AMERICAN EAGLE OUTFITTERS

FIN-498 CAPSTONE REPORT

Financial Analysis & Company Valuation

American Eagle Outfitters

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Engagement Letter

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American Eagle Outfitters, Inc.,

Upon request, I have completed a company valuation regarding American Eagle Outfitters, Inc., as per the instructions of the Finance-498 Capstone Project Rubric. The valuation of American Eagle Outfitters, Inc. is based on information as of: January 29, 2022. The purpose of this valuation is to decide whether investing in American Eagle Outfitters, Inc. is suitable and promising. When making this investment decision, I have evaluated past and potential financial growth and estimated the value of American Eagle Outfitters, Inc. This estimate of value is based on different valuation techniques, and this value will be expressed as a conclusion of value.

Restrictions and limitations present in the financial data available for the analysis is as follows:

- The exact value of interest income (loss) for the years 2019, 2018, and 2017. These values are added to the 'other income (loss)' section of the income statement.

I have estimated the value for 100% of American Eagle Outfitters, Inc. voting diluted common shares outstanding as of: January 29, 2022, as explained previously.

The estimated value is concluded at: $18.55 per share, as explained later within the report. To reiterate, this value is based on information regarding market factors and assumptions as of: January 29, 2022.

When arriving at this estimation of value, I relied on current financial data using a specified timeframe. This means that your company, American Eagle Outfitters, Inc. is currently an operating business and is subject to potential factors that could cause the value of the company to either increase or decrease.

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Understanding the Business and Analysis

Company Overview:

According to the American Eagle Outfitters, Inc. website, they claim themselves to be a "leading global specialty retailer offering high-quality, on trend clothing, accessories, and personal care products at affordable prices under its American Eagle and Aerie brands." For American Eagle Outfitters, Inc. to get this far as a company in the retail industry, they have established five core values to stay on track and remember what got them there and what is important with every great success. These five core values are: people, integrity, passion, innovation, and teamwork. Other brands under the American Eagle Outfitters, Inc. name include: Bluenotes (2000-2004), Martin & Osa (2006-2010), Aerie (2006-current), 77kids (2008-2012), Todd Snyder and Tailgate (2015-current), and Quiet Logistics (2021-current). The history of American Eagle Outfitters, Inc. as a company is as follows:

-1977: the first American Eagle store opens in Novi, Michigan

-1980: American Eagle becomes a brand under Retail Ventures, Inc.

-1990: The American Eagle company is purchased by Schottenstein Stores Corp. and introduces their first private labeled products: men's bootcut and worker jeans

-1994: American Eagle Outfitters, Inc. goes public under the 'AEOS' symbol on the NASDAQ with 2.3 million shares

-1997: American Eagle starts selling their signature denim, featuring "a fit for everyone"

-1998: the launch of ae.com

-1999: American Eagle is named the official outfitter of the hit television show, *Dawson's Creek*

-2001: American Eagle's first international store opens in Canada

-2006: The launch of the Aerie brand

-2007: American Eagle Outfitters, Inc. is now public under the 'AEO' symbol in the NYSE and moved its headquarters to Pittsburgh, Pennsylvania

-2011: the launch of the American Eagle and Aerie mobile app

-2013: American Eagle hosts its first community day

-2014: the start of the #AerieReal campaign and the opening of the company's first LEED certified building in Hazelton, Pennsylvania

-2016: the launch of the Todd Snyder and Tailgate brands
-2017: Aerie reaches $500 million in sales
-2018: American Eagle reaches $1 billion in jean sales alone
-2019: the AE Pride Campaign raises over $1.2 million for the 'It Gets Better Project'
-2020: the launch of Offline by Aerie
-2021: Quiet Logistics is bought by American Eagle Outfitters, Inc

The first key product that American Eagle Outfitters, Inc. is known for are its jeans and denim. Besides jeans, denim includes jackets, overalls, shorts, skirts, and more. As the company was growing, they introduced more styles, washes, and expanded their size range to offer a jean for everyone. Another key product is men's boxers. They offer many different fits and styles that anyone shopping for boxers will feel comfortable in. On the other hand, the two key products that put the Aerie brand on the map are women's bras and underwear. These products promote inclusivity by providing several shades of nude for bras, bralettes, and underwear. Another key product under the Aerie are leggings. In fact, Aerie rebranded their leggings when they introduced their new Offline by Aerie brand in 2020. They went from three different styles/fabrics to five to provide a legging for anything from hanging out around the house to providing support for high intensity workouts.

Regarding both American Eagle and Aerie brands, they market specifically to 15 to 25 year old men and women. However, anyone from the age 15 and older can find something to wear at both American Eagle and Aerie. American Eagle focuses on both men's and women's products, whereas Aerie focuses on women's products.

American Eagle Outfitters, Inc. partners with apparel manufacturers with more than 300 third party factories in more than 20 countries. They are all located in Asia, with about one third being in China. Because American Eagle Outfitters, Inc. does not own any of these factories, they have established a 'Supplier Code of Conduct' that is mutually agreed and respected by both the company and the factories. This code of conduct consists of internationally accepted standards which include the core conventions of the International Labor Organization (ILO) and the Universal Declaration of Human Rights. Other suppliers that provide services for their supply chains are Coupa and Quiet

Logistics. Coupa is a technology platform used to better manage all aspects of the business. American Eagle Outfitters, Inc. sought out Coupa's services to find a solution for their supply chain in a short period of time. The specific service utilized is called the Coupa Supply Chain App Studio which features solving supply chain models through applications and providing insight and advice across all levels of an organization. Because of this service, American Eagle Outfitters, Inc. has surpassed previous shipping times, better management when resources are scarce within the distribution centers, and using the data provided by the applications to make better business decisions. Quiet Logistics is the company American Eagle Outfitters, Inc. bought in November 2021. Although this was a huge investment for American Eagle Outfitters, Inc. (8% of its market cap.), this gave American Eagle such a competitive edge because it was the first company in the retail industry to take this step. Quiet Logistics is a logistics company focusing on the operation of automated distribution centers near city centers. Because of this acquisition, American Eagle now gets priority in the distribution centers and allows for more inflow of revenue.

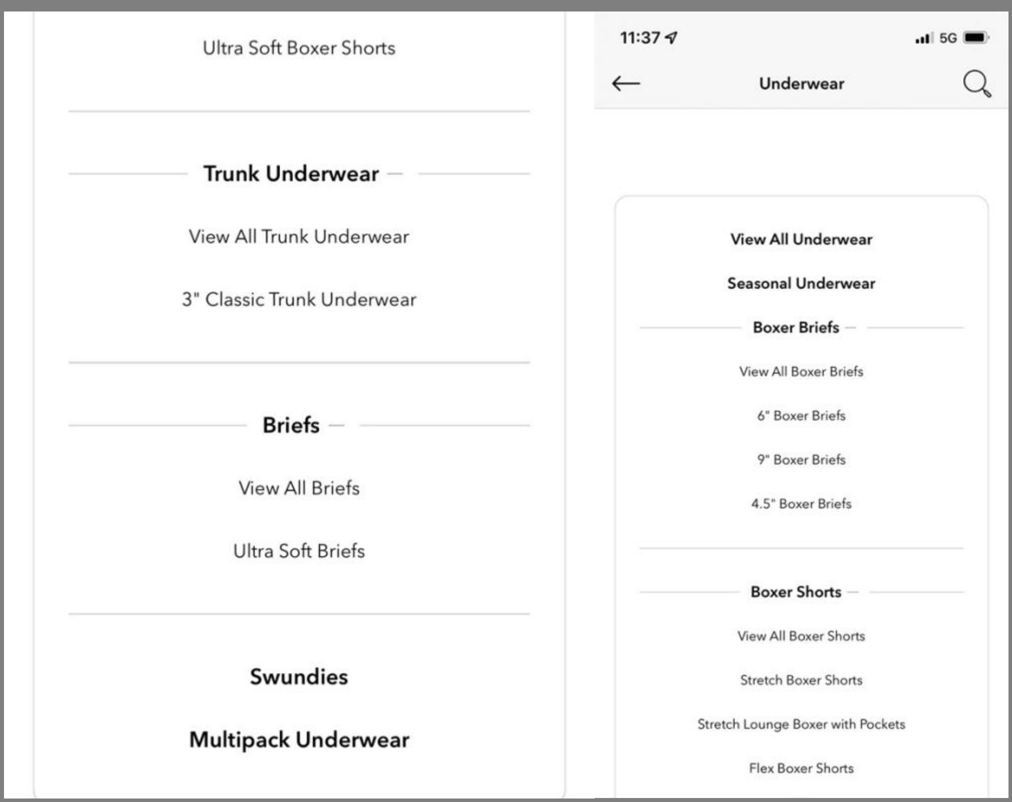
American Eagle Outfitter's competitors include Hollister, Abercrombie and Fitch, Urban Outfitters, Old Navy, The Gap, Aeropostale, H&M, Victoria's Secret, and Levi's. Compared to its competitors, American Eagle Outfitters has a higher profit margin than most of them at 8.37%. However, Victoria's Secret and Levi's have a higher profit margin at 9.52% and 9.60% respectively.

