

Abercrombie & Fitch (ANF)

\$10.65 (As of 06/19/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/14/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

Summary

Shares of Abercrombie have increased in the past three months. Despite dismal first-quarter fiscal 2020 results, the company's initiatives to reopen stores in a phased way have boosted the stock. Nearly half of the stores have been reopened on a global basis and the rest are expected to reopen by the end of June. Further, digital sales grew in double-digits, backed by robust momentum across brands and geographies. However, management witnessed a material impact of COVID-19 in the reported quarter and anticipates it to continue. As a result, the company refrained from providing any guidance for the second quarter and fiscal 2020. Moreover, lower promotions and falling inventory led to dismal margins. Apart from these, currency woes remain a concern.

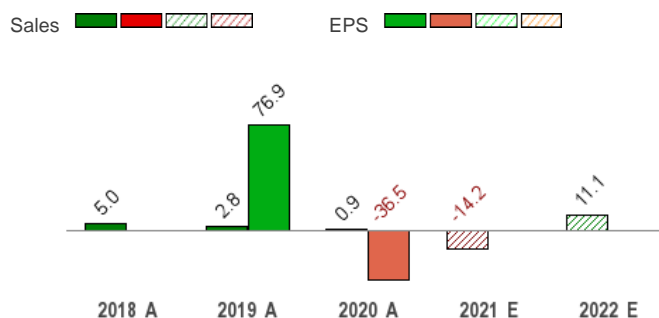
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.18 - \$7.42
20 Day Average Volume (sh)	2,857,782
Market Cap	\$656.0 M
YTD Price Change	-38.4%
Beta	1.35
Dividend / Div Yld	\$0.80 / 7.5%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Bottom 31% (173 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-151.2%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	-220.8%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					3,452 E
2021	485 A	656 E	817 E	1,166 E	3,108 E
2020	734 A	841 A	863 A	1,185 A	3,623 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.50 E	-\$0.40 E	\$0.30 E	\$1.40 E	\$0.58 E
2021	-\$3.29 A	-\$0.84 E	\$0.06 E	\$1.28 E	-\$2.77 E
2020	-\$0.29 A	-\$0.48 A	\$0.23 A	\$1.31 A	\$0.73 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/19/2020. The reports text is as of 06/22/2020.

Overview

Abercrombie & Fitch Co. operates as a specialty retailer of premium, high-quality casual apparel for men, women, and kids through a network of 850 stores across North America, Europe, Asia and the Middle East.

Abercrombie's product portfolio includes knit and woven shirts, graphic T-shirts, fleece, jeans and woven pants, shorts, sweaters, outerwear, personal care products and accessories for men, women and kids, under the Abercrombie & Fitch, abercrombie kids and Hollister brands.

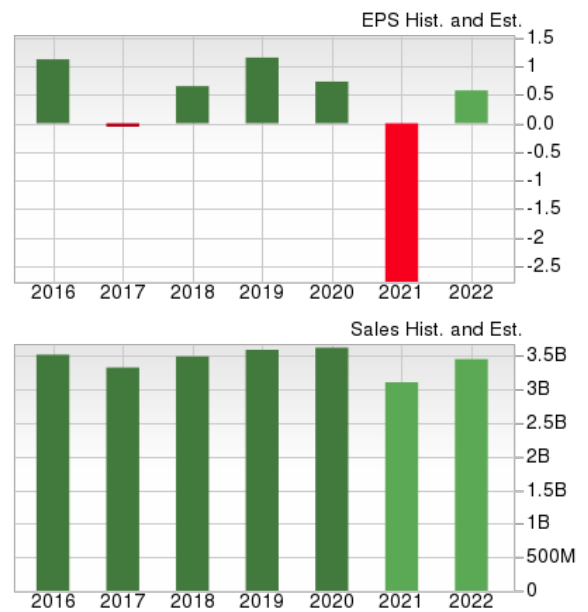
Additionally, the company sells inner wear, personal care products, sleepwear and at-home products for girls through direct-to-consumer operations and Hollister stores under the Gilly Hicks brand. It also sells products through its e-commerce platform.

Region-wise, Abercrombie reports its sales under two segments – U.S. Stores and International Stores.

- **U.S. Stores** includes the results from store operations and direct-to-consumer business in the U.S. and Puerto Rico.
- **International Stores** includes the store operations and direct-to-consumer business in Canada, Europe, Asia, Australia and the Middle East.

Brand-wise, Abercrombie reports in two segments – Abercrombie and Hollister.

- **Abercrombie** includes the Abercrombie & Fitch and abercrombie kids brands. Abercrombie & Fitch, targeted at the college-going crowd, is positioned as a luxury lifestyle concept that uses the finest materials to create high-quality casual wear. abercrombie kids, themed as "classic cool", is aimed at pre-teens and is the children's version of Abercrombie & Fitch.
- **Hollister** is based on a South California theme, and targets youth in their late teens. Stores under this brand also offer intimate products of the Gilly Hicks brand.



