mitchell Alpha Fund. We have a bullish outlook and as of July 31 the fund has a 3.8% weighting in LULU.

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