

## American Eagle

## Conference takeaways: Multiple initiatives to drive sustainable growth at AE

Reiterate Rating: NEUTRAL | PO: 25.00 USD | Price: 23.21 USD

## AE brand: focused on sustainable LSD growth

We hosted Mike Mathias, CFO for investor meetings at our consumer Conference in Miami. AEO has generally completed most of its profitability initiatives for the AE brand and has shifted focused on delivering sustainable LSD growth. Newer initiatives include focus on growing tops (30% of sales), optimizing the store fleet with remodels to drive traffic, and leaning into category expansion such as social casual (targeting higher end of core age demographic) and men's athleisure. Moreover, Mexico is expected to contribute one point of growth to total AE sales growth.

## Aerie brand: Offline/cozy apparel to drive growth

Similar to AE, Aerie improved its profitability last year with operating margins increasing from 11.1% to 16.5%. We expect growth going forward will continue to be led by Offline and cozy apparel, which each represent roughly 1/3<sup>rd</sup> of total Aerie sales (we expect swim and intimates categories will remain more challenged). We forecast Aerie sales to grow at a 9% CAGR from '23 to '26.

## Medium term algo driven by cost control

Mgmt. currently has workstreams on over 85% of its cost structure to help drive the business from a 7.1% operating margin business in 2023 to the 10% target by 2026. This also includes 4-6% sales growth, 39-40% GM (compared to 38.7% in '23) and 25-26% SG&A as a percentage of sales (compared to 27.2% in '23). We think the plan is achievable but think this view is fairly captured in valuation. Risks to the longer term margin guidance include any volatility in freight rates and promotional activity that could roll back the recent GM improvement.

## Increasing F24 EPS to \$1.68 following 4Q results

We are increasing our F24E EPS by 6c to \$1.68 to primarily reflect a higher GM forecast ([see 4Q takeaways here](#)). We are encouraged by mgmt setting up the full year guidance with 1H stronger than 2H but we acknowledge the retail calendar shift and lapping more difficult compares are notable reasons to have a more cautious outlook in 2H. We think the two swing factors that could help improve visibility on the potential for earnings to come in better than expected this year are proof that LSD plus growth at the AE brand is sustainable and proof that they can leverage SG&A. Reiterate Neutral and \$25 PO.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	0.96	1.53	1.68	1.89	2.18
GAAP EPS	0.58	0.81	1.64	1.85	2.14
EPS Change (YoY)	-49.2%	59.4%	9.8%	12.5%	15.3%
Consensus EPS (Bloomberg)		1.67	1.84	NA	
DPS	0.32	0.43	0.49	0.49	0.49
Valuation (Jan)					
P/E	24.2x	15.2x	13.8x	12.3x	10.6x
GAAP P/E	40.0x	28.7x	14.2x	12.5x	10.8x
Dividend Yield	1.4%	1.8%	2.1%	2.1%	2.1%
EV / EBITDA*	9.6x	7.6x	6.8x	6.2x	5.6x
Free Cash Flow Yield*	3.4%	7.0%	8.7%	9.7%	10.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

14 March 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2025E Rev (m)	5,463.4	5,427.3
2026E Rev (m)	5,675.0	5,650.4
2027E Rev (m)	NA	5,882.7
2025E EPS	1.62	1.68
2026E EPS	1.78	1.89
2027E EPS	NA	2.18

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## Stock Data

Price	23.21 USD
Price Objective	25.00 USD
Date Established	29-Feb-2024
Investment Opinion	C-2-7
52-Week Range	9.95 USD - 26.44 USD
Mkrt Val (mn) / Shares Out (mn)	4,247 USD / 183.0
Free Float	91.6%
Average Daily Value (mn)	108.37 USD
BofA Ticker / Exchange	AEO / NYS
Bloomberg / Reuters	AEO US / AEO.N
ROE (2025E)	18.1%
Net Dbt to Eqty (Jan-2024A)	-20.3%
ESGMeter <sup>TM</sup>	High

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AE: American Eagle

LSD: low single digit

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

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

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	6.9%	10.9%	11.7%	12.1%	12.7%
Return on Equity	13.0%	18.1%	18.1%	17.8%	17.9%
Operating Margin	5.4%	7.1%	8.3%	9.0%	10.0%
Free Cash Flow	146	299	368	413	464

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

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	2.1x	1.6x	1.7x	1.7x	1.6x
Asset Replacement Ratio	1.3x	0.8x	0.9x	1.0x	1.0x
Tax Rate	28.0%	24.1%	27.5%	27.4%	27.4%
Net Debt-to-Equity Ratio	-10.6%	-20.3%	-29.6%	-38.0%	-45.7%
Interest Cover	24.6x	NA	NM	NM	NM

## Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	4,990	5,262	5,427	5,650	5,883
% Change	-0.4%	5.4%	3.1%	4.1%	4.1%
Gross Profit	1,745	2,036	2,138	2,231	2,329
% Change	-12.4%	16.6%	5.0%	4.4%	4.4%
EBITDA	476	602	680	745	827
% Change	-38.1%	26.5%	13.0%	9.5%	11.1%
Net Interest & Other Income	(11)	6	0	0	0
<b>Net Income (Adjusted)</b>	<b>197</b>	<b>301</b>	<b>336</b>	<b>378</b>	<b>436</b>
<b>% Change</b>	<b>-49.5%</b>	<b>52.9%</b>	<b>11.4%</b>	<b>12.6%</b>	<b>15.5%</b>

## Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	186	290	327	371	428
Depreciation & Amortization	207	227	229	234	238
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	31	16	0	0	0
Other Adjustments, Net	(18)	(57)	29	34	33
Capital Expenditure	(260)	(177)	(217)	(226)	(235)
<b>Free Cash Flow</b>	<b>146</b>	<b>299</b>	<b>368</b>	<b>413</b>	<b>464</b>
<b>% Change</b>	<b>109.0%</b>	<b>104.6%</b>	<b>23.4%</b>	<b>12.0%</b>	<b>12.4%</b>
Share / Issue Repurchase	(210)	(11)	(40)	(40)	(40)
Cost of Dividends Paid	(65)	(84)	(98)	(98)	(98)
Change in Debt	(136)	0	0	0	0

## Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	170	354	588	864	1,191
Trade Receivables	242	248	256	266	277
Other Current Assets	688	831	863	897	932
Property, Plant & Equipment	782	713	701	694	691
Other Non-Current Assets	1,539	1,411	1,411	1,411	1,411
<b>Total Assets</b>	<b>3,421</b>	<b>3,558</b>	<b>3,820</b>	<b>4,132</b>	<b>4,502</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	769	891	907	932	958
Long-Term Debt	0	2	2	2	0
Other Non-Current Liabilities	1,044	930	931	934	936
<b>Total Liabilities</b>	<b>1,813</b>	<b>1,823</b>	<b>1,840</b>	<b>1,869</b>	<b>1,894</b>
<b>Total Equity</b>	<b>1,599</b>	<b>1,737</b>	<b>1,979</b>	<b>2,265</b>	<b>2,608</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,412</b>	<b>3,560</b>	<b>3,820</b>	<b>4,134</b>	<b>4,502</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## 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 4,669,190

## Quarterly Earnings Estimates

	2024	2025
Q1	0.17A	0.26E
Q2	0.25A	0.35E
Q3	0.49A	0.52E
Q4	0.61A	0.55E



## 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

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### 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
<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
	Skechers USA Inc	SKX	SKX US	Christopher Nardone
	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
	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
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
RSTR	Macy's	M	M US	Lorraine Hutchinson, CFA

iQmethod<sup>SM</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	$\text{Cash Flow From Operations} - \text{Total Capex}$	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	$\text{Cash Flow From Operations} - \text{Total Capex}$	$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	$\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$

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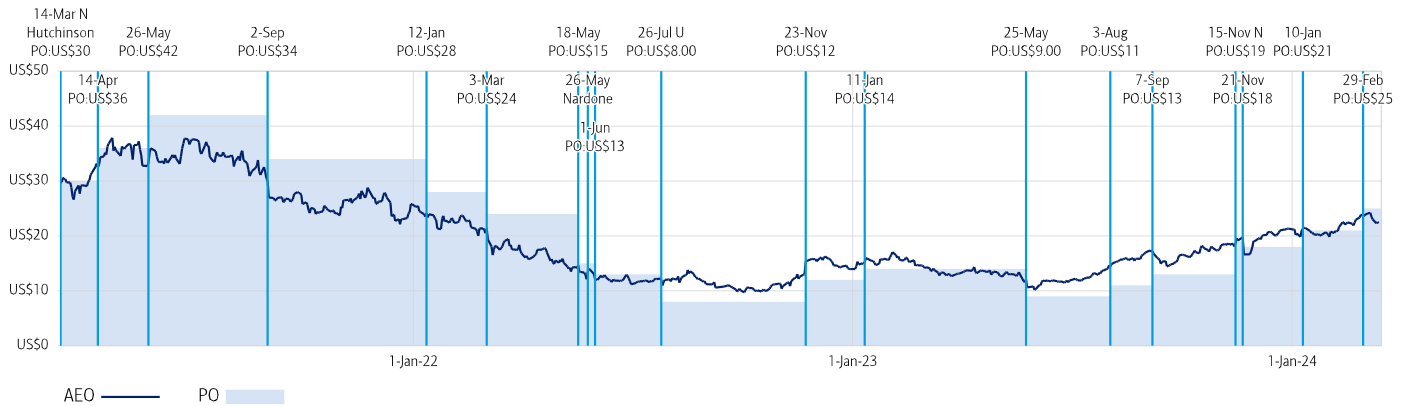
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### American Eagle (AEO) Price Chart



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.

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

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%

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