

# WESTPEAK RESEARCH ASSOCIATION

## American Eagle Outfitters, Inc. (NYSE: AEO)

Consumer Goods – Clothing and Accessories

### American Eagle Outfitters – Eager to Compete

April 30th, 2021

*American Eagle Outfitters, Inc. is a specialty retailer aims to offer a broad assortment of apparel, accessories, and personal care products at an affordable price. It mainly operates under two brands: AE and Aerie. American Eagle Outfitters, Inc. operates over 1000 stores in the United States, Canada, Mexico, and Hongkong. Most of their stores operate in the United States.*

#### Thesis

The clothing and accessories industry is highly competitive. To compete with other retailers, American Eagle Outfitters, Inc. has improved its e-commerce offerings and opened new stores specifically for its brand Aerie for a stronger market presence. Although AEO had been struggling to compete with others and to recover from the impacts of the pandemic, we believe the AEO will start to experience stable growth within the next five years, especially, with the three strong catalysts that we have listed below.

#### Drivers

Due to the pandemic, many customers have turned to online shopping. This trend will help AEO to gain a sustainable competitive advantage since AEO has been investing in building its e-commerce and its omnichannel capacity for the past few years. Also, as sustainability becomes more concerned, it will become important for retailers to make products sustainable. This can be a driver to help AEO grow because they had been working on offering sustainable products. Lastly, we see a high growth potential within its brand Aerie due to social environment, which will help the company to grow in the next five years.

#### Valuation

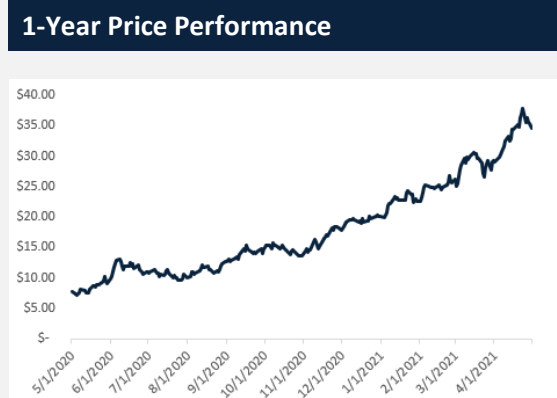
We recommend a **HOLD** rating for American Eagle Outfitters, Inc. by using a Discounted Cash Flow Analysis and a comparable Company Analysis. After weighting both methods equally at 50%, we have arrived at a target price of \$34.44.

Analyst: Blair Huang, BCom. '23  
contact@westpeakresearch.com

Equity Research	U.S.
Price Target	USD\$ 34.44
Rating	HOLD
Share Price (April 30th Close)	USD\$ 34.57
Total Return	-0.5%

Key Statistics	
52 Week H/L	\$34.33/\$6.54
Market Capitalization	\$5.03B
Average Daily Trading Volume	4.91M
Net Debt	\$952.2M
Enterprise Value	\$5.93B
Net Debt/EBITDA	N/A
Diluted Shares Outstanding	\$166.5M
Free Float	92.97%
Dividend Yield	N/A

WestPeak's Forecast			
	2021E	2022E	2023E
Revenue	\$6.92B	\$7.13B	\$7.49B
EBITDA	\$657M	\$677M	\$711M
Net Income	\$389M	\$403M	\$427M
EPS	\$2.33	\$2.42	\$2.56
P/E	12.9x	12.5x	11.8x
EV/EBITDA	8.7x	7.9x	7.0x

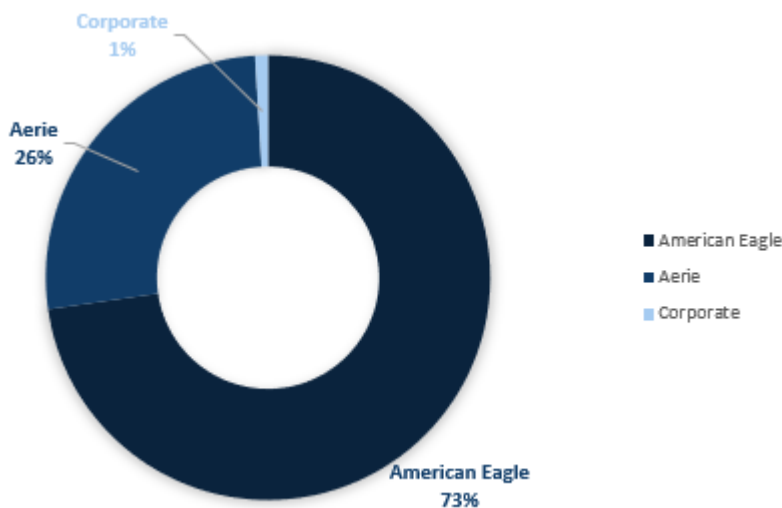


## Business Overview/Fundamentals

### Company Overview

American Eagle Outfitters, Inc. (NYSE: AEO) is a leading global multi-brand specialty retailer that aims to offer a broad assortment of high-quality, on-trend clothing, accessories, and personal care products at affordable prices under its American Eagle and Aerie brands. The company operates and licenses more than 1,300 retail stores worldwide, and ships to 81 countries worldwide through its online shopping channel. American Eagle and Aerie merchandise are also available at more than 200 international locations operated by licensees in 25 countries. The company also operates Todd Snyder New York, a premium menswear brand. AEO's revenue segment is focusing on selling its product directly to its consumers through either physical stores or e-commerce. Its revenue is mainly generated by its two main brands, American Eagle and Aerie.

**Exhibit 1: Revenue Segment (FY 2020)**



*Source: Company Filings*

### Brands

#### American Eagle

American Eagle is an American brand rooted in their denim heritage and passionate about providing the highest-quality products by producing innovative fabric with options for all styles and fits at a value. AE brand includes Tailgate, a vintage, sportes-inspired apparel clothing brand. Tailgate follows a college town store concept. As of January 31, 2021, AEO operated 901 AE stores. Also, AE and Tailgate products are available on their online shopping channel.

## **Aerie**

Aerie is a lifestyle brand offering intimate, apparel, active wear and swim collections. As of January 31, 2021, AEO operated 175 Aerie brand stand-alone stores, and 179 side-by-side stores connected to AE brand stores. Aerie merchandise is available on their online shopping channel and certain items are offered in AE brand stores.

## **Todd Snyder New York**

Todd Snyder New York is a premium menswear brand. As of January 31, 2021, AEO operated 2 Todd Snyder New York stores, as well as online shopping channel.

