

AMERICAN EAGLE OUTFITTERS (AEO)

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COMPANY OVERVIEW

PRICE: \$12.60 **SIENA Target Price:** \$10.98 **S&P500:** \$842.50 **DJIA:** \$8,017.59 **S&P Industry:** \$24.76

Location: Pittsburgh, PA
Industry: Retail – Apparel
Company Website: www.ae.com

Description: American Eagle Outfitters is a leading retailer and is engaged in the design, marketing, and sale of clothing throughout all fifty states, but also in the District of Columbia, Puerto Rico and Canada. While AEO opened its first store in 1977, it entered the Canadian market in 2001, and now has a total of 1,098 stores of which 122 were opened during that last fiscal year (2008). This mall-based retailer offers casual apparel and accessories such as shirts, sweaters, jeans, shorts, bells, footwear, and bags and targets both men and women, mainly between 15 to 25 years old. Although the company does not have a global presence, its merchandise is shipped to 62 countries.

Market Data

Market Cap	\$2,588,580,800	1 Yr Price App.	-33.55%
Price to book	1.93	Country	USA + Canada
Beta	1.15	Industry	Retail – Apparel
Dividend yield	4.44%	Industry Price	\$11.81
Shares O/S	205,280,000	Industry Beta	1.27
Current price	\$12.60	Country Risk Premium	8.41%
52 week range	\$6.98 – \$19.42	Risk Free Rate	2.75%

Valuation	Current	2009E
EPS	\$.87	\$0.70
P/E	14.48	18.00
CFPS	\$1.47	\$1.33
P/CFPS	8.57	9.47

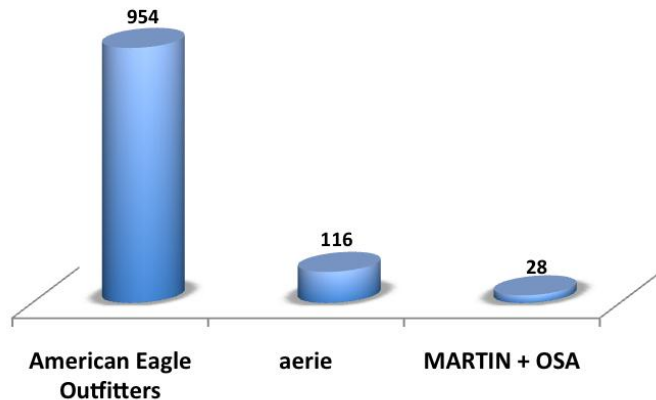
Recommendation: Underperforming the Industry – SELL



COMPANY DESCRIPTION

Products

The company operates under several brands including, American Eagle Outfitters, aerie, 77kids, and MARTIN + OSA, each aimed at a different age segment of the market. Indeed, in 2006 AEO launched its new aerie brand, designed to be subtly sexy, comfortable and cozy that can be found in both aerie stores as well as in all American Eagle stores. In the same year, the company also launched MARTIN + OSA which targets 28 to 40 years old customers. These clothes and accessories were designed to look valuable, authentic, and adventurous. In 2008, M+O started to offer its merchandise online through www.martinandosa.com. At the end of 2008, AEO introduced a new brand designed for children known as 77kids. This brand offers durable products for young customers aged between 2 to 10 years old. 77kids started to sell online and AEO has planned to open stores in the US. Below is a chart showing the stores in which the firm operated as of January 31, 2009.

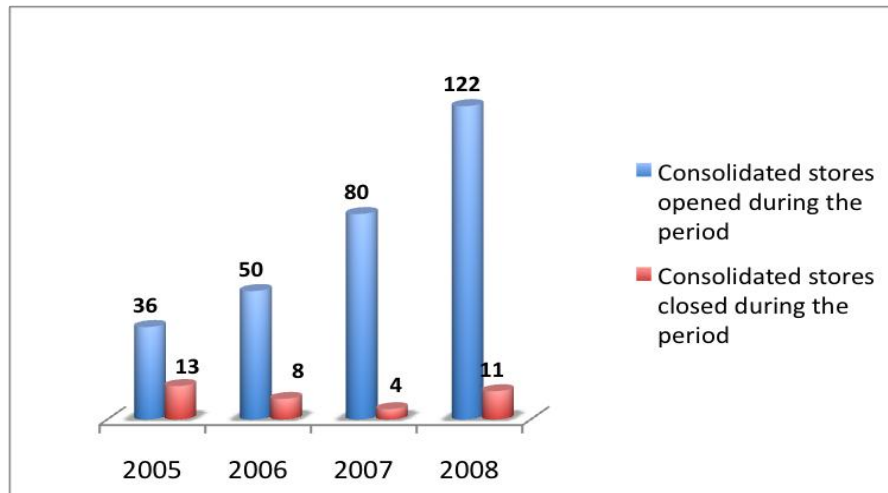


Growth Strategy

American Eagle strategy is mainly its brand name. The company works hard to promote itself in many different ways to attract its main market or young adults. American eagle uses many different advertising methods to successfully market the brand name such as commercials on MTV and in popular magazines among the main age target. They are also attempting to continue their growth and open more stores to attract more people all over their countries of business, mainly the United States and Canada.

Real estate is one of AEO's key areas the company is focusing on in terms of growth strategy. Indeed, the company keeps putting efforts to expand themselves in the US. The charts below present American Eagle Outfitters historical store growth in the United States and Canada. As an overall, the firm increased its total stores by approximately 11%. The gross square footage increased by almost the same amount, 11%, due to new store openings (89%) and store remodels (11%).





In 2009, the company plans to open an additional 17 aerie stores and 11 AE stores. Also, it is AE stores will be remodeled to enhance customer's shopping experience. As a result, square footage is expected to grow by 3%.

To maintain a reasonable growth strategy, the company also identified as one of the key areas of improvement as the importance of having strong customer relations management. Therefore, AEO focuses on reinforcing those connections and recognizing the new fashion trends the American Eagle customers look for. AEO wants to boost and benefit from a potential increase in the market share of this established brand, designed for young adults from 15 to 25 years old and known for its quality and reasonable prices. With relevant fashion styles and attractive prices, the firm looks to enhance brand loyalty. This objective will be supported by their AE All-Access Pass loyalty program.

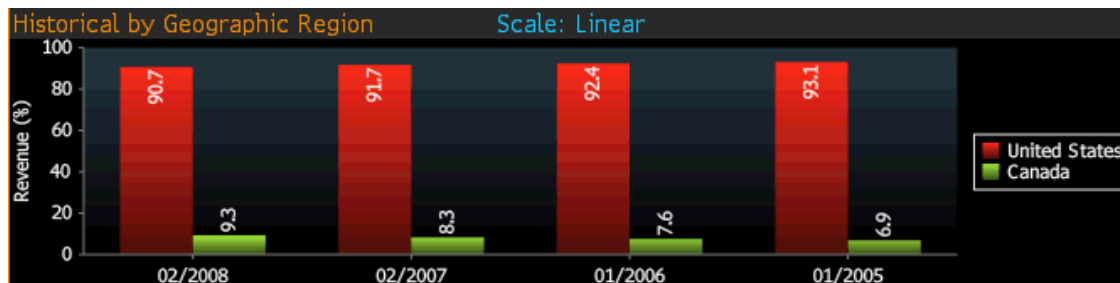
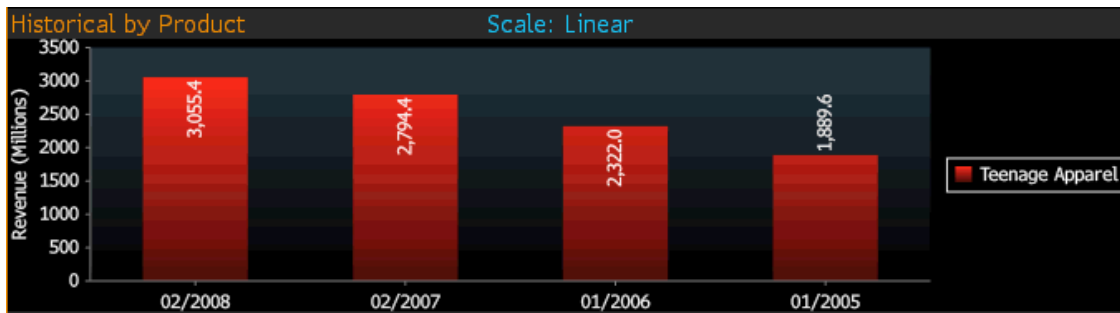
Introduced in 2006, the aerie brand has been created to boost sales, attract new customers by responding to their preferences and increase store productivity. The brand is present in 116 stand-alone stores, but also in most of American Eagle stores and finally, on-line. As the AE brand, aerie offers attractive loyalty programs, including a free gift on Thursdays, once a month!

