

American Eagle (AEO)

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|---------------------|-----------------|--------------------------------------|--------------------|-----------------------------------|--------------------|
| Price: | \$14.76 | Net Tang. Bk Value Incl. Cash, Excl. | \$1,195,800,000.00 | Net Tang. Book Yr. 5 (Inc. Cash): | \$2,265,897,275.00 |
| Market Cap: | \$2,843,809,200 | Goodwill (NTBVIC): | | Avg. Year Op. Cash: | \$329,579,455.00 |
| Cash: | \$404,870,000 | NTBVIC/Market Downside Recovery: | 42.05% | Year 5 Disposition FCF Multiple: | 3.0 |
| Debt: | \$0 | Op. Cash Flow: | \$329,579,455 | Year 5 Disposition Price: | \$3,254,635,640.00 |
| Net Cash: | \$404,870,000 | Implied Years to Fill Gap: | 5.00 | | |
| Enterprise Value: | \$2,438,939,200 | Today's Equity if 5x Op. CF: | \$2,184,538,365 | | |
| | | Net Tang. Book+ Gain Disposition: | | | \$3,254,635,640.00 |
| Shares Outstanding: | 192,670,000 | IRR: | | | 2.74% |
| | | | | Price: | \$16.89 |
| | | | | Target Market Cap: | \$3,254,635,640 |
| | | | | Target Enterprise Value: | \$2,849,765,640 |

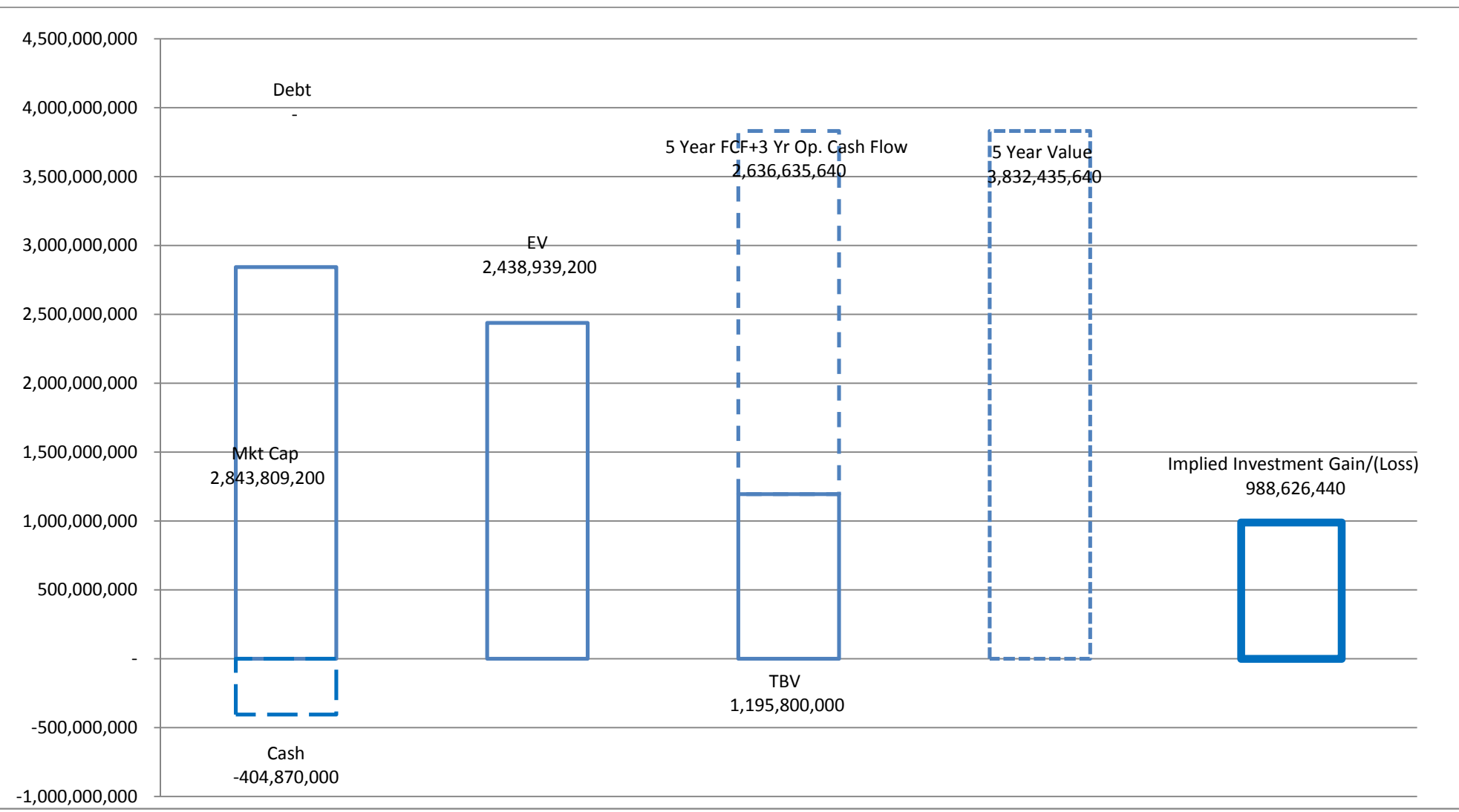
* Our future intrinsic value measures the total return, which includes both capital appreciation and dividend income.

