



Abercrombie & Fitch (NYSE: ANF)

BUY

Target Price: US\$ 190 (+25.70% Upside)
Current Price: US\$ 151.15(10th Jan.)
Investment Horizon: 1.5 years

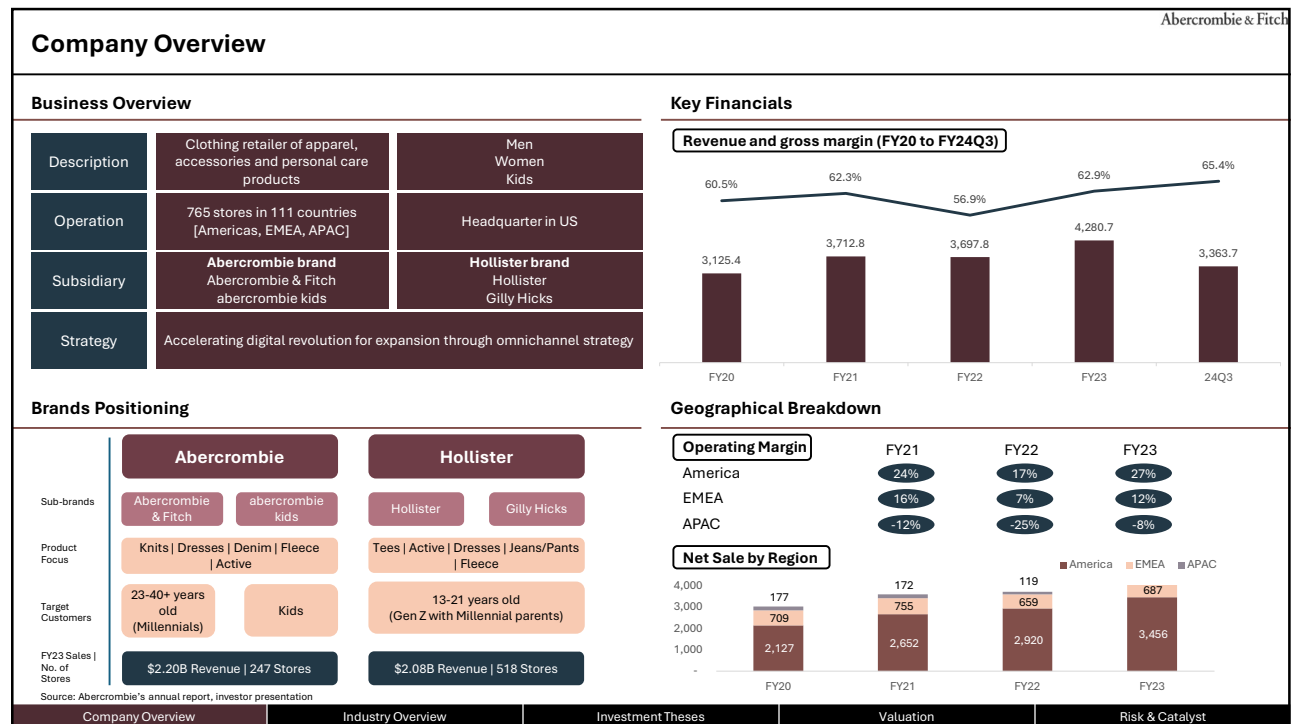
Group 1
Ang Jun Kye
Kim Joonyoung
Tan Xin Wei

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Abercrombie & Fitch

Executive Summary				
Company Overview	<ul style="list-style-type: none">Abercrombie & Fitch Co., through its subsidiaries, operates as an omnichannel retailer in the United States, Europe, the Middle East, Asia, the Asia-Pacific, Canada, and internationally.The company offers an assortment of apparel, personal care products, and accessories for men, women, and kids under the Abercrombie & Fitch, abercrombie kids, Hollister, and Gilly Hicks brands.It sells products through its stores, various wholesale, franchise, and licensing arrangements, as well as e-commerce platforms.			
Industry Overview	<ul style="list-style-type: none">The apparel industry is characterized by rapid change and intense competition. Fast-fashion brand and evolving consumer preferences present significant challenges.Key trends include the rise of e-commerce, the demand for sustainable and ethical practices, and the evolution of physical stores into experiential destinations.Companies must adapt quickly to these trends and prioritize customer experience to thrive in this dynamic environment.			
Investment Theses	<ul style="list-style-type: none">Thesis 1: Implementation of an omni-channel sales strategy will boost efficiency.Thesis 2: Growth momentum of Abercrombie Brand in Americas and EMEA will drive further growthThesis 3: ANF's leadership is poised to drive sustained growth and strong shareholder returns through strategic innovation.			
Valuation	<ul style="list-style-type: none">Target Price 190 (+25.70% Upside) is derived based on probability-weighted discounted cash flow method with Exit EV/EBITDA 7.8x and Perpetual growth rate: 2.0%.			
Risk & Catalyst	<ul style="list-style-type: none">Risk: Fast fashion competition, high dependence on American market, Brand perceptionCatalyst: Further penetration of Asian markets, opening of flagship stores in London			
Company Overview	Industry Overview	Investment Theses	Valuation	Risk & Catalyst