Furthermore, American Eagle Outfitters sells its products on line in order to adapt to their customers' life styles. In 2008, AEO expanded e-commerce operations as for instance the launch of martinadosa.com and 77kids.com. In addition to that, AEO the same year added 21 new countries to its ship list, which results in a total of over 62 countries currently being serviced. Finally, by focusing on remodeling stores, customers can have a better shopping experience and enjoy themselves while browsing the stores. Another development made in 2008 to adapt to customers' life styles, is the acceptance of PayPal payments, which is expected to greatly increase the amount of online sales, and make people more comfortable with giving payment information online, since PayPal is one of the most popular and most trusted online payment methods.

Recently, the company has introduced the Store-to-Door program that enables stores to execute in store orders for customers who want items only available on-line. This program is successful as it allows customers to place orders without calling, and allow them to order items right away when the sizes or colors desired have already been sold out, or not available at the store location. The desired item is then shipped directly to the customer's home, free of charge. This is an extremely convenient service, and helps to solve the problem of not having certain items in inventory.

Suppliers

AEO currently has a small number of foreign suppliers that contribute a significant portion of their materials, although holding no exclusive commitments with any of them. Due to the minimal number of suppliers, AEO is highly subject to vulnerability in both the manufacturer and their country of origin.



As can be seen from the charts above American Eagle Outfitters is not very diversified with the type of products it sells. Though recently it has begun to spread its target market to include adults, as well as lingerie products for girls and women. By creating its secondary brands of aerie, 77Kids, and M+O it is beginning to diversify itself better in the market and capture more demand.

Latest Developments

According to Reuters Knowledge “American Eagle Outfitters, Inc. announced that for first quarter 2009, it expects earnings to be in a range of \$0.04 to \$0.07 per share, compared to earnings of \$0.21 per share last year. This guidance excludes the possibility of additional losses related to investment securities. According to Reuters Estimates, analysts on an average are expecting the Company to report earnings per share (EPS) of \$0.06 for the same period.” Also before the 10K came out for 2008 it was estimated that the fourth quarter 2008 expected earnings were \$0.19 per diluted share, which excludes a non-cash charge of \$0.03 per diluted share related to the impairment of certain underperforming stores and investment securities.

4Q Earnings Call

Financials:

- 4Q EPS declined 71%, with a 16% comp store decline
 - 4Q EPS = \$0.19 compared to \$0.66 last year
- SG&A per square foot declined 11%
 - Cost Initiatives saved about \$50 million
- Inventory decreased by 8% per square foot

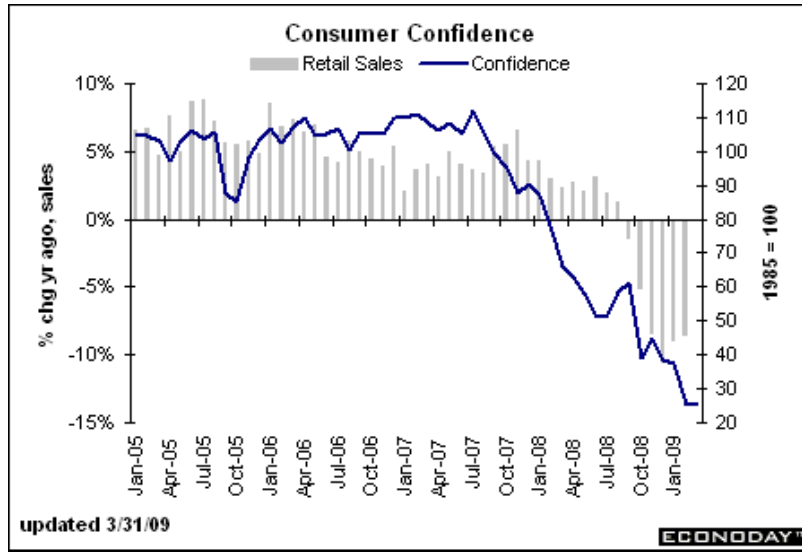
Plans For Improvement:

- Aligning inventory more closely with sales trends
- Improving sales through stronger service
- Driving opportunities in sourcing of production to achieve IMU improvements

INDUSTRY OVERVIEW

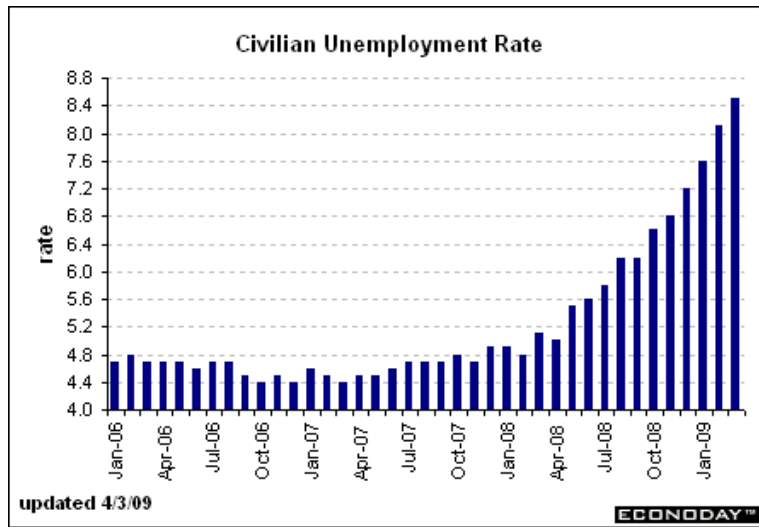
Overview

Consumer confidence is holding steady at the very bottom with buying plans eroding further. The Conference Board's consumer confidence index edged slightly higher to a still deeply depressed 26.0 for March. Readings, outside of buying plans, show very little change though there is a slight easing in pessimism over the future assessment of the job market. Pessimism on the current assessment is still very deep with only 4.6% saying jobs are plentiful against 48.7% who say they are hard to get, with the rest falling in between the two.



Critical Issues

Buying plans show continuing erosion in news that won't ease concern among retailers and the auto makers. Those planning to buy a house fell to 2.0% from 2.3% while those planning to buy a major appliance fell 1% to 24%. The markets showed no significant reaction to the report which doesn't change the economic outlook and won't change expectations for another month of severe contraction in Friday's jobs report.



Employment in March continued to plunge, as expected. Nonfarm payroll employment in March dropped 663,000, following a plunge of 651,000 in February and a decline of 741,000 in January. The March number was only a little worse than the market forecast for a 650,000 drop. February was unrevised while January was bumped down by 86,000. For the latest month, losses were widespread in both goods-producing and services-providing industries.

From the household survey, the civilian unemployment rate jumped to 8.5% from 8.1% in February. March's rate matched the consensus projection. The unemployment rate is the highest since November 1983. Turning back to the payroll survey, job losses in March were widespread. The service-providing sector cut 375,000 jobs. In this sector, the largest job losses seen in professional & business services, down 133,000, and in trade & transportation, down 112,000.

The goods-producing sector gave pink slips to 305,000-worse than February's losses of 285,000. In the latest month, manufacturing and construction fell by 161,000 and 126,000, respectively. Natural resources & mining dropped 18,000. On a year-on-year basis, nonfarm payroll employment growth slipped to down 3.5% in March from down 3.1% the previous month.

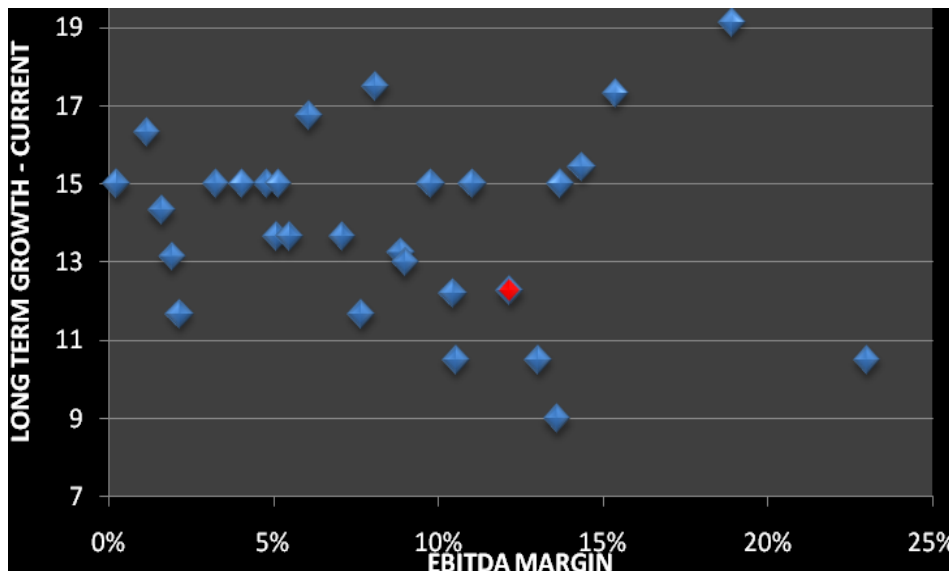
Wage inflation held steady in March as average hourly earnings came in at 0.2% in March. The consensus also had projected a 0.2% gain. The average workweek slipped to 33.2 hours from 33.3 hours in February.

