

This paper presents an investment profile of American Eagle Outfitters, Inc, using a data-based research source.

American Eagle Outfitters, Inc. is a retailer that designs, markets and sells its own brand of clothing, targeting 15 to 25-year-olds in its United States and Canadian retail stores, whose stock symbol on the New York Stock Exchange is AEOS. According to the Stock Research section of the MSN Web site "MoneyCentral.com" (2006), an investor should research the answers to five key questions when considering the purchase of a stock. This essay provides answers to those five questions, as they relate to American Eagle Outfitters, based on information presented on MoneyCentral.com, current through 31 October 2006.

1. **Fundamentals:** What is the company's business, is it financially sound -- and is it growing?
 - AEOS' collection of youth-oriented clothing includes standards, such as jeans and graphic T-shirts, as well as essentials, such as accessories, outerwear, footwear, basics and swimwear that are marketed under its American Eagle Outfitters, American Eagle and AE brand names. It also distributes merchandise via its e-commerce operation, ae.com, which offers additional sizes, colors and styles of AE merchandise.
 - Sales for the last 12-months were \$2.47 billion (up 15.7 percent over the previous year), compared to the average growth of \$101.5MM (+6.5% over the previous year) for retail clothing outlets, distancing itself from the average by an astounding 2329.26 percent. Similarly, AEOS' one-year net revenues of \$316.75MM (up 20.3%) exceeded the apparel store average of \$6.8MM (down 11.9%) by 4576.23 percent. As well, its profit margins for the past 5 years have averaged 9.6 percent, compared with the industry average of 7.1 percent.

2. **Price History:** How much have other investors been willing to pay for the stock in the past?

- During the past 12 months, American Eagle Outfitters' stock has risen 103.9 percent, outpacing 93% of its industrial grouping by a difference of 61.9 percentage points.
- As of October 31, 2006 AEOS' stock price was \$45.80, with a 52-week high of \$47.25. It's 50-day moving average was \$42.61 and its 200-day moving average was \$33.65. Having consistently risen above the "resistance" floor, AEOS may be expected to achieve new highs in the coming months, should its revenue growth continue apace.

3. **Price Target:** How much are investors likely to pay for the stock in the future?

- The probable future price-to-earnings (P/E) multiple of a AEOS' stock is calculated for the current and future fiscal years by applying the stock's current multiple to the average professional analyst's estimate.¹ With a stock price of \$45.80, the company's current multiple (P/E) is 22 (compared with industry average of 20.4). The analysts' average estimates for 2007 and 2008, respectively are 2.41 and 2.68; which equate to stock valuations averaging \$53.02 for the coming year (up 15.76%) and \$58.96 during 2008 (up 28.73%).
- Were the company valued using the average P/E multiple of its peers in the industry (20.4), its stock valuations would average \$49.16 for the coming year (up 7.34%) and \$54.67 for 2008 (up 19.37%).

Catalysts: What catalysts will change investors' perceptions of the stock in the future?

Such factors as news announcements, SEC filings, insider trades, alerts and StockScouter ratings are catalysts that may alter investors' opinions about AEOS' prospects. Some of the recent catalysts for the company include:

- News story: On November 2, the AP (2006) reported that “apparel retailer American Eagle Outfitters Inc. reported an 8 percent same-store sales growth in October, and analysts expect a strong holiday season helped by easy comparisons.”
- News story: According to a BusinessWire (2006) article, “Total sales for the month ended October 28, 2006 increased 18% to \$186.4 million, compared to \$157.9 million for the month ended October 29, 2005. Comparable store sales increased 8% for the month.”
- 8K filing with SEC, filed 1 November 2006: Submitted with the filing was information that October results exceeded management's expectations, and that the company experienced broad-based strength across key categories. Total sales for the third quarter ended October 28, 2006 increased 20% to \$696.3 million, compared to \$580.5 million for the quarter ended October 29, 2005. Comparable store sales increased 13% for the quarter. Total sales for the year-to-date thirty-nine week period ended October 28, 2006 increased 17% to \$1.821 billion, compared to \$1.553 billion for the thirty-nine week period ended October 29, 2005. Comparable store sales increased 10% for the year-to-date period. Based on October performance, the company raised its third quarter earnings guidance to \$0.64 to \$0.65 per share, compared to \$0.47 per share last year. Previous third quarter guidance was \$0.61 to \$0.63 per share. Third quarter guidance includes stock option expense of approximately \$0.01 per share. For the year, stock option expense is expected to be approximately \$0.04 to \$0.05 per share.
- Insider Buy/Sell Transactions & Company Acquisitions: During the month of October 06, there occurred 6 insider stock sells, valued at \$4.69MM and 4 SCD 13D acquisition statements were filed with the SEC for purchase of those stocks from insiders by the company (SEC, 10 October 2006).

- Analyst Alerts: On 7 November, the following 2 analysts alerts were issued:
 - P/E to growth ratio suggests stock may be overvalued. This alert was issued because the company's price-earnings multiple is greater than two times the consensus analyst estimate of its near year's earnings growth rate.
 - Spread of earnings estimates increased. This alert was issued because the spread between the highest and lowest analyst estimates for a company's earnings in the next year increases by at least 10%.
- StockScouter Rating: American Eagle Outfitters has a StockScouter Rating of 10 (highest) and is expected by the Rating service to “significantly outperform the market over the next six months with less than average risk.”

Comparison: How does the stock compare to others in its industry?

The following table displays the price increases and relative strength of the American Eagle Outfitters' stock, relative to other companies in its industry.

Company price performance		Industry price performance		Company relative to all stocks	
3-Mo Price Change	41.30%	3-Mo Price Change	23.40%	3-Mo Relative Strength	94
6-Mo Price Change	40.90%	6-Mo Price Change	10.60%	6-Mo Relative Strength	94
12-Mo Price Change	103.90%	12-Mo Price Change	42.00%	12-Mo Relative Strength	93

Conclusion: A Web-based reference tool such as MoneyCentral.com would appear to be an excellent resource for analyzing the historical and relative strength of a company's revenues, profits and stock prices, especially as it contains links to additional sources of information, such

as SEC filings and news outlets. Coupled with a company's prospectus and a study of its management structure and strategic plans, an investor employing the resources of MoneyCentral.com would be armed with a fairly thorough understanding of a company's investment potential, insofar as is possible for someone not affiliated with the company in any other way.

Notes:

1. Average number of analysts covering American Eagle Outfitters is 20, with high/low spread of 9%, and whose overall confidence in the stock is rated “High”.

References:

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