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Company Overview

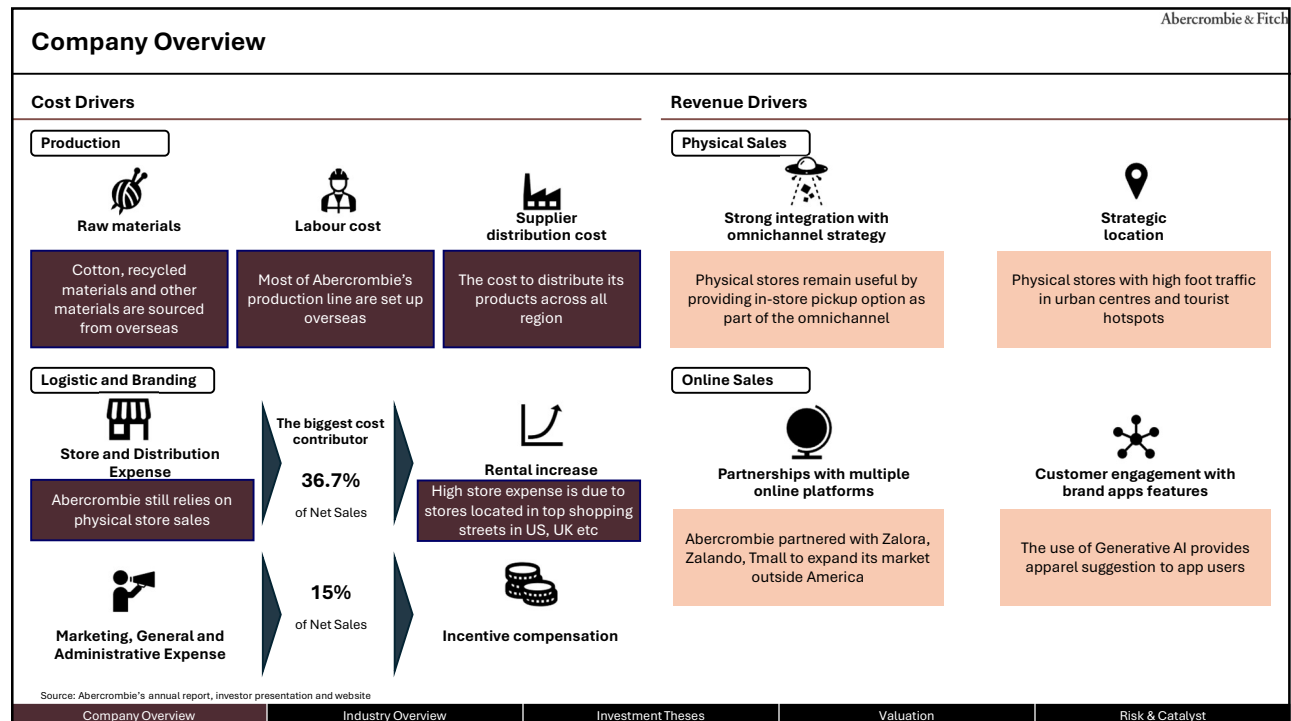
Industry Overview

Investment Theses

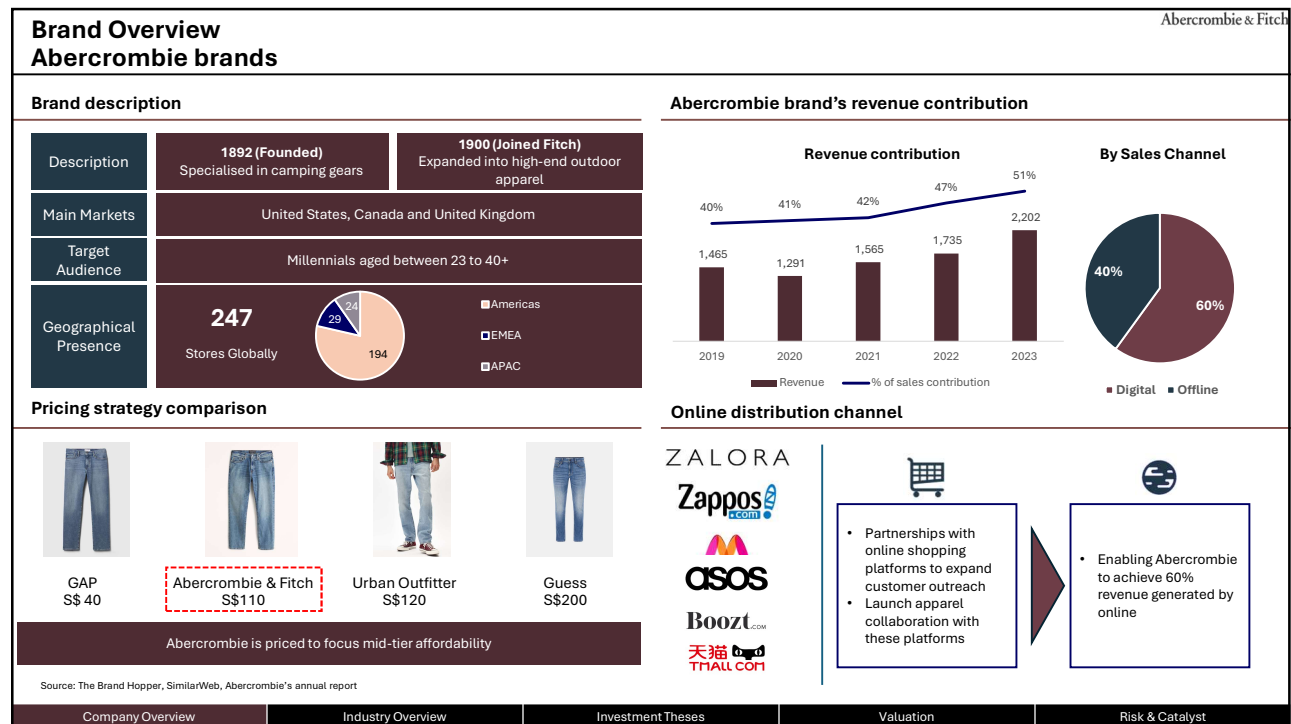
Valuation

Risk & Catalyst

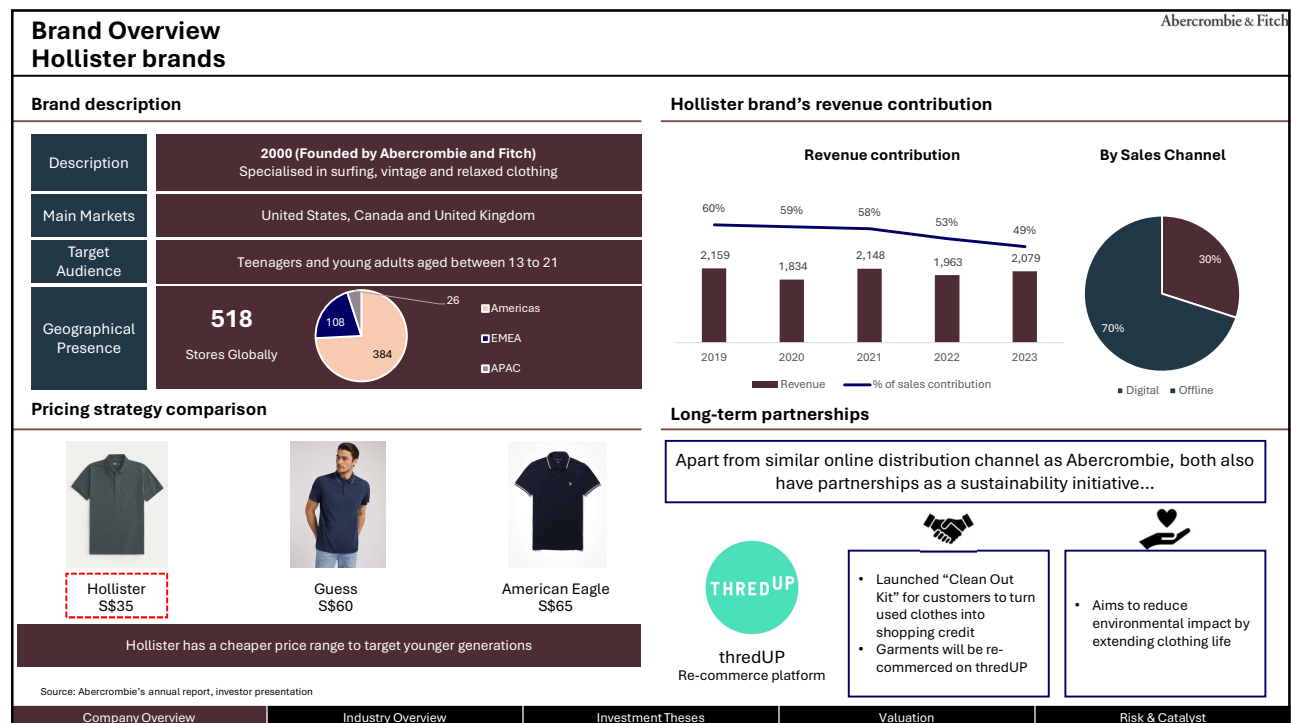
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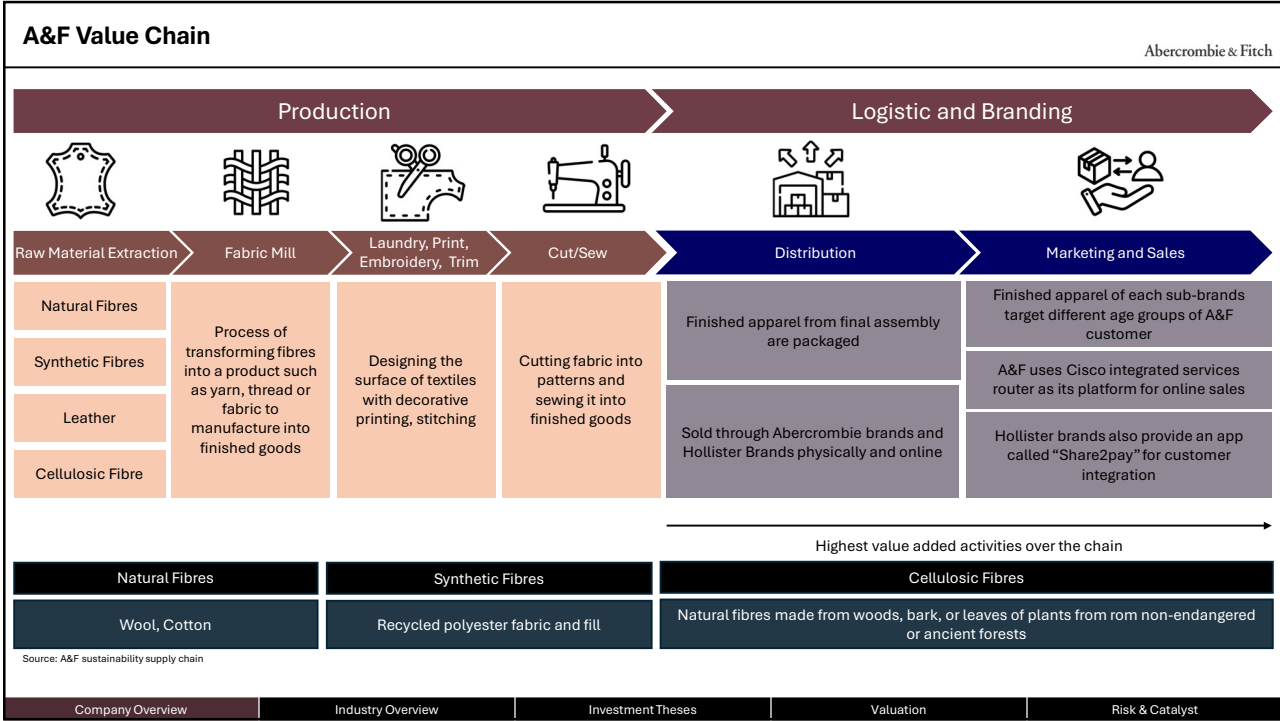
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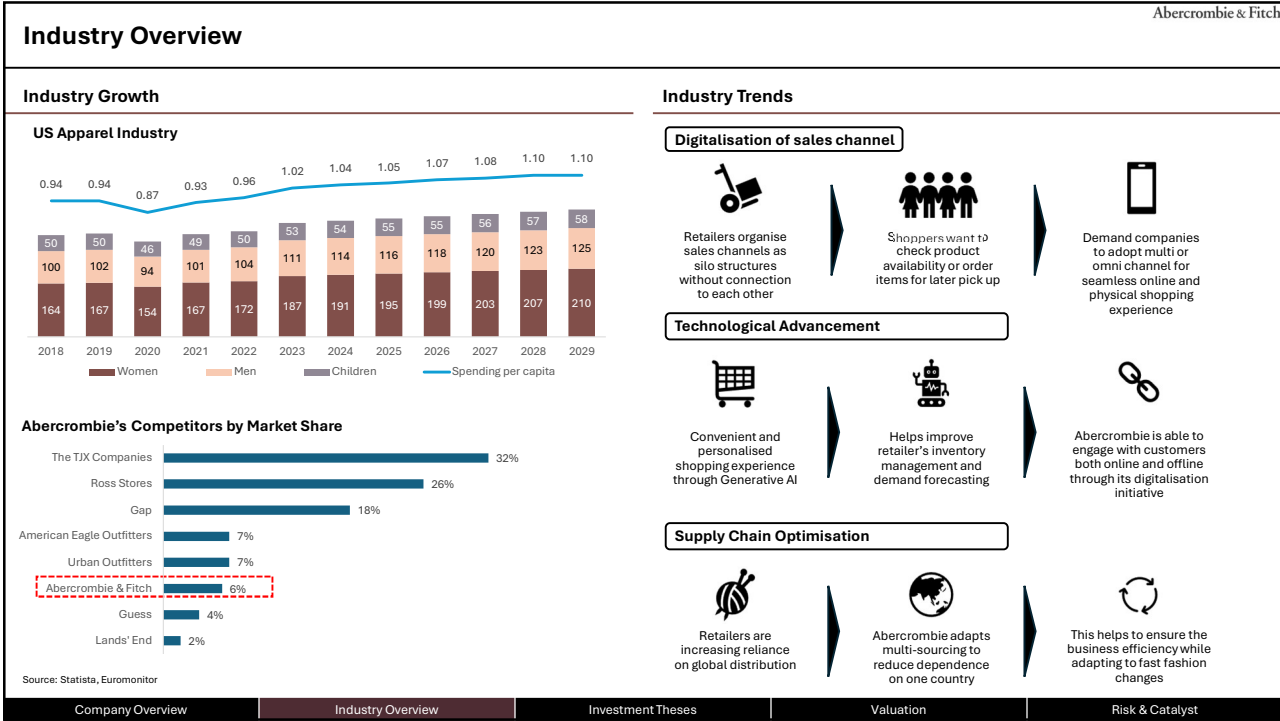
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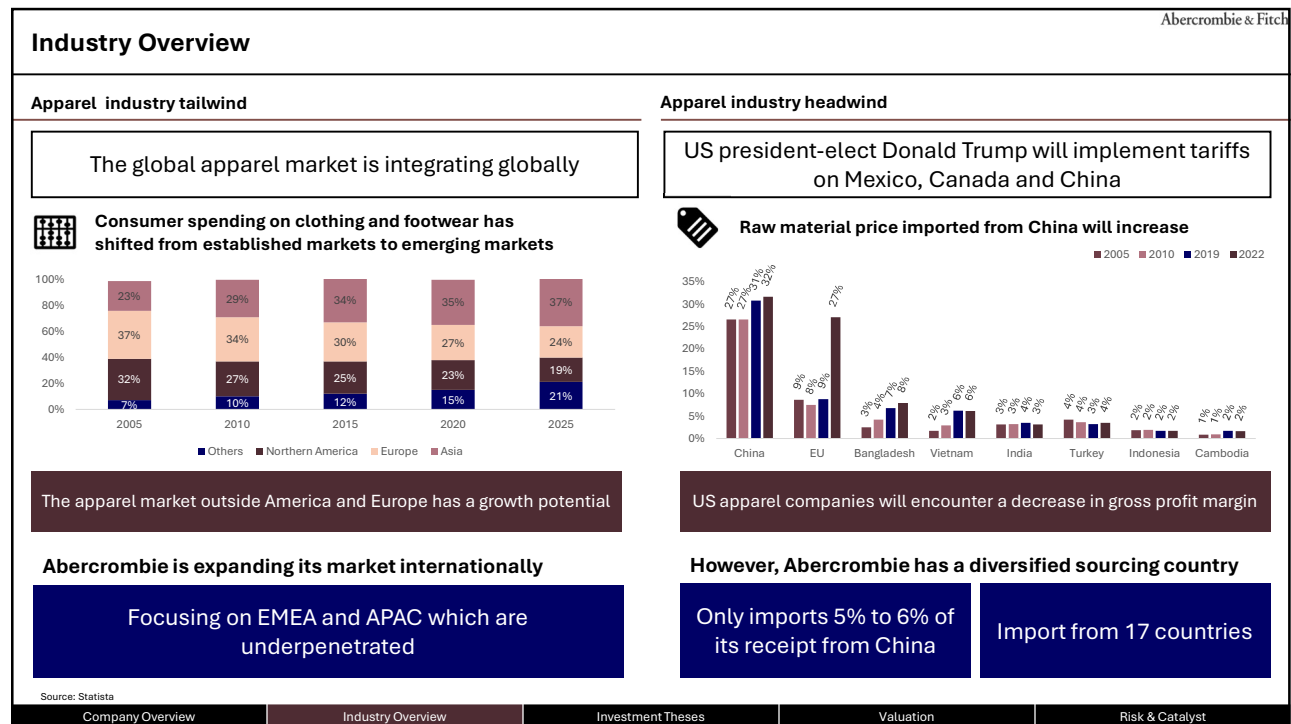
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Abercrombie & Fitch