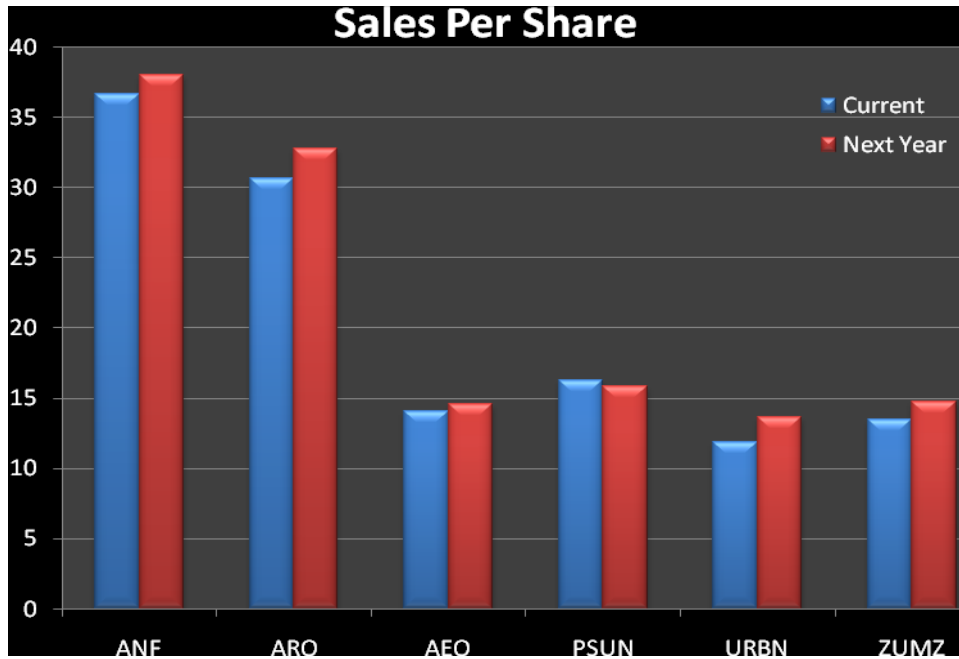
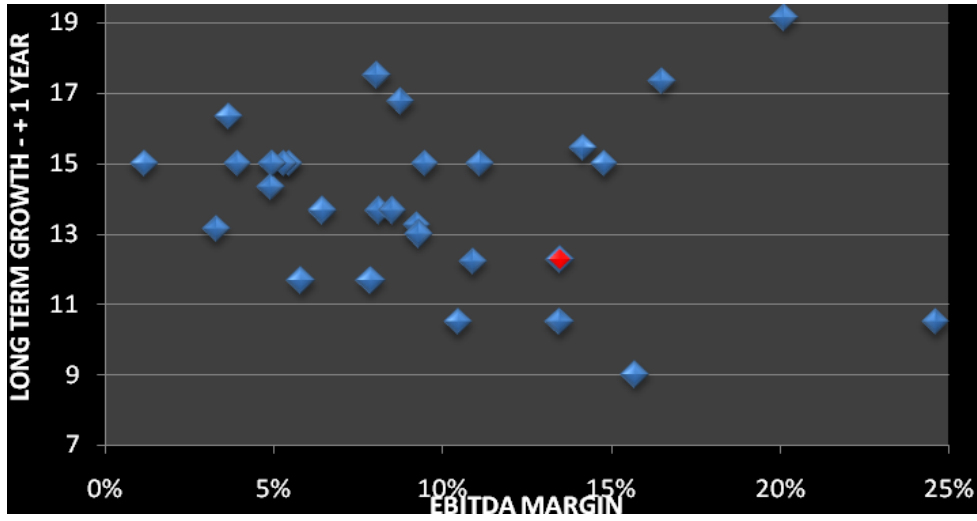
In the news, equity futures rose somewhat as some had built in even worse numbers since Wednesday's ADP report. Nonetheless, job losses are remaining quite large, staying well over 600,000 in each of the last four months. Today's numbers clearly show the first quarter ending on a sour note. Looking ahead, there is not much for the consumer to be hopeful about to boost income and spending. Until the job cuts are less negative, a real turnaround in the economy is still months down the road

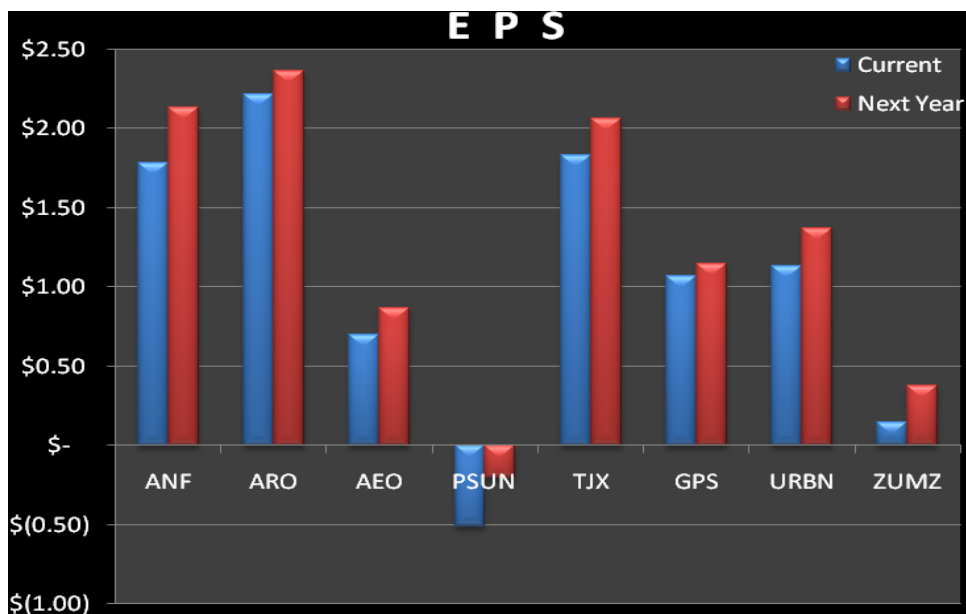
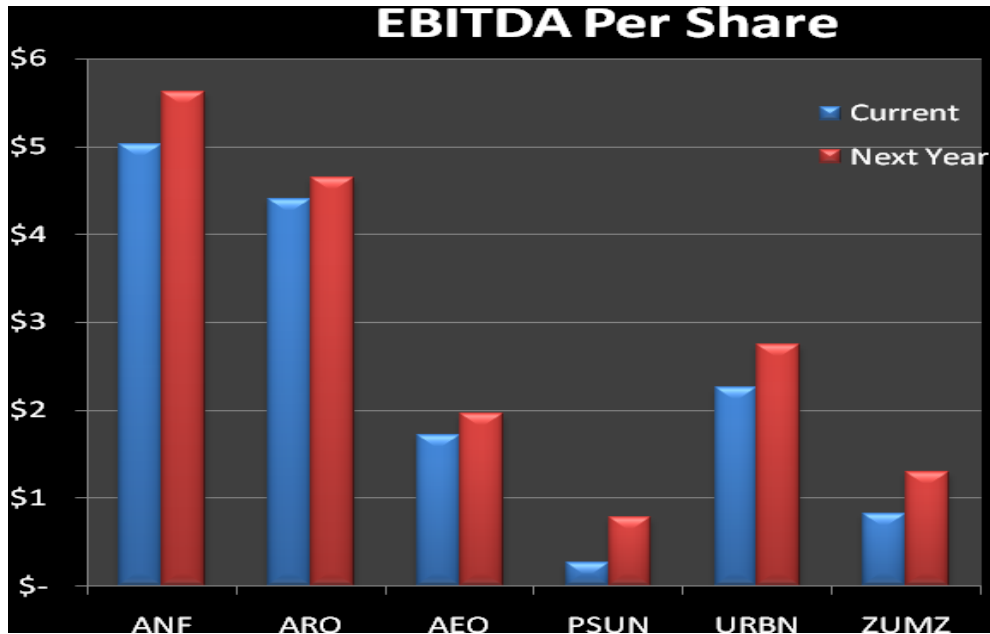
Barriers To Entry

The retail industry has fairly low barriers to entry, though entrants may be deterred by the high level of competition and ample supply of substitutes in the industry. One of the major barriers to entry for this industry is the fact that there is a lot of brand loyalty, since people tend to stick to their favorite brand and clothing companies. Furthermore something that makes it slightly easier to enter the industry is the fact that it is difficult to put an intellectual property protection on clothing, like it can be done on an invention or a piece of literature, with a patent or copyright. This makes it easier to copy competitor's designs and make similar ones for your own company. Also there is a low cost to entry, because there no machinery or major equipment needed in this industry, all it takes to open a store is some real estate space, and start up money to purchase initial inventory.