The five stages of the business cycle are start-up, growth, maturity, transition, and succession. As of now, American Eagle Outfitters, Inc. seems to be in the transition stage of the business cycle, mainly due to the COVID-19 pandemic. This stage entails when a company must deal with a significant change whether its personal within the company or it has to do with the whole world, like the pandemic. American Eagle Outfitters, Inc. had to plan to continue to be a leader in the retail industry. However, without the pandemic, the company would still be in the maturity stage because it is a stable and profitable business where executives can be paid a consistent salary, recognition within the industry, and a strong and increasing customer base.

Key Products: American Eagle

Men’s Athletic Fit

Men’s Slim Straight



Different Types of Boxers Provided by American Eagle

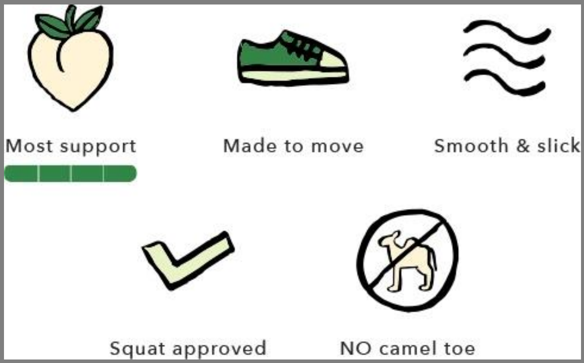

Women’s Hi-Rise Jeggings Women’s Curvy Mom Jeans


Different Denim Products Provided by American Eagle:

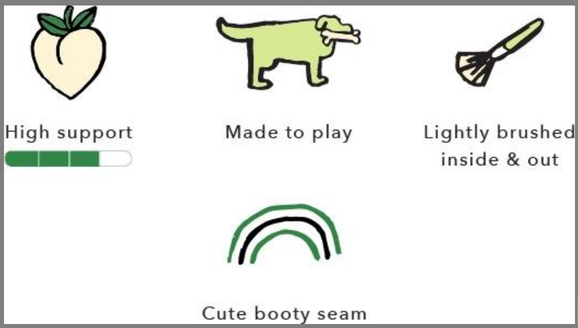
Men’s Hooded Denim Jacket Women’s Denim Skirt

<u>Key Products:</u> Aerie

Different Types of Leggings and Features Provided by Offline by Aerie:

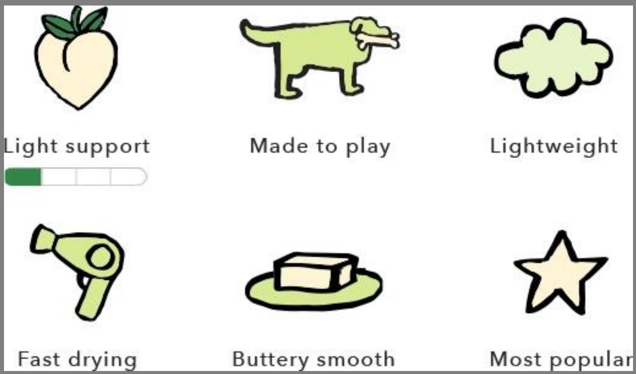


Goals Leggings

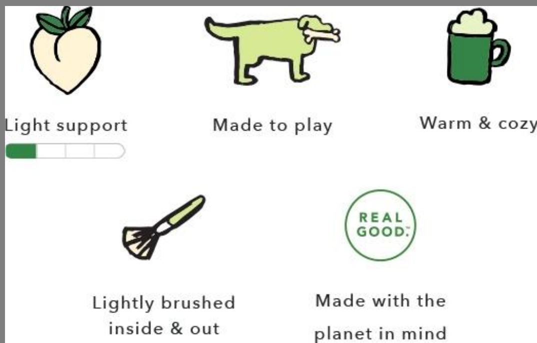


Hugger Leggings

OG Leggings



Real Me Leggings



Warm-Up Leggings

Examples of the Different Styles of Bras at Aerie

PESTEL Analysis

Political Factors Impacting American Eagle Outfitters, Inc.:

- Taxation
  - tax rates and tax incentives
    - regarding the clothing tax and how it varies state by state
- Antitrust Laws
  - in relation to apparel retail stores
- Wage Legislation
  - minimum wages, overtime, and regulations regarding minors
    - these will also differ depending on different state's laws
- Interference with the Government
  - mandatory policies and regulations, especially relating to COVID-19
    - federal and state regulations
    - Examples: pricing, safety, and product labeling regulations
- Political Stability
  - the importance of apparel and retail stores/companies in the economy
    - without the retail industry, the economy would be worse off
- Mandatory Benefits Given to Employees
  - varies state by state and by company
  - day to day benefits: lunch breaks
- Pricing Regulations and Requirements for Products
- Safety Regulations (including those implemented from COVID-19)
- Product Labeling Requirements: very important within the retail industry

Economic Factors Impacting American Eagle Outfitters, Inc.:

- Apparel and Retail Stores Being an Essential Part of the Economy (like mentioned previously)

- Efficiency in Financial Markets

    - deciding whether American Eagle must raise capital in the local market?

- Labor and Other Essential Costs

    -the need to balance these costs while also raising revenue each quarter/year

- The Current Stage of the Business Cycle

    - And the impact this has on a company and industry as a whole

- Economic Growth Rate- specifically in the retail industry

- Unemployment Rate

    - How this affects business operations and business strategy

- Competing Pay and Benefits from Other Companies

- Interest Rates

- Inflation Rate

- Taxes (same as mentioned previously)

- Acquisition or Selling of Brands Under their Company- What this means for a company.

Social Factors Impacting American Eagle Outfitters, Inc.:

- Collaborating with Other Companies, Charities, etc.

    - to promote awareness and funds as a unit rather than enemies

- Developing Resources Available to Anyone to Get Access

- providing customers with something other than your product to try and increase their customer base

- Promoting Diversity and Inclusivity

  - through employees, customer base, and products

- Having Brand Partners

  - having celebrities promote products with the goal to raise customer base, therefore, raising revenue

- Connecting and Relating to Customers- specifically with advertisements

- Demographics Represented

  - customers and employees

- The Surrounding Culture- the message a company likes to portray

- The Surrounding Diversity

Technological Factors Impacting American Eagle Outfitters, Inc.:

- Different Advances Made by Competitors

  - websites, mobile apps, etc.

- Impact on the Value Chain in the Retail Industry

- Different Services Provided

  - curbside pick-up, in-store pick-up, even Doordash delivery

- Advanced Methods to Pay for Products

  - Apple Pay, Afterpay (in stores too now)

Environmental Factors Impacting American Eagle Outfitters, Inc.:

- Weather Conditions and the Impact on Consumer Behavior

- If it is raining or snowing, it will affect whether customers want to go to the mall to shop in stores- significant in the retail industry

- Promoting the Well-Being of the Environment

    - may affect customer base if company does not show their support

- Actions Made by Other Companies to Fight Climate Change

    - may affect customer base if company does not show their support

- Strains due to Shortages

    - the risk of losing customers for a period of time due to the need to increase prices if a certain material is scarce

- Environment Pollution Regulations

- Air Pollution Regulations

- Water Pollution Regulations

Legal Factors Impacting American Eagle Outfitters, Inc.:

- Employment Laws (discrimination & violation of mandatory rights/benefits)

- Health and Safety Laws and Regulations (& violations of these)

- Violation of Laws and Regulations Previously Mentioned

- The Association Between a Company and Lawsuits

    - Depending on the reason for the lawsuit, this may affect customer base

- Intellectual Property and Copyright Lawsuits

    - especially present in the retail industry because of trends, designs, and advertisements

- Antitrust Laws


Political
Legal
Economic
PESTEL
Environmental
Social
Technological

Industry and Competitive Analysis

Industry's Prospects for Sustained Profitability:

To sustain the profitability of the retail industry, more specifically apparel retail it takes a lot of competitors, consistency from all companies in the industry, and different factors. These factors relate to the pandemic, the supply chain, the ability to shop in-store and online, and social media. One factor presented due to the COVID-19 pandemic are the stimulus checks. These stimulus checks gave retail companies, including American Eagle Outfitters to raise the prices of their products. In addition, this also increased higher sales for American Eagle Outfitters, and I assume most other retail companies for the first time since the start of the pandemic. Next, there are different ways regarding the supply chain to sustain profitability in this industry. These include automating orders and warehouses/distribution centers and implementing third-party logistics solutions (3PL's). 3PL's specialize in the organization of distribution centers, their distribution to transport, and last-mile delivery. Last-mile delivery refers to the last step of fulfilling online orders, making sure the online order is delivered to the recipient. Advantages of implementing 3PL's allows retail companies more time to properly and effectively manage other components within their company. In fact, it is proven to be more cost-effective to many retailers especially when business is booming, and logistics are increasing too much to manage. Another factor is investing in resources to add value and benefit the company. This could be investing in new fabrics to launch a new line of products, or for example, buying a logistics company like American Eagle Outfitters. Because Quiet Logistics was a huge investment and serves a valuable, profitable purpose for American Eagle Outfitters, it will bring more value to the American Eagle Outfitters, Inc. portfolio. The store layout and the ability to shop a company's website also contributes to consistent profitability. When shopping in stores, a comforting, welcoming environment, as well as advertisements featuring men and women from all different backgrounds can contribute to the success of a company's in-store revenue. Likewise, the ease to navigating a company's website will affect online sales. Another up and coming factor is social media. Ever since the creation of *TikTok*, an abundant of products, including clothing have gone viral and caused companies to sell out this viral product. Many products have gone viral through this social media application, even if the content was not focusing on the clothing item. For example, a content creator on *TikTok* could be making in a where he/she are dancing and the comments could say: “Where is that shirt from?”; “Where did you get your jeans?”, etc. In fact, a product first started by Aerie went viral due to *TikTok,* the crossover leggings. As soon as these leggings went viral, they sold out in a matter of days. Because of the success Aerie had with their crossover leggings, competitors started selling leggings with the same type of waistband. Also, Aerie had to take advantage of this newfound success and make it apart of their next floor set that was already planned out for the next season. Aerie even started creating new products with that same waistband, like swimsuit bottoms, and tennis skirts.

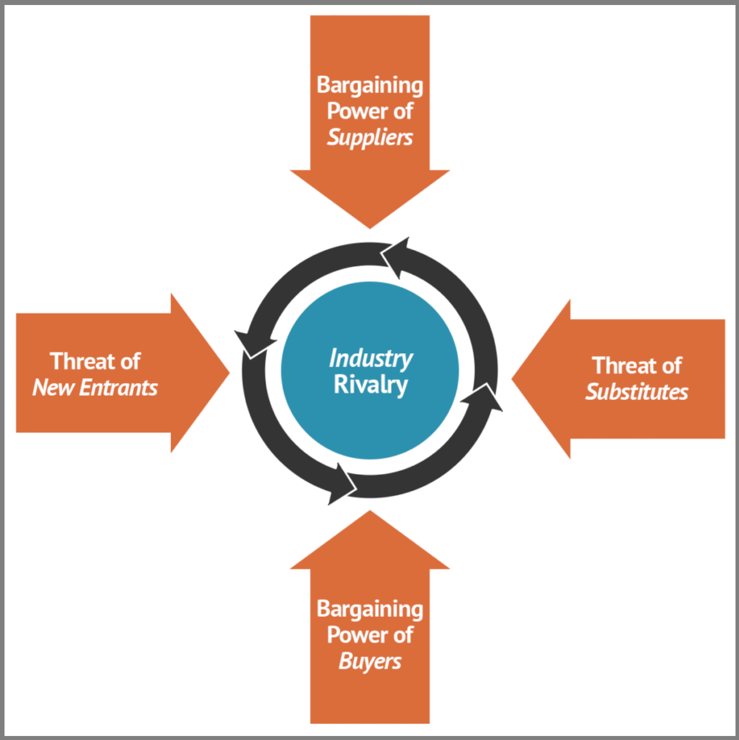
Porter's Five Forces Model:

The purpose of utilizing Porter's Five Forces Model is to analyze where the power lies when it comes to a business in its industry. It is an insightful tool to find where a company has a competitive advantage and where a company wants to be competitively.

1) Threat of New Entrants:
    a) Innovating new products and services featuring current and possibly starting a trend.
    b) Effectively promoting products and services.
    c) Gaining customers without only seeing advertisements.
        i) Because American Eagle Outfitters has been around for a long time, many generations of families have passed on their trust and love for their products, being able to gain customers by word of mouth.
    d) Reaching or the ability to reach the status American Eagle has in the industry
        i) This takes a lot more than selling a good product at a good value.
2) Bargaining Power of Suppliers:
    a) Maintaining professional relationships with suppliers.
        i) Executed by AEO with the 'Supplier Code of Conduct'
    b) Using alternative materials/fabrics in case of scarcity and raised prices.
    c) Efficiently servicing customers via online services.
    d) The significance of having an efficient supply chain.
3) Bargaining Power of Buyers:
    a) Keeping up with the newest clothing trends.
    b) The ability to efficiently provide new products will keep customers at AEO while also attracting new customers.
    c) Providing a good price for products.
        i) If there's a cheaper option with the same quality, customers will buy the cheaper option.
    d) The importance of continuously building a larger customer base.
    e) Rewarding customers for shopping at American Eagle Outfitters by utilizing a loyalty and credit card program with benefits.
        i) Gives the opportunity to gain customers and keep current customers shopping at AEO.
    f) Connecting with customers using campaigns regarding social or political issues.
4) Threats of Substitute Products and Services:

a) Having a signature product(s).
b) Like mentioned previously, keeping up with current trends and starting new trends.
c) Updating loyalty and credit card programs to be distinct from competitors.
d) Partnering with companies and start selling their products on the AEO website to create convenience for customers to shop for multiple products at one place.
    i) Example: selling Steve Madden and Birkenstock's shoes that will pair well with American Eagle Outfitters' clothing
e) Focusing and listening to the needs and wants of customers.

5) Rivalry Among Existing Competitors:
    a) Collaborating with competitors to increase the size of the market instead of competing in a smaller market.
        i) Limiting competitors equals limited rivalry which could mean less motivation to reach their full potential as a company.
    b) Maintaining a healthy and competitive relationship with competitors.
    c) Focusing and bettering operations on all aspects of the business to remain a strong and leading competitor.

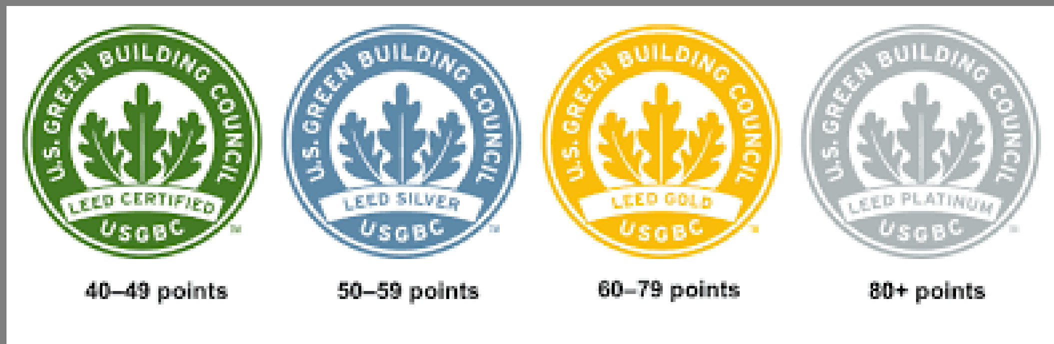


Competitive Position Within the Retail Industry:

American Eagle Outfitters, Inc. is always implementing new ways to differentiate itself and stay competitive from other companies in the retail industry. In 1999, American Eagle received the opportunity to be the official outfitter for the most popular teen drama television series (at the time), *Dawson's Creek*. This was a phenomenal opportunity for American Eagle Outfitters to showcase its products. Viewers of any television series or movie always want to have at least one clothing item they see on a character, but they usually are some high-end items with a big ticket price. But with this opportunity, viewers were able to wear their favorite clothing item seen on television at a more than reasonable price.

American Eagle Outfitters also gives credit where it's due, specifically the viral *TikTok* that sold out Aerie's crossover leggings in days since the release of the video. Aerie named the *TikTok* creator responsible for the virality of this product, the 'Crossover Curator.' Aerie even brough the content creator on as a brand partner was given the opportunity to give feedback regarding the crossover leggings.