Reasons To Buy:

▲ **Store Reopening Plans:** Abercrombie is on track to reopen stores in a phased manner, with adjusted store hours. In this regard, nearly half of the stores have been reopened on a global basis. Notably, stores that have reopened in the United States and EMEA regions have witnessed sales productivity of roughly 80% and 60% year over year, respectively. Also, most of the stores in China have reopened since early March. Region-wise, the company has reopened 285 stores in the United States, 79 in EMEA and 40 in APAC. Going ahead, management foresees majority of the stores to reopen by the end of June. This might have boosted investors sentiments. Shares of the company have gained 29.5% in the past three months compared with the industry's growth of 48.6% .

Impressive digital sales and store re-opening initiatives are likely to aid Abercrombie's performance in the near term.

▲ **Focus on Digital & Omni-Channel:** Abercrombie is making significant progress in expanding digital and omni-channel capabilities through investments in mobile, omni-channel and fulfillment. Notably, engagement with consumers has been its core strength. The company witnessed strong online show amid the coronavirus pandemic, which cushioned the top line in first-quarter fiscal 2020. While stores remained closed since mid of March, the company witnessed strong online demand and leveraged its omni-channel capabilities to fulfill online orders and serve customers. This resulted in 25% increase year over year in digital sales in the first quarter of fiscal 2020. Further, online sales grew double-digit from February till mid-March, following which it accelerated in May. Also, online sales surged in April, particularly across the United States and Europe. Prior to this, it crossed the \$1-billion mark in digital sales during fiscal 2019.

▲ **Store Fleet Optimization:** Abercrombie has been closely working on its goals to optimize store fleet, which has resulted in significant store closures over the past eight years. The company considers these closures as an opportunity to improve store productivity by reducing store occupancy costs. Keeping in these lines, the company exited four underperforming flagship stores in the fiscal first quarter that led to a decline in store occupancy by 4%. Further, it remains focused on closing more such stores, which do not meet its terms and conditions, especially after the disruptions caused by the coronavirus situation.

▲ **Balance Sheet & Shareholder-Friendly Moves:** Abercrombie's balance sheet had cash and cash equivalents of \$704 million as of May 2, 2020, and gross borrowings of \$233.3 million. In the quarter, capital expenditure was \$47 million. Moreover, management has suspended its share repurchase program and dividend payouts in the wake of the COVID-19 outbreak. Prior to this, it returned roughly \$28 million to shareholders in the forms of share repurchases and dividends. As a result, we now expect capital expenditures to be down roughly 50% from last year to approximately \$100 million for the year. That said, the company boasts a liquidity of \$763 million as of May 2, 2020, which will help it stay afloat during this crisis.

Reasons To Sell:

- ▼ **Dismal Q1 Results:** Abercrombie reported weak first-quarter fiscal 2020 results, wherein the top and bottom lines declined year over year. Sales declined 34% year over year due to store closures in the United States and EMEA regions from mid-March through the end of the quarter. Sluggish performance in Hollister and Abercrombie brands also hurt top line to some extent. Moreover, management witnessed material impacts of COVID-19 in the reported quarter, which is likely to continue. As a result, the company refrained from providing any guidance for the second quarter and fiscal 2020.
- ▼ **Soft Q1 Margins:** In first-quarter fiscal 2020, gross margin contracted 610 basis points (bps) to 54.4% on additional costs related to the reduction of inventory stemming from COVID-19 as well as lower promotions. This includes an adverse currency impact of 30 bps. At constant currency, gross margin declined 580 bps. Moreover, adjusted operating loss totaled \$166.2 million compared with a loss of \$27.3 million in the year-earlier quarter. Driven by soft margins, Abercrombie's posted a loss in the fiscal first quarter.
- ▼ **Currency Headwinds, A Worry:** Abercrombie has been grappling with headwinds stemming from unfavorable foreign currency movements and higher tariffs. In this regard, Abercrombie's first-quarter sales were adversely impacted by foreign currency to the tune of roughly \$7 million. Further, currency woes of about \$3 million weighed on the adjusted operating loss. Gross margin in the reported quarter included currency headwinds of about 30 basis points. Persistence of such downsides is likely to affect the company's results in the near term.
- ▼ **Macroeconomic Challenges:** The apparel retail industry is consumer-driven and hence sensitive to the health of the economy. Spending on apparel and accessories is heavily dependent on the personal disposable income of consumers. Macroeconomic challenges like high household debt and unemployment may restrain consumers from spending on these items.

Abercrombie reported drab Q1 results due to material impacts of COVID-19, which are expected to linger. Due to impacts of COVID-19, it withdrew first quarter and fiscal 2020 guidance.

