

Abercrombie & Fitch (ANF) 4Q16 Results: Disappointing Quarter; Comps Still Challenging

Figure 1. Abercrombie & Fitch 4Q16 Key Metrics

	4Q16	4Q15	YoY Change
Revenues (USD Mil.)	\$1,036.4	\$1,112.9	(6.9)%
Gross Margin	59.3%	60.8%	(150) bps
SG&A/Sales	44.1%	50.0%	(590) bps
Operating Margin	5.9%	10.8%	(490) bps
EPS (USD)	\$0.71	\$0.85	(16.5)%

Source: Company reports/Fung Global Retail & Technology

- Abercrombie & Fitch reported 4Q16 EPS of \$0.71, missing the consensus estimate of \$0.75 and down from \$0.85 in the year-ago quarter. Total comps were down 5%, beating the consensus estimate of a 5.4% decline. Total revenue was \$1.04 billion, down 6.9% from the year-ago period and missing the consensus estimate of \$1.05 billion.**
- Total net sales for the Abercrombie brand were \$442.4 million, down 13%. Total comps for the Abercrombie brand were also down 13%, missing the consensus estimate of an 11.3% decline. Sales at Hollister were down 2%, to \$594.0 million. Comps at Hollister were up 1%, beating the consensus estimate of a 0.5% decline.**
- The company expects comp trends to improve in FY17. Gross margin is expected to be flat compared with FY16 due to continued promotion pressures that will be offset by lower average unit cost.**

4Q16 Results

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By business segment, total net sales for the Abercrombie brand were down 13% for the quarter, to \$442.4 million. Total comps for the Abercrombie brand were also down 13%, missing the consensus estimate of an 11.3% decline. Sales at Hollister were down 2%, to \$594.0 million. Comps at Hollister were up 1%, beating the consensus estimate of a 0.5% decline.

The company's gross margin decreased by 150 basis points, to 59.3%, primarily due to a lower average unit retail price, which was partially offset by a lower average unit cost. Sales from the direct-to-consumer channel grew to 31% of total sales, up from 28% in the year-ago quarter.

By geography, US sales were down 8%, to \$688 million, and international sales were down 5%, to \$594 million. International comps improved significantly from (10)% to (4)%.



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FY16 Results

For the full year, net sales were \$3.3 billion, down 5% from FY15. EPS for the year was \$0.06, down from \$0.51 the previous year.

By business segment, Abercrombie brand net sales decreased by 9% year over year, to \$1.49 billion, and Hollister brand net sales decreased by 2%, to \$1.84 billion. The company ended the fiscal year with 8% less inventory versus the previous year, compared with the 5% total sales decline.

Capital expenditures in FY16 were \$140.8 million, which consisted of \$73 million in store-related investments and \$67.7 million in investments related to IT, e-commerce and other projects.

FY17 Outlook

The company expects comp trends to improve in 2017. The Hollister brand is expected to maintain or improve its current trend. Abercrombie brand comps are expected to improve throughout the year. Gross margin is expected to be flat compared with FY16 due to continued promotion pressures that will be offset by lower average unit cost. Capital expenditure is expected to be about \$100 million in FY17, including \$70 million in store investments and \$20 million in e-commerce and IT infrastructure investments.

The company plans to open six full-line stores in FY17, four of which will be in the US. The company also plans to open two new outlet stores. In addition, the company expects to close approximately 60 stores throughout the year.



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