We were struck by the positive growth seen in the topline figures for AEO. I used to buy clothes from AEO when I was in high school, and I thought it went out of trend, but sales have grown over the past 4 years. The brand has expanded internationally from 34 to 57 stores in a year's period, and we believe most of the captured topline growth is from expansion, not SSS. Should the brand find a less receptive customer base as 1) global economy sours, 2) fashion trend changes against AEO, the expansion would not break the bank as it was not a leveraged expansion, but financed through cash flow. From a downside risk protection view, the Co. has cushioned itself from a blow to the integrity of the business by opting to finance their expansion through internal funds. In fact, many of the companies within the teen retail business have chosen this method which helped them weather the 2008 downturn.

From a valuation perspective, the stock is cheap as it lost 40% of its' market value over the past 2 weeks, which we perceive to be an overreaction. The quarterly reports provide insight into a business' welfare, but fails to provide a long term projection for the Co.. The ramification of the particular report was derived from a source industry wide, rather than Co. specific. It definitely hurt the shareholders, but gave an opportunity for individuals like us.

Surely, we shouldn't dismiss the early warning signs construable through the massive pricing correction. Many smart, informed investors pulled the trigger, but we think they are capitalizing on their gains, moreso than jumping off a burning ship. As such, we believe when the stock settles at a lower price point, it should interest many of the same investors to load up on the cheaper shares.

We would like to see a greater incentive than the near 3% IRR we see from a fundamental appreciation basis. It normally wouldn't suit our needs, but we would like to make an exception in this case, as the business is very attractive. We don't want to invest in cigar buds all the time. So, we have included the stock in our portfolio.



American Eagle Outfitters was founded in 1977 by brothers Jerry and Mark Silverman as a subsidiary of Retail Ventures, Inc. American eagle is the parent company of Aerie and formerly of 77 kids. American Eagle Outfitters offers a range of clothing, accessories and personal care products under the American Eagle Outfitters and aerie brands. The Company's retail stores offer denims, sweaters, fleece, outerwear, graphic T-shirts, footwear, and accessories for 15 to 25-year old men and women under the American Eagle Outfitters brand name; and intimates and personal care products for girls under the aerie brand name. As of February 2, 2013, it operated 893 American Eagle Outfitters stores and 151 aerie stand-alone stores, as well as 49 franchised stores in 13 countries. The Company also sells and ships merchandise through its e-commerce Websites, including ae.com and aerie.com to 81 countries worldwide. The Company primarily competes with various individual and chain specialty stores, as well as the casual apparel and footwear departments of department stores and discount retailers.

