



Finding Efficient Frontiers



Abercrombie & Fitch Co.

INVEST/STAY CONNECTED

INITIAL REPORT October 24, 2022

LAST UPDATED October 24, 2022

8.75% Senior Secured Notes Recommendation: Buy

Price 94.5 [FINRA link](#)

We are highlighting the 8.75% senior secured notes at Abercrombie (ANF). The Company is a global retailer under the Hollister and Abercrombie brands operating in North America, Europe and Asia. As of July 30, 2022, 54% of sales were from Hollister and 46% were from Abercrombie. In addition, 28% of sales are derived internationally. We are highlighting the notes due to the short maturity, 11% yield to maturity, strong balance sheet of ANF and to some degree the securitization. Abercrombie ended 2nd quarter with \$369 million in cash and just \$308 million in debt, which currently is comprised only of the notes. Cash is expected to increase in the second half of 2022 due to inventory normalization.

2022 has been a difficult year for most clothing retailers. The primary reasons include unforeseen elevated shipping, materials and labor costs. In addition, some companies, like ANF, are facing currency headwinds and specific types of consumer weakness. Inflation has disproportionately affected the purchasing of younger consumers with lower discretionary income. Also, many consumer closets are at a different place in the replacement cycle due to the higher 2021 activity. Since many retailers increased inventory above normal to ensure product availability there are concerns that discounting and promotional activity will be higher than normal in the second half of 2022. Abercrombie is at the low end of performance for the first half of 2022 because the Hollister demographic falls into the younger consumer category and currency headwinds from the 28% international exposure. The trajectory for clothing retailers was downward as of 2nd quarter, so the group probably has not seen the 2022 operating performance low and Abercrombie underperformed the group. We have provided a retailer comparison in the table to the right.

The earnings power of the Abercrombie, not including 2022, has remained stable. Abercrombie has earned an average of around \$300 million+ EBITDA from 2015 to 2019 with a bump to \$500 million in 2021. Company reported free cash flow has averaged close to \$200 million for the 2018 through 2021 periods. Management outlined the company's Always Forward Plan recently which targets annual revenues of \$4.1 billion to \$4.3 billion and an operating margin rate at or above 8%. So, although 2022 looks like a throw away year, we expect ANF to normalize over the next 12-18 months with rising cash levels due to the reductions in the elevated inventory. The [bonds](#) are rated BB by S&P and mature within 36 months.

ANF 2022 Projections	MM
Enterprise Value	\$1,166
Equity Market Cap	\$858
8.75% Notes	\$308
Total Borrowings	\$308
Current Cash	\$369
2022 EBITDA est.	\$81
2023 EBITDA est.	\$207
Cash 2022 YE Est.	\$410

Peer Comparisons 1st half 2022

American Eagle Outfitters	
Revenue	+1%
Operating Income	-80%
GAP Inc	
Revenue	-11%
Operating Income	-134%
Urban Outfitters Inc	
Revenue	+7%
Operating Income	-45%
Foot Locker	
Revenue	-4%
Operating Income	-35%
Guess Inc	
Revenue	+8%
Operating Income	-21%
Abercrombie	
Revenue	-2%
Operating Income	-106%

[2nd Q Presentation](#)

[2022 Investor Day Presentation](#)

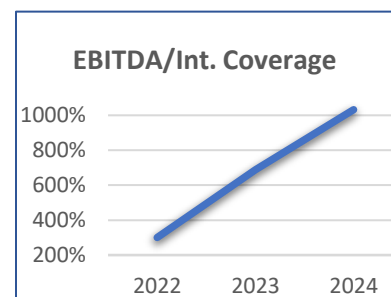
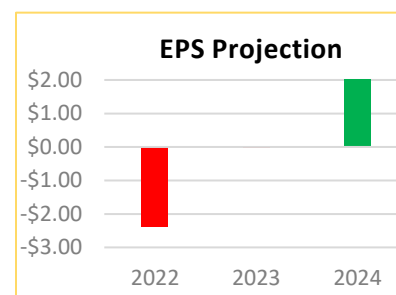
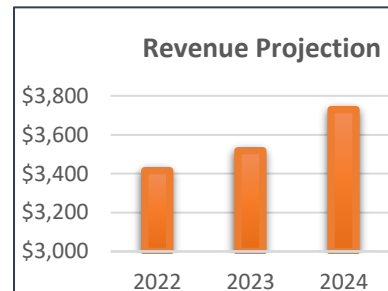
BROXTON CAPITAL ADVISORS Abercrombie as of 7/30/2022

Monday, October 24, 2022

share price	\$17.33		
PROJECTIONS IN MM	2022	2023	2024
Income Statement			
Revenue	\$3,416	\$3,518	\$3,729
Gross Profit	\$1,964	\$2,146	\$2,312
Operating Income	-\$81	\$40	\$143
Pre-Tax Income	-\$108	\$10	\$113
Net Income	-\$118	\$0	\$103
EPS	-\$2.38	\$0.00	\$2.07
Revenue growth	-8%	3%	6%
EBITDA	\$81	\$207	\$310
Interest	\$27	\$30	\$30
Capitalized Expense	\$150	\$125	\$125
Operating Cash Flow	\$44	\$167	\$270
Equity Dividends	\$0	\$0	\$0
Cash Flow Dividend Coverage	NA	NA	NA
Cash generation post Capex	(\$106)	\$42	\$145
Valuations			
Cash Flow Yield Vs. Equity	5.1%	19.4%	31.4%
EV/EBITDA	14.37	5.64	3.76
P.E Ratio	NA	NA	8.35
Enterprise Value	\$1,166		
Total Debt	\$308		
Equity Market Cap	\$858	\$858	\$858
Debt Ratios			
Interest Coverage	300%	689%	1032%
Debt/EBITDA	3.8	1.5	1.0
Liquidity			
Company Cash 7/30	\$369		
Borrowing Availability est.	\$359		
Total Current Assets	\$1,262		
Total Current Liabilities	\$959		
Current Ratio	132%		
Debt			
Borrowings	\$308		
Total	\$308		

NOTES:

NA: Not Applicable



Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. 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