## **Company Strategy**

### **Continuing to Accelerate the Growth of Aerie**

AEO plans to continue to accelerate the growth of Aerie as a leading intimates-inspired lifestyle brand, differentiated by its purpose of allowing women to feel good about their real selves. Aerie was able to gain a huge market share so quickly was because of Victoria Secrets' body-positive marketing campaigns and its affordable products. As a result, Aerie has become the key to the company's growth. Looking into its FY2021 report, Aerie contributed 26% of AEO's total revenue and has been able to increase its revenue from \$801M to \$989M in one year at an annual rate of 23%. Looking back to the past few years, Aerie's revenue increased from \$397M in 2016 to \$819M in FY2019 at a CAGR of a robust 24%. In 2021, The company is planning to open approximately 60 Aerie locations including 25-30 OFFLINE stores (a mix of stand-alones and Aerie side-by-side) and close 5-10 stores at the expiration of their lease term in 2021. As a result, the company is expecting to double Aerie's revenue to \$2 billion in return. The women's intimate wear market of \$16B is a huge opportunity for Aerie to expand in the future and help with AEO's profit growth.

### **Building Omni-Channel Capability**

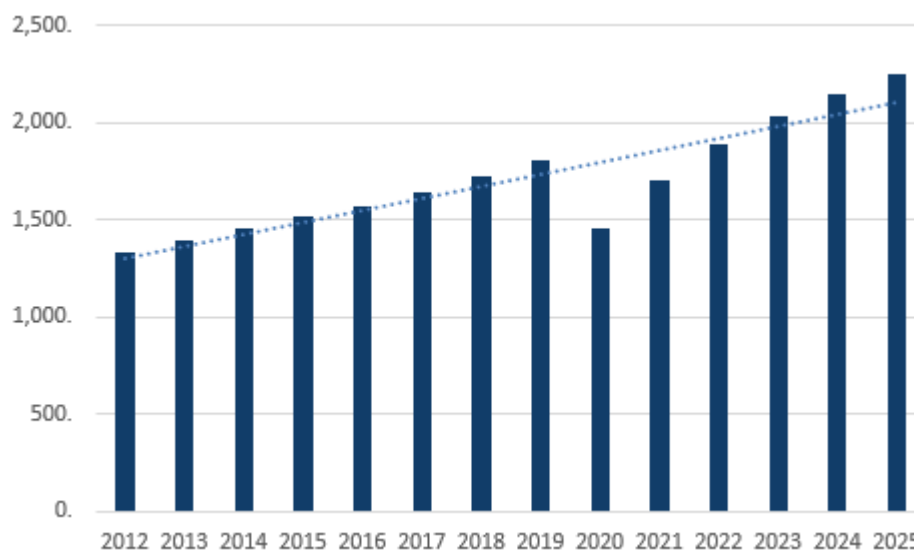
Due to the pandemic, in FY2020, AEO's digital sales represented 45% of their total revenue, a 36% increase compared to FY2019. It is an obvious sign of showing customers turning to online shopping and it is significant for AEO to stay competitive as other competitors have shifted to omnichannel. Furthermore, there is a trend of increasing use of digital channels and AEO has noticed declining traffic trends while their omnichannel continued to grow. Therefore, AEO plans to continue to invest in building its technologies and digital capabilities in three key areas: mobile technology, digital marketing, and the digital customer experience. By following this company strategy, it will help the company to better adapt to this new condition where online shopping will continue to grow in the future. Also, it will help the company to better serve customers with convenience and attract new customers who specifically tend to shop online.

## **Industry Analysis**

The apparel market includes different product lines, such as Women's apparel, Men's Apparel, and Children's Apparel. Overall, revenue generated by the global apparel market is steadily increasing. In 2020, the revenue of this market was

approximately 1.46 trillion US dollars. According to statistics' data, this revenue will increase to roughly 2.25 trillion US dollars by 2025.

**Exhibit 2: Global Revenue of Apparel Market 2012-2025(in billion US dollars)**



*Source: Statista*

## COVID-19 Pandemic

The global retail apparel market's profit is expected to fall by 93% in 2020 after rising 4 % in 2019. As the pandemic continues, the market showed a record-low economic profit. And the retailer executives are planning to find out the resolution and hoping for a speedy global recovery. However, we cautiously believe that the market would recover and grow in the future. Looking forward, as COVID-19 became more controlled in 2021 and the next year, the industry is still optimistic. Besides, government interventions will help to offset economic impacts. At the same time, retailer executives will have the chance to adjust their business model, channel, supply chains, etc.

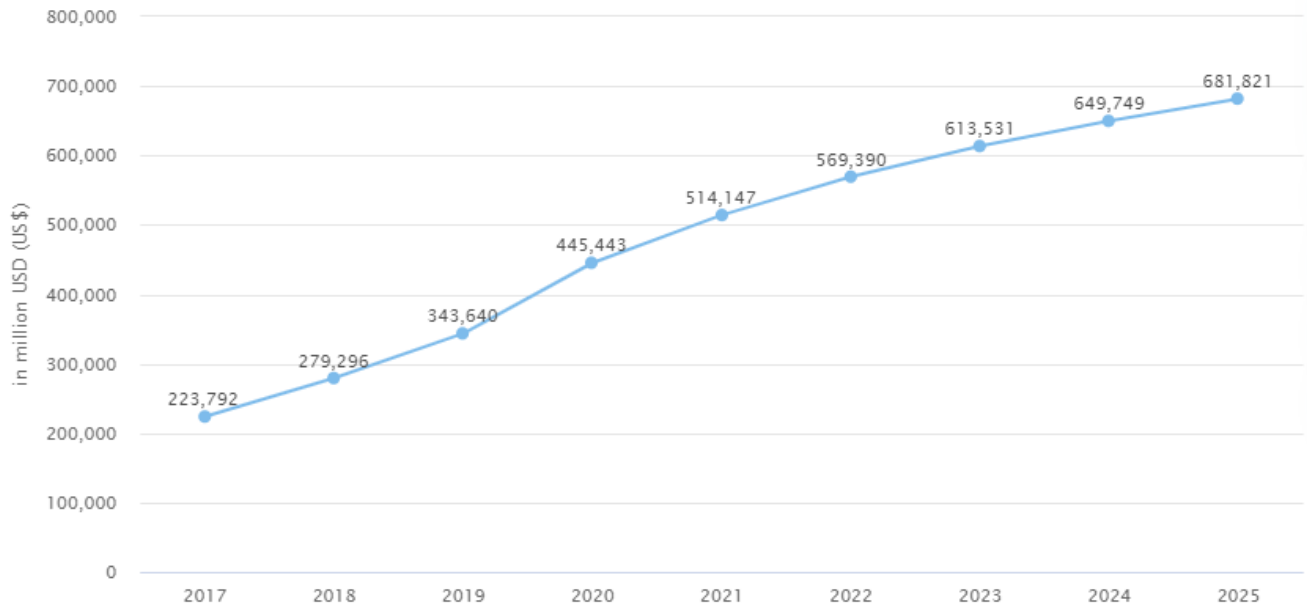
For AEO, in the Q1 of 2020, it had a negative net income of \$257.2 million. And in the Q4 of 2020, its total net income raised to \$3.76 billion. This reflects that the industry is in the process of recovering, as well as AEO.

