



lululemon athletica (NASDAQ: [LULU](#)) is bucking the broader market malaise Monday on not one, but two upgrades. Both [Wells Fargo](#) and [Jefferies](#) upgraded the share this morning, pushing them up 5% near 11AM.

Wells Fargo analyst, Ike Boruchow, said he is confident in management's stated margin goals and key negative catalysts are now in the rear view mirror. The analyst said meaningful improvements to the previously-inefficient supply chain should begin taking hold in 2016. Boruchow said investors should focus on where the company is going, not where's it been. He upgraded the stock to Outperform and raised his valuation range to \$64-\$66.

Boruchow sees three things boosting margins: (1) lower product costs (less raw material waste), (2) reduced markdowns (improved inventory management) and (3) less reliance on air freight (fewer production delays). Looking at the air freight cost opportunity, he explains that a reduction in air usage to 20% (from 40% today) is a 100-150bps margin opportunity. On markdowns, the analyst said with better inventory turnover, LULU can reduce its markdown rate by 50% over time, which is a 120-150bps margin opportunity. On costs, the analyst said with a more efficient supply chain in place, LULU can reduce raw material waste and lower average unit costs by 2-4%, which is a 120-150bps margin opportunity.

Jefferies' Randal Konik also sees significant margin recapture potential and upgraded the stock to Buy with an even more aggressive \$70 price target.

Konik said the margin opportunity has not yet reflected in consensus estimates. The firm raised their forecasts with FY'18 EPS estimates now ~8% above the Street.

While the analyst doesn't see gross margin and operating margin reaching the FY'12 peak of 56.9% and 28.7%, respectively, he said they can expand to 50%-55% and the mid-20% range. This represents several hundred basis points of upside from current levels. Every 100 bps change in the operating margin represents around \$0.13 in EPS, he highlighted.