

## American Eagle

## Encouraging guidance driven by cost control

Reiterate Rating: NEUTRAL | PO: 25.00 USD | Price: 23.45 USD

## F24 profit guidance above expectations

Management provided F24 guidance for sales up 2-4% (in line with our 3.7% forecast) and operating income in the range of \$445-465mn (above our \$435mn forecast); [see our preview here](#). AEO's F24 guidance includes revenue and profit growth skewed to 1H24 given easier compares, a retail calendar shift and lapping the 53<sup>rd</sup> week. Mgmt guided 1Q sales up MSD (includes 1ppt benefit from retail calendar shift) and operating income in the range of \$65-70mn (relatively in line with our 6.5%/\$63mn ests respectively). We reiterate our Neutral rating.

## Long term plan: 10% margins by F26

AEO's new "Powering Profitable Growth" plan includes 3-5% annual revenue growth and mid-to-high teens annual operating income expansion over the next three years, equating to an approximate 10% operating margin. This was a relatively in line with our expectation for a low double digit margin guide. We expect to hear more information on the company's cost savings initiatives on the 11am ET call.

## 5 key topics to focus on for today's strategy call

We expect key topics on today's call will include 1) strategy around delivering sustainable growth for the American Eagle (AE) brand, particularly as comps get more difficult in 2H and beyond, 2) plans to deliver sustainable growth at Aerie (particularly Offline) given the strong competition in the athleisure and intimates categories, 3) more info on the company's cost savings program, particularly around controlling SG&A and balancing reinvestment spend with flowing through savings to the bottom line, 4) net store opening plans at both Aerie/AE, 5) appetite for share buybacks given an improving fundamental outlook.

## 4Q23 EPS better on lower tax, higher gross margin

AEO reported 4Q23 EPS of 0.61, beating our consensus-like \$0.50 estimates driven by a lower tax rate (9c benefit) and a higher gross margin (+330bp to 37.3% vs our 36.4% estimate). 4Q results included total revenue growth of 12% (4pt benefit from 53<sup>rd</sup> week); AE comps +6% and Aerie comps +13%; this was in line with the [company's ICR update in January](#). EBIT of \$141mn was better than the company's preannouncement in January of \$130mn. We plan on revisiting our forecast after today's call.

07 March 2024

## Equity

**Christopher Nardone**  
Research Analyst  
BofAS  
[christopher.nardone@bofa.com](mailto:christopher.nardone@bofa.com)

**Lorraine Hutchinson, CFA**  
Research Analyst  
BofAS  
[lorraine.hutchinson@bofa.com](mailto:lorraine.hutchinson@bofa.com)

## Stock Data

Price	23.45 USD
Price Objective	25.00 USD
Date Established	29-Feb-2024
Investment Opinion	C-2-7
52-Week Range	9.95 USD - 24.47 USD
Mrkt Val (mn) / Shares Out (mn)	4,291 USD / 183.0
Free Float	91.6%
Average Daily Value (mn)	84.28 USD
BofA Ticker / Exchange	AEO / NYS
Bloomberg / Reuters	AEO US / AEO.N
ROE (2024E)	16.3%
Net Dbt to Eqty (Jan-2023A)	-10.5%
ESGMeter™	High

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Timestamp: 07 March 2024 09:05AM EST

## Price objective basis & risk

### American Eagle (AEO)

Our \$25 price objective is based on 7x our 2024E EV/EBITDA, in line with mall based retailers and the stock's historical average given a similar sales growth outlook as peers. We expect Aerie growth will remain strong given its unique niche and remain more concerned about the sustainability of American Eagle's recent trends if the promotional environment heats up across the industry.

Upside risks to our price objective are better comp growth at Aerie brand driving margin expansion, a faster than expected recovery at American Eagle, and an improvement in SG&A spend as a percentage of sales.

Downside risks are a more promotional environment than expected and a slower turn around at American Eagle and Aerie.

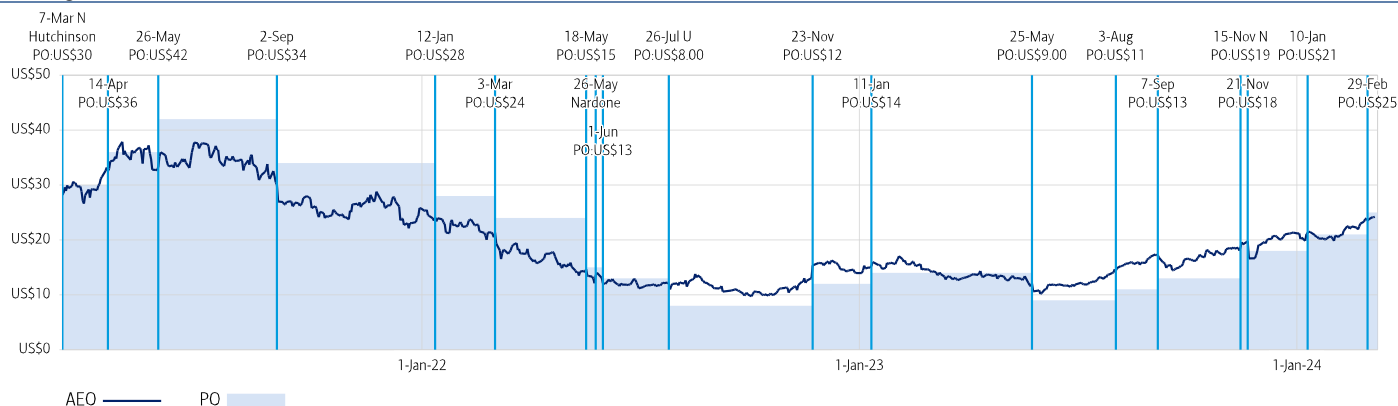
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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