## E-Commerce

As virus pandemic going on, many customers have chosen to use online shopping initially to prevent unnecessary contact. And as the convenience e-commerce brought to the customers, more and more people moved to digital stores. As a result, revenue has hit \$445,443 million in 2020. Revenue is expected to show an annual growth rate of 7.31% from 2021-2025, resulting in a projected market volume of \$681,821 million by 2025. The overall e-commerce section has shown a significant growth potential as people get more comfortable with shopping online. According to McKinsey's research, from Dec 2019 to Oct 2020, there is a 76% increase for internet retailers to be well-performing retail companies. It illustrated the importance of digital strength. During the pandemic, as the retailers start to have virtual consumer service and live to

stream, we believe people will get more and more used to digital stores. Thus, it becomes crucial for the players in the retail apparel industry to maximize their technical capability and optimize the customer’s online shopping experience and omnichannel development.

**Exhibit 3: Revenue in the Apparel Segment 2017-2025**



**Source: Statista**

## Environmental Responsibilities

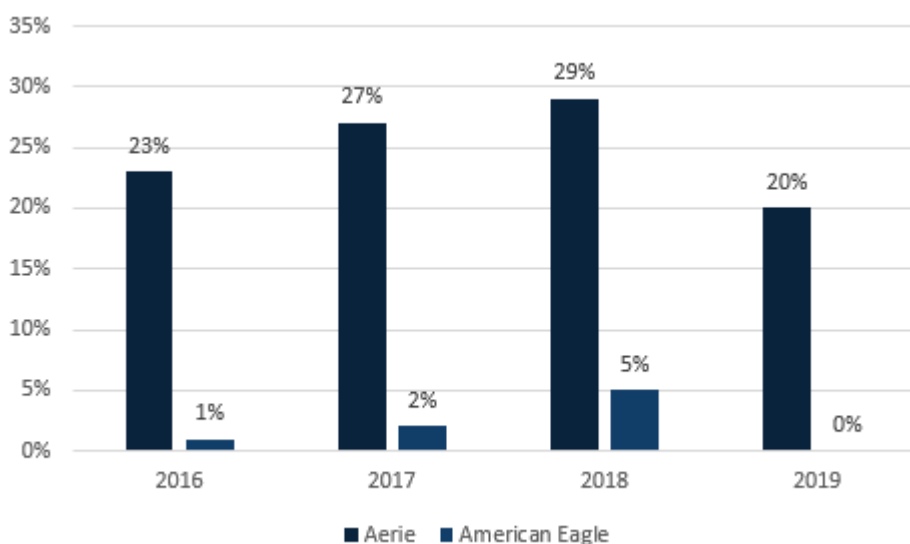
The fashion industry not only creates trends but also consumes large amounts of energy, pollution, and waste. Research shows that fashion production produces 10% of the world’s carbon emission and is responsible for 20%-35% of all water pollution worldwide. If the retail industry keeps producing in the same way, according to Forbes, the researcher predicts that it will produce 26% of the world’s carbon footprint by 2050. As there is a shift in demographics. Millennials became the biggest group that cares about sustainability. This will be a trend that consumers want the brands to take environmental responsibility and put sustainability first. There are some brands taking steps, such as developing new fabrics, or ensuring the products can be recycled or repaired. To compete with other retailers and help the environment, we believe sustainability would be one of the key steps that the retailers need to take in the future.

## Catalysts

## Strong Growth in Aerie and Future Expansion in Aerie

Aerie has been one of the main revenue growth drivers for AEO in the past few years and is expected to continue its robust growth with the company's expansion plan in Aerie. In FY2020, Aerie represents 26% of the company's total revenue, increased 21% compared to last year, and achieved a 75% increase in its digital sales. It is clear to tell that Aerie is bringing larger and larger influence to the company, and the company will expect outsized growth from Aerie as its catalyst. Furthermore, AEO promotes Aerie to all age women, who value social responsibility and body positivity and points out the brand value "empower all women to love their real selves". As one of its main competitors, Pink by Victoria Secret, starting to lose its market presence, this will help to accelerate the growth of Aerie and to expand its consumer base to strengthen its market presence. The social environment is promoting the idea of body positivity and no body shame, especially for women, Aerie fits with this social trend and will be able to help AEO to increase its net revenue, which makes Aerie become AEO's long-term catalyst.

**Exhibit 5: Growth in Aerie and American Eagle 2015-2019**



*Source: Statista*

## COVID-19 factors

As the virus continues, some small companies having problems operating. As a result, some retailers are exiting the retail apparel industry. And some stores are closed or will be closed due to the pandemic. In the meantime, AEO will have a chance to gain this part of the market share. Furthermore, due to the pandemic, the economy declined and it becomes important for the retailers to have strong liquidity to withstand any uncertainty that recessionary pressure lasts longer than expected in the future. AEO has cash and equivalents of \$850 million, up approximately 490 million from FY2019. Its working capital for FY2020 is \$664 million, up approximately 368 million from the year before. As we know, the higher the working capital is, the more efficiently the company functions. In this case, AEO's working capital is enough to support the company for several quarters. The rising cash flow should lead to an increase in the company's liquidity and should help the company

to maintain its operation even under recessionary pressure. Under COVID-19's impact, preserving strong liquidity to maintain operation and gain market presence when some retailers exit the market can be seen as its catalyst for its future growth.

## Sustainability

As more and more customers start caring about sustainability, it becomes essential that retailers take to cater to customers' preferences. This will be a catalyst for AEO since the company has already been taking steps to be environmentally friendly. According to the company page, AEO's sustainability goals by 2030 are water reduction, energy reduction, the use of more sustainable raw materials, and reduce&reuse. On Dec 26, 2020, AEO announced their "Real Good" products, which are produced with plant materials that have been sustainably produced, such as recycled polyester, recycled nylon, cotton that's recycled, and organic. By now, AEO's factories are saving 1 billion gallons of water per year. They have reduced the amount of water used per pair of jeans by 14%. We believe that AEO now is doing the right thing and should continue taking environmental responsibilities. In this way, it helps the company to build up a reputation and brand image. Overall, AEO will benefit from caring about sustainability and help the company to generate profit growth.