Another way AEO stays competitive is to do right by the environment while encouraging other companies, within and outside its industry to do the same. In 2014, American Eagle Outfitters opened its first LEED certified building- its distribution center in Hazelton, Pennsylvania. LEED is an acronym for 'Leadership in Energy and Environmental Design' and is a green sustainable building certification used worldwide. LEED certified buildings save money, improve efficiency, lower carbon emissions, and create a healthier environment for people. There are four levels of LEED certification, and they are determined using a point system to identify their LEED ranking. These four levels are (from lowest to highest certification) certified, silver, gold, and platinum. A building earns points by meeting requirements that benefit the "environmental quality of the building." Points are verified by the *Green Business Certification, Inc.* (GBCI) through the application process. The contribution of points is 35% for climate change, 20% for the direct impact on human health, 15% on the impact of water resources, 10% for both the effect on biodiversity and the relation to the green economy, and 5% to both the impact on the community and natural resources.



Another advantage American Eagle has over its competitors is the association when people hear the company name. When people hear American Eagle Outfitters, they think of *the* place to get jeans. The same concept goes for Aerie, in fact, Aerie is rapidly growing and increasing American Eagle Outfitters, Inc. value. Even though the American Eagle brand is three times larger, therefore three times the revenue than Aerie, Aerie is growing at a faster rate than American Eagle. American Eagle Outfitters, Inc. is building a foundation where its providing Aerie to grow its business.

However, American Eagle Outfitters' biggest competitive advantage is their owning of Quiet Logistics. When the company announced this in November of 2021, it was a huge deal. AEO is the first in its industry to take this step in having complete ownership over its supply chain. Also, since Quiet Logistics will still operate independently under the American Eagle Outfitters, Inc. name, this will increase the value of the company tremendously in the next couple of years once the ball gets rolling.

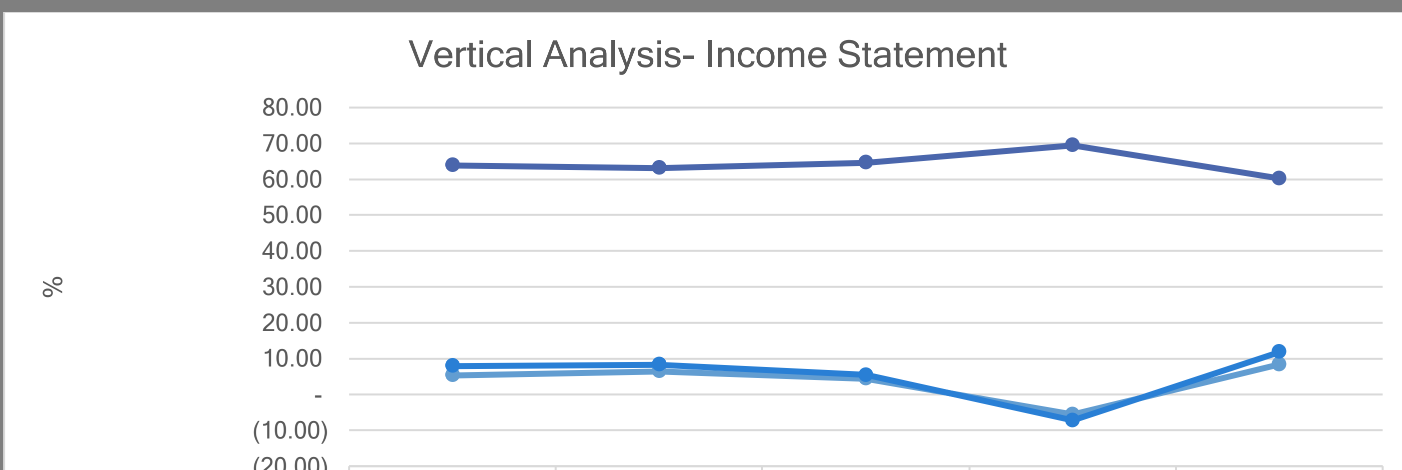
To conclude, American Eagle Outfitters has many distinct ways in which it keeps itself competitive in the apparel retail industry. According to their website, as of 2021, they have put together a strategy for "long-term, consistent, and profitable growth." Their strategic plan is built on these three foundations:

1) Fortifying their core brands, American Eagle, and Aerie.
2) Growing their North American presence.
3) Transforming AEO from a leading domestic teen retailer into a distinctive branded, multi-channel business that can successfully and profitably compete on a global level.

Financial Statement Analysis

Vertical Analysis of Income Statement:

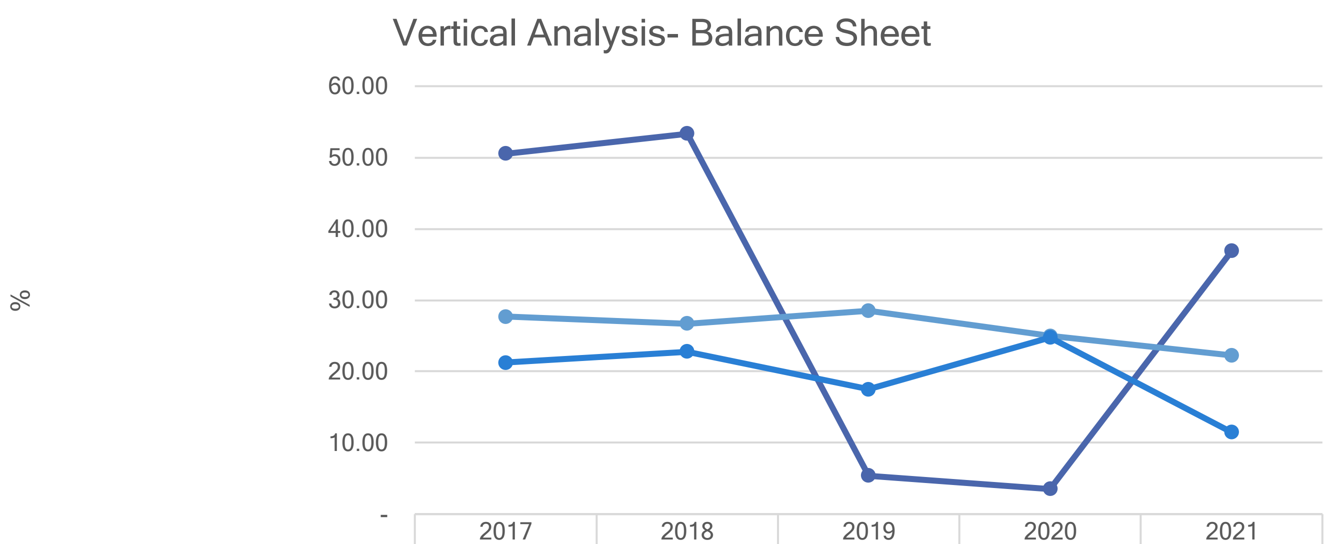
From 2017 to 2019, American Eagle Outfitters' cost of sales were steadily increasing, until the start of the pandemic. They were not selling as much product as they were in the previous years, hence the decrease in 2020. Luckily, in 2021 AEO started selling more and more product that they even surpassed their cost of sales from 2017 and 2018. Another factor of the cost of sales being higher than 2017 and 2018 is because of inflation caused by the pandemic. For American Eagle Outfitters' net income and operating income, they were following the same trend within these five years. They both were performing the same from 2017 to 2018, decreased in 2020, and ultimately surpassing their net and operating income from 2017 and 2018. This could be due to AEO fixing their supply chain problems due to the higher demand of online business and Their acquisition of Quiet Logistics in November of 2021. However, it may have been too late in the year to affect their net income and operating income to this extent.



	2017	2018	2019	2020	2021
cost of sales (%)	63.89	63.14	64.67	69.46	60.25
net income (%)	5.38	6.49	4.44	(5.57)	8.37
operating income (%)	7.98	8.35	5.42	(7.22)	11.80

Vertical Analysis of Balance Sheet:

American Eagle Outfitters' current assets, current liabilities, and cash and cash equivalents were performing steadily during 2017 and 2018. However, they all decreased in 2019, especially their current assets. These decreases were more than likely caused by the COVID-19 pandemic. In 2020, AEO's current assets stayed at the level they were from 2019. However, their current liabilities and cash and cash equivalents had a quicker increase. Their current liabilities increased quickly because AEO and about every other company was financially struggling to some extent. Then about a year into the pandemic, AEO managed to lower what they owe (current liabilities) and increase their current assets. AEO's current assets performed extremely well within the span of a year with unpredictable circumstances, especially within the retail industry.