Competitors

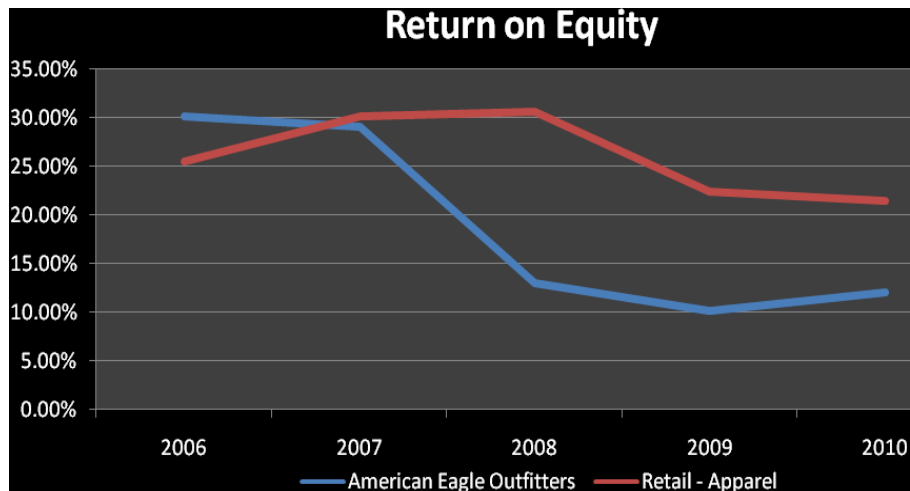




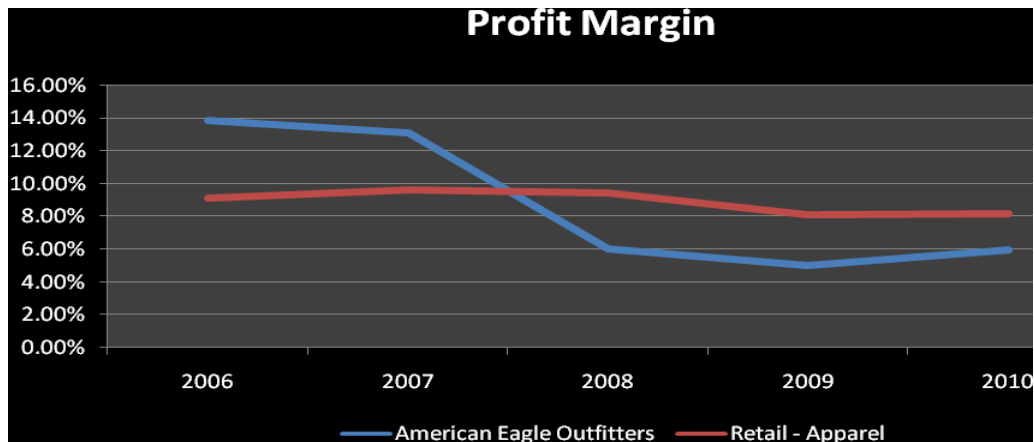


By breaking down the return on equity ratio in three multipliers of performance, we are trying to find the reason why the company gives back less value to shareholders compared to the industry, as shown by the graph below.

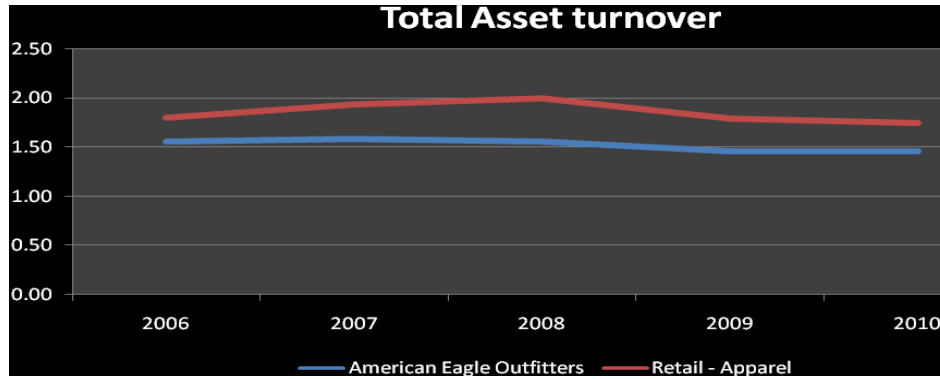
COMPANY ANALYSIS



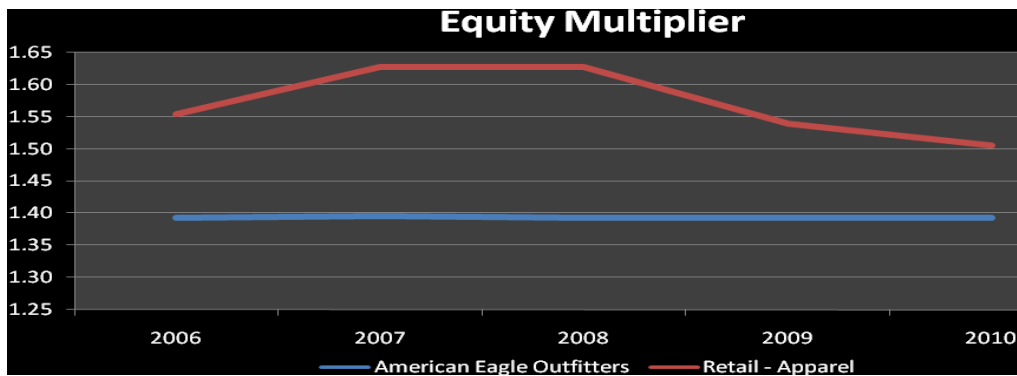
The company used to outperform the industry's return on equity by about 500 basis points. In 2008, the return on equity of American Eagle has plunged to 13.02%. A recovery is not possible before 2010 with a possible increase in consumer spending index.



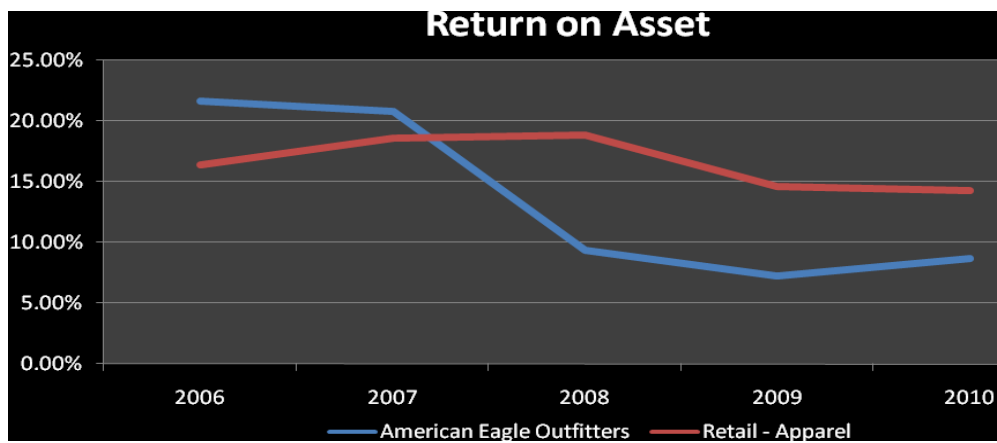
As the graph shows 2008 has been a really difficult year for the company. The profit margin of the company has plunged from 13.09% to 5.99%. AEO has failed this year because it was not aggressive enough to reduce its costs and to adjust to the slowdown in the economy. In 2008 the company cost of goods sold jumped from 53% to 61% of its revenues, the operating expenses increased from 27% to 30% of its revenues, when the revenues were decreasing by 2%. According to the economic forecasts, we assume the company will need more time to generate a net income more significant than the previous year.



Looking at the total asset turnover, AEO will maintain its current trend in line with the industry. In this case it can be seen that AEO's total asset turnover has been below the industry average for some time now.