## Management Team

### Jay L. Schottenstein, Executive Chairman of the Board and Chief Executive Officer

Jay returned to AEO as Chief Executive Officer in 2014, a position he previously held from 1992 to 2002. He has served as AEO's Chairman of the Board continuously since 1992, and he remains one of AEO's largest shareholders. Jay's expertise across apparel merchandising, operations, retail, real estate, brand development and team management provides valuable leadership and vision for the company. Jay also serves as Chairman of the Board and Chief Executive Officer of Schottenstein Stores Corporation. He currently is Chairman of the Board of DSW Inc., a leading footwear and accessories retailer, and previously held the position of Chief Executive Officer from 2005 to 2009. Jay also serves as Chairman of the Board and Chief Executive Officer of Schottenstein Stores Corporation. He currently is Chairman of the Board of DSW Inc., a leading footwear and accessories retailer, and previously held the position of Chief Executive Officer from 2005 to 2009.

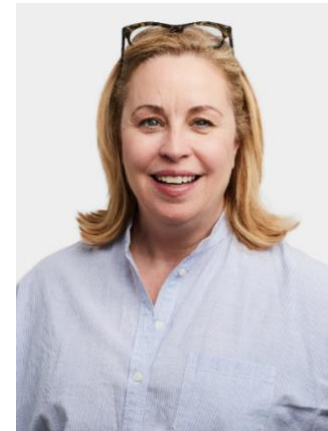
Jay made in total \$8,086,131 in total compensation in 2019. Of this total, \$1,500,000 was received as base salary, \$4,781,249 was received as stock awards, \$1,593,751 was received as option awards, \$0 came from Non-Equity Incentive Plan Compensation, and \$211,131 was received as all other compensation.



### Jennifer Foyle, Chief Creative Officer, AEO inc. and Aerie Global Brand President



Jennifer joined AEO in August 2010 and has been an instrumental force in Aerie's successful expansion, leading growth from \$225 million in 2014 to nearly \$800 million in annual revenue in 2019. In September 2020, Jennifer was appointed Chief Creative Officer, AEO inc., And in addition to her responsibilities as Aerie Global Brand President, Jennifer defines the strategic vision for both the American Eagle and Aerie brands and leads design, marketing and merchandising. Jennifer has more than 26 years of experience in the apparel retail industry. In 2014, Jennifer revolutionized the intimate apparel industry by bringing body positivity and inclusivity to the forefront with the power of #AerieREAL. This movement has been a game-changer for the Aerie business and for millions of women and girls who have been empowered to love their REAL selves inside and out. Throughout her tenure, Jen has assembled and developed a strong bench of talent at all levels and across functions.



Jennifer made in total \$3,955,057 in total compensation in 2019. Of this total, \$895,000 was received as base salary, \$2,287,488 was received as stock awards, \$762,502 was received as option awards, \$0 came from Non-Equity Incentive Plan Compensation, and \$10,067 was received as all other compensation.

## Mike Mathias, Executive Vice President and Chief Financial Officer

Mike first joined the company more than 20 years ago and has a deep knowledge of AEO's stores and operations, in both finance and operational areas including e-commerce, store finance, Aerie planning, strategy and business development. He has held a number of roles with progressive levels of responsibility and oversight. Mike is a strategic leader with a unique and significant understanding of the company's industry-leading business. His operational and financial expertise will be instrumental in driving AEO's profitable growth. From 2017 – 2020, Mike served as AEO's Senior Vice President - Financial Planning & Analysis. From 2016 to 2017, he departed AEO to serve as VP, Financial Planning and Analysis at General Nutrition Centers, Inc. Mike began his career at the May Company.



Mike would make an annual base salary of \$600,000. And he would be eligible to receive an annual incentive bonus with a target opportunity of 65% of his salary and a maximum opportunity of 130% of his salary. The annual long-term incentive awards, with a target value of \$1,000,000, consisting of a combination of time-based restricted stock units, performance-based restricted stock units and stock options. Lastly, he would be eligible to participate in the company's employee benefit, retirement and deferred compensation programs or policies.

## Shareholder Base, Liquidity, Market Depth

### Shareholder Base



American Eagle Outfitters, Inc. currently has 166.70M shares outstanding. Around 110.36% of shares outstanding held by institutions. And 6.62% of shares held by all insiders. Most of the insider shares are held by the Executive Chairman of the Board & CEO, Schottenstein, Jay L.

**Exhibit 6: Top 10 Shareholder Base**

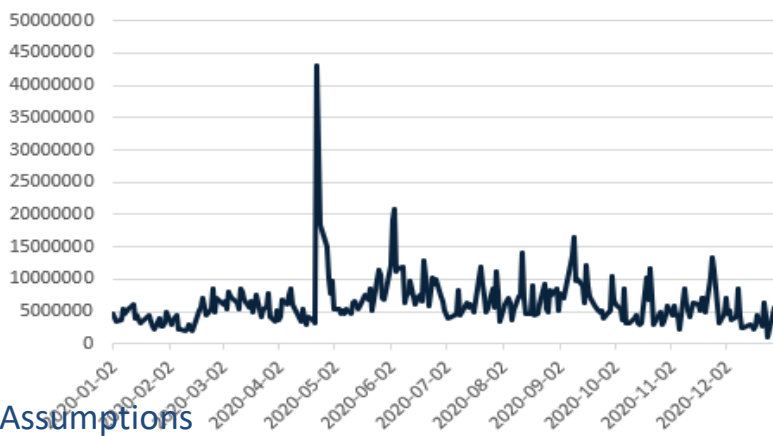
Shareholder	Position	% of CSO	Marker Value(mm)	Insider(Y/N)
BlackRock, Inc.(NYSE:BLK)	16,694,487	10.015	543.2	N
The Vanguard Group, Inc.	13,386,409	8.03	435.6	N
FMR LLC	12,834,573	7.699	417.6	N
Cooke&Bieler, L.P.	10,759,643	6.454	350.1	N
Schottenstein, Jay L. Executive Chairman of the Board &CEO	10,410,893	6.245	338.8	Y
Melvin Capital Management LP	9,000,000	5.399	292.9	N
Dimensional Fund Advisors L.P.	8,267,006	4.959	269	N
Samlyn Capital, LLC	5,266,311	3.159	171.4	N
State Street Global Advisors, Inc.	5,237,029	3.142	170.4	N
Macquarie Investment Management Business Trust	4,859,134	2.915	158.1	N
<b>Total 10 Shareholders</b>	<b>96,715,485</b>	<b>58.017</b>	<b>3147.1</b>	

Source: Capital IQ

## Liquidity

The average trading volume from the past year (Jan 2, 2020 to Jan 1, 2020) is 6,433,525 shares. We believe the liquidity risk for American Eagle Outfitters, Inc. is not significant.

**Exhibit 7: AEO's One-Year Average Trading Volume**



Source: Yahoo Finance

## Valuation

### Discounted Cash Flow Assumptions

### Revenue

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Revenue was projected based on the store openings and store closings, as we believed that the main revenue segment of American Eagle Outfitters, Inc. was from its physical stores.