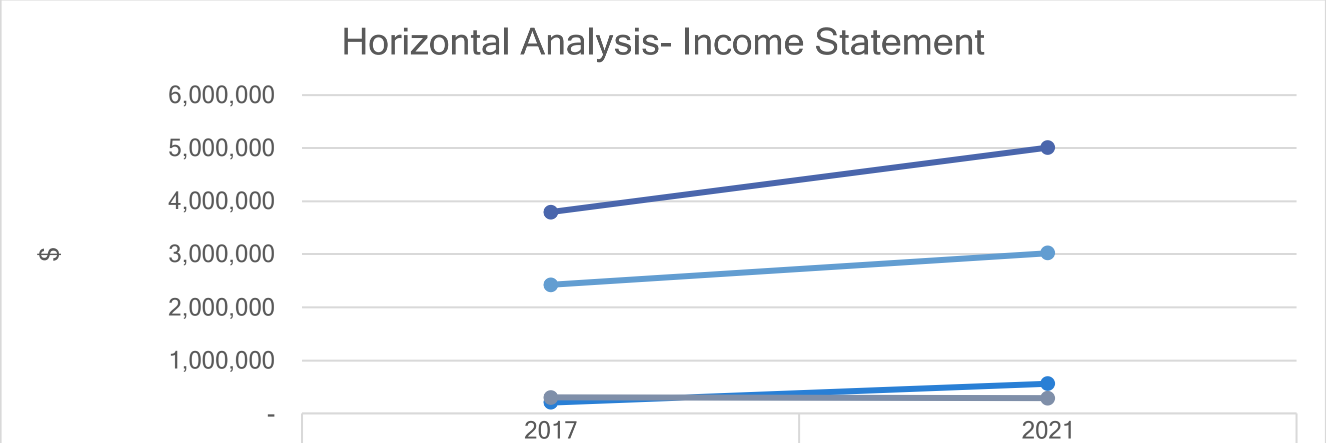


	2017	2018	2019	2020	2021
current assets (%)	50.56	53.32	5.41	3.51	36.89
current liabilities (%)	27.70	26.71	28.51	24.99	22.26
cash and cash equivalents (%)	21.24	22.77	17.51	24.76	11.48

To conclude, from the vertical analysis from both the income statement and the balance sheet, we can see exactly how the key factors acted through each of the five years.

Horizontal Analysis of Income Statement:

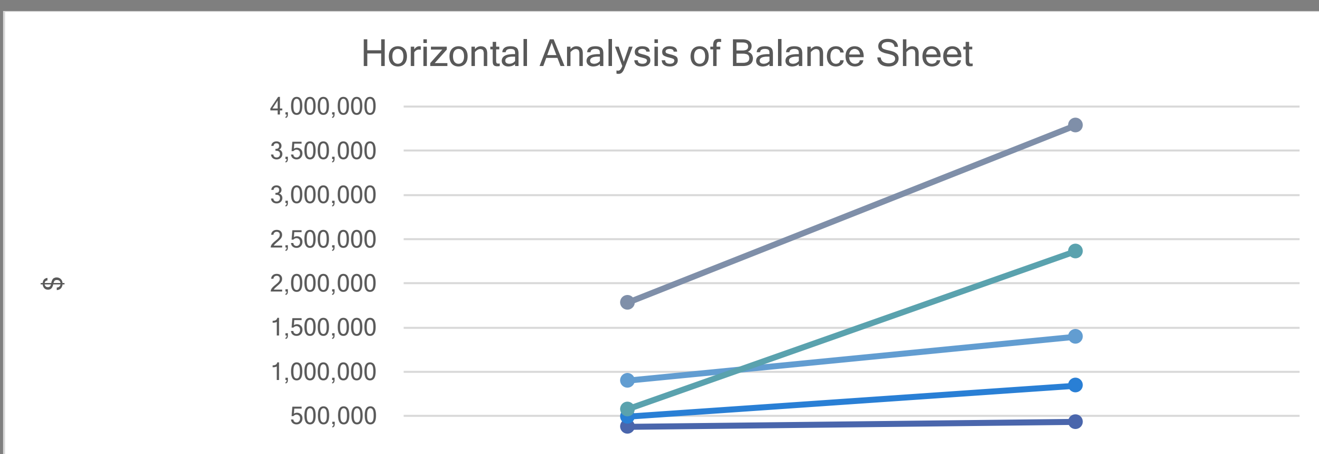
Over the span of the five years, American Eagle Outfitters' revenue has increased, which means their cost of sales would have increased because they tend to move in the same direction. Increased revenue means they need to buy more materials, therefore, increasing the cost of sales to buy the materials, ship them to distribution centers, and finally shipping them to stores or order recipients. Like the balance sheet, everything but other income, net has increased, and other income has stayed the same for the duration of the five years. We can also see that all these factors have increased throughout the 5 years, except for operating income. When analyzing a company's performance this way, you can truly see over the long-term where the company is heading.



	2017	2021
revenue	3,795,549	5,010,785
cost of sales	2,425,044	3,018,995
net income	204,163	558,922
operating income	302,788	288,277

Horizontal Analysis of Balance Sheet:

When analyzing just the difference between 2017 and 2021, American Eagle Outfitters, Inc. performed well, even though there were some declines, like previously mentioned. From the graph we can conclude that current and total assets and current and total liabilities all have increased, but cash and cash equivalents seemed to have increased or decreased. The lack of change seen in this graph of cash and cash equivalents can be seen as both a good and bad thing. The biggest increase on the graph over the five years are American Eagle Outfitters' total assets followed by their total liabilities. Their assets increased due to buying Quiet Logistics, and their total liabilities increased probably due to the increase of financial hardships because of the pandemic. From evaluating this graph alone, American Eagle Outfitters, Inc. has performed well and seemed to have increased their value. From looking at the 5-year difference of these key factors from American Eagle Outfitters, Inc., we can see that all these key factors have increased. This is a good sign when looking at the performance of a company.



	1/28/18	1/29/22
cash and cash equivalents	378,613	434,770
current assets	901,229	1,396,924
current liabilites	493,783	842,871
total assets	1,782,660	3,786,643
total liabilities	578,091	2,362,971

5-Year Time-Series Financial Ratio Analysis and Comparison to Industry

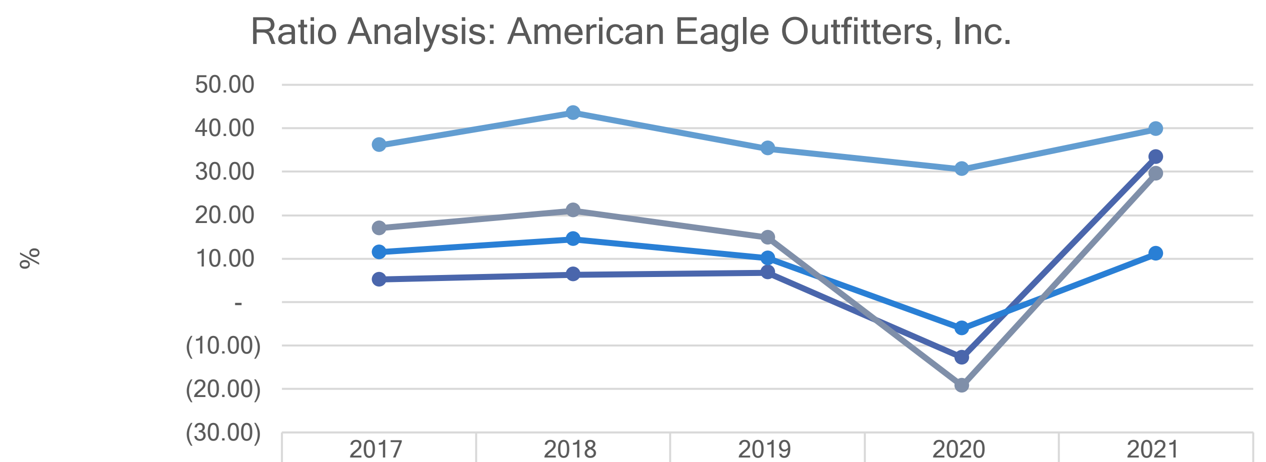
American Eagle Outfitters, Inc. vs. Apparel Retail Industry:

Profitability:

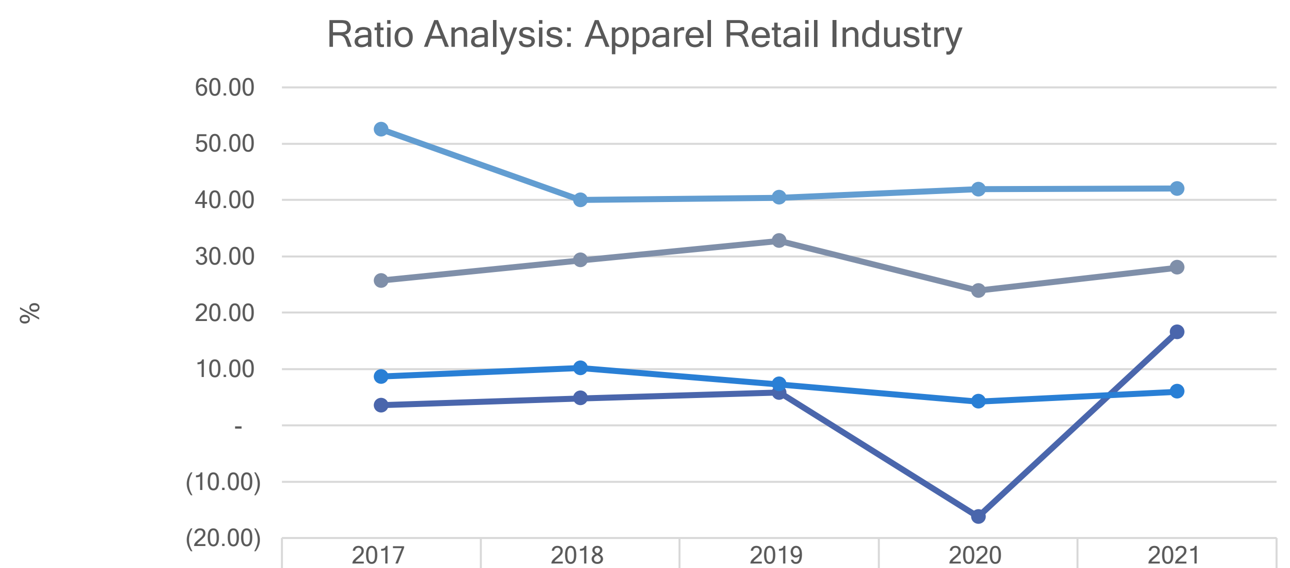
In terms of revenue growth, American Eagle Outfitters has exceeded the industry's revenue growth from 2017 to 2021. From 2017 to 2020, the gap between the revenue growth for AEO and the retail industry is smaller than the gap between revenue growth in 2021. From 2017 to 2020, the biggest difference is about 4%. In 2021, AEO's revenue growth was 33.29% where the industry's growth was 16.55%. From this we can see the American Eagle has performed better than other companies in its industry after the peak of the pandemic. An interesting but expected piece of data was the revenue growth in 2020. AEO reported (12.75) % where the retail industry reported (16.23) %.

Regarding profit margin, American Eagle Outfitters has underperformed its industry for the past five years except 2018. AEO's profit margin was higher, but only by about 3.50%. Therefore, even though AEO's revenue is higher, they are not making as much as other companies in the industry per sale.

For return on assets (ROA), American Eagle Outfitters outperformed the retail industry for the past five years, except for 2020. The industry average was 4.21% and AEO was at a (6.09) %. This is surprising to me because a lot of the data I've collected shows that AEO was one of the companies in the apparel retail industry recover tremendously since the pandemic. This number could reflect the fact that during the peak of the pandemic AEO was just hit harder than other companies. Within the next year, 2021, American Eagle bounced back and outperformed the industry average. AEO's 2021 ROA was 11.08% and the industry average's ROA was 5.96%. This number is impressive because of the increase of the ROA in just one year. AEO proved they could make investments that would financially benefit the company. For the return on equity (ROE) ratio, the industry average was higher than AEO's from 2017 to 2020. In 2021, AEO reported a ROE of 29.48%, while the industry average reported a 27.99%. From this we can see the effectiveness of the management of funds from investors and shareholders of American Eagle. Especially in 2020, the industry average reported a ROE of 23.93% and AEO reported a (19.26) %. To reiterate, AEO probably relied on these funds during the peak of the pandemic.



	2017	2018	2019	2020	2021
Revenue Growth	5.14	6.33	6.75	(12.75)	33.29
Profit Margin	36.11	43.55	35.33	30.54	39.75
Return on Assets	11.45	14.42	10.05	-6.09	11.08
Return on Equity	16.95	21.01	14.85	-19.26	29.48

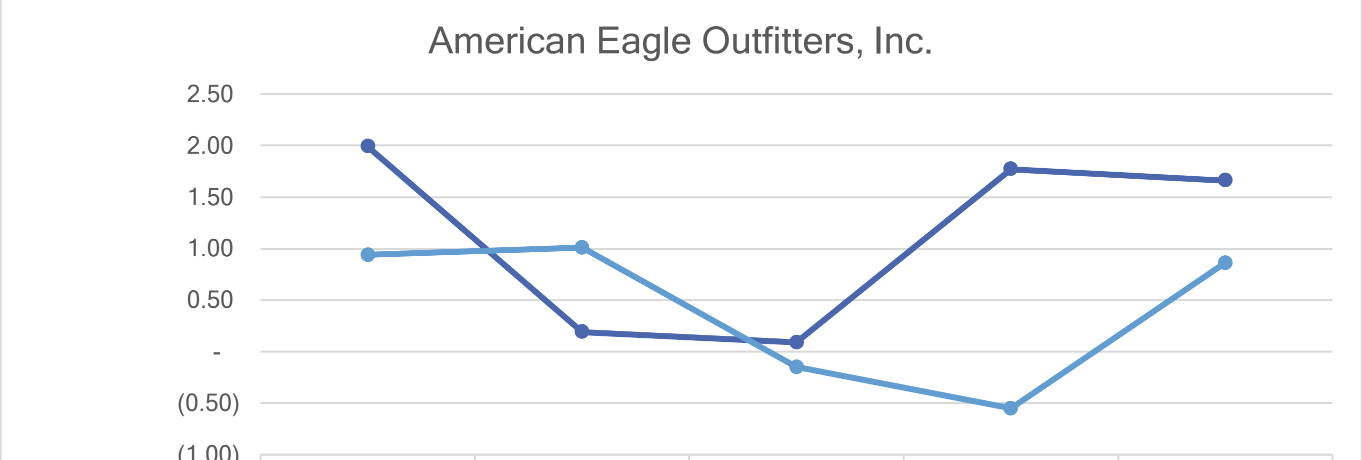


	2017	2018	2019	2020	2021
Revenue Growth	3.55	4.81	5.79	(16.23)	16.55
Profit Margin	52.54	40.02	40.44	41.88	42.05
Return on Assets	8.63	10.18	7.30	4.21	5.96
Return on Equity	25.68	29.27	32.74	23.93	27.99

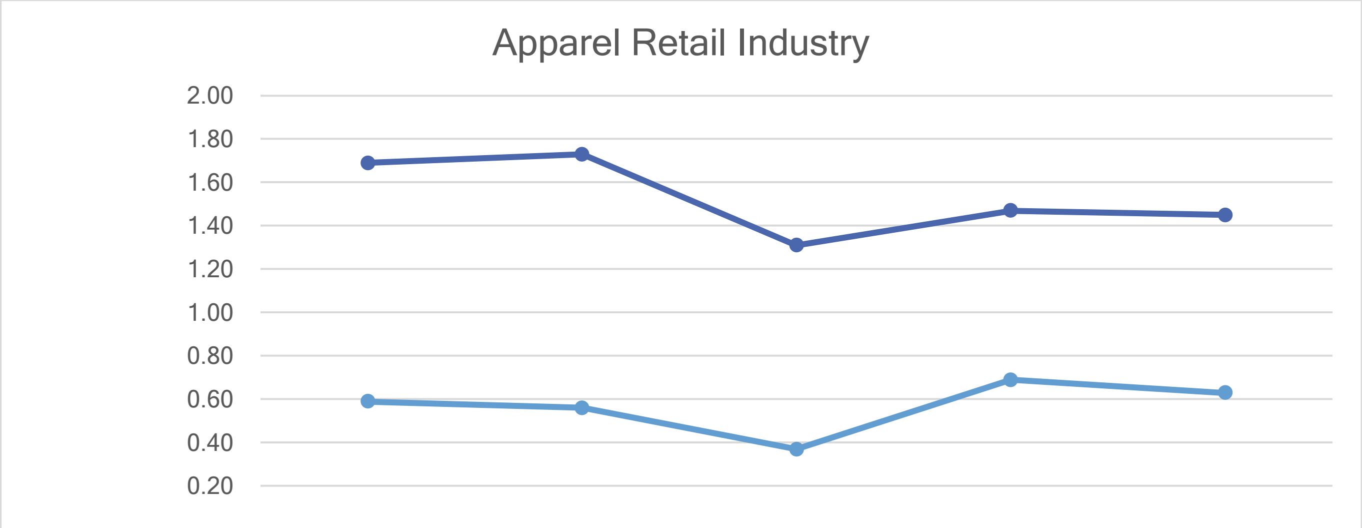
Liquidity:

Regarding the current ratio, American Eagle Outfitters followed a similar trend to the apparel retail industry in 2019 and 2021 where the ratio decreased. The current ratio jumped in 2020 for both AEO and the apparel retail industry. In

2017, 2020 and 2021, AEO outperformed its industry for the current ratio, but underperformed in 2018 and 2019. For the quick ratio, American Eagle Outfitters outperformed its industry the past five years, except for the years 2019 and 2020. From this data provided, we can see that other companies in the apparel industry could more easily pay off their debts than American Eagle Outfitters, Inc. during the peak of the pandemic.