Competitive Landscape

	Abercrombie & Fitch	The Gap, Inc.	American Eagle Outfitters, Inc.	Urban Outfitters Inc.	Guess?, Inc.	Lands' End, Inc.
Market Cap. (\$M)	7,660.2	9,062.2	3,171.6	5,033.7	709.6	419.7
Gross Profit (\$M)	2,104.5	7,045.0	1,745.2	1,727.3	1,222.6	593.8
Revenue, 5 Yr CAGR (%)	1.15	(2.13)	5.62	5.46	1.25	2.03
Target Audience	Fashionable teens and adults (13-40 y/o)	Broad range of ages	Teens and young adults (15-25 y/o)	Younger, more fashion-forward (18-35 y/o)	Millennials (25-34 y/o)	Broad range of ages
Clothing Style	Preppy, classic American	Casual and classic American	Demin and casual	Bohemian and vintage-inspired	Denim and accessories	Classic, outdoor and workwear
Key Geographical Region	United States, Canada, Europe	United States, Canada	United States	United States	United States, Italy	United States, Europe
Net sales (\$M)	4,280	14,889	5,262	4,795.2	2,776.5	1,472
Gross Square Footage (in thousands)	4,980	30,600	7,200	4,476	3,520	Not disclosed
Average Sales per Square Foot (\$)	859.4	486.6	730.8	1,071.3	788.7	Not disclosed

Source: Abercrombie, The Gap, American Eagle Outfitters, Urban Outfitters, Guess?, Lands' End

Company Overview	Industry Overview	Investment Theses	Valuation	Risk & Catalyst
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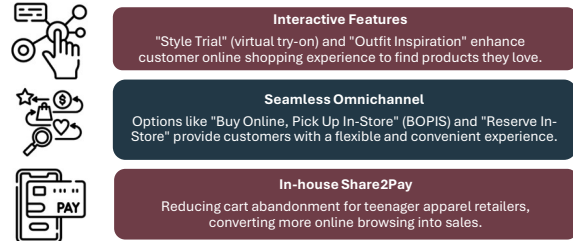
Thesis 1: Implementation of an omni-channel sales strategy will boost efficiency.

Abercrombie & Fitch

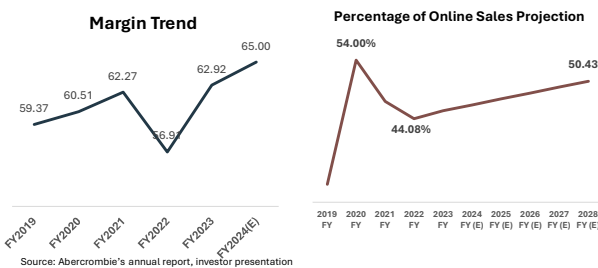
Omnichannel Excellence: Driving Growth & Efficiency



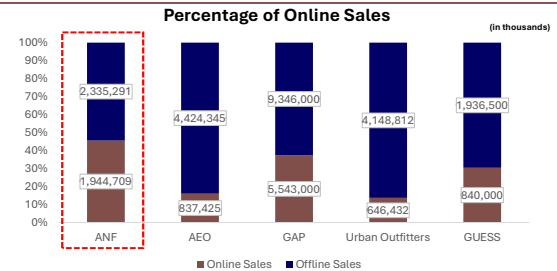
Unique Online Sales Channel: Engaging Digital Shoppers



Maintaining Track Record and Outperforming Peers in Sales Per Store...



... leading to Online Sales Leadership in the Apparel Market

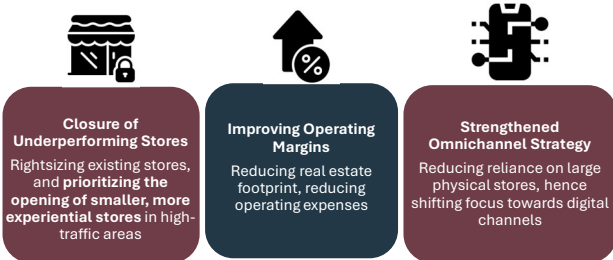


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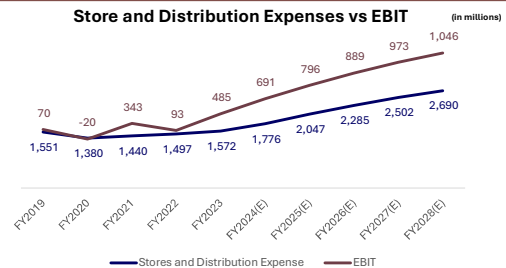
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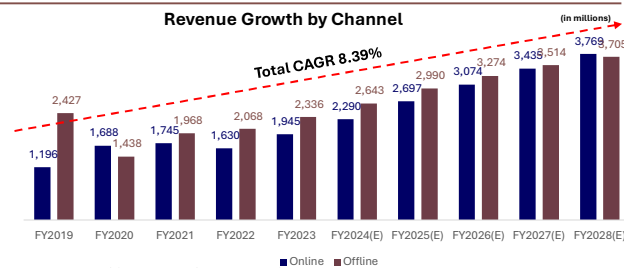
Store Resizing Strategy leads to...