### **Number of Stores (Opening and Closing)**

We predicted the number of store openings and store closings based on the executives' strategy and last two years numbers for store openings and closings. Because of their strategy to accelerate the growth of Aerie and try to gain market share (global expansion), we expected 60 store openings and 40 store closings in FY2021. After FY2021, we expected 40 store openings and 60 store closings due to the shift in omnichannel. We expected that AEO recovers from the loss from the pandemic and start with its executives' strategy to accelerate its profit growth.

### **CAPEX**

We predicted CAPEX would remain constant at 25%. These numbers are based on historical numbers and we did not expect any significant changes in the future.

### **COGS and SG&A**

We predicted COGS and SG&A would remain constant at 64% and 25%. These numbers are calculated by taking the average of the past five years and we did not expect any significant changes in the future.

### **Effective Tax Rate**

We predicted a constant 25% tax rate based on historical numbers.

### **WACC**

The weighted average cost of capital (WACC) is calculated to be 8.9%. This is calculated by using a risk-free rate of 2.6%, an expected market return of 9.4%, a beta of 1.33, a pre-tax cost of debt of 1.9%, and an effective tax rate of 30.0%.

### **Terminal EV/EBITA Multiple**

We used a 2023E EV/EBITA exit multiple of 8.8x, the industry median. It is below the company's 2023E EV/EBITA exit multiple of 8.2x.

## **Comparable Company Analysis**

For our comparable company analysis, we have chosen the following apparel retail. To create a relative valuation, we have considered other publicly traded apparel retail that were relatively close to the market size of American Eagle Outfitters, Inc. and had a similar business model.

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**Urban Outfitters, Inc. (NasdaqGS: URBN)**

Urban Outfitters, Inc. is a multinational lifestyle retail corporation headquartered in Philadelphia, Pennsylvania. It primarily targets teens and young adults who are interested in hipster subculture and alternative fashion.

**Levi Strauss&Co. (NYSE: LEVI)**

Levi Strauss&Co. is one of the world's largest brand-name apparel companies and a global leader in jeanswear. The company designs and markets jeans, casual wear and related accessories for men, women and children under the Levi's®, Dockers®, Signature by Levi Strauss & Co.™, and Denizen® brands.

**Abercrombie & Fitch Co. (NYSE: ANF)**

Abercrombie & Fitch Co. is a specialty retailer that operates stores and conducts direct-to-consumer operations. The Company, through these channels, sells casual sportswear apparel, including knit and woven shirts, graphic t-shirts, fleece, jeans and woven pants, shorts, sweaters and outerwear, personal care products, and accessories for men, women, and kids.

**The Gap Inc. (NYSE: GPS)**

The Gap, Inc. is an apparel retail company. The Company offers apparel, accessories, and personal care products for men, women, and children under the Old Navy, Gap, Banana Republic, Athleta, Intermix, Janie and Jack, and Hill City brands.

**Zumiez Inc. (NASDAQ: ZUMZ)**

Zumiez is a leading specialty retailer of apparel, footwear, accessories and hardgoods for young men and women who want to express their individuality through the fashion, music, art and culture of action sports, streetwear, and other unique lifestyles.

**Foot Locker, Inc. (NYSE: FL)**

Foot Locker, Inc. leads the celebration of sneaker and youth culture around the globe through a portfolio of brands including Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs Sports, Eastbay, Footaction, and Sidestep.

**Designer Brands Inc. (NYSE: DBI)**

Designer Brands (formerly DSW) is one of North America's largest designers, producers and retailers of footwear and accessories. The company offers shoes, boots, sandals, sneakers, socks, handbags, and accessories.

## Recommendation

With our projection and understanding of American Eagle Outfitters, Inc. and the apparel retail industry, we believe the company is in stable condition. We initiate a **HOLD** rating on American Eagle Outfitters, Inc. due to its future growth potential, specifically in Aerie. We believe Aerie's robust growth and American Eagle's stable performance will help the company to achieve significant success. And with help of the executives' strategy in building their omnichannel and develop

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sustainable products to encounter changes in customer's preferences, AEO is expected to have a stable performance and fully recover from the loss of pandemics. Through our discounted cash flow and comparable company analysis, we determine a target price of \$34.44 and recommend a **HOLD** rating on American Eagle Outfitters, Inc.

## Risks

### Macroeconomic and Industry

American Eagle Outfitters, Inc. is operating under the retail apparel market. The industry is highly competitive and fragmented, with a few major companies and countless niche stores and private companies. Their success depends on the ability to identify and respond to the fashion trend and changing consumer preferences promptly. AEO needs to anticipate and quickly respond to changing consumer demands or preferences and fashion trends than their competitors. And the failure of responding to consumer's tastes will have a result in reducing the demand for their merchandise. The Public's perception of their products could harm AEO's reputation as well. It may damage the brands and hurt their business and financial condition.

### Global Economy

AEO mainly operates in the U.S., where up to February 1, 2020, its AE brand has 803 stores, and its Aerie brand has 129 stores. Due to the COVID-19, the unemployment rate has increased. In April 2020, the U.S. unemployment rate reached its peak within five years at 14.8%. Even though the unemployment rate declined and reached 6.7% in January, it is still high compared to last year's stats. Because of the hit of the global economy, the consumer will spend less on non-essential goods. And that has resulted in a significant reduction in consumer traffic and demand in early March 2020. Even though the industry is in the process of recovering from the hit, there is a risk that the virus continues. It may result in another closure for AEO stores in certain regions. And it may also have resulted in another reduces consumer spending on discretionary goods and services.

### International Merchandise Sourcing

There is a significant portion of AEO's products that they purchased is manufactured abroad. And their merchandise is manufactured by suppliers worldwide. Thus, there is a risk to their supply chain. Trade restrictions, such as increased tariffs, and customs restrictions, will adversely impact the company's financial condition and operations. As well as currency exchange rate fluctuation, political instability would impact their profitability. This risk is hard to minimize and prevent unless AEO chose another merchandise sourcing. It is hard to predict how the risk would impact the company due to all the uncertainty.