	2017	2018	2019	2020	2021
Current Ratio	1.99	0.19	0.09	1.77	1.66
Quick Ratio	0.94	1.01	(0.15)	(0.55)	0.86



	2017	2018	2019	2020	2021
Current Ratio	1.69	1.73	1.31	1.47	1.45
Quick Ratio	0.59	0.56	0.37	0.69	0.63

Market Comparable Valuation and Analysis

Description of the Market Comparable Valuation:

To complete the market comparable valuation, you need to select about five to six companies in the same industry and similar in size, financially and physically (locations, employees, etc.). Financially, these companies need to have similar market capitalizations and enterprise values. Next, I found the price-to-earnings (P/E), price-to-sales (P/S), price-to-book (P/B), enterprise value-to-sales (EV/Sales), and enterprise value-to-EBITDA (EV/EBITDA) ratios to determine the enterprise value from the price multiple ratios and the equity value from the enterprise value multiples to the find the equity value per share. Then, the mean or median of the comparables ratios are used. This is used to determine whether American Eagle Outfitters, Inc. stock price was over and undervalued according to each multiple/ratio. An advantage of using this method is that this valuation is simpler than other valuation techniques. Another is that the information used for the valuation is all publicly available and that there is only a limited of amount of data needed to complete this, as opposed to other valuation strategies.

Peer Group Selection:

The companies I chose for the peer group of the market comparable valuation are Abercrombie and Fitch, Levi's, The Gap, Urban Outfitters, and Victoria's Secret and Company. These companies were chosen as part of the peer group because they are in the same industry of apparel retail, and they all have similar financial and performance measures. All the companies in this peer group could be considered a competitor for American Eagle Outfitters, Inc. Everyone in the peer group has a market capitalization ranging from $1.64 billion to $7.59 billion and an enterprise value ranging from $2.05 billion to $10.30 billion. The median of the market capitalization of the peer group is $4.04 billion and the median of the enterprise value among the peer group is $6.22 billion. With AEO's market capitalization being $2.78 billion and enterprise value being at $4.11 billion, both values fall between its comparables. Between American Eagle Outfitters and the five comparable companies, Victoria's Secret and Company has the highest stock price at $47.92 and The Gap has the lowest at $13.65. AEO's stock price is $17.78 putting them between the highest and lowest stock prices.

Multiples:

Column1	Beta	Stock Price	Market Cap	P/E	P/B	P/S	EV	EV/Sales	EV/EBITDA
American Eagle Outfitters (AEO)	1.33	17.78	2.78	7.37	1.92	0.67	4.11	0.82	5.31
Abercrombie & Fitch (ANF)	1.57	32.46	1.64	8.88	2.00	0.55	2.05	0.55	4.18
Levi Strauss & Company (LEVI) (B)	1.08	18.86	7.59	12.18	4.40	1.29	9.03	1.49	10.36
The Gap (GPS)	1.70	13.65	5.04	6.88	1.81	0.31	10.30	0.62	10.36
Urban Outfitters (URBN)	1.49	25.38	2.43	8.93	1.38	0.55	3.15	0.69	6.17
Victoria's Secret & Co. (VSCO)	1.50	47.92	4.04	7.92	15.87	0.64	6.22	0.92	5.31
mean	1.47	27.65	4.15	8.96	5.09	0.67	6.15	0.85	7.28
median	1.50	25.38	4.04	8.88	2.00	0.55	6.22	0.69	6.17

Shares outstanding: 0.1688 billion

Median	P/E	P/B	P/S	EV/Sales	EV/EBITDA
Enterprise Value	n/a	n/a	n/a	3.46	4.78
Equity Value	3.35	2.90	2.76	2.13	3.45
Equity Value Per Share	19.84	17.16	16.33	12.61	20.41
over/under priced?	under	over	over	over	under

American Eagle Outfitters has a P/E of 7.37, P/B of 1.92, P/S of 0.67, EV/Sales of 0.82, and an EV/EBITDA of 5.31. Whereas the peer group median has a P/E of 8.88, P/B of 2.00, P/S of 0.55, EV/Sales of 0.69, and an EV/EBITDA of 6.17. There are no same numbers for the multiples between American Eagle Outfitters and the peer group's median. American Eagle Outfitters has a higher multiple when it comes to P/E, P/B, and EV/EBITDA. The peer group's median has a higher multiple for P/S and EV/Sales. From this we can see that compared to the other multiples, the EV/Sales multiple is much lower regarding the final equity values per share.

NOTE: - market capitalizations and enterprise values are expressed in billions

- forward p/e is used

Multiples Selection:

Later when I weighted all the values calculated, I decided not to include the EV/Sales multiple. I did this because it seemed to be an anomaly compared to the other values provided by the other multiples.

Final Range of Values: Comparable Valuation

Column1	Column2
Multiples (high)	
P/E	12.18
P/B	15.87
P/S	1.29
EV/Sales	1.49
EV/EBITDA	10.36

Column1	Column2
Multiples (low)	
P/E	6.88
P/B	1.38
P/S	0.31
EV/Sales	0.55
EV/EBITDA	4.18

	P/E	P/B	P/S	EV/Sales	EV/EBITDA
Maximum					
Enterprise Value	n/a	n/a	n/a	7.47	8.02
Equity Value	4.59	22.98	6.47	6.14	6.69
Equity Value per Share	27.22	136.13	38.30	36.36	39.63
American Eagle Outfitters, Inc.					
Enterprise Value	n/a	n/a	n/a	3.46	4.78
Equity Value	3.35	2.90	2.76	2.13	3.45
Equity Value per Share	19.84	17.16	16.33	12.61	20.41
Minimum					
Enterprise Value	n/a	n/a	n/a	2.76	3.24
Equity Value	2.60	2.00	1.55	1.43	1.91
Equity Value per Share	15.37	11.84	9.20	8.45	11.29

Discounted Cash Flow Valuation Analysis:

Description of Valuation Analysis and Advantages:

The discounted cash flow (DCF) valuation analysis is a financial method in which you estimate a company's or investment's intrinsic value based on its expected and forecasted cash flows. When doing this valuation, I utilized two different methods, the perpetuity growth rate, and the exit multiple method. There are seven steps to follow when conducting this valuation analysis. These are:

1) Projecting the horizon period.
2) Calculating the free cash flows
3) Calculating the discount rate, which is also the weighted average of cost of capital (wacc).
4) Calculating the terminal values
    a. Perpetuity Growth Rate Method
    b. Exit Multiple Method
5) Calculating the present values of the free cash flows and terminal values.
6) Making any adjustments needed, based on the data.
7) Performing a sensitivity analysis for both methods.

One advantage of using this method of valuation is that the data is based off previous years and the data is accurate. Also, this valuation method is much more objective than others in that it will provide an accurate estimate of intrinsic value for the company or investment.

Calculation of Free Cash Flows:

The purpose of calculating the free cash flows is to analyze the financial measures of a company. For example, their ability to generate money within and outside of the business, its ability to be liquid and flexible with its finances, and the ability for them to grow as a company, therefore, increasing the value of the company.

Steps to calculate the free cash flows:

Overall Formula: EBIT * (1-tax rate) + (D&A) + change NWC - change CAPEX

1) Multiply the earnings before interest and taxes (EBIT) by 1 minus the tax rate
2) Add depreciation and amortization (D&A)
3) Add the change in net working capital (NWC)
4) Subtract the change in capital expenditures (CAPEX)

Forecast Period Selection and Assumptions:

The forecast period chosen for this specific DCF valuation was 2022 to 2026, so a five year period. For the perpetuity growth rate method, I assumed a 5% growth rate based on the growth of AEO the past 5 years and the average growth of the apparel retail industry the past 5 years. For the exit multiple method, I used the median of the EBITDA multiple from the market comparable analysis to find the exit multiple.