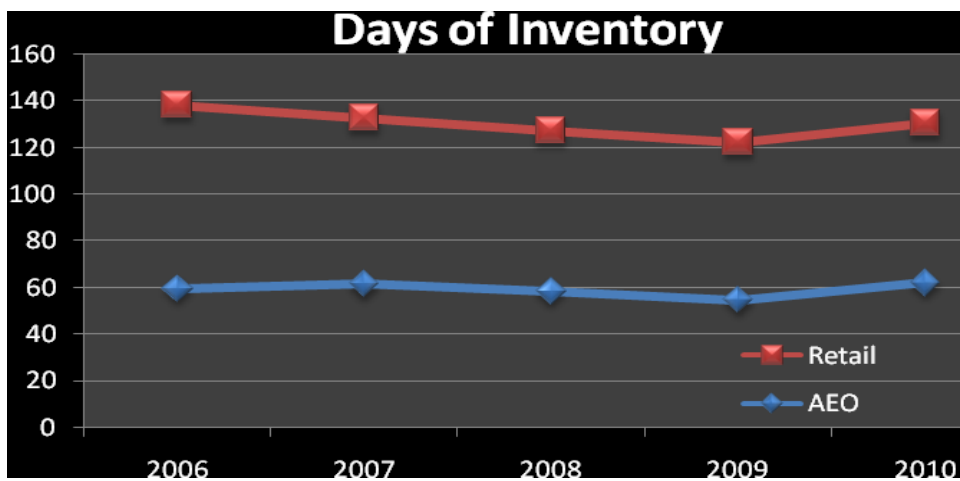
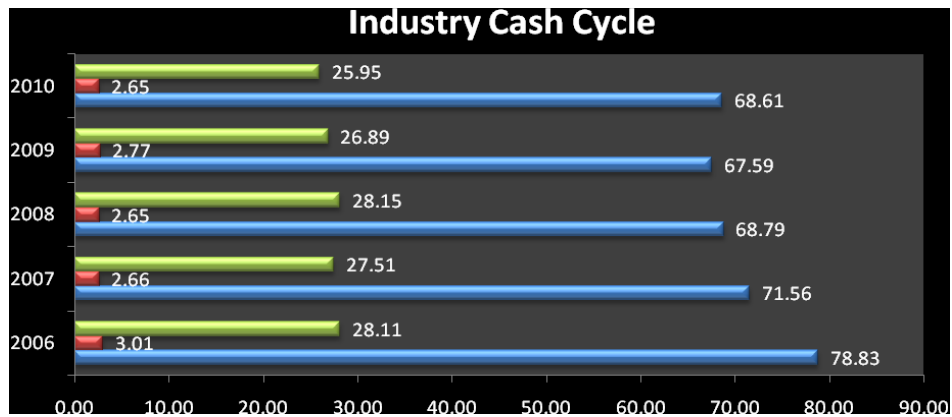
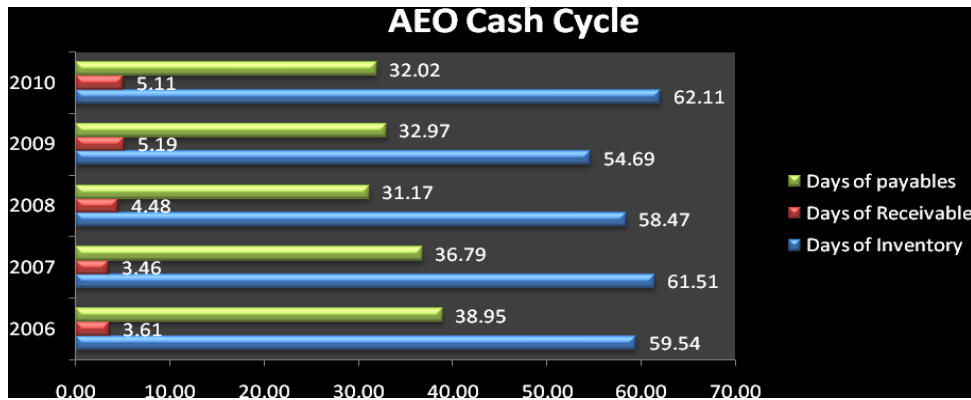


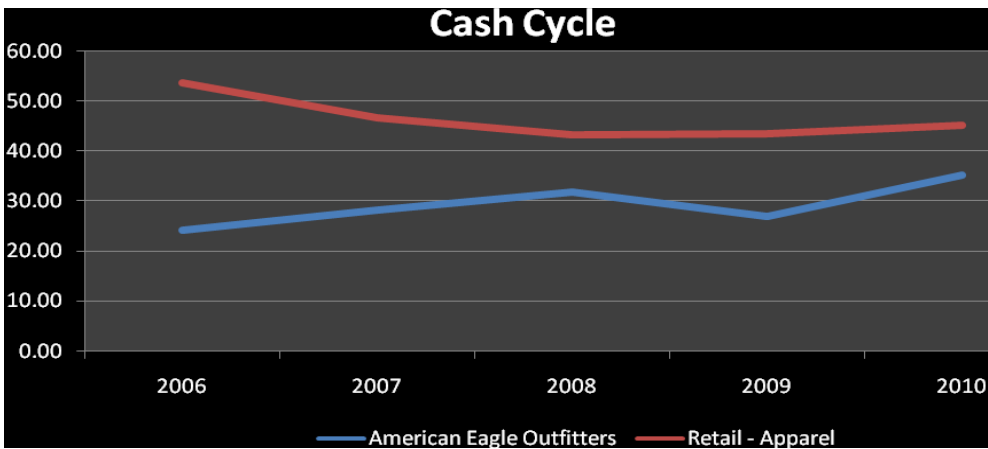
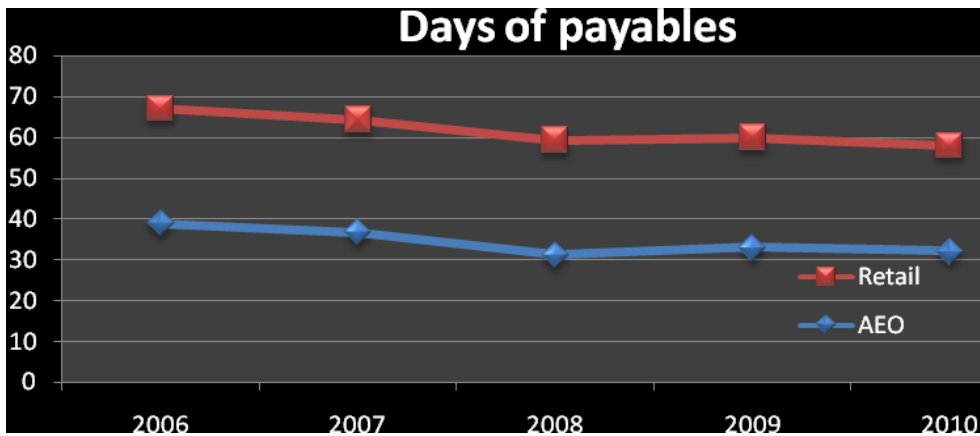
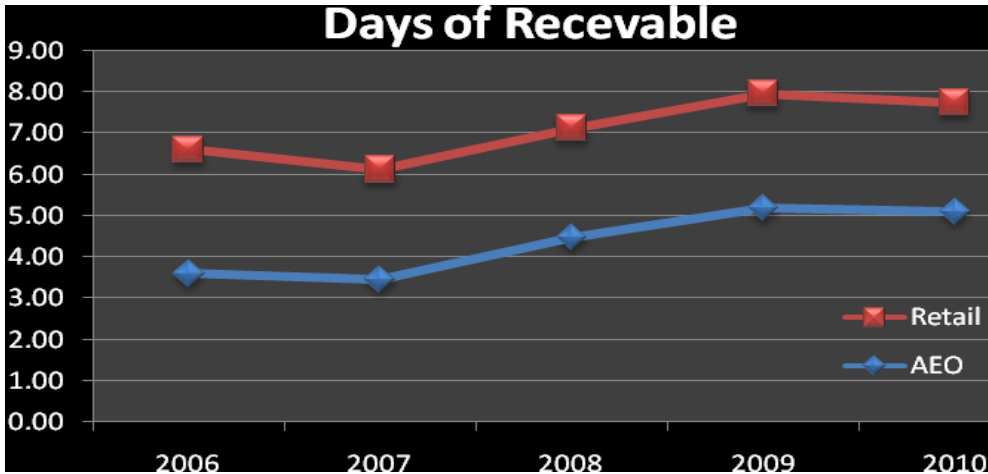
The equity multiplier graph depicts that the industry has more leverage than the company does, mainly due to the fact that there are a few companies who dramatically skew the industry average. The industry relies more on debt to finance its asset, which can be a risk in the future. We are pleased to note, that American Eagle is not in this case, and that the company successfully maintain a steady financial leverage around 1.4. The fact of not relying too much on debt can be a force for AEO in such time frame of credit crisis.



This graph one more time depicts the lack of efficiency from the company to reduce its cost and create value to shareholders. However, we believe that the company may recover in the next two years.

