

FLASH REPORT



(AEO) 4Q16 Results: Beats by a Penny, Guides Down for 1Q17

Figure 1. American Eagle Outfitters 4Q16 Key Metrics

	4Q16	4Q15	YoY Change
Total Revenues (USD Bil.)	\$1.10	\$1.11	(0.8)%
Gross Margin	35.4%	35.1%	32 bps
Adjusted SG&A/Sales	22.1%	21.9%	14 bps
Adjusted Operating Margin	9.8%	9.6%	15 bps
Adjusted EPS (USD)	\$0.39	\$0.35	11.6%

Source: Company reports/Fung Global Retail & Technology

- **American Eagle Outfitters reported adjusted 4Q16 EPS of \$0.39, versus \$0.35 in the year-ago quarter and beating the consensus estimate by a penny. Revenues were \$1.10 billion, down 0.8% year over year and slightly below the consensus estimate.**
- **Comps were up 0.4% in the quarter, comprising a 1% decline for the American Eagle total brand and a 17% increase for the Aerie total brand.**
- **The company's 1Q17 guidance calls for comps to be flat to down by low single digits (versus consensus of up 0.5%) and adjusted EPS of \$0.15–\$0.17, below consensus of \$0.21.**

4Q16 Results

American Eagle Outfitters reported 4Q16 total revenues of \$1.10 billion, down 0.8% year over year and slightly below the consensus estimate. Total comps were up 0.4%.

Adjusted EPS was \$0.39, versus \$0.35 in the year-ago quarter and beating the consensus estimate by a penny. GAAP EPS, which includes asset impairment and restructuring charges, was \$0.30, versus \$0.42 in the year-ago quarter.

Highlights from the quarter include:

- Women's apparel, men's and women's, jeans and bottoms continued to grow.
- American Eagle jeans gained market share, ranking number one among 15–25-year-olds, with a 33% share of specialty store brands.
- Aerie maintained strong momentum, posting double-digit growth and gaining market share.
- Core intimates and apparel showed particular strength, and the company's customer base continued to grow.
- Since early 2014, the company's priorities have centered on superior merchandise infused with innovation, quality fabrics and outstanding value, and its omnichannel strategy, in which it has invested significantly.



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Performance by Segment

- **American Eagle total brand** comps declined by 1%, compared with a 3% increase in the year-ago quarter. Comps increased by 1% for the full year, compared with a 7% increase the prior year.
- **Aerie total brand** comps were up 17%, compared with 25% in the year-ago quarter. Comps increased by 23% for the full year, compared with 20% the prior year.

FY16 Results

American Eagle Outfitters reported FY16 total revenues of \$3.61 billion, up 2.5% year over year. Total comps were up 3% for the year.

Full-year adjusted EPS was \$1.25, versus \$1.01 in the previous year and beating the consensus estimate by a penny. GAAP EPS, which includes asset impairment and restructuring charges, was \$1.16, versus \$1.11 in the prior year.

During the coming year, management plans to:

- Further strengthen the brick-and-mortar fleet with select store closures, marketing consolidations and efforts to improve store productivity.
- Conduct deeper analytical reviews to position its brands better.
- Work to better leverage its omnichannel tools to deliver the best customer experience along with strong financial returns.
- Expand its marketing campaigns and launch a new loyalty program aimed at customer acquisition and retention.
- Fuel the growth of Aerie with investments in products, marketing, digital and store growth.

Outlook

For 1Q17, the company expects:

- Comparable store sales to be flat to down by low single digits.
- Adjusted EPS of \$0.15–\$0.17, compared with \$0.22 in the year-ago quarter and consensus of \$0.21.



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