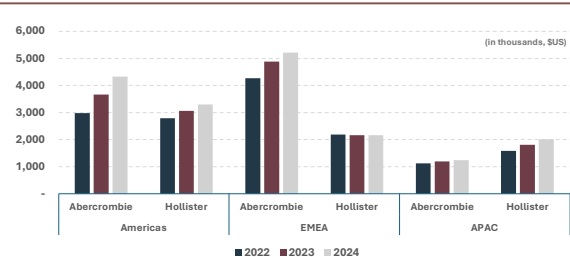
... improved Operating Leverage: EBIT Expansion Outpaces Cost Increases



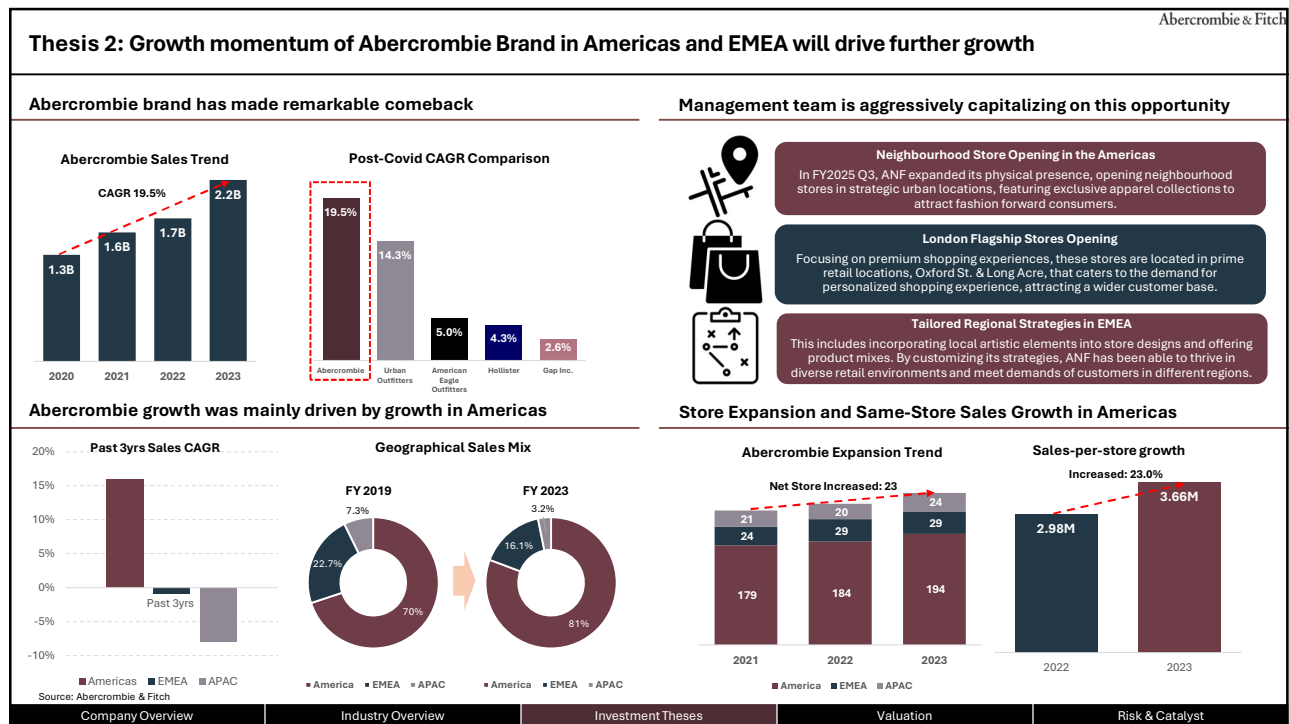
Driving Synergistic Revenue Growth Through Robust Sales Strategy...



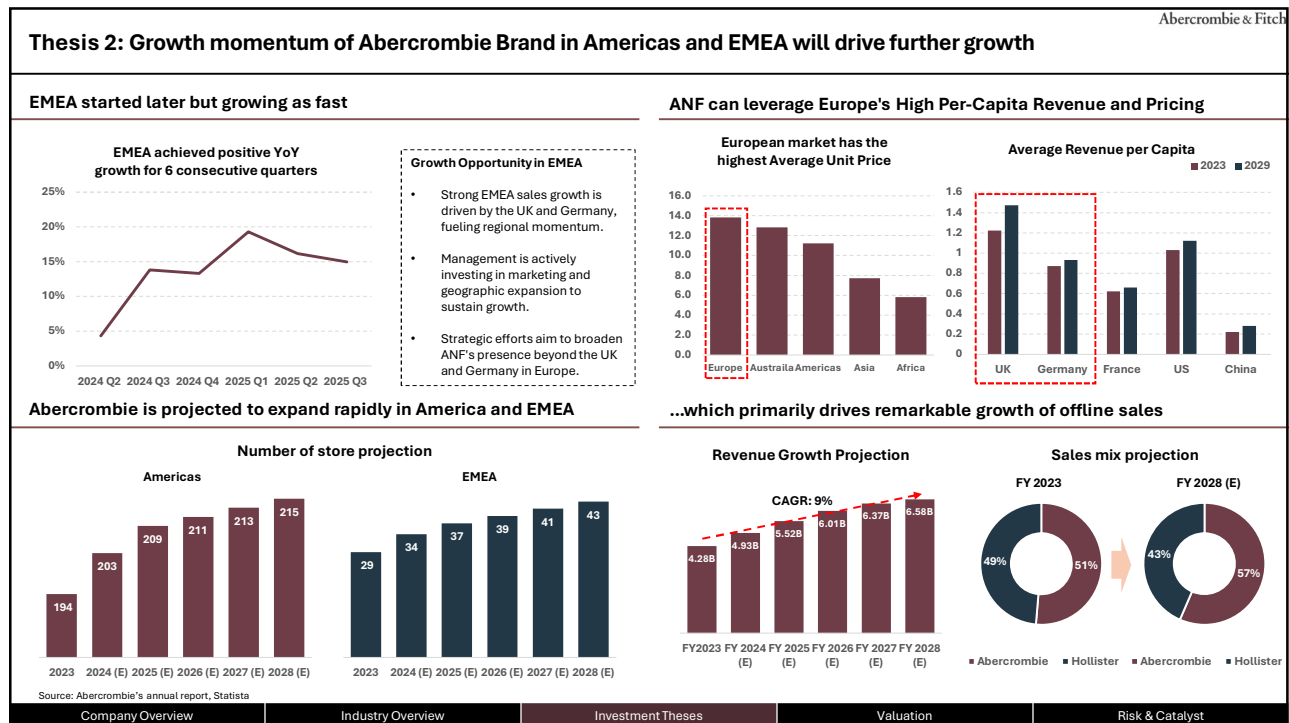
... and Boosting Customer Spending in Outlets



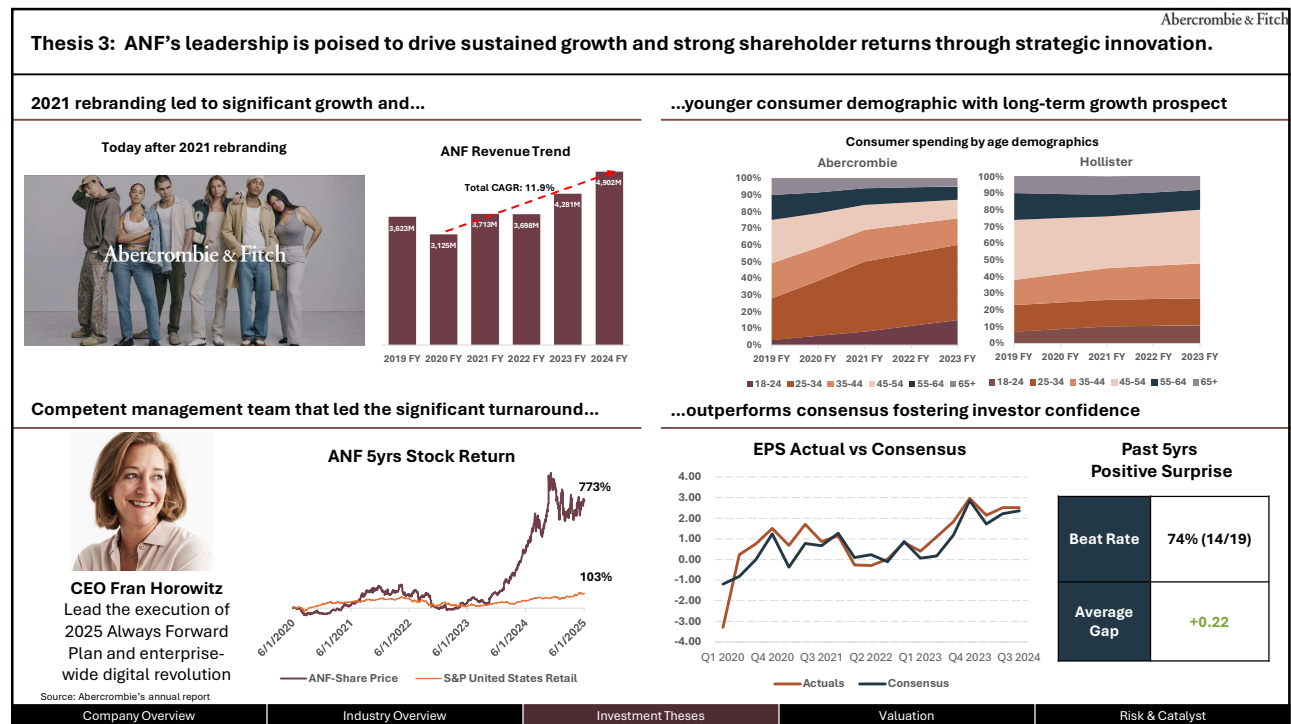
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Company Overview

