

CB2100 2023/24 Semester A

Case Study-Individual Report (10% Assessment Weighting)

Abercrombie & Fitch Co.

Instructions:

Please download the financial report of Abercrombie & Fitch Co. for the year ended January 28, 2023, from the “Files” folder in Canvas.

Based on Abercrombie & Fitch Co.’s financial statements, answer the following questions:

Question 1 (40 marks)

Calculate the following for the year ended January 29, 2022, and January 28, 2023.

A.

- i) Profit margin
- ii) Return on equity
- iii) Earnings per share (EPS)
- iv) Price-earnings ratio

(Additional information: The stock price of the company was \$36.49 and \$27.31 for the year ended January 29, 2022, and January 28, 2023, respectively)

B.

- i) Receivables turnover ratio
- ii) Average collection period
- iii) Inventory turnover ratio
- iv) Average days in inventory
- v) Current ratio
- vi) Times interest earned ratio

(Additional information: The balance of receivables on January 30, 2021, was \$83,857,000. The balance of inventory on January 30, 2021, was \$404,053,000.)

Hints:

1. When considering the net income of the company, you should use the “Net income (loss)”, instead of “Net income (loss) attributable to A&F”
2. When considering the stockholders’ equity of the company, you should use “Total stockholders’ equity”, instead of “Total A&F stockholders’ equity”
3. The shares outstanding of common stock and beginning balance of total stockholders’ equity as at January 30 2021 could be found at Statement of Stockholders’ Equity
4. Assume all sales as “credit sales”

Question 2 (60 marks)

A. Based on the calculation in part 1A, the profit margin dropped dramatically from the year ended January 29, 2022, to January 28, 2023. What does the drop imply, and what are the possible reasons for the decline? **(25 marks)**

B. Based on the calculation in part 1B, the current ratio and times interest earned ratios have decreased from the year ended January 29, 2022, to January 28, 2023. What does the change imply, and what could be the possible reasons for the change? **(25 marks)**

C. Overall, if you are the investor, would you invest in Abercrombie & Fitch Co, given the information included in the Annual Report and external sources? Provide justification to support your answers. **(10 marks)**

(Hints: You may find additional information regarding the company's operation in item 7 Management Discussion and Analysis of the annual report. You may also search for additional information from credible news sources and include them in your answer.

There are no model answers or golden ratios for financial statement analysis. Marks will be given to all reasonable answers.)

Additional instruction for completion and submission of the assignment:

1. Use Turnitin and submit the Turnitin report together with your assignment for the plagiarism checking. DO NOT copy the questions in your answer script, otherwise it will lead to a very high similarity rate.
2. Your assignment should not exceed 3 A4 pages in total and should not exceed 1 A4 page for each part of Question 2. You are required to use Times New Roman Font size 12 with single spacing. The bibliographies (Citations) don't count towards the page limit.
3. You are strongly advised to organize your Question 2 answers into several paragraphs and leave an empty line between each paragraph.
4. Use pdf format for submission. Your file should be named StudentId_Name_Sec_CB2100_Case.pdf.
5. Submit the assignment on or before **Sunday November 26 2023 11:59 p.m.** through this Canvas assignment.

Sample answers for Q2 from the previous semester students:

Above average:

“Another possible reason for the improvement in GAP's performance is effective cost management. With reduced store sales due to the pandemic, GAP closed underperforming stores to reduce operating expenses. It also implemented other measures to cut costs. For example,.....”

Comments:

The student was able to describe the change of the financial ratio and explained the possible reasons for the change ***based on the annual report of the company.***

Average:

*“The gross profit ratio increased by 5.72% from 34.09% in 2020 to 39.81% in 2021, indicating that the company generated more profits from its sales. This increase **may** be due to the company selling its products at higher prices or reducing its cost of goods sold.”*

Comments:

The student was able to describe the change of the financial ratio and explained the possible reasons for the change. However, the student only used the word “may” and the explanation was not based on the annual report of the company,

Below average:

“In terms of return on assets, it increased from -4.8% to 1.9%. It can be seen that GAP has a higher return on investment, earning more per dollar invested in the assets owned. Therefore, GAP has a higher amount earned in fiscal year 2021 than 2020, meaning that its profitability is also higher, the company's performance has improved.”

Comments:

The student was able to describe the change of the financial ratio and the definition of the financial ratio. The student, however, failed to identify and explained the possible reasons for the change.