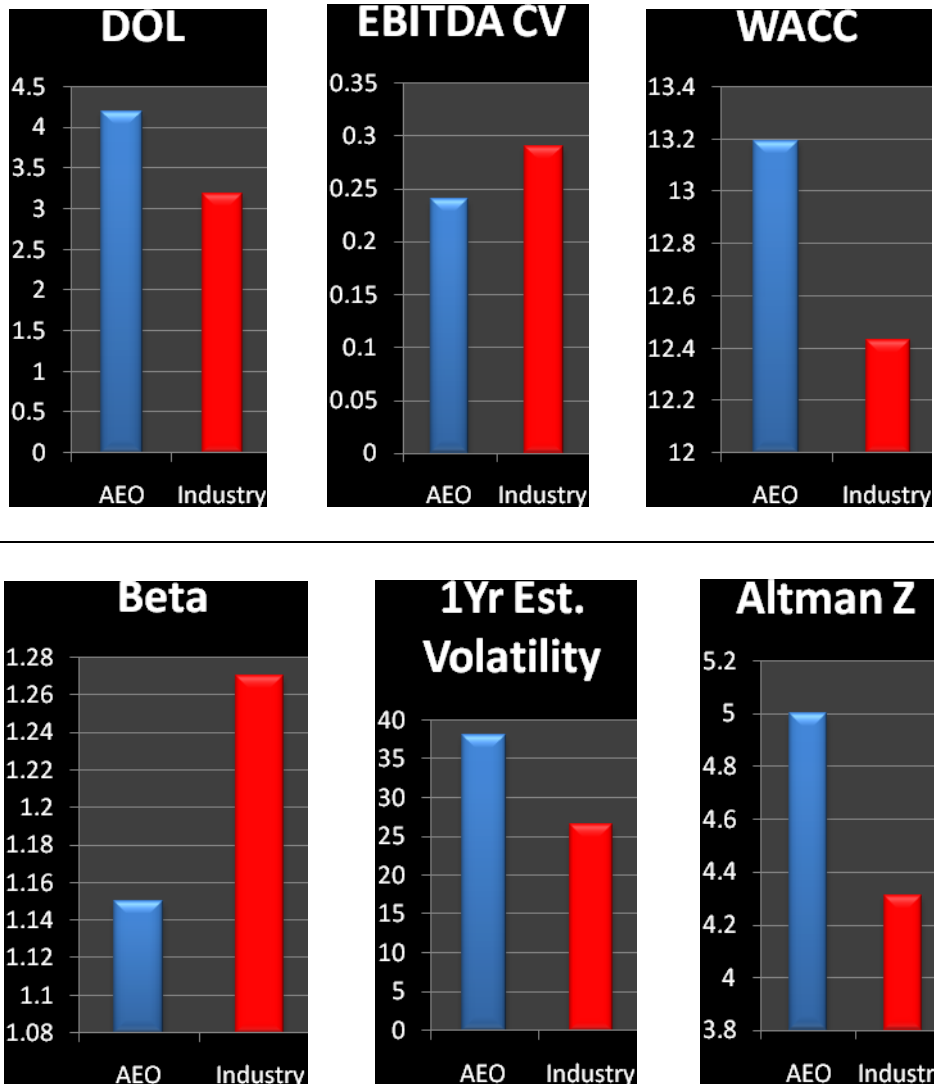
Cash Cycle





The industry in 2010 will need about 15 days more than AEO to convert its cash. In overall, we can notice an upward trend in AEO cash conversion cycle. AEO uses the cash from its suppliers to finance its higher level of receivables. In other words, the industry is more successful in collecting its receivables; however the gap is only 3 days in average. There is no significant change in the way the company wants to manage its cash through the years.

Risk



Cyclicality of the Industry and Change in Consumer Preferences

There are a number of risks which are associated with not only American Eagle, but the industry as a whole. The retailing industry for the most part requires the ability to predict and respond to changing consumer preferences and fashion trends. For the targeted consumer group, it is especially difficult since merchandise is ordered well in advance. Also the industry follows a cyclical path with the peak selling season occurring in the holiday to Christmas time frame. The company usually has a much higher inventory during this time period so any change in consumer demand, pricing and selection of merchandise could prove detrimental for the organization.

Economic Pressures

The global economy is continuing to negatively impact retail organizations. The tightness in the credit markets and a lack of consumer confidence has and will most likely reduce business activity. Economic conditions which affect disposable income such as employment, consumer debt, interest rates, increases in energy costs and

consumer confidence all contribute to how the organization performs. While most of these factors are stacked negatively against the company now, it can be predicted that as the situation improves, so will the company's performance.

Expansion

AEO can grow through store openings, existing store expansions and expanding brand offerings. The ability to open more stores depends on the ability to find suitable locations and the ability to pay for the costs which are associated to opening a new store. As of their 10-K report, AEO plans on opening an addition 11 new American Eagle stores in the US and Canada and 17 aerie stand alone stores. There is only a limited growth potential when it comes to expanding the American Eagle stores with over 850 locations already in the US.

American Eagle has done well in attempting to expand its brand by introducing aerie stand alone stores and the Martin + OSA brand, and 77kids. Martin + OSA pose significant risks to the overall organization. EPS was dragged down \$0.21 because of this brand and although the company was positive for the year, it was due to severe discounting thus profit margins were damaged. This division of AEO includes 28 stores and the management of the company is not expecting to expand this brand further in fiscal 2009. Some analyst predicts that the brand will be eliminated if profitability doesn't improve. If this is the case AEO will be subject to inventory impairment and lease termination charges.

International Sourcing Strategy

AEO like the majority of the retail industry is susceptible to risk posed by foreign suppliers. A significant majority of the company's merchandise comes from a small number of foreign sources. Any disruption of the company's supply chain could prove detrimental for the organization. "This includes any imposition of additional trade law provisions or import restrictions: increased duties, tariffs, anti dumping provisions, increased Custom's enforcement actions and any political or economic disruptions."

Other Risks

The company does not have any long term debt; therefore its capital structure is composed of 96% equity. Although it seems that during these tough economic times that this is beneficial, the company has elected to draw from its credit facility a value of over \$50 million dollars. This was a short term liquidity boost with the amount having to be paid in full within the next year. The company is also exposed to certain risks involving its exposure to auction rate securities.

Valuation

According to most of the analysis it is quite obvious that in most areas American Eagle is being outperformed by most of the other similar companies in the industry, which is not a good sign. Firstly though AE has a current EPS of \$0.87 and the industry has a lower EPS of only \$0.56, next quarter estimates show that AE will have an EPS of only \$0.05 while the industry EPS is expected to be three times that at \$0.15. Another negative indicator of the company is the fact that cash flow per share is expected to decrease from \$1.47 to \$1.33. In addition sales per share are also expected to decrease for AEO from a current value of \$14.48 to a value of \$13.75 in one year.

Another good measurement of how well a company is doing is the dividend yield that it pays out. According to one year estimate the dividend yield is expected to go down from 4.44% currently to about 3.25%. In addition the PE ration is at the moment lower than that of the industry, but there will be a turnaround and according to the one year estimate the AEO PE will be higher than that of the industry. Though it can be seen from the crystal ball estimate that the expected one year return for AEO is at almost 50% we feel that this is invalid at this point because it is derived from historical values, and though AEO had been doing better in the past it has been slowly getting diminishing and has begun doing worse than most of the companies in the industry.

- In 2007, COGS represent 53.4% of sales - in 2008 COGS represent 60.7% --> **-7.3% difference**
- In 2007, SG&A represent 23.4% of sales - in 2008 SG&A represent 24.8% --> **-1.4% difference**
- In 2007, other operating expenses represent 3.6% of sales - in 2008 other operating expenses represent 5.2% --> **-1.6% difference**
- In 2007, Total Operating Expenses represent 80.4% of sales - in 2008 Total Operating Expenses represent 90.7% --> **-10.3% difference**
- --> DOL increased from 2.37 to 4.20, mostly due to a 12.2% increase in COGS
- In 2007, Total Non-Operating Expenses represent 6.5% of sales - in 2008 Total Non-Operating Expenses represent 3.4% --> **+3.1% difference**
- --> In 2007, Net Income represents 13.1% of sales - in 2008, Net Income represents 6.0% of sales --> **-7.1% difference = -10.3% (operating) + 3.1% (non-operating)**

- From 2007 to 2008, sales decreased 2.2%
- From 2007 to 2008, profitability decreased by 54.2% (from 13.1% of sales to 6.0% of sales)
- --> **Net Income decreased by 55.24%**, mostly due to a 12.2% increase in COGS, which was aggravated by a 3.57% increase in SG&A, a 41.13% increase in other operating expense (depreciation + an unusual expense of 23M), and partly offset by a 49.6% decrease in non-operating expenses

- Cash from operation decreased **31.4%**, from \$589M to \$404M
- Capital Expenditures increased **15.41%**, from \$627M to \$723M
- Cash from Investing Activities decreased **19.3%**, from \$712M to \$575M
- Free Cash Flow decreased by **750.4%**, from \$-37M to \$-318M
- Cash from Financing Activities **increased** from \$-1,134M to \$87M (stopped stock buy-back program, issued debt)
- --> Cash & Equivalents decreased by **23%**, from \$619M to \$483M
- Total Liabilities decreased by **0.7%**, from \$527M to \$555M
- Total Equity decreased by **0.3%**, from \$1,340M to \$1,409M

- EPS decreased **54.16%**, from \$1.90 to \$0.87
- CFPS decreased **29.70%**, from \$2.80 to \$1.97

SWOT ANALYSIS

Strengths - American Eagle has maintained a cash position of \$470 million in cash and Treasury securities which management believes is an extraordinary accomplishment in a difficult market. Stand alone “Aerie” stores comped slightly positive for the fiscal year. The collection offers Dorm wear and Intimates for AE girl, and has been generally well received among women. AEO management is well knowledgeable that they must focus on AE women’s business in order to further grow the company. AEO management has been able to reach targeted inventory levels as a result of heavy discounting which should help them going forward. Direct businesses improved tremendously over the year with sales reaching \$307 million which was a 26% increase.