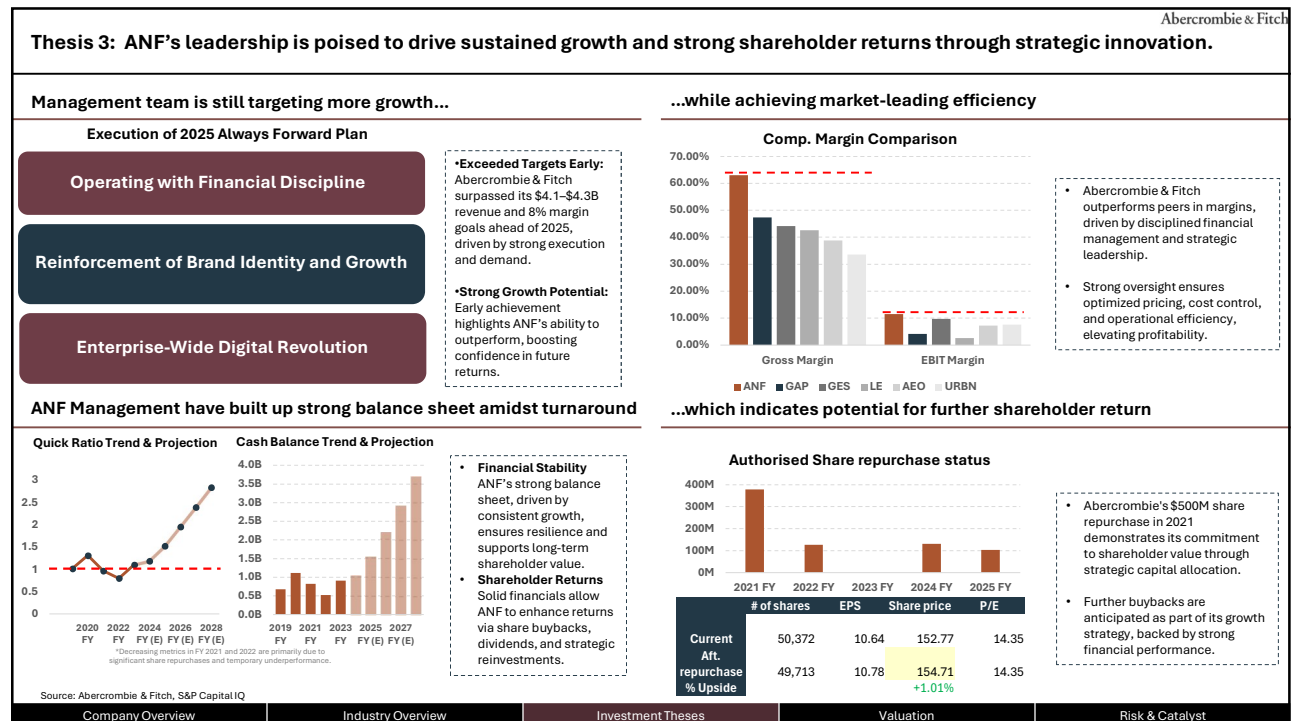
Industry Overview

Investment Theses

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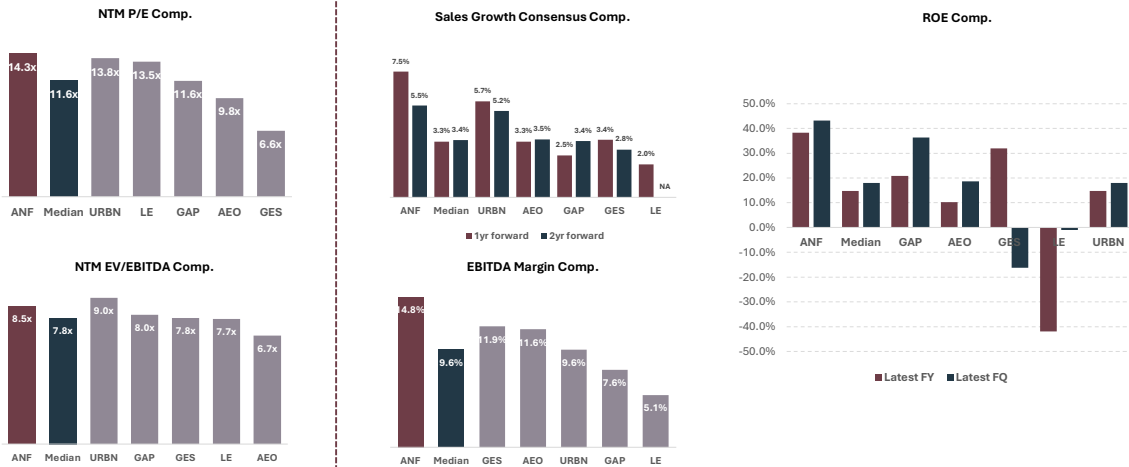
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Valuation: Comparable Analysis

Abercrombie & Fitch

- ❖ ANF is traded at premium based on P/E Multiple. However, ANF's premium valuation is fully justified by its strong growth prospects, superior margin, and market expansion potential.



Source: Abercrombie & Fitch, S&P Capital IQ, Bloomberg

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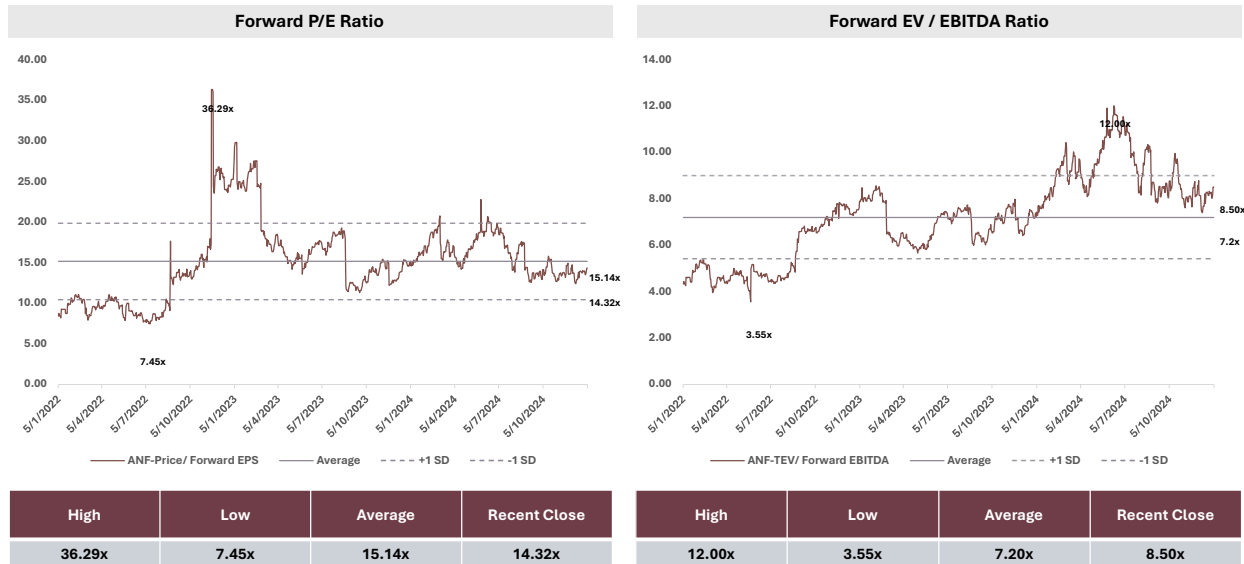
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Valuation: Multiple Analysis

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Trading Multiple Analysis (3 Yrs Historical)