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## **Appendix 1: Summary Page**

**Summary Page**

	Jan-16	Jan-17	Jan-18	Jan-19	Jan-20	Apr-20	Jul-20	Oct-20	Jan-21	Jan-21	Jan-22	Jan-23	Jan-24	Jan-25	Jan-26
(Figures in mm USD)	FY2015	FY2016	FY2017	FY2018	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
<b>Income Statement</b>															
Revenue	3,521.8	3,609.9	3,795.5	4,035.7	4,308.2	551.7	883.5	1,031.6	1,292.3	3,759.1	8,704.0	9,418.0	9,792.0	10,146.0	9,956.0
EBITDA	468.0	488.2	470.2	505.5	412.4	(315.5)	26.9	134.5	45.2	(108.9)	826.9	894.7	930.2	963.9	945.8
Net Income	218.1	212.4	204.2	261.9	191.3	(257.2)	(13.8)	58.1	3.5	(209.3)	515.8	565.8	591.1	615.0	600.1
Earnings Per Share	\$ 1.11	\$ 1.16	\$ 1.13	\$ 1.47	\$ 1.12	\$ (1.54)	\$ (0.08)	\$ 0.32	\$ 0.02	\$ (1.26)	\$ 3.10	\$ 3.40	\$ 3.55	\$ 3.69	\$ 3.60
<b>Cash Flow Statement</b>															
Capital Expenditures	(153.3)	(161.5)	(169.5)	(189.0)	(210.4)	(33.9)	(27.5)	(31.2)	(35.4)	(128.0)	(156.6)	(157.8)	(159.7)	(161.6)	(163.5)
Acquisitions	(10.4)	-	-	(202.9)	-	-	-	-	-	-	-	-	-	-	-
Divestitures	12.6	-	-	109.8	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	(7.6)	(4.4)	(3.4)	(6.8)	-	-	-	-	-	-	-	-	-	-	-
Dividend Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividend Payout to Earnings	3.5%	2.1%	1.7%	2.6%	-	-	-	-	-	-	-	-	-	-	-
Dividend Payout to Core FCF	1.4%	0.7%	0.6%	1.1%	-	-	-	-	-	-	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance Sheet</b>															
Current Assets	723.4	901.2	968.5	1,046.3	1,047.9	1,558.9	1,582.4	1,507.8	1,522.6	1,522.6	2,412.1	3,022.0	3,635.1	4,270.3	4,847.6
Non-Current Assets	888.9	881.4	847.8	857.1	2,280.7	2,071.2	2,045.6	1,990.4	1,912.2	1,912.2	1,919.6	1,927.1	1,934.7	1,942.4	1,950.2
<b>Assets</b>	<b>1,612.2</b>	<b>1,782.7</b>	<b>1,816.3</b>	<b>1,903.4</b>	<b>3,328.7</b>	<b>3,630.1</b>	<b>3,628.0</b>	<b>3,498.2</b>	<b>3,434.8</b>	<b>3,434.8</b>	<b>4,331.7</b>	<b>4,949.1</b>	<b>5,569.8</b>	<b>6,212.7</b>	<b>6,797.8</b>
Current Liabilities	463.7	493.8	485.2	542.6	751.8	662.2	840.4	894.3	858.5	858.5	1,239.6	1,291.2	1,320.8	1,348.8	1,333.8
Non-Current Liabilities	97.2	84.3	84.3	73.2	1,329.1	1,970.9	1,789.7	1,535.7	1,489.7	1,489.7	1,489.7	1,489.7	1,489.7	1,489.7	1,489.7
<b>Liabilities</b>	<b>560.9</b>	<b>578.1</b>	<b>569.5</b>	<b>615.8</b>	<b>2,080.8</b>	<b>2,633.1</b>	<b>2,630.1</b>	<b>2,430.0</b>	<b>2,348.1</b>	<b>2,348.1</b>	<b>2,729.2</b>	<b>2,780.9</b>	<b>2,810.5</b>	<b>2,838.4</b>	<b>2,823.4</b>
Shareholders' Equity	1,051.4	1,204.6	1,246.8	1,287.6	1,247.9	997.0	997.9	1,068.2	1,086.7	1,086.7	1,602.4	2,168.2	2,759.4	3,374.3	3,974.4
Cash	260.1	378.6	413.6	333.3	361.9	855.8	898.8	692.4	850.5	850.5	1,083.4	1,594.2	2,150.6	2,732.2	3,338.2
Debt	-	-	-	-	1,600.9	2,274.6	2,119.0	1,864.2	1,802.7	1,802.7	1,802.7	1,802.7	1,802.7	1,802.7	1,802.7
Net Debt	(260.1)	(378.6)	(413.6)	(333.3)	1,239.0	1,418.9	1,220.2	1,171.8	952.2	952.2	719.2	208.4	(347.9)	(929.5)	(1,535.6)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	n/a	n/a	n/a	n/a	3.0 x	-	-	-	-	n/a	0.9 x	0.2 x	n/a	n/a	n/a
<b>Operating Metrics</b>															
Return on Equity (ROE)	20.7%	17.6%	16.4%	20.3%	15.3%	-25.8%	-1.4%	5.4%	0.3%	-19.3%	32.2%	26.1%	21.4%	18.2%	15.1%
Return on Assets (ROA)	13.5%	11.9%	11.2%	13.8%	5.7%	-7.1%	-0.4%	1.7%	0.1%	-6.1%	11.9%	11.4%	10.6%	9.9%	8.8%
Return on Invested Capital (ROIC)	20.3%	16.9%	21.6%	24.1%	6.7%	-8.8%	-0.3%	1.9%	0.4%	-8.0%	19.5%	20.9%	21.5%	22.1%	21.6%
<b>Valuation Metrics</b>															
Stock Price (High)	\$ 18.49	\$ 19.55	\$ 19.48	\$ 29.88	\$ 24.30	\$ 15.07	\$ 13.68	\$ 15.48	\$ 34.57	\$ 34.57	\$ 34.57	\$ 34.57	\$ 34.57	\$ 34.57	\$ 34.57
Stock Price (Low)	\$ 13.55	\$ 12.78	\$ 10.23	\$ 16.14	\$ 13.66	\$ 7.10	\$ 6.54	\$ 9.25	\$ 34.57	\$ 6.54	\$ 34.57	\$ 34.57	\$ 34.57	\$ 34.57	\$ 34.57
Stock Price (Average)	\$ 16.02	\$ 16.17	\$ 14.86	\$ 23.01	\$ 18.98	\$ 11.09	\$ 10.11	\$ 12.37	\$ 34.57	\$ 20.56	\$ 34.57	\$ 34.57	\$ 34.57	\$ 34.57	\$ 34.57
Diluted Shares Outstanding (Average)	196.2	183.8	180.2	178.0	170.9	166.8	166.3	184.4	166.5	166.5	166.5	166.5	166.5	166.5	166.5
Market Capitalization (Average)	3,143.7	2,971.7	2,676.2	4,096.6	3,243.1	1,848.8	1,681.4	2,280.1	5,754.3	3,421.5	5,754.3	5,754.3	5,754.3	5,754.3	5,754.3
Enterprise Value (Average)	2,883.6	2,593.1	2,262.6	3,763.3	4,482.0	3,267.6	2,901.6	3,451.9	6,706.5	4,373.7	6,473.6	5,962.8	5,406.4	4,824.8	4,218.8
P/E	14.4 x	14.0 x	13.1 x	15.6 x	17.0 x	-	-	-	-	n/a	11.2 x	10.2 x	9.7 x	9.4 x	9.6 x
EV/EBITDA	6.2 x	5.3 x	4.8 x	7.4 x	10.9 x	-	-	-	-	n/a	7.8 x	6.7 x	5.8 x	5.0 x	4.5 x
FCF Yield to Market Capitalization	4.9%	4.5%	6.8%	5.7%	2.9%	-	-	-	-	-4.5%	3.3%	8.1%	8.9%	9.3%	9.7%
FCF Yield to Enterprise Value	5.3%	5.2%	8.1%	6.2%	2.1%	-	-	-	-	-3.5%	3.0%	7.8%	9.4%	11.1%	13.3%
<b>Free Cash Flow</b>															
EBIT	319.9	331.5	302.8	337.1	233.3	(358.2)	(12.2)	95.6	3.6	(271.3)	677.7	744.4	778.1	810.0	790.1
Tax Expense	(108.6)	(122.8)	(83.0)	(83.2)	(54.0)	104.2	5.5	(31.7)	5.1	83.0	(203.3)	(223.3)	(233.4)	(243.0)	(237.0)
D&A	148.2	156.7	167.4	168.3	179.1	42.7	39.1	39.0	41.6	162.4	149.2	150.3	152.1	153.9	155.7
Capital Expenditures	(153.3)	(161.5)	(169.5)	(189.0)	(210.4)	(33.9)	(27.5)	(31.2)	(35.4)	(128.0)	(156.6)	(157.8)	(159.7)	(161.6)	(163.5)
Changes in NWC	(53.4)	(68.7)	(34.8)	1.0	(53.1)	(153.1)	140.4	(98.4)	110.1	(0.9)	(275.4)	(47.5)	(27.2)	(25.7)	13.8
<b>Unlevered Free Cash Flow</b>	<b>152.8</b>	<b>135.1</b>	<b>182.9</b>	<b>234.2</b>	<b>95.0</b>	<b>(398.3)</b>	<b>145.3</b>	<b>(26.8)</b>	<b>125.0</b>	<b>(154.8)</b>	<b>191.6</b>	<b>466.1</b>	<b>509.9</b>	<b>533.6</b>	<b>559.1</b>
<b>Valuation Summary</b>															
Current Price	\$ 34.57														
Target Price	\$ 34.41														
Total Return	-0.5%														
Recommendation	HOLD														
<b>DCF Valuation</b>															
Perpetuity Growth Implied Price	\$ 35.13														
Exit Multiple Implied Price	\$ 36.83														
<b>Comps Valuation</b>															
Comps - EV/EBITDA Implied Price	\$ 32.11														
Comps - P/E Implied Price	\$ 33.58														