Weaknesses – The fourth quarter was a dismal conclusion for AEO. EPS declined 71% as a result of heavy discounting and weak traffic through malls. Margins were sacrificed as a result to move inventory thus hindering profitability and potentially causing a negative effect on the AEO brand name. AEO’s operations of Martin + OSA have been unsuccessful. Although the division seemed to be doing well this revenue growth was driven by promotions. Martin + OSA targets customers in the 28 – 40 year old range which is an extremely difficult target to reach with proposed product lines. Numerous analysts expect the division to be scrapped if profitability does not improve this year. Overall AEO saw customers increase the level of purchases but overall profit was down due to discounting the majority of items at buy one get one 50% off. The overall increase in stores did not cover the decline in revenues.

Opportunities - The economy is expected to come out of the recession in the second half of 2009 and begin recovery next year. This means that the overall sector should begin to perform well thus giving AEO and its competitors a reason to rally. AEO has also done a good job of hiring Roger Markfield in order to “reinvigorate” the AEO brand. Management has shifted focus to truly important areas such as increase in intimate apparel to resonate

better with the AE girl. This includes increasing the availability of sizes, fits, colors, and patters. A potential opportunity also exists from the fact that inventories are now at proper levels. This should give American Eagle better position going forward as inventory per square foot declines causing an increase in profit margins. AEO also plans to shift sourcing and production to Cambodia and Vietnam. Management has also initiated some other cost cutting measures such as a \$50 million dollar reduction in headcount and supply chain management. Opportunities also exist in managements plans to open 17 new aerie stand alone stores and 11 new AE locations including a flagship location in the Times sq, area in NYC.

Threats - As the rest of the retail industry, a lasting recession can negatively affect future cash flows of AEO and its competitors. A lasting threat also exists from the lack of predictability of teen fashions. The industry itself is highly competitive with substitutes arising quickly. AEO's brand Martin + OSA dragged EPS down \$ 0.21 as the brand has not been well received with the targeted consumer. AEO also carries a carrying value of various Auction Rate Securities of \$261.56 million. (Refer to following chart). Furthermore it seems that American Eagle is opening to many stores too quickly, and is trying to expand at a rate that is unsustainable, which will cause significant issues in the near future.

\$35.3 million of temporary impairment and \$22.9 million in OTTI. Our short-term and long-term investments consist of the following:

	No. of Issues	Par Value	Temporary Impairment	OTTI	Carrying Value as of January 31, 2009
			(In thousands, except no. of issues amount)		
Auction-rate securities ("ARS"):					
Closed-end municipal fund ARS	5	\$ 41,750	\$ (263)	\$ —	\$ 41,487
Municipal Bond ARS	5	28,850	(367)	—	28,483
Auction rate preferred securities	5	29,400	(3,217)	(10,108)	16,075
Federally-insured student loan ARS	17	166,700	(17,283)	—	149,417
Private-insured student loan ARS	4	34,000	(14,163)	—	19,837
Total Auction-rate securities	36	300,700	(35,293)	(10,108)	255,299
Preferred Stock	4	19,000	—	(12,781)	6,219
Total	40	\$ 319,700	\$ (35,293)	\$ (22,889)	\$ 261,518

Auction rate preferred securities ("ARPS") are a type of ARS that have an underlying asset of perpetual preferred stock. In the event of default or liquidation of the collateral by the ARS issuer or trustee, we are entitled to receive non-convertible preferred shares in the ARS issuer. Lehman Brothers Holdings, Inc. ("Lehman") (which filed for Chapter 11 bankruptcy protection during September 2008) acted as the broker and auction agent for all of the ARPS held by us. The Lehman bankruptcy resulted in the dissolution of the investment trusts for most of our ARPS. As a result, during Fiscal 2008, we received a total of 760,000 preferred shares of four companies. For Fiscal 2008, we recorded an OTTI charge of \$12.8 million based on the closing market price of these preferred shares on January 30, 2009.

Target Prices

Target Prices	
Yahoo target price	\$11.10
Reuters target price	\$11.00
Bloomberg target price	\$11.39
Thomson one target price	\$11.10
Siena College CGFS target price	\$11.04
Siena College CGFS target price volatility	1.39%
Siena College CGFS 68 percentile target price	\$9.65
Siena College CGFS 95 percentile target price	\$8.27
Siena College CGFS 99 percentile firm target price	\$6.88
Siena College CGFS industry target price	\$11.91
1-year forecasted Returns	
1-year forecasted Industry Return	1.97%
1-year forecasted Industry Return Volatility	26.62%

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1-year forecasted Firm Return	-9.14%
1-year forecasted Firm Return Volatility	37.96%

RECOMMENDATION

We are issuing a SELL recommendation for AEO. The current stock price is at \$12.60, and we believe that it will decrease to a value of about \$11.04 per share. Not only does our calculated target price show a decrease in value but Yahoo, Reuters, Bloomberg, and Thomson One target prices all show a significant decrease in stock price for American Eagle Outfitters in the next year. This is due to a combination of decreased sales, a significant increase in cost of goods sold, and an overly optimistic expansion plan that they are not currently in the condition to go through with as planned. Though much of the hardships that the company has been going through are due to the current economic situation and extreme drop in consumer confidence, the financials show that the majority of the indicators are worse than those of the industry, which shows that among most of its competitors American Eagle Outfitters is having more trouble, is less profitable, and has much less growth potential than most of its close competitors.

Company Name	American Eagle Outfitters Inc.	Ticker	AEO
Current Price	\$12.60	Target Price	\$11.04
Recommendation	SELL	Date	4/1/2009
1. Market Data			
Market Cap	\$2,588,580,800.00	1 Yr Price App.	-33.55%
Price to book	1.93	Country (s)	USA + Canada
Beta	1.15	Industry	Retail - Apparel
Dividend yield	4.44%	Median Industry Price	\$11.81
Shares O/S	205,280,000	Industry Beta	1.27
Current price	\$12.60	Country Risk Premium	8.41%
52 week range	6.98 - 19.42	Risk Free Rate	2.75%
Major Holdings		Sales/purchase of stocks by insiders	
Holder	% of shares outstanding	Name and Title	Action
Barclays Global Investors UK Holdings Ltd	4.03%	Roger Markfield - Officer	Sale 38,272 shares - 3/30/09
Perkins Investment Management, LLC	3.15%	Roger Markfield - Officer	Coverision 38,272 shares - 3/30/09
The Vanguard Group Inc.	2.80%	Katherine Savitt - Officer	Disposition 15,000 shares - 1/30/09
Bank of New York Mellon Corporation	2.63%	Jon Diamond - Director	Acquaition 3,205 shares - 1/1/09
Royce & Associates Inc.	2.55%	Michael Jesselson - Director	Acquaition 3,205 shares - 1/1/09
Shaw D.E. & Co. Inc.	2.50%	Alan Kane - Director	Acquaition 3,205 shares - 1/1/09
State Street Corporation	2.25%	Janice Page - Director	Acquaition 3,205 shares - 1/1/09
		Thomas Presby - Director	Acquaition 3,205 shares - 1/1/09
		Michael Jesselson - Director	Sale 200,000 shares - 12/17/08
Breakdown		Susan McGalla - President	Sale 55,246 shares -
Insiders and Owners	18%		
Institutions	76%		

Other	6%	Susan McGalla - President	12/09/08 Sale 49,900 shares - 12/09/08
2. Country Macro Analysis			
United States	5 years historical (average)	Current	1-year Estimate (Bloomberg)
Real GDP Growth	2.48%	-6.30%	-2.50%
Inflation (CPI)	3.20%	0.24%	-0.70%
3 Month Rate	3.72%	1.19%	1.11%
Unemployment Rate	5.12%	8.10%	8.70%
Currency Exchange Rate	1.34	1.40	1.30
Political Risk Rating (out of 100)	80.525	83.500	83.500
Financial Risk Rating (out of 100)	64.098	66.000	66.001
Economic Risk Rating (out of 100)	76.820	62.000	62.118
Canada	5 years historical (average)	Current	1-year Estimate (Bloomberg)
Real GDP Growth	2.46%	-0.03%	-1.60%
Inflation (CPI)	2.11%	1.43%	0.10%
3 Month Rate	3.43%	1.00%	0.68%
Unemployment Rate	6.48%	7.70%	8.20%
Currency Exchange Rate	1.15	1.26	1.24
Political Risk Rating (out of 100)	86.131	84.500	84.503
Financial Risk Rating (out of 100)	81.869	74.000	74.001
Economic Risk Rating (out of 100)	85.803	75.000	75.007
Return	5-years historical (average)	1-year historical (average)	1-year forecast
AEO	14.42%	-18.44%	49.82%
Industry	-7.99%	-53.15%	3.95%
United States	-6.69%	-54.86%	-2.33%
World	-4.98%	-61.50%	-4.98%
Volatility	5 years historical (average)	1-year historical (average)	1-year GARCH Estimate
AEO	35.86%	51.75%	37.963%
Industry	20.88%	33.94%	26.620%
United States	14.21%	22.69%	18.293%
World	15.58%	24.23%	20.297%
3. Company Ratios (Cross-sections and time series)			
Dupont Analysis			
	Profit Margin	Total Asset Turnover	Equity Multiplier
American Eagle Outfitters			
2006	13.86%	1.56	1.39
2007	13.09%	1.59	1.40
2008	5.99%	1.56	1.39
2009 Q1	1.65%	1.54	1.38
2009 Q2	4.34%	1.49	1.39
2009 Q3	6.76%	1.46	1.41
2009 Q4	6.09%	1.46	1.39
2009	4.99%	1.46	1.39
2010	5.96%	1.46	1.39
The Gap Inc.	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	4.89%	1.83	1.64
2007	5.28%	1.92	1.73
2008	6.66%	1.89	1.78
2009 Q1	5.70%	1.88	1.75
2009 Q2	7.23%	1.84	1.78
2009 Q3	7.73%	1.77	1.82
2009 Q4	7.13%	1.83	1.74
2009	5.55%	1.83	1.74