Company Overview

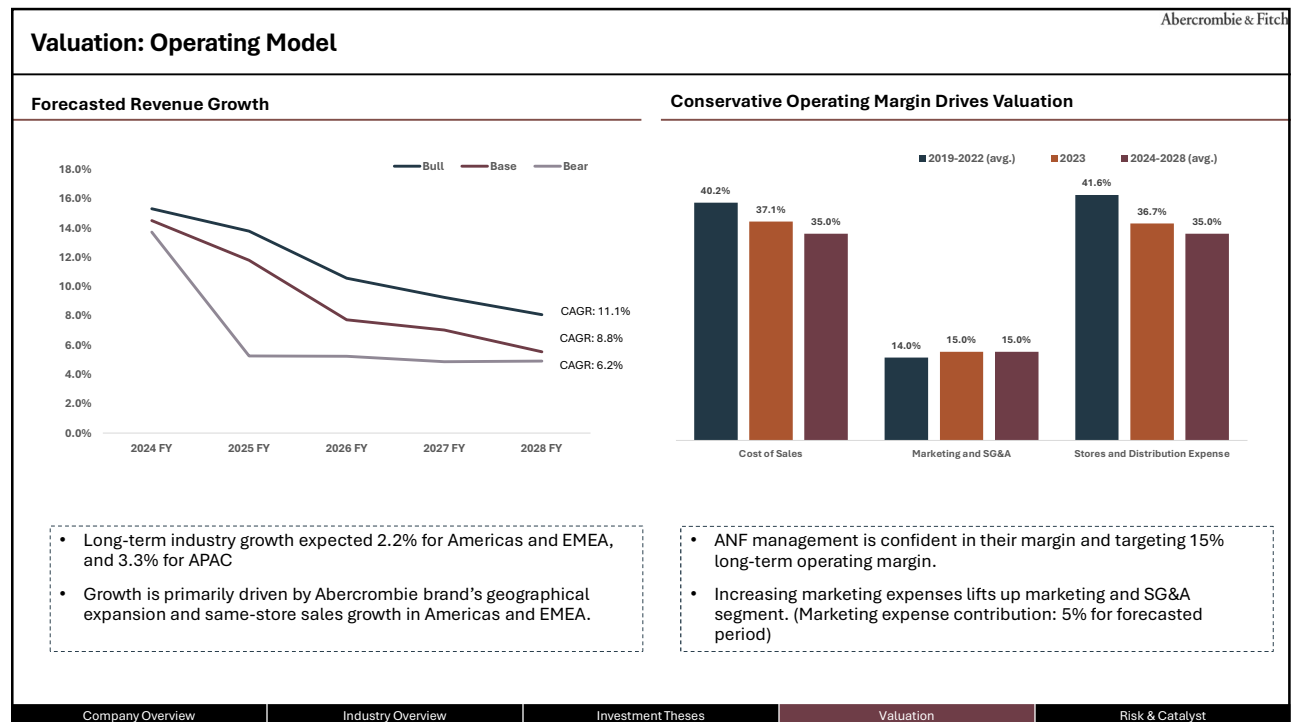
Industry Overview

Investment Theses

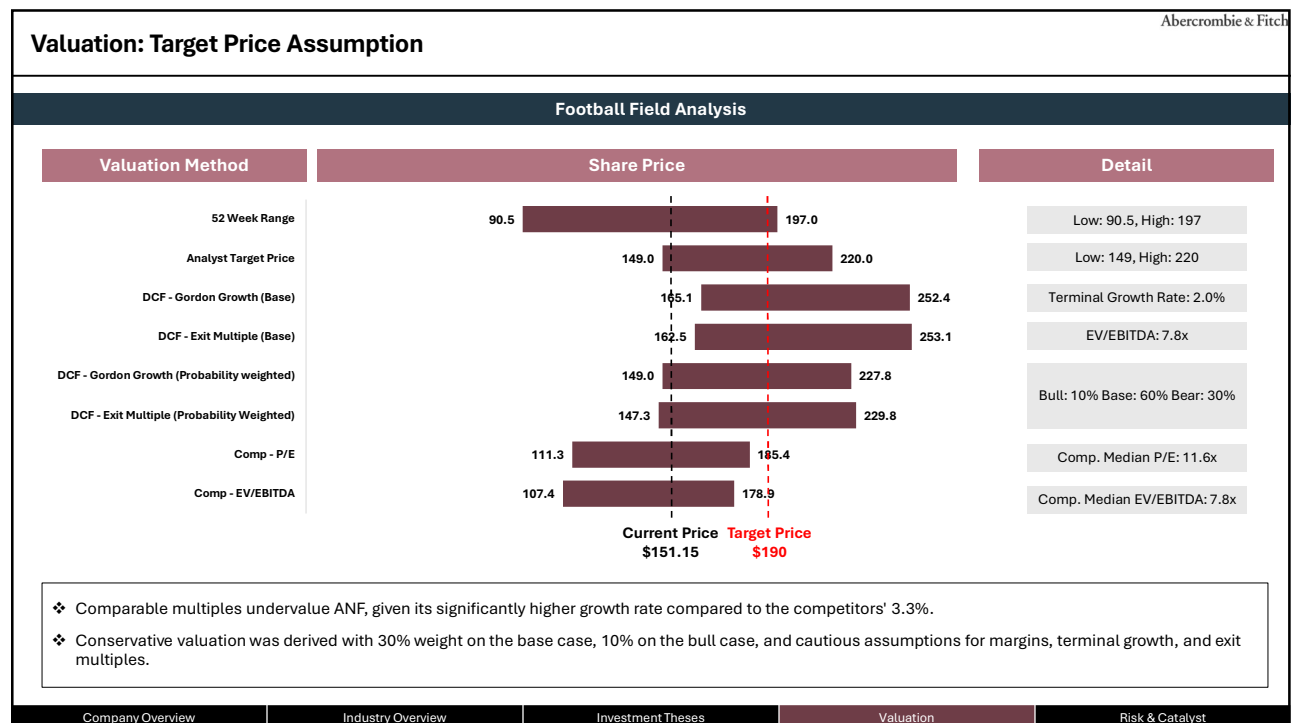
Valuation

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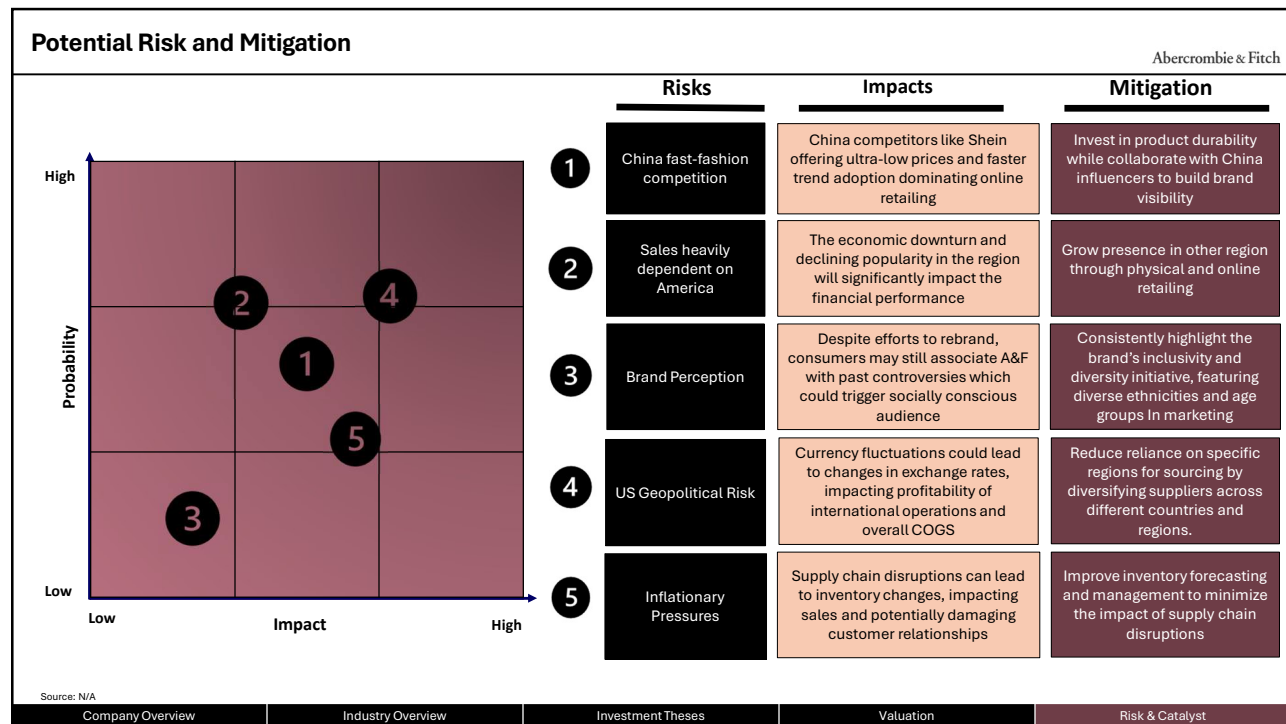
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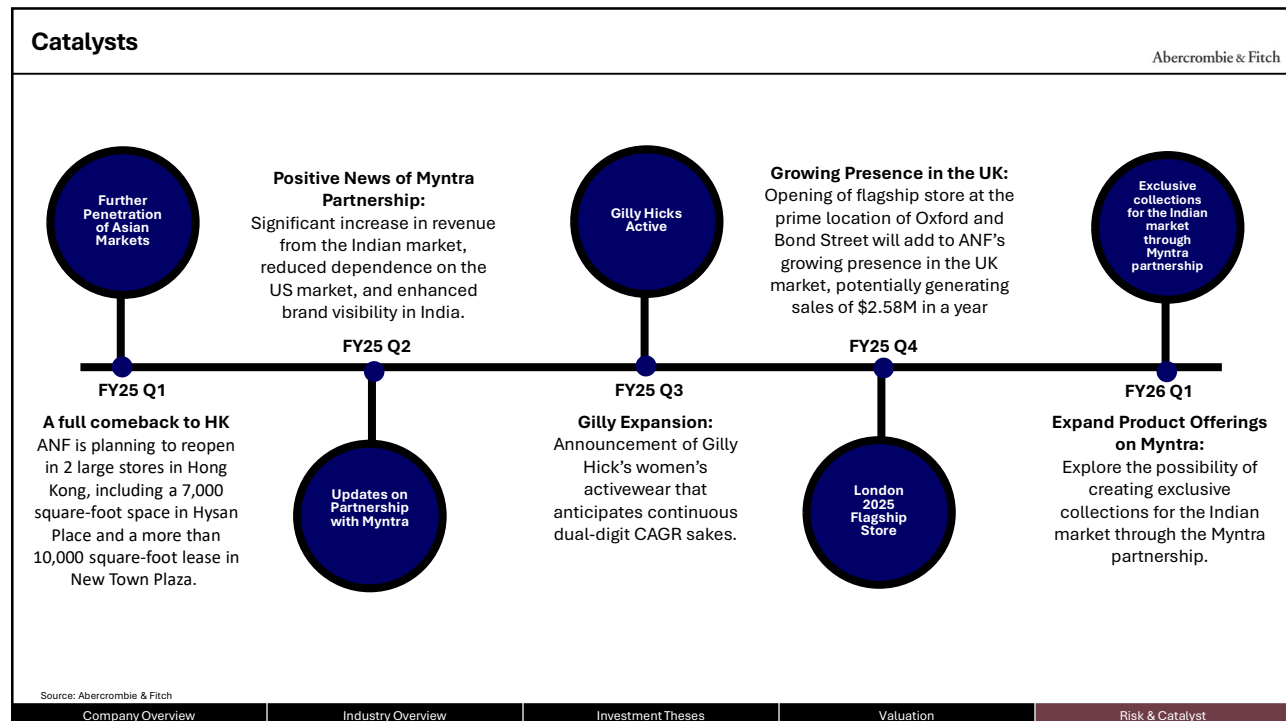
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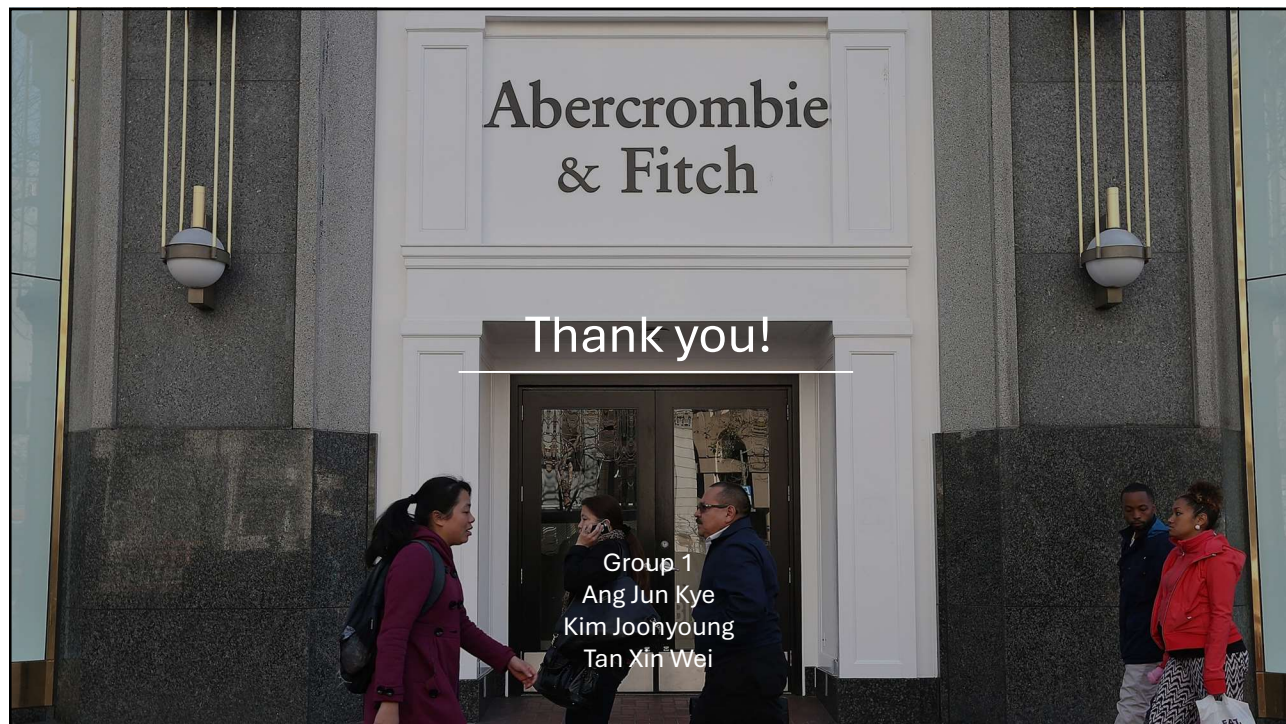
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Appendix. DCF Summary