Current Price	\$ 34.57
Target Price	\$ 34.41
Total Return	-0.5%
Recommendation	HOLD

<b>DCF Valuation</b>	
Perpetuity Growth Implied Price	\$ 35.13
Exit Multiple Implied Price	\$ 36.83
<b>Comps Valuation</b>	
Comps - EV/EBITDA Implied Price	\$ 32.11
Comps - P/E Implied Price	\$ 33.58

**Appendix 2: Discounted Cash Flow Analysis**

## Discounted Cash Flow Analysis

	Jan-16	Jan-17	Jan-18	Jan-19	Jan-20	Apr-20	Jul-20	Oct-20	Jan-21	Jan-21	Jan-22	Jan-23	Jan-24	Jan-25	Jan-26
(Figures in mm USD)	FY2015	FY2016	FY2017	FY2018	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
<b>WACC Calculations</b>															
<b>Cost of Equity</b>															
Risk-free rate	2.6%														
Expected market return	9.4%														
<b>Market Risk Premium</b>	<b>6.8%</b>														
Beta	1.33														
<b>Cost of Equity</b>	<b>11.7%</b>														
<b>Cost of Debt</b>															
Pre-tax cost of debt	1.9%														
Effective tax rate	30.0%														
<b>Cost of Debt</b>	<b>1.3%</b>														
<b>WACC</b>															
Market value of equity	5,754.3														
Market value of debt	1,802.7														
<b>Total Capitalization</b>	<b>7,557.0</b>														
Cost of equity	11.7%														
Cost of debt	1.3%														
<b>WACC</b>	<b>9.2%</b>														
<b>Free Cash Flow</b>															
EBIT	319.9	331.5	302.8	337.1	233.3	(358.2)	(12.2)	95.6	3.6	(271.3)	677.7	744.4	778.1	810.0	790.1
Less: Tax expense	(108.6)	(122.8)	(83.0)	(83.2)	(54.0)	104.2	5.5	(31.7)	5.1	83.0	(203.3)	(223.3)	(233.4)	(243.0)	(237.0)
Add: Depreciation and amortization	148.2	156.7	167.4	168.3	179.1	42.7	39.1	39.0	41.6	162.4	149.2	150.3	152.1	153.9	155.7
Less: Capital expenditures	(153.3)	(161.5)	(169.5)	(189.0)	(210.4)	(33.9)	(27.5)	(31.2)	(35.4)	(128.0)	(156.6)	(157.8)	(159.7)	(161.6)	(163.5)
Less: Change in net working capital	(53.4)	(68.7)	(34.8)	1.0	(53.1)	(153.1)	140.4	(98.4)	110.1	(0.9)	(275.4)	(47.5)	(27.2)	(25.7)	13.8
<b>Unlevered Free Cash Flow</b>	<b>152.8</b>	<b>135.1</b>	<b>182.9</b>	<b>234.2</b>	<b>95.0</b>	<b>(398.3)</b>	<b>145.3</b>	<b>(26.8)</b>	<b>125.0</b>	<b>(154.8)</b>	<b>191.6</b>	<b>466.1</b>	<b>509.9</b>	<b>533.6</b>	<b>559.1</b>
Discount factor											1.00	2.00	3.00	4.00	5.00
<b>Present Value of Unlevered Free Cash Flow</b>											<b>173.0</b>	<b>390.9</b>	<b>391.7</b>	<b>375.4</b>	<b>360.2</b>

**Discounted Cash Flow Valuations**

Perpetuity Growth Method	
Perpetuity Growth Rate	2.0%
PV sum of unlevered FCF	1,691.2
Terminal value	5,108.8
<b>Enterprise Value</b>	<b>6,800.0</b>
Add: Cash	850.5
Less: Debt	1,802.7
Less: Other EV adjustments	-
<b>Equity Value</b>	<b>5,847.8</b>
Shares outstanding	166.5
<b>Implied Share Price</b>	<b>\$ 35.13</b>
Current Price	\$ 34.57
<b>Implied Price</b>	<b>\$ 35.13</b>
<b>Total Return</b>	<b>1.6%</b>