	2010	5.82%	1.91	1.77
Urban Outfitters, Inc.		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	9.81%	1.50	1.37
	2007	10.15%	1.45	1.35
	2008	11.86%	1.50	1.32
	2009 Q1	10.29%	1.36	1.31
	2009 Q2	11.77%	1.34	1.30
	2009 Q3	12.21%	1.31	1.29
	2009 Q4	11.85%	1.31	1.28
	2009	9.43%	1.31	1.28
	2010	10.13%	1.20	1.25
Abercrombie & Fitch Co.		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	12.72%	1.64	1.68
	2007	12.69%	1.56	1.59
	2008	7.69%	1.31	1.56
	2009 Q1	3.31%	1.25	1.52
	2009 Q2	3.97%	1.13	1.55
	2009 Q3	3.88%	1.09	1.54
	2009 Q4	3.51%	1.07	1.53
	2009	4.97%	1.06	1.53
	2010	5.63%	0.98	1.50
Aeropostale, Inc.		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	7.55%	2.60	1.82
	2007	8.12%	2.90	2.15
	2008	7.93%	3.22	2.12
	2009 Q1	4.36%	3.35	1.94
	2009 Q2	5.36%	3.15	1.96
	2009 Q3	4.78%	3.00	1.92
	2009 Q4	3.65%	2.99	1.74
	2009	7.34%	3.00	1.74
	2010	7.29%	2.96	1.55
The Buckle, Inc.		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	10.51%	1.43	1.27
	2007	11.80%	1.81	1.31
	2008	12.93%	2.08	1.36
	2009 Q1	6.18%	2.08	1.33
	2009 Q2	8.05%	1.67	1.36
	2009 Q3	7.28%	1.80	1.41
	2009 Q4	6.67%	1.78	1.41
	2009	13.29%	1.77	1.41
	2010	11.99%	1.67	1.46
Retail - Apparel		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	9.10%	1.80	1.55
	2007	9.61%	1.93	1.63
	2008	9.41%	2.00	1.63
	2009 Q1	5.97%	1.98	1.57
	2009 Q2	7.28%	1.83	1.59
	2009 Q3	7.18%	1.79	1.60
	2009 Q4	6.56%	1.80	1.54
	2009	8.11%	1.79	1.54
	2010	8.17%	1.75	1.51
Other Ratios				
American Eagle Outfitters		Days of Inventory	Days of Receivable	Cash Cycle
	2006	59.54	3.61	24.19

2007	61.51	3.46	28.18
2008	58.47	4.48	31.78
2009	54.69	5.19	26.92
2010	62.11	5.11	35.19
The Gap Inc.	Days of Inventory	Days of Receivable	Cash Cycle
2006	62.08	0.00	28.23
2007	61.09	0.00	28.87
2008	61.93	0.00	22.11
2009	66.48	0.00	26.09
2010	60.33	0.00	21.27
Urban Outfitters, Inc.	Days of Inventory	Days of Receivable	Cash Cycle
2006	86.61	5.87	63.94
2007	81.53	5.78	58.04
2008	79.52	5.98	57.92
2009	68.20	6.61	48.42
2010	79.23	6.49	59.83
Abercrombie & Fitch Co.	Days of Inventory	Days of Receivable	Cash Cycle
2006	129.99	4.68	94.15
2007	112.08	4.72	85.95
2008	109.25	5.51	83.60
2009	119.90	5.75	95.35
2010	113.67	5.37	90.71
Aeropostale, Inc.	Days of Inventory	Days of Receivable	Cash Cycle
2006	36.85	1.42	15.20
2007	41.85	1.11	14.24
2008	38.96	0.50	13.28
2009	31.26	0.00	9.28
2010	36.24	0.00	14.09
The Buckle, Inc.	Days of Inventory	Days of Receivable	Cash Cycle
2006	78.62	3.05	67.09
2007	61.23	1.69	46.43
2008	54.29	1.25	39.54
2009	52.12	1.49	38.20
2010	53.56	1.39	40.61
Retail - Apparel	Days of Inventory	Days of Receivable	Cash Cycle
2006	78.83	3.01	53.72
2007	71.56	2.66	46.71
2008	68.79	2.65	43.29
2009	67.59	2.77	43.47
2010	68.61	2.65	45.30

4. Company Risk

Capital Structure Industry			Relative Dispersion (industry)
WACC Structure	Debt (After taxes)	Equity	EBITDA C.V.
Weight	14.92%	85.08%	0.29
Cost (after tax for debt)	2.95%	14.09%	Free Cash Flow C.V.
WACC	12.43%		N/A
Capital Structure Firm			Relative Dispersion (firm)
WACC Structure	Debt (After taxes)	Equity	EBITDA C.V.
Weight	3.90%	96.10%	0.24
Cost (after tax for debt)	0.77%	13.69%	Free Cash Flow C.V.
WACC	13.19%		N/A
Debt Rating Industry (mode)		Other Risk (Industry)	

Moody's	N/A	Altman Z	4.31
S&P	N/A	DOL	3.18
Fitch	N/A	DFL	1.00
Debt Rating Firm (mode)		Other Risk (Firm)	
Moody's	N/A	Altman Z	5.00
S&P	N/A	DOL	4.20
Fitch	N/A	DFL	1.00
Revenues and Costs Structure and Estimates			
1-year Estimates	Sales per share	Earnings per share	Profit Margin
Industry Mean	\$11.76	\$0.87	7.36%
Firm Mean	\$13.75	\$0.70	5.42%
Firm Median	\$14.18	\$0.70	5.34%
Firm High	\$15.47	\$1.06	8.09%
Firm Low	\$3.00	\$0.52	3.53%
Firm Standard Deviation	\$2.41	\$0.12	0.81%
1-quarter Estimates	Sales per share	Earnings per share	Profit Margin
Industry Mean	\$4.83	\$0.25	5.17%
Firm Mean	\$3.03	\$0.05	1.65%
Firm Median	\$3.02	\$0.05	1.66%
Firm High	\$3.28	\$0.07	2.13%
Firm Low	\$2.93	\$0.03	1.02%
Firm Standard Deviation	\$0.09	\$0.01	11.04%
5. Valuation			
	Current	Next quarter Estimate	Next year Estimate
Firm EPS	\$0.87	\$0.05	\$0.70
Firm PE	14.48		18.00
Firm CFPS	\$1.47	N/A	\$1.33
Firm PCF	8.57		9.47
Firm SPS	\$14.48	\$3.03	\$13.75
Firm PS	0.87		0.92
Firm BS	6.86	N/A	6.93
Firm PB	1.84		1.82
Firm DY	4.44%	1.47%	3.25%
Industry EPS	\$0.56	\$0.15	\$0.70
Industry PE	21.09		16.87
Industry CFPS	\$2.49	\$0.03	\$1.81
Industry PCF	4.74		6.52
Industry SPS	\$26.02	\$6.12	\$30.60
Industry PS	0.45		0.39
Industry BS	\$7.09	N/A	\$6.90
Industry PB	1.67		1.71
Industry DY	0.00%	0.74%	1.16%
Industry LT Growth			
Sector PE	12.05		11.70
Sector PCF	N/A		8.40%
Sector PS	0.74		0.71
Sector PB	2.71		2.40
Sector DY	3.34%		3.70%
Sector LT Growth			9.80%
Market PE	10.74		11.79
Market PCF	8.7		6.50
Market PS	1.87		0.80
Market PB	3		1.40
Market DY	3.86		3.40
Market LT Growth	11%		NA

6. Target Price and Return Estimates

Target Industry Price	\$11.91
Target Industry Return	1.97%
Target Industry Return Volatility	26.62%
Target Firm price	11.04
68 percentile Target Price	\$9.65
95 percentile Target Price	\$8.27
99 percentile Target Price	\$6.88
Target Firm Price Volatility	1.39
Target Firm Return	-9.14%
Target Firm Volatility of Return	37.96%

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