



THE WHITMAN INVESTMENT COMPANY
To Inquire. To Achieve. To Learn.

Research Report on Abercrombie & Fitch Co.

Prepared by Kaitlin Coleman

Presented on 17, October 2006

Company Information

Abercrombie & Fitch Co. operates as a specialty retailer in the United States and Canada. The company operates Abercrombie & Fitch, abercrombie, Hollister, and RUEHL stores, selling casual apparel, personal care and other accessories for men, women, and kids. Furthermore, Abercrombie and Fitch Co. sells films, photos, postcards, computer desktop images, and screen savers.

Abercrombie & Fitch Co. diversifies itself by targeting different age groups and styles in its different stores. For instance the original Abercrombie & Fitch targeted college aged kids with an east coast look, abercrombie has targeted a younger crowd of seven to fourteen-year-olds, and Hollister offers customers a more west coast look. Abercrombie & Fitch Co. has also recently developed RUEHL which targets post college men and women. Additionally, the company practices a premium pricing strategy to attract brand conscious buyers. Unlike its peers, clearance sales are far and few between for the company.

As of April 1, 2006, it operated 850 stores in 49 states, the District of Columbia, and Canada. The company was founded in 1892 and is headquartered in New Albany, Ohio. (Morningstar).

Industry Information

The apparel industry contains companies which mostly sell luxury goods. Market demand often depends upon the prices of oil, the weather, the housing market and other economic factors. Recently, falling oil prices and colder weather have provided a boost in the industry. September showed strong sales as the weather turned cool and students returned to school. However, some analysts argued that the downfall in the housing market could slow down consumer spending in the future. For more information, see Wall Street Journal Article, "Brisk Apparel Sales Give a Lift to Many Retailers."

The industry is expected to grow 17.6 % in the next 5 years, while Abercrombie & Fitch Co. is expected to grow about 16.9%.

This stock is in an industry with many competitors, and no particularly dominant companies. Abercrombie & Fitch Co. seems to fall just about in the middle. Some of Abercrombie & Fitch Co.'s main competitors include Gap Inc (GPS), Nordstrom Inc (JWN), Limited Brands Inc (LTD) and American Eagle Outfitters (AEOS).

Security Information

Ticker Symbol: ANF

Exchange: NYSE

52-Week Range: 45.59 - 77.12

10-Day Average Trading Volume: 1,896,440

Beta: 1.23

Financial Information

Earnings per Share: 3.66(2006) 3.93(ttm)

Price/Earnings: 19.52

PEG Ratio (5yrs Expected): 0.96

Price/Sales: 2.27

Dividend Rate: .7

Current Yield: .9

Company Analysis

Revenue Growth (Qrtly): 15.20

Profit Margin: 12.01

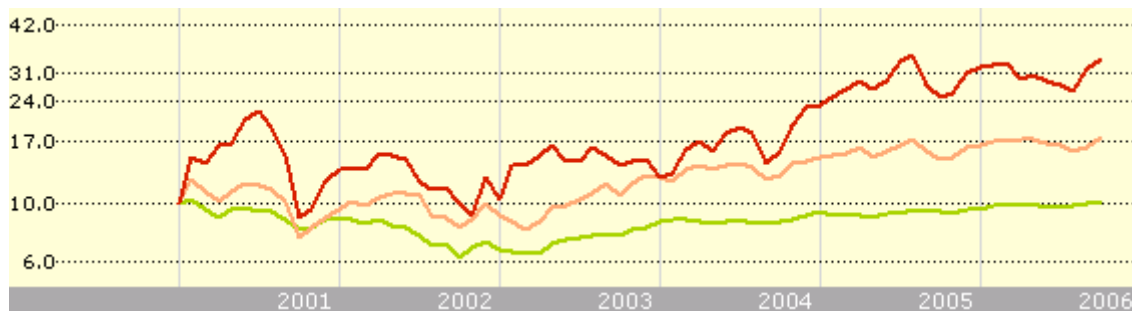
Return on Equity: 20.69

Return on Assets: 36.68

● Stock: Abercrombie & Fitch A

● Industry: Clothing Stores

● Index: S&P 500



Total Returns %	2001	2002	2003	2004	2005	YTD
Stock	32.7	-22.9	20.8	92.7	40.3	18.7
+/- Industry	20.2	-25.2	-26.2	61.4	24.2	3.8
+/- S&P 500	45.7	0.5	-5.6	83.7	37.3	9.0

Peer Analysis

Looking back on the past few years, the apparel industry shows steady growth for both revenue and earnings. Abercrombie & Fitch Co. is a leader in the teen apparel industry. The company ranks in the top five for market capitalization and is number one for return

on equity. Abercrombie & Fitch Co.'s popular brand name keeps prices high and the company's profitability exceeds most of its peers.

Analyst Information

Morningstar.com gives Abercrombie & Fitch Co. one star. Yahoo's and quote.com mean recommendation this week is a 2.4, and Wall Street Journal gives Abercrombie & Fitch Co. a 2.3 mean recommendation with 1.0 being a strong buy and 5.0 being a strong sell.

Morningstar analyst Brady Lemos suggests the company is finding some growth opportunities where its competitors are not, but its growth will depend largely on a Hollister expansion and international acceptance. Some growth also depends upon the success of its new store, RUEHL. This store, targeting post college ages, is still in its developmental stages, and analysts say that any growth related to RUEHL will be slow. Lemos also suggests that profitability, while not historically high, is higher than the company's rivals and the financial health of the company is in good shape.

Evaluation

Buying the stock may result in gains if the new store RUEHL takes off. Furthermore, Hollister has the potential to expand to 600+ stores. Additionally, Abercrombie & Fitch Co.'s Corporate Governance Quotient (CGQ®) as of 1-Oct-06 is better than 8.6% of S&P 400 companies and 44.6% of retailing companies (Morningstar). This suggests that the company's management is in good hands and has the potential to meet all expectations.

However, investors should watch the company carefully due to certain discrimination lawsuits and racy advertising. Furthermore, the fashion industry is risky and, without discount sales, Abercrombie & Fitch Co. must avoid any fashion blunders that will turn away its customers.

Overall, it looks as though Abercrombie & Fitch Co. is doing well. Growth is steady, although slow. Nevertheless, the company is outperforming its competitors and definitely has potential. Abercrombie & Fitch Co. looks like it will provide investors with gains in the coming years. These gains could be small depending upon the success of the company's expansion. Still, it looks as though the company would be a solid investment, large gains or small.