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Key Assumptions

WACC	12.1%
Effective tax rate	22.0%
Shares outstanding	50,250
Current share price	151.15
Terminal growth rate	2.0%
LTM EV/EBITDA	7.6x

Perpetuity Method

Sum of PV FCFFs	2,354,648
PV of TV	7,593,801
Enterprise value	9,948,449
+ Cash	1,070,448
- Debt	1,054,352
- Non-controlling interests	7,786
Implied equity value	9,956,759
Implied share price	198.1
Upside / (Downside)	31.1%

Exit multiple Method

Sum of PV FCFFs	2,354,648
PV of TV	8,046,517
Enterprise value	10,401,165
+ Cash	1,070,448
- Debt	1,054,352
- Non-controlling interests	7,786
Implied equity value	10,409,475
Implied share price	207.2
Upside / (Downside)	37.1%

Case Analysis

Bull Case	• Strong digital sales growth, positive same-store-sales momentum, expansion-driven growth, and margin improvement.
Base Case	• Linearly decreasing digital sales growth rate, stable same-store-sales, balanced expansion, and steady margins.
Bear Case	• Slowing digital sales, flat same-store-sales, growth reliant on expansion, and margin pressures.

Case Analysis

Cases	Low	Difference	High	Probability
Gordon Growth (Bear)	96.2	57.5	147.7	30%
Gordon Growth (Base)	165.1	88.9	252.4	60%
Gordon Growth (Bull)	210.6	115.0	321.1	10%
Exit Multiple (Bear)	96.6	39.9	151.7	30%
Exit Multiple (Base)	162.5	60.1	253.1	60%
Exit Multiple (Bull)	208.6	76.9	324.5	10%

Probability Weighted	Low	Target Price	High
Gordon Growth	149	188	228
Exit Multiple	147	189	230

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Appendix. Case Analysis Detail

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Case Analysis

Revenue Build		Cost Build	
Bull Case	<ul style="list-style-type: none"> Lasting growth of ANF in Americas and EMEAs Sustained store expansion in EMEA region Successful Geographical penetration of ANF and Hollister into APAC 	Bull Case	<ul style="list-style-type: none"> Cost of Sales: Reduced COGS due to scale and efficient inventory. SG&A: High ROI on digital marketing keeps expenses stable. Stores & Distribution: Optimized logistics lower costs per store.
Base Case	<ul style="list-style-type: none"> Sustained growth of ANF in Americas and EMEA Store optimisation of Hollister brand in Americas and EMEA Geographical penetration of ANF and Hollister into APAC 	Base Case	<ul style="list-style-type: none"> Cost of Sales: Stable COGS with steady sourcing improvements. SG&A: Expenses grow proportionally with revenue. Stores & Distribution: Gradual expansion aligns costs with sales.
Bear Case	<ul style="list-style-type: none"> No same-store growth rate. 	Bear Case	<ul style="list-style-type: none"> Cost of Sales: Rising input costs and higher markdowns. SG&A: Inefficient marketing increases expenses faster than revenue. Stores & Distribution: Underperforming stores and rent hikes raise costs.

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Appendix. Sensitivity Analysis

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Sensitivity Analysis (Base Case)

Gordon Growth Model (at 2.0%)

		Terminal growth rate								
		1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%
WACC	10.6%	206.6	211.3	216.2	221.4	226.8	232.6	238.8	245.4	252.4
	10.8%	202.2	206.7	211.3	216.2	221.4	226.9	232.7	238.9	245.4
	11.1%	198.1	202.3	206.7	211.3	216.2	221.4	226.9	232.7	238.9
	11.3%	194.1	198.1	202.3	206.7	211.4	216.3	221.5	227.0	232.8
	11.6%	190.3	194.1	198.1	202.3	206.7	211.4	216.3	221.5	227.0
	11.8%	186.6	190.3	194.1	198.1	202.3	206.8	211.4	216.4	221.6
	12.1%	183.2	186.6	190.3	194.1	198.1	202.4	206.8	211.5	216.4
	12.3%	179.8	183.2	186.7	190.3	194.2	198.2	202.4	206.9	211.5
	12.6%	176.7	179.8	183.2	186.7	190.3	194.2	198.2	202.4	206.9
	12.8%	173.6	176.7	179.9	183.2	186.7	190.4	194.2	198.3	202.5
	13.1%	170.7	173.6	176.7	179.9	183.2	186.7	190.4	194.3	198.3
	13.3%	167.8	170.7	173.6	176.7	179.9	183.3	186.8	190.4	194.3
	13.6%	165.1	167.8	170.7	173.6	176.7	179.9	183.3	186.8	190.5

Exit EV/EBITDA (7.8x)

		EV / EBITDA								
		5.6	6.1	6.6	7.1	7.6x	8.1	8.6	9.1	9.6
WACC	10.6%	168.1	178.7	189.4	200.0	210.6	221.2	231.9	242.5	253.1
	10.8%	167.6	178.2	188.8	199.4	210.0	220.6	231.2	241.8	252.4
	11.1%	167.1	177.7	188.3	198.9	209.4	220.0	230.6	241.2	251.7
	11.3%	166.7	177.2	187.8	198.3	208.9	219.4	230.0	240.5	251.1
	11.6%	166.2	176.7	187.2	197.8	208.3	218.8	229.3	239.9	250.4
	11.8%	165.7	176.2	186.7	197.2	207.7	218.2	228.7	239.2	249.7
	12.1%	165.2	175.7	186.2	196.7	207.2	217.6	228.1	238.6	249.1
	12.3%	164.8	175.2	185.7	196.1	206.6	217.0	227.5	238.0	248.4
	12.6%	164.3	174.7	185.2	195.6	206.0	216.5	226.9	237.3	247.8
	12.8%	163.8	174.2	184.7	195.1	205.5	215.9	226.3	236.7	247.1
	13.1%	163.4	173.8	184.1	194.5	204.9	215.3	225.7	236.1	246.5
	13.3%	162.9	173.3	183.6	194.0	204.4	214.7	225.1	235.5	245.8
	13.6%	162.5	172.8	183.1	193.5	203.8	214.2	224.5	234.8	245.2

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Appendix. Our View vs Street View

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J.P.Morgan

Our view

Key Metrics (FYE Jan)