Exit Multiple Method	
Terminal EV/EBITDA Multiple	8.8 x
PV sum of unlevered FCF	1,691.2
Terminal value	5,391.6
<b>Enterprise Value</b>	<b>7,082.8</b>
Add: Cash	850.5
Less: Debt	1,802.7
Less: Other EV adjustments	-
<b>Equity Value</b>	<b>6,130.7</b>
Shares outstanding	166.5
<b>Implied Share Price</b>	<b>\$ 36.83</b>
Current Price	\$ 34.57
<b>Implied Price</b>	<b>\$ 36.83</b>
<b>Total Return</b>	<b>6.5%</b>

		WACC				
		9.94%	9.44%	8.94%	8.44%	7.94%
Perpetuity Growth Rate	1.00%	\$ 27.84	\$ 29.97	\$ 32.36	\$ 35.08	\$ 38.19
	1.50%	\$ 29.37	\$ 31.71	\$ 34.38	\$ 37.43	\$ 40.95
	2.00%	\$ 31.08	\$ 33.70	\$ 36.69	\$ 40.15	\$ 44.19
	2.50%	\$ 33.03	\$ 35.96	\$ 39.35	\$ 43.32	\$ 48.02
	3.00%	\$ 35.25	\$ 38.58	\$ 42.47	\$ 47.08	\$ 52.62
		WACC				
		9.94%	9.44%	8.94%	8.44%	7.94%
Terminal EV/EBITDA Multiple	10.2 x	\$ 40.30	\$ 41.28	\$ 42.29	\$ 43.32	\$ 44.38
	11.2 x	\$ 43.84	\$ 44.90	\$ 45.99	\$ 47.11	\$ 48.26
	12.2 x	\$ 47.38	\$ 48.52	\$ 49.69	\$ 50.90	\$ 52.14
	13.2 x	\$ 50.92	\$ 52.14	\$ 53.40	\$ 54.69	\$ 56.01
	14.2 x	\$ 54.46	\$ 55.76	\$ 57.10	\$ 58.48	\$ 59.89



Appendix 3: Comparable Company Analysis

Comparable Company Analysis

(Figures in mm USD)

Company	Ticker	Share Price	Diluted Shares Outstanding	Equity Value	Cash	Debt	Other EV Adjustments	Enterprise Value	EW/EBITDA Multiple			P/E Multiple								
									2021A EBITDA	2022E EBITDA	2023E EBITDA	2021A EV/EBITDA	2022E EV/EBITDA	2023E EV/EBITDA	2021A Diluted EPS	2022E Diluted EPS	2023E Diluted EPS	2021A P/E	2022E P/E	2023E P/E
Urban Outfitters, Inc.	(NASDAQ: URBN)	\$ 40.60	97.8	3,970.7	570.3	1,328.7		4,729.1	123.2	370.3	417.3	38.4 x	12.8 x	11.3 x	\$ 0.03	\$ 1.71	\$ 2.15	1,503.7 x	23.8 x	18.9 x
Levi Strauss & Co.	(NYSE: LEVI)	\$ 23.04	399.8	9,211.4	1,593.7	2,569.8		10,187.5	317.7	694.8	858.6	32.1 x	14.7 x	11.9 x	\$ 0.21	\$ 0.98	\$ 1.27	109.2 x	23.6 x	18.2 x
Abercrombie & Fitch Co.	(NYSE: ANF)	\$ 31.23	62.4	1,948.8	1,104.9	1,550.3	12.7	2,406.9	160.0	317.8	325.1	15.0 x	7.6 x	7.4 x	\$ (0.73)	\$ 1.47	\$ 1.68	(42.8 x)	21.2 x	18.6 x
The Gap Inc.	(NYSE: GPS)	\$ 27.36	374.0	10,232.6	2,649.0	7,936.0		15,519.6	(355.0)	1,425.0	1,754.0	n/a	10.9 x	8.8 x	\$ (1.78)	\$ 1.29	\$ 1.93	(15.4 x)	21.3 x	14.2 x
Zumiez Inc.	(NASDAQ: ZUMZ)	\$ 40.51	25.6	1,037.1	375.5	313.1		974.7	121.0	121.4	130.9	8.1 x	8.0 x	7.4 x	\$ 3.15	\$ 3.28	\$ 3.49	12.9 x	12.4 x	11.6 x
Foot Locker, Inc.	(NYSE: FL)	\$ 53.61	104.2	5,586.2	1,680.0	3,189.0		7,095.2	596.0	845.9	878.5	11.9 x	8.4 x	8.1 x	\$ 2.81	\$ 4.69	\$ 5.12	19.1 x	11.4 x	10.5 x
Designer Brands Inc.	(NYSE: DBI)	\$ 14.26	64.7	922.6	59.6	1,257.3		2,120.3	(416.0)	159.7	172.3	(5.1 x)	13.3 x	12.3 x	\$ (5.10)	\$ 0.40	\$ 1.11	(2.8 x)	35.5 x	12.8 x
<b>AEO</b>	<b>(NYSE: AEO)</b>	<b>\$ 26.62</b>	<b>166.5</b>	<b>4,431.0</b>	<b>850.5</b>	<b>1,802.7</b>	<b>-</b>	<b>5,383.2</b>	<b>170.9</b>	<b>583.1</b>	<b>658.1</b>	<b>31.5 x</b>	<b>9.2 x</b>	<b>8.2 x</b>	<b>(0.1)</b>	<b>\$ 1.58</b>	<b>\$ 1.85</b>	<b>(204.8 x)</b>	<b>16.9 x</b>	<b>14.4 x</b>
<b>Median</b>												<b>10.9 x</b>	<b>8.8 x</b>						<b>21.3 x</b>	<b>14.2 x</b>
<b>Mean</b>												<b>10.8 x</b>	<b>9.6 x</b>						<b>21.3 x</b>	<b>15.0 x</b>
<b>High</b>												<b>14.7 x</b>	<b>12.3 x</b>						<b>35.5 x</b>	<b>18.9 x</b>
<b>Low</b>												<b>7.6 x</b>	<b>7.4 x</b>						<b>11.4 x</b>	<b>10.5 x</b>
												<b>/EBITDA Implied Price</b>							<b>P/E Implied Price</b>	
Median												\$ 32.43	\$ 29.26						\$ 33.53	\$ 26.30
Mean												\$ 32.11	\$ 32.28						\$ 33.58	\$ 27.73
High												\$ 45.65	\$ 42.93						\$ 55.90	\$ 34.98
Low												\$ 20.82	\$ 23.55						\$ 18.02	\$ 19.43