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Lululemon Yoga-Wear Store Expansion `Disciplined' After Recession Lesson

By Alex Sherman - Sep 20, 2010

[Lululemon Athletica Inc.](#) Chief Financial Officer [John Currie](#) credits the financial crisis for teaching the largest Canadian yoga-wear retailer where to open stores.

“Thank God for the recession,” Currie said in an interview. “It forced us to slow down and actually approach our real estate strategy in a disciplined way.”

The economic slowdown gave Lululemon the opportunity to retool and tailor its expansion strategy, Currie said, after the 35 U.S. stores it opened in 2008 were the “least productive” in the company’s history. While the recession hurt revenue, the Vancouver-based company didn’t research the communities, income levels and demographics of the locations adequately, he said.

“So we got more disciplined,” Currie said. “At this point, we have maps that say, not only do we want to be in Kansas City or Minneapolis, but we know what neighborhoods we want to be in and what sequence to move into the markets.”

Currently with 75 owned and franchised U.S. stores, the company’s goal is to expand to 300, said Currie, who declined to give a timeframe. Surging free cash flow will allow [Lululemon](#) to build as many as 25 U.S. stores in 2011, more than double this year’s amount. Lululemon has 45 stores in Canada and 10 in Australia. The apparel maker opened its first store in 2000 in Vancouver and had its initial public offering in 2007.

Consumer Confidence

While sales at U.S. retailers climbed in August for a second consecutive month, [confidence](#) among consumers unexpectedly declined in September to a one-year low, a concern for the holiday shopping season.

Lululemon’s [cash and equivalents](#) more than doubled to \$159.6 million in 2009 from a year earlier, and rose to \$178.2 million by the end of the quarter ended Aug. 1. It’s the only publicly traded

apparel maker or retailer in North America with a market value of at least \$3 billion with more than 40 percent of its assets in cash, according to data compiled by Bloomberg.

Free cash flow rose more than 17-fold to \$102.5 million in the year ended Jan. 31, 2010. Rising sales, falling inventories and a decline in capital expenditures all led to the increase. In the first half of 2010, sales at stores open more than year surged more than 30 percent.

“Toward the end of 2009, their business shot back up,” said [Howard Tubin](#), an equity analyst at RBC Capital Markets in New York, who has an “outperform” rating on the shares. “Now they have all this cash to invest in infrastructure, new products and store growth.”

Buyback, Dividend

Lululemon [rose](#) 20 cents to \$44 at 12:48 p.m. New York time in Nasdaq Stock Market trading. The shares had gained 46 percent this year before today.

The company is more likely to add stores than [acquire](#) smaller athletic retailers, since integrating companies can be risky, Currie said. A buyback or dividend is “on the horizon” as well, he said.

Lululemon should be able to pay for the expansion through cash from operations without borrowing, said Tubin. The company has no debt and has reported four consecutive quarters of earnings growth.

“I’m running out of excuses as to why I need so much money,” Currie said at the Goldman Sachs Global Retailing Conference on Sept. 14.

Sportswear Competition

Americans spent \$5.7 billion on yoga classes and products in 2008, according to a study conducted by [Yoga Journal](#), an increase of 87 percent compared with 2004.

Lululemon faces competition from larger sportswear makers such as [Nike Inc.](#) and [Adidas AG](#). The company doesn’t advertise on television, preferring to market itself with community-based campaigns, including free outdoor yoga sessions and intra-city runs from one store to another. Lululemon also gives free apparel to yoga and running instructors to promote the brand.

The company relies on its product quality, rather than price, to fuel demand, said Currie. Second-quarter [sales](#) increased 56 percent to \$152.2 million, as Lululemon added running apparel, Chief Executive Officer [Christine Day](#) said in a conference call last week. The running attire has brought

more people into stores, including men, who account for more than 10 percent of sales. The target is for men's sales to account for 18 percent to 20 percent, Currie said.

On Sept. 10, the company forecast annual profit of as much as \$1.22 a share, up from its earlier projection of as much as \$1.10. The average of 14 analysts' estimates compiled by Bloomberg is \$1.21.

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