Last Earnings Report

Abercrombie Q1 Loss Wider Than Expected, Sales Fall Y/Y

Abercrombie reported weak first-quarter fiscal 2020 results, wherein the top and the bottom line declined year over year. Moving on, management witnessed material impact of COVID-19 in the reported quarter and anticipates a lingering effect. As a result, the company refrained from providing any guidance for the second quarter and fiscal 2020.

Q1 Highlights

Abercrombie reported adjusted loss of \$3.29 per share in the fiscal first quarter compared with a loss of 29 cents in the year-ago quarter. The figure was also wider than the Zacks Consensus Estimate of a loss of \$1.31.

Net sales totaled \$485.4 million, which lagged the Zacks Consensus Estimate of \$498.1 million and declined 34% from the year-ago quarter. On a constant-currency basis, the top line declined 33%.

Brand-wise, net sales declined 36% and 30% to \$273 million and \$212.3 million for the Hollister and Abercrombie brands, respectively. From a geographical viewpoint, net sales fell 31% in the United States and dropped 39% in international markets.

Margins

Gross margin contracted 610 basis points (bps) to 54.4% on additional costs related to reduction of inventory stemming from COVID-19 as well as lower promotions. This includes adverse currency impact of 30 bps. At constant currency, gross margin declined 580 bps.

Adjusted operating loss totaled \$166.2 million compared with a loss of \$27.3 million in the year-earlier quarter. This included adverse currency impact of 50 bps.

Other Financials

Abercrombie ended the quarter with cash and cash equivalents of \$704 million and gross borrowings under its term-loan agreement of \$233.3 million. Also, inventories were \$426.6 million, reflecting a 1.3% decline from the prior-year period. In the quarter under review, capital expenditure was \$47 million.

Moving on, management has suspended its share repurchase program and dividend payouts in wake of the COVID-19 outbreak. Prior to this, it returned roughly \$28 million to shareholders in the forms of share repurchases and dividends. That said, the company boasts a liquidity of \$763 million as of May 2, 2020, which will help it to stay afloat during this crisis.

Store Update

Since mid-March, the company temporarily closed stores outside the APAC region in the wake of the COVID-19 outbreak. However, it interacted with customers via social media, mobile apps, online events, websites and emails. Also, the distribution centers were operational to fulfill online demand. In this context, the company generated digital sales growth of nearly 25% which gained momentum in mid-March to April and continued in May. It has also started reopening some stores from May 27.

Quarter Ending **04/2020**

Report Date	May 28, 2020
Sales Surprise	-2.56%
EPS Surprise	-151.15%
Quarterly EPS	-3.29
Annual EPS (TTM)	-2.23

Recent News

Abercrombie Furloughs Employees Amid Coronavirus – Apr 6, 2020

Abercrombie provided financial updates in the wake of uncertainty surrounding the coronavirus outbreak. In response to the pandemic, the company has decided to furlough majority of its associates and temporarily reduce work schedule and corresponding pay for nearly 15% of its corporate associates, effective Apr 12. However, it will fund 100% of the health premiums for eligible associates hurt by these measures.

It is also temporary reducing salaries by 10-33% for its leadership team positions of Vice President and upwards, including the Chief Executive Officer. Further, its board of directors will also temporarily forego 50% of their cash retainer, while the company has cancelled all spring merit raises and promotions. Moreover, it has drawn down \$210 million on its revolving credit facility and suspended its share repurchase program citing future uncertainty.

Abercrombie Closes Stores Globally to Contain the Virus Spread – Mar 15, 2020

Abercrombie & Fitch, like other retail counterparts, revealed plans to close stores worldwide, as a preventive measure to slow the spread of the deadly coronavirus (COVID-19). The company stated that all its brands' stores outside the APAC region will be temporarily closed. This will include the closing of all stores in North America from Mar 15 and EMEA from Mar 16 through Mar 28. However, the company will continue to operate its online stores in all regions.

Further, the company has withdrawn the first quarter and fiscal 2020 guidance it had provided during the fourth-quarter fiscal 2019 earnings call on Mar 4, as it is unable to predict the potential impact of the virus outbreak on its business, including the timing of impact as well as merchandise demand.

Valuation

Abercrombie shares are down 38.4% in the year-to-date period and 34% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 34.7% but the Zacks Retail-Wholesale sector is up 12.2% in the year-to-date period. Over the past year, the Zacks sub-industry is down 39.7% but the sector is up 19.1%.

The S&P 500 index is down 3.9% in the year-to-date period but up 5.1% in the past year.

The stock is currently trading at 0.2X forward 12-month sales, which compares to 0.48X for the Zacks sub-industry, 1.13X for the Zacks sector and 3.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.62X and as low as 0.14X, with a 5-year median of 0.35X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$11 price target reflects 0.21X forward 12-month sales.

