



Abercrombie & Fitch: Buy, Price Target \$17.50

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Abercrombie & Fitch (ANF) is a clothing retailer that operates stores and online operations in North America, Europe, Asia and the Middle East under the Abercrombie & Fitch and Hollister brands. Although the Abercrombie brand is experiencing difficulties 54% of the company's sales are from the Hollister brand, which is not considered to be challenged. The company is trading for a little bit over \$600 million and we consider the Hollister brand and assets to be worth between \$800-900 million. Also, we expect Abercrombie to recover throughout 2017. Overall the company is in good financial shape with \$470 million in cash and demonstrating the beginning to middle of a turnaround for the Abercrombie brand. ANF is trading at 2.34 X our 2016 EBITDA (ridiculously low) estimate. Unlike many other retailers, ANF has no debt net of its' cash holdings.

Founded in 1892, the company has a history as an elite outfitter of sporting and excursion goods. Later, ANF was acquired and spun off by Limited Brands. Previous CEO Mike Jeffries, was branded as a problem and departed in 2014. Issues revolved around the elitist perceptions of the Abercrombie brand, due in part to the use of seminude models, and Jeffries own comments. This was combined with the outsized placement of the companies' various logos on its' clothing. In response, the company has begun to play down the use of the once prevalent Abercrombie logos. Other efforts are focused on store and costs rationalization and repositioning Abercrombie's' style. We believe that the company has an excellent brand identity as an outfitter of sporting and excursion goods to return to.

Net sales for the third quarter of \$821.7 million were down 6% over last year, with same store sales for the third quarter down 6%. YTD the Hollister brand sales comps were down 1% and the Abercrombie sales are down 10%. The company forecasted an improvement in store sales for the holiday season and continued strength at the Hollister brand. ANF commented: "As expected, our third quarter was challenging. While Hollister improved sequentially, it was more than offset by disappointing performance in A&F. We were pleased with the progress in Hollister where the comparable sales trend improved throughout the quarter.... we do expect to deliver modest overall comp sales trend improvement in the fourth quarter as we intensify what is working."

We rate ANF as a buy due to the strong cash position, strength at Hollister (54% of sales), the turnaround at Abercrombie and the low EBITDA to Enterprise value multiple. Our price target is \$17.50.

ANF STATS as of		10/29/16
Market Price as of January 10, 2017		\$11.99
Shares Outstanding		67.7 mm
Equity Value		\$811.7 mm
Div and Yield		80 cents/ 6.67%
DEBT		AMT Outstanding
\$360 mm ABL Facility		0
2014 Credit Facility		\$287 mm
Cash		\$470 mm
Enterprise Value		\$628 mm
Buildings & Land as of January 30, 2016		\$324.5 mm
2015 EBITDA		\$331 MM
2016 EBITDA est.		\$268 MM
ev/ 2016 ebitda		2.34 x
2016 REVENUES		YTD ending Oct 29
Holister		\$1,246 mm
Holister sales		54%
Holister Stores		556
Abercrombie		\$1,045 mm
Abercrombie sales		46%
Abercrombie Stores		374
2015 internet sales		\$ 840 mm (24% sales)
Domestic stores: 745 with 5.3mm SQFT		
International Stores: 186 with 1.8mm SQFT		

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