\$ in millions	FY23A	FY24E	FY25E	FY26E
Financial Estimates				
Revenue	4,281	4,948	5,286	5,638
Adj. EBITDA	630	902	977	1,055
Adj. EBIT	489	748	812	879
Adj. net income	331	570	617	667
Adj. EPS	6.34	10.75	11.92	13.07
BBG EPS	6.11	10.62	11.33	-
Cashflow from operations	653	764	814	871
FCFF	496	594	644	701
Margins and Growth				
Revenue Growth Y/Y (%)	15.8%	15.6%	6.8%	6.7%
Gross margin	62.9%	64.7%	64.7%	64.7%
EBITDA margin	14.7%	18.2%	18.5%	18.7%
EBIT margin	11.4%	15.1%	15.4%	15.6%
Adj. EPS growth	2383.7%	69.6%	10.9%	9.6%

Assumptions

- EV/EBITDA: 8x (Dec. '25, Non-distressed Retail Average)
- FY25 EPS: \$11.92
- FY 26 EPS: \$ 13.07
- Implied NTM P/E: 15.6x

Key Metrics

	FY 23A	FY 24E	FY 25E	FY 26E
Sales	4,281	4,928	5,522	6,013
EBITDA	626	870	975	1,064
EBIT	485	739	828	902
NI	328	570	647	704
EPS	6.22	10.78	12.33	13.49
Revenue Growth	15.1%	12.1%	8.9%	6.0%
Gross Margin	65.0%	65.0%	65.0%	65.0%
EBITDA Margin	14.6%	17.6%	17.7%	17.7%
EBIT Margin	11.3%	15.0%	15.0%	15.0%
EPS Growth	-	73.3%	14.4%	9.4%

Assumptions

- FY25 EPS: \$12.33
- FY 26 EPS: \$ 13.49
- Implied NTM P/E: 13.4x

Source: Bloomberg

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Appendix. Comparable Companies Analysis

Abercrombie & Fitch

Comparable Companies

Ticker	Rating	Price Target	Price	Market Cap (M)	Sales (M)	EV/Sales NTM	EV/EBITDA NTM	P/E NTM	P/BV	PEG ratio
ANF	OUTPERFORM	\$ 184.65	\$ 147.63	8,005	4,281	1.6x	8.5x	14.3x	3.3x	1.0x
Comparable Companies										
URBN	HOLD	\$ 47.08	\$ 57.55	5,310	5,153	1.0x	9.0x	13.8x	1.6x	1.7x
AEO	HOLD	\$ 21.30	\$ 17.18	3,300	5,262	0.8x	6.7x	9.8x	1.5x	1.1x
GAP	OUTPERFORM	\$ 28.36	\$ 24.22	9,134	14,889	0.8x	8.0x	11.6x	2.2x	0.2x
GES	OUTPERFORM	\$ 18.25	\$ 14.15	728	2,777	0.7x	7.8x	6.6x	1.3x	1.9x
LE	BUY	\$ 20.00	\$ 13.38	414	1,473	0.5x	7.7x	13.5x	1.8x	NM

Average	0.8x	7.8x	11.1x	1.7x	1.2x
Median	0.8x	7.8x	11.6x	1.6x	1.4x

Comparable P/E Valuation

Comp. Forward P/E	Forward EPS	Multiple Implied Price
11.6x	\$ 12.19	\$ 141

Comparable EV/EBITDA Valuation

Comp. Forward EV/EBITDA	Forward EBITDA	Multiple Implied Price
7.8x	\$ 819.54M	\$ 135

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Investment Thesis

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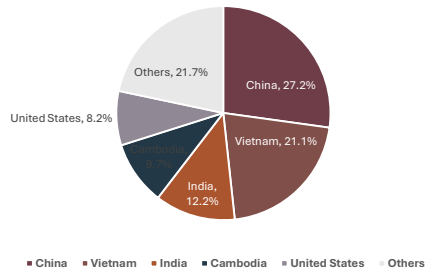
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Appendix. Manufacturing and Raw Material

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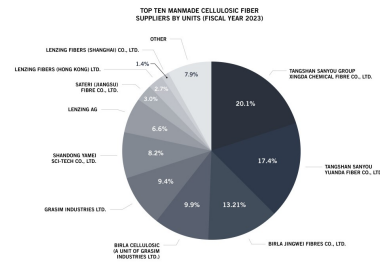
Number of Factories by Countries



However, according to management disclosure, only 5% of receipt are coming from China
(Decreased import from China to reduce geopolitical risk)

Sourcing

For non-Better Work factories, A&F Co. leverages the Cascal (formerly named as Sustainable Apparel Coalition's (SAC) Facility Social & Labor Module (Higg FSLM), which uses the CAF as the assessment backbone, to measure and improve social and labor performance. Currently the Higg FSLM is implemented in our Tier 1 and Tier 2 factories in India. In 2023, we expanded this program to all our laundries (Tier 2) and top 50 fabric mills (Tier 3) in 11 countries including Bangladesh, Cambodia, China, Guatemala, India, Indonesia, Mexico, South Korea, Sri Lanka, Turkey and Vietnam.

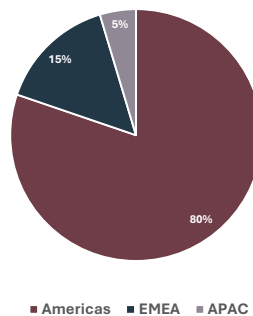


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Appendix. Growth Contribution

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Revenue Growth Cont. by Abs. amount



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Appendix. Operating Model

Abercrombie & Fitch

# of Stores											Avg. Sales per Store										
Abercrombie											America										
America	263	197	179	184	194	203	209	211	213	215	Abercrombie				2,978	3,665	4,356	4,997	5,524	5,875	6,005
Jul						203	210	212	214	216	% change	-	#DIV/0!	#DIV/0!	#DIV/0!	23.0%	18.9%	14.7%	10.5%	6.4%	2.2%
Base						203	209	211	213	215	Bull						19.9%	15.7%	11.5%	7.4%	3.2%
Bear						203	206	206	206	206	Base						18.9%	14.7%	10.5%	6.4%	2.2%
		-25%	-9%	3%	5%						Bear						17.9%	0.0%	0.0%	0.0%	0.0%
MEA	24	22	24	29	29	34	37	39	41	43	Hollister				2,789	3,059	3,310	3,531	3,715	3,852	3,937
Jul						34	38	40	42	44	% change	-	#DIV/0!	#DIV/0!	#DIV/0!	9.7%	8.2%	6.7%	5.2%	3.7%	2.2%
Base						34	37	39	41	43	Bull						9.2%	7.7%	6.2%	4.7%	3.2%
Bear						34	35	37	39	41	Base						8.2%	6.7%	5.2%	3.7%	2.2%
		-8%	9%	21%	0%	17%	9%	5%	5%	5%	Bear						7.7%	0.0%	0.0%	0.0%	0.0%
PAC	21	19	21	20	24	26	28	30	32	34	MEA										
Jul						26	29	31	33	35	Abercrombie				4,263	4,874	5,455	5,972	6,393	6,689	6,836
Base						26	28	30	32	34	% change	-	#DIV/0!	#DIV/0!	#DIV/0!	14.3%	11.9%	9.5%	7.1%	4.6%	2.2%
Bear						26	27	29	29	29	Bull						12.9%	10.5%	8.1%	5.6%	3.2%
		-10%	11%	-5%	20%	8%	8%	7%	7%	6%	Base						11.9%	9.5%	7.1%	4.6%	2.2%
											Bear						7.0%	0.0%	0.0%	0.0%	0.0%
Hollister & Gilly Hicks																					
America	401	357	361	389	384	386	388	390	390	390	Hollister				2,186	2,163	2,163	2,175	2,199	2,235	2,284
Jul						386	389	391	391	391	% change	-	#DIV/0!	#DIV/0!	#DIV/0!	-1.0%	0.0%	0.6%	1.1%	1.7%	2.2%
Base						386	388	390	390	390	Bull						1.0%	1.6%	2.1%	2.7%	3.2%
Bear						386	386	388	388	388	Base						0.0%	0.6%	1.1%	1.7%	2.2%
		-11%	1%	8%	-1%	1%	1%	1%	0%	0%	Bear						0.0%	0.0%	0.0%	0.0%	0.0%
MEA	115	113	115	112	108	109	110	111	112	110	APAC										
Jul						109	111	112	113	114	Abercrombie				1,115	1,182	1,247	1,309	1,366	1,419	1,466
Base						109	110	111	112	113	% change	-	#DIV/0!	#DIV/0!	#DIV/0!	6.0%	5.5%	4.9%	4.4%	3.8%	3.3%
Bear						109	109	109	110	111	Bull						6.5%	5.9%	5.4%	4.8%	4.3%
		-2%	2%	-3%	-4%	1%	1%	1%	1%	1%	Base						5.5%	4.9%	4.4%	3.8%	3.3%
PAC	30	27	29	28	26	27	28	29	30	31	Bear						4.5%	0.0%	0.0%	0.0%	0.0%
Jul						27	29	30	31	32	Hollister				1,577	1,803	2,023	2,224	2,396	2,528	2,611
Base						27	28	29	30	31	% change	-	#DIV/0!	#DIV/0!	#DIV/0!	14.4%	12.2%	9.9%	7.7%	5.5%	3.3%
Bear						27	28	30	30	30	Bull						13.2%	10.9%	8.7%	6.5%	4.3%
		-10%	7%	-3%	-7%	4%	4%	4%	3%	3%	Base						12.2%	9.9%	7.7%	5.5%	3.3%
Total	854	735	729	762	765	785	800	810	818	826	Bear						11.2%	0.0%	0.0%	0.0%	0.0%
% change		-14%	-1%	5%	0%	3%	2%	1%	1%	1%											