The table below shows summary valuation data for ANF.

Valuation Multiples - ANF					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.2	0.48	1.13	3.47
	5-Year High	0.62	1.16	1.13	3.47
	5-Year Low	0.14	0.32	0.81	2.53
	5-Year Median	0.35	0.8	0.95	3.02
P/B TTM	Current	0.82	2.17	5.14	4.23
	5-Year High	1.84	6.25	5.97	4.56
	5-Year Low	0.47	1.34	3.66	2.83
	5-Year Median	1.08	4.71	4.93	3.67
EV/EBITDA TTM	Current	17.55	6.49	17.8	11.47
	5-Year High	19.56	8.94	17.9	12.85
	5-Year Low	2.32	4.7	11.05	8.25
	5-Year Median	4.51	6.67	12.79	10.82

As of 06/19/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (173 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Eagle Outfitters, Inc. (AEO)	Neutral	3
Boot Barn Holdings, Inc. (BOOT)	Neutral	3
Chicos FAS, Inc. (CHS)	Neutral	4
The Gap, Inc. (GPS)	Neutral	3
PVH Corp. (PVH)	Neutral	4
Urban Outfitters, Inc. (URBN)	Neutral	3
Buckle, Inc. The (BKE)	Underperform	2
L Brands, Inc. (LB)	Underperform	4

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	ANF	X Industry	S&P 500	AEO	BKE	GPS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	F	-	-	F	D	F
Market Cap	656.02 M	542.32 M	21.51 B	1.91 B	763.85 M	3.98 B
# of Analysts	11	4	14	9	1	8
Dividend Yield	7.51%	0.00%	1.92%	0.00%	5.17%	0.00%
Value Score	D	-	-	C	B	F
Cash/Price	1.03	0.30	0.06	0.45	0.26	0.27
EV/EBITDA	5.62	6.42	12.62	6.96	5.03	8.17
PEG Ratio	NA	2.51	2.90	NA	NA	NA
Price/Book (P/B)	0.82	1.27	2.99	1.92	2.02	1.72
Price/Cash Flow (P/CF)	3.01	3.85	11.39	4.44	5.77	3.06
P/E (F1)	NA	28.70	21.20	NA	12.08	NA
Price/Sales (P/S)	0.19	0.33	2.29	0.48	0.94	0.27
Earnings Yield	-26.01%	1.49%	4.42%	-2.34%	8.28%	-21.58%
Debt/Equity	1.78	1.07	0.77	1.95	0.71	2.84
Cash Flow (\$/share)	3.53	1.46	7.01	2.60	2.68	3.49
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	2.25%	-0.83%	10.87%	1.62%	-10.57%	-1.21%
Proj. EPS Growth (F1/F0)	-479.95%	-83.33%	-10.65%	-118.32%	-40.19%	-216.69%
Curr. Cash Flow Growth	-6.25%	-0.32%	5.46%	0.06%	4.13%	-14.41%
Hist. Cash Flow Growth (3-5 yrs)	-5.89%	1.68%	8.55%	10.42%	-8.00%	-5.36%
Current Ratio	1.32	1.52	1.29	2.35	2.45	1.23
Debt/Capital	63.97%	54.62%	45.14%	66.13%	41.67%	73.96%
Net Margin	-5.50%	-2.68%	10.53%	-2.68%	9.52%	-5.47%
Return on Equity	-14.29%	2.61%	16.06%	5.92%	19.54%	-8.63%
Sales/Assets	0.98	1.08	0.55	1.15	0.95	1.08
Proj. Sales Growth (F1/F0)	-14.22%	-8.93%	-2.61%	-11.28%	-12.91%	-18.14%
Momentum Score	D	-	-	D	D	F
Daily Price Chg	-7.07%	-2.18%	-1.02%	-6.48%	-4.45%	-2.29%
1 Week Price Chg	-19.45%	-9.39%	-7.25%	-7.78%	-10.35%	-14.38%
4 Week Price Chg	-11.47%	10.32%	5.73%	28.65%	-1.84%	30.16%
12 Week Price Chg	6.50%	16.23%	15.89%	33.87%	-11.61%	26.15%
52 Week Price Chg	-34.62%	-35.50%	-6.79%	-36.07%	-10.53%	-41.11%
20 Day Average Volume	2,857,782	728,471	2,574,456	9,352,633	728,471	17,312,454
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-220.82%	-34.23%	0.00%	-186.69%	-1.54%	-951.45%
(F1) EPS Est 12 week change	-672.42%	-81.82%	-14.21%	-122.52%	-30.06%	-269.67%
(Q1) EPS Est Mthly Chg	8.46%	-5.31%	0.00%	22.65%	260.00%	-3,270.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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