Estimation of the Terminal Value:

Exit Multiple Method:

The exit multiple method valuation technique assumes that the company (AEO) is valued on a market multiple based on the terminal year forecast. Like I mentioned earlier, I used the EBITDA multiple. The EBITDA multiple is multiplied by terminal year's (2026) estimated EBITDA in order to find the terminal value. The steps used in this method are as follows:

1) Select/Create the appropriate horizon period
2) Forecast the Free Cash Flow
    a. Forecasting EBITDA, depreciation and amortization, tax rate expense, capital expenditures, and net working capital based on the growth rate
3) Calculate the unlevered cash flow
    a. Subtract depreciation and amortization from EBITDA to find the EBIT
    b. Subtract taxes from the EBIT to find net income
    c. Add back depreciation and amortization and capital expenditures, then subtract the change in net working capital
        i. This will give you the unlevered cash flow
4) Estimate the terminal value
    a. Select the appropriate median EBITDA multiple to find the exit multiple
    b. Multiply the terminal year's EBITDA by the selected EBITDA multiple

Perpetuity Growth Rate Method:

The perpetuity growth rate method valuation technique uses the assumption that the company (AEO) will continuously grow and will continue to increase its return. Also known as the 'Gordon Growth Perpetuity Model,' also assumes that cash will always increase at the same rate. The steps used in this method are as follows:

1) Select/Create the appropriate horizon period
    a. (same as the exit multiple method)
2) Forecast the free cash flow:
    a. Forecast the following using the growth rate
        i. Sales
        ii. EBIT
        iii. Taxes
3) Calculate the operating cash flow (OCF) by subtracting taxes from the EBIT
4) Calculate the free cash flow by subtracting the change in net working capital and change in capital expenditures from the operating cash flow
5) Estimate the terminal value
    a. Divide the terminal year's (2026) free cash flow by the discount rate (WACC) minus the terminal year's growth rate

<u>Enterprise Value and Equity Value Per Share:</u> American Eagle Outfitters, Inc.

Perpetuity Growth Rate Method	**Column1**	
Present Value of Explicit FCF	$	875,987
Terminal Value		
Terminal Year FCF (2026E)		241,790
Perpetuity Growth Rate		5.00%
Terminal Value	$	11,315,455
Discount Rate		7.24%
Present Value of Terminal Value	$	7,976,529
Enterprise Value	$	8,852,516
Implied Equity Value & Share Price		
Enterprise Value	$	8,852,516
Add: Cash & Cash Equivalents		4,437,700,000
Less: Debt		1,330,000,000
Implied Equity Value	$	3,116,552,516
Shares Outstanding		168,840,000
Implied Price Per Share	$	18.46

Exit Multiple Method	Column1
Present Value of Explicit FCF	$ 875,987
Terminal Value	
Terminal Year EBITDA (2026E)	984,984
Exit Multiple	6.17
Terminal Value	$ 6,077,349
Discount Rate	7.24%
Present Value of Terminal Value	$ 4,284,066
Enterprise Value	$ 6,164,264
Implied Equity Value & Share Price	
Enterprise Value	$ 6,164,264
Add: Cash & Cash Equivalents	4,437,700,000
Less: Debt	1,330,000,000
Implied Equity Value	$ 3,113,864,264
Share Outstanding	168,840,000
Implied Price Per Share	$ 18.44

Sensitivity Analysis:

Objective: The purpose of conducting a sensitivity analysis is to see how the intrinsic value of the company (AEO) will change based on two factors. For example, see how the estimated price is affected if the growth rate/exit multiple/discount rate increased or decreased. The WACC/discount rate and growth rate for the perpetuity growth rate method, and the WACC/discount rate and exit multiple for the exit multiple method.

Changes in Assumptions: When performing the sensitivity analysis, the tables show the factors added and subtracted by one with the chosen values of the factors in the center on each axis.

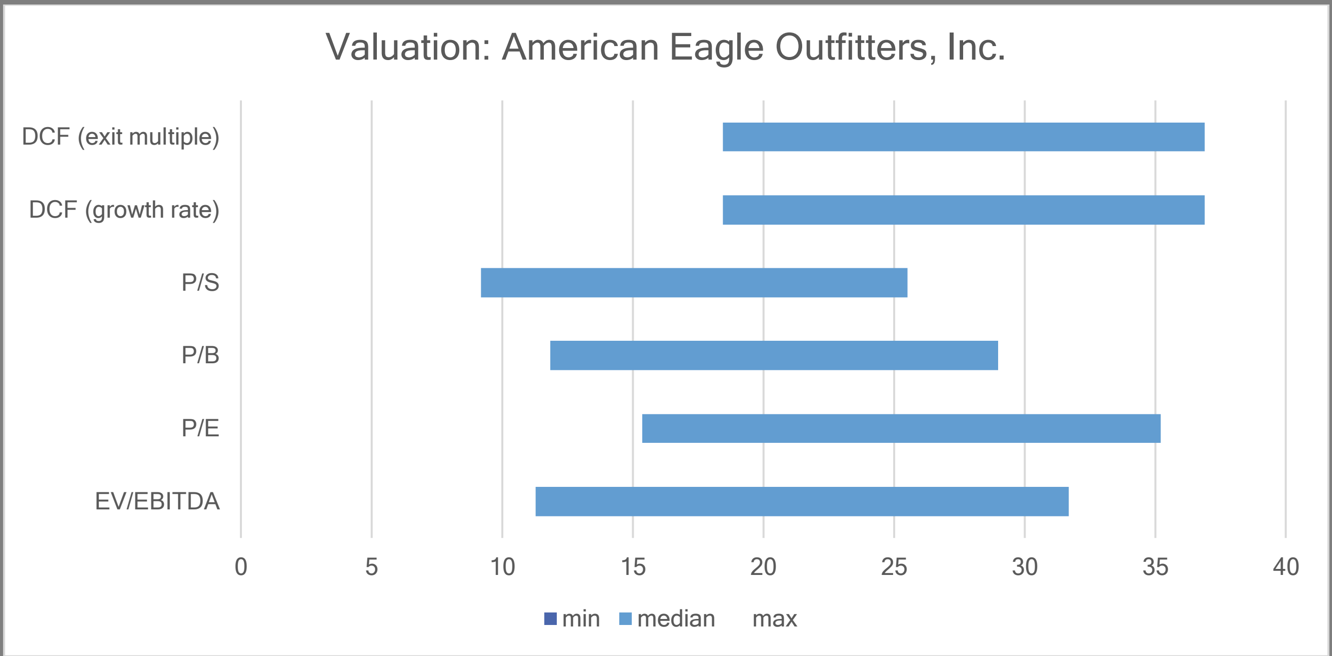
Results:

Column1	Column2	Column3	Column4	WACC	Column5	Column6
Sensitivity Analysis Table	$ 18.46	5.24%	6.24%	7.24%	8.24%	9.24%
	3.00%	18.85	18.49	18.45	18.44	18.43
	4.00%	18.88	18.50	18.45	18.44	18.43
	5.00%	18.91	18.50	18.46	18.44	18.43
Growth Rate	6.00%	18.94	18.51	18.45	18.45	18.44
	7.00%	18.98	18.52	18.47	18.45	18.44

Column1	Column2	Column3	Column4	WACC	Column5	Column6
	$ 18.44	5.24%	6.24%	7.24%	8.24%	9.24%
Sensitivity Analysis Table	4.17	18.45	18.45	18.45	18.45	18.45
	5.17	18.46	18.46	18.45	18.45	18.45
	6.17	18.46	18.46	18.46	18.46	18.46
Exit Multiple (x)	7.17	18.47	18.47	18.46	18.46	18.46
	8.17	18.47	18.47	18.47	18.47	18.46

Summary of Values: Market Comparables and Discounted Cash Flows

Football Field Valuation Chart Analysis:



When evaluating a football field valuation chart, you can see the relationship between the prices of each valuation method used. I decided not to the include the estimated price of the EV/Sales multiple from the market comparable valuation because it seemed to be an outlier and anomaly compared to the rest of the estimated values.

Investment Recommendation:

Column1	Column2	Column3	Column4
Valuation:		weight	value
EV/EBITDA	20.41	18.45%	3.77
P/E	19.84	17.93%	3.56
P/B	17.16	15.51%	2.66
P/S	16.33	14.76%	2.41
DCF (growth rate)	18.46	16.68%	3.08
DCF (exit multiple)	18.44	16.67%	3.07
Total:	110.64	100.00%	**18.55**

This table shows each of the estimated equity value's per share from each multiple chosen and the appropriate weights for each of these values.

To conclude, based on the data from both the market comparable valuation analysis and the discounted cash flow analysis, I would recommend investing in American Eagle Outfitters, Inc. I say this only if you are looking to make a long-term investment. I would not recommend investing in American Eagle Outfitters, Inc. for a short-term investment. For the long-term investment, I would recommend utilizing a ‘buy-and-hold’ strategy because based on the data and background information on the company, for example AEO buying Quiet Logistics, American Eagle Outfitters, Inc. will for sure increase in value within the next year or two in my professional opinion.

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