

## American Eagle

# What to expect from AEO's long term strategy announcement

Reiterate Rating: NEUTRAL | PO: 25.00 USD | Price: 23.53 USD

## Reiterate Neutral; increase PO to \$25

American Eagle (AEO) reports results on Thurs, March 7<sup>th</sup> and will provide an updated long-term strategy and financial plan alongside 4Q earnings. AEO preannounced positive 4Q results at the ICR Conf in January ([see here for takeaways](#)) and attention has shifted to 2024 guidance and the updated long-term strategy. We reiterate our Neutral rating and think valuation (6.5x EV/EBITDA, 14.5x P/E) fairly reflects the positive near-term fundamental outlook. We are increasing our PO to \$25 (from \$21), based on 7x EV/EBITDA (prev 5.5x) to reflect a rerating in market multiples and increased confidence on a positive cost savings announcement.

## SG&A efficiencies likely 2H24/2025 weighted

We forecast F24 EPS of \$1.62 (compared to Visible Alpha \$1.56). Our forecast includes 4% sales growth (AE +0.5%, Aerie +10%), 70bp of GM expansion, 20bp of SG&A leverage, and one less week. We expect mgmt to reiterate prior messaging on leveraging opex with LSD sales growth and see upside risk to 1Q sales relative to the full year guidance given easier comparisons. We think implied operating margin guidance will be relatively in line with our estimates (+110bp) as GM expansion in 1H (lower cotton costs, clearance model change) will be partially offset by further SG&A pressure due to normalized incentive comp. We expect 2H would be led by the SG&A savings plan to be announced. Downside risks to our ests include a more normalized promotional year relative to last year and a more challenging revenue comparison in 2H.

## Long term message: path to double-digit margins

We expect the long-term plan (2 or 3yr plan) will be headlined by a path to a double-digit operating margin (compared to 6.9% in F23E and prior medium-term guidance of 13.5% provided at the 2022 ICR Conf). We expect to receive more clarity on the cost savings initiatives the company has been working on for several quarters, particularly in SG&A, and the path for sustainable revenue growth at both brands. We think the main opportunity for cost efficiency is within corporate costs, which represent 11% of sales, compared to prior medium term forecast of <7% of sales. We think AEO may message a return to share buybacks (13mn shares left on current authorization) and a similar Aerie store opening cadence as 2023.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.89	0.96	1.41	1.62	1.78
GAAP EPS	2.03	0.58	1.26	1.58	1.74
EPS Change (YoY)	NM	-49.2%	46.9%	14.9%	9.9%
Consensus EPS (Bloomberg)			1.41	1.58	1.70
DPS	0.55	0.32	0.42	0.49	0.48
Valuation (Jan)					
P/E	12.4x	24.5x	16.7x	14.5x	13.2x
GAAP P/E	11.6x	40.6x	18.7x	14.9x	13.5x
Dividend Yield	2.3%	1.3%	1.8%	2.1%	2.1%
EV / EBITDA*	6.2x	10.1x	8.1x	7.2x	6.7x
Free Cash Flow Yield*	1.6%	3.4%	9.0%	8.2%	9.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

29 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	21.00	25.00
2025E Rev (m)	5,390.2	5,463.4
2026E Rev (m)	5,591.2	5,675.0
2025E EPS	1.58	1.62
2026E EPS	1.72	1.78

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### Stock Data

Price	23.53 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)	4,306 USD / 183.0
Free Float	91.6%
Average Daily Value (mn)	86.01 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 <sup>TM</sup>	High

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Timestamp: 29 February 2024 12:01AM EST

# iQprofile<sup>SM</sup> American Eagle

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.4%	6.9%	9.7%	10.8%	11.0%
Return on Equity	27.5%	13.0%	16.3%	16.6%	16.0%
Operating Margin	12.0%	5.4%	6.9%	8.0%	8.5%
Free Cash Flow	70	146	388	355	388

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	2.1x	2.0x	1.8x	1.7x
Asset Replacement Ratio	1.4x	1.3x	0.8x	1.0x	1.0x
Tax Rate	25.0%	28.0%	28.0%	27.5%	27.5%
Net Debt-to-Equity Ratio	-6.6%	-10.5%	-24.9%	-34.0%	-41.9%
Interest Cover	37.4x	24.6x	NA	NM	NM

## Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,011	4,990	5,266	5,463	5,675
% Change	33.3%	-0.4%	5.5%	3.7%	3.9%
Gross Profit	1,992	1,745	2,023	2,137	2,220
% Change	73.5%	-12.4%	15.9%	5.6%	3.9%
EBITDA	770	476	592	663	716
% Change	350.5%	-38.1%	24.2%	12.1%	8.0%
Net Interest & Other Income	(16)	(11)	1	0	0
<b>Net Income (Adjusted)</b>	<b>390</b>	<b>197</b>	<b>279</b>	<b>324</b>	<b>359</b>
% Change	NM	-49.5%	41.4%	16.3%	10.9%

## Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	440	186	264	315	351
Depreciation & Amortization	167	207	226	228	232
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	(13)	31	16	0	0
Other Adjustments, Net	(291)	(18)	59	30	32
Capital Expenditure	(234)	(260)	(177)	(219)	(227)
<b>Free Cash Flow</b>	<b>70</b>	<b>146</b>	<b>388</b>	<b>355</b>	<b>388</b>
% Change	-6.3%	109.0%	165.6%	-8.4%	9.4%
Share / Issue Repurchase	(24)	(210)	(11)	0	0
Cost of Dividends Paid	(114)	(65)	(84)	(98)	(98)
Change in Debt	0	(136)	0	0	0

## Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	435	170	457	715	1,007
Trade Receivables	287	242	256	265	276
Other Current Assets	675	688	648	675	704
Property, Plant & Equipment	728	782	728	719	713
Other Non-Current Assets	1,661	1,539	1,425	1,425	1,425
<b>Total Assets</b>	<b>3,787</b>	<b>3,421</b>	<b>3,513</b>	<b>3,799</b>	<b>4,124</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	843	769	737	751	769
Long-Term Debt	341	2	2	2	0
Other Non-Current Liabilities	1,179	1,044	951	952	955
<b>Total Liabilities</b>	<b>2,363</b>	<b>1,815</b>	<b>1,691</b>	<b>1,705</b>	<b>1,724</b>
<b>Total Equity</b>	<b>1,424</b>	<b>1,599</b>	<b>1,823</b>	<b>2,093</b>	<b>2,400</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,787</b>	<b>3,414</b>	<b>3,513</b>	<b>3,799</b>	<b>4,124</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Retailing-Specialty

## Company Description

American Eagle Outfitters is a retailer of high-quality clothing for 15-25 year old shoppers. The first American Eagle store opened in 1977 and the brand expanded into Canada in 2001. In 2006, the company rolled out its intimates sub-brand, Aerie.

## Investment Rationale

We view the risk/reward as balanced as recent improvements in sales trends, particularly at Aerie, are offset by continued near term pressure on SG&A.

## Stock Data

Average Daily Volume 3,655,200

## Quarterly Earnings Estimates

	2023	2024
Q1	0.16A	0.17A
Q2	0.04A	0.25A
Q3	0.42A	0.49A
Q4	0.37A	0.50E

## 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.

## Analyst Certification

I, Christopher Nardone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
<b>NEUTRAL</b>				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
<b>UNDERPERFORM</b>				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone



## US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
<b>RSTR</b>				
	Macy's	M	M US	Lorraine Hutchinson, CFA

iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

## Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

## Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

## Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

## Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

## Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

## Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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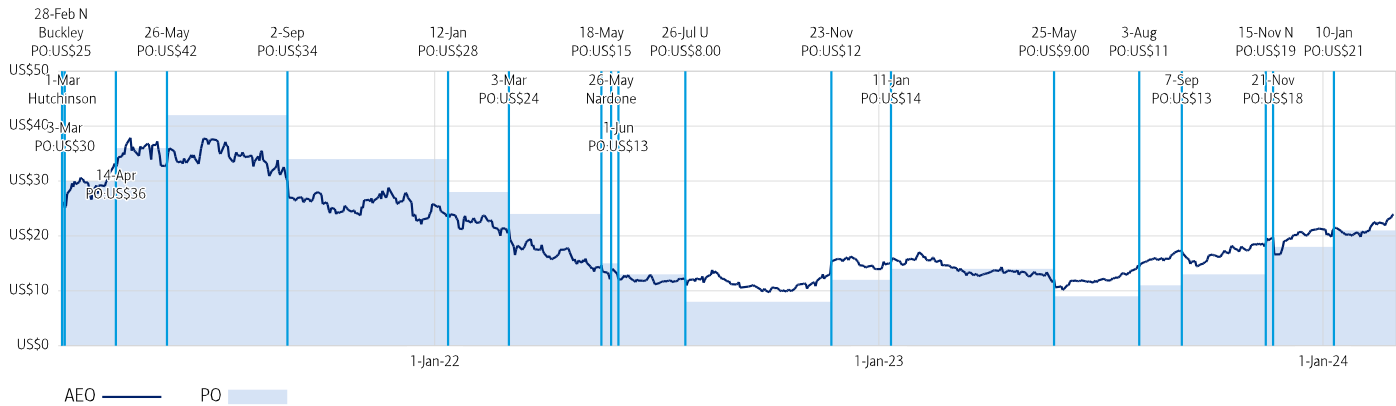
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### American Eagle (AEO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Underperform	N/A	≥ 20%

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