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|--------------------------------------|-----------------------|---|--------------------|---------------------------------|---------------------|--------|
| Company Name: | American Eagle | Market Capitalization: | \$2,843,809,200.00 | Revenue: | \$3,430,000,000.00 | 100.0% |
| Ticker Symbol: | AEO | Total Debt: | \$0.00 | Cost of Goods Sold: | \$2,038,790,000.00 | 59.4% |
| Last Price: | \$14.76 | RCH Total Cash: | \$404,870,000.00 | Gross Profit: | \$1,391,210,000.00 | 40.6% |
| Net Cash/Share: | \$2.10 | Net Cash/(Debt): | \$404,870,000.00 | EBITDA: | \$521,760,000.00 | 15.2% |
| Net Cash to Last Price: | 14.24% | Enterprise Value: | \$2,438,939,200.00 | Net Income: | \$224,790,000.00 | 6.6% |
| Shares Outstanding: | 192,670,000 | Current EV/Share: | \$12.66 | | | |
| Industry: | Apparel Stores | EBITDA: | \$648,540,000.00 | | | |
| Sector: | Consumer Cyclical | EV/EBITDA Multiple: | 3.76 | Balance Sheet | | |
| Institutional Ownership: | 80.41% | EV/EBITDA Multiple Average Year 1-5: | 5.56 | Cash: | \$345,190,000.00 | |
| Mutual Fund Ownership: | 39.83% | EV/FCF Multiple (excluding acquisition): | 6.42 | Short Term Investment: | \$59,680,000.00 | |
| Insider Ownership: | 2.62% | EV/FCF Multiple Average Year 1-5 (excluding acquisition): | 10.62 | A/R: | \$55,000,000.00 | |
| Float: | 94.00% | | | PP&E: | \$520,000,000.00 | |
| | | | | Assets: | \$1,705,770,000.00 | |
| | | Upper Range | | A/P: | \$161,000,000.00 | |
| | | DCF: EV/EBITDA Terminal Value | | Deferred Tax: | \$0.00 | |
| | | | | Other Liabilities: | \$415,410,000.00 | |
| Technicals | | Implied TV from 3 X EV/EBITDA Multiple | \$1,313,852,400.00 | Short term Debt: | \$0.00 | |
| 52 week low: | \$14.33 | Enterprise Value | \$1,313,852,400.00 | Long Term Debt: | \$0.00 | |
| Today from 52 week low: | 3.00% | Cash at Year 5: | \$1,552,767,275.00 | Liabilities: | \$576,410,000.00 | |
| 52 week high: | \$23.94 | Debt at Year 5: | \$0.00 | Retained Earnings: | \$1,592,000,000.00 | |
| Today from 52 week high: | 62.20% | Equity Value Year 5: | \$2,866,619,675.00 | Paid-In Capital: | \$585,500,000.00 | |
| Analyst/Consensus | | Equity/Share at Year 5: | \$14.88 | Treasury Stock: | -\$1,000,000,000.00 | |
| Analyst Sales Growth FY1: | -3.40% | Annualized Return: | 0.16% | Stockholder's Equity: | \$1,206,800,000.00 | |
| Analyst Sales Growth FY2: | 5.70% | | | | | |
| SN Valuation Estimate FY1: | -10.00% | Lower Range | | Cash Flow | | |
| SN Valuation Estimate FY2: | 0.00% | DCF: Net Tangible Asset excluding Cash/Debt Terminal Value | | Net Income: | 232,110,000.00 | |
| Analyst Earnings Estimate FY1: | \$0.89 | Year 5 Net Tangible Assets excluding cash and debt | \$16,040,000.00 | Depreciation/Amortization: | 128,400,000.00 | |
| Analyst Earnings Estimate FY2: | \$1.16 | Enterprise Value | \$16,040,000.00 | Change in Working capital: | 36,510,000.00 | |
| SN Valuation Earnings Est. FY1: | \$1.11 | Cash at Year 5: | \$1,552,767,275.00 | Cash from Operating Activities: | 475,060,000.00 | |
| SN Valuation Earnings Est. FY2: | \$1.11 | Debt at Year 5: | \$0.00 | Capital Expenditures: | -95,060,000.00 | |
| | | Equity Value Year 5: | \$1,568,807,275.00 | Cash from Investing Activities: | -191,430,000.00 | |
| Multiples | | Equity/Share at Year 5: | \$8.14 | Total Cash Dividends Paid: | -403,490,000.00 | |
| Market Value to Book: | 2.36 | Annualized Return: | -11.22% | Issuance (Retirement) of Stock: | -101,280,000.00 | |
| EV to Book: | 2.02 | | | Issuance (Retirement) of Debt: | -3,070,000.00 | |
| Market Value to Tangible Net Assets: | 177.29 | EVA | | Cash from Financing Activities: | -494,560,000.00 | |
| P/E Ratio: | 12.65 | EVA today: | \$1,415,731,867.67 | | | |
| Trailing P/E Ratio: | 13.21 | EVA in 5 Years: | \$1,933,350,412.29 | Profitability Margins | | |
| Forward P/E Ratio: | 12.59 | EVA/Share: | \$10.03 | Debt to Equity: | 0.00% | |
| Beta: | 0.95 | Cash at Year 5: | \$1,552,767,275.00 | Return on Assets: | 15.48% | |
| Dividend: | 0.50 | Debt at Year 5: | \$0.00 | Return on Capital: | 21.88% | |
| Dividend Yield: | 3.42% | Equity Value Year 5: | \$3,486,117,687.29 | Return on Equity: | 21.88% | |
| Dividend Date: | Jul 11, 2013 | Equity/Share at Year 5: | \$18.09 | | | |
| Ex-Dividend Date: | Jun 27, 2013 | Annualized return: | 6.43% | | | |
| Competitors | | | | | | |
| Average EV to EBITDA: | N/A | Current Net Tangible Asset | | | | |
| Company EV to EBITDA: | 3.76 | Net Tangible Asset/Share: | \$5.61 | | | |
| Average EV to EBIT: | N/A | Net Tangible Asset/Share in Year 5: | \$11.16 | | | |
| Company EV to EBITA: | 6.18 | Annualized return: | 14.76% | | | |
| | | Current Equity Price: | \$14.76 | | | |
| | | Selling at Discount? | Premium | | | |
| | | Appreciation Potential: | -62.01% | | | |

SN VALUATION

LBO Pro Forma Income Statement

Name:

American Eagle

Ticker:

AEO

| | Historical | | | | Forecasted | | | | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|------------|----------|----------|----------|----------|
| | 52 weeks ending 2010-01-30 | 52 weeks ending 2011-01-29 | 52 weeks ending 2012-01-28 | 53 weeks ending 2013-02-02 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Revenue | 2,940.27 | 2,945.29 | 3,120.07 | 3,475.80 | 3,128.22 | 3,128.22 | 3,128.22 | 3,128.22 | 3,128.22 |
| COGS | 1,766.84 | 1,763.14 | 1,975.47 | 2,084.59 | 1,876.93 | 1,876.93 | 1,876.93 | 1,876.93 | 1,876.93 |
| Gross margin | 1,173.43 | 1,182.15 | 1,144.60 | 1,391.21 | 1,251.29 | 1,251.29 | 1,251.29 | 1,251.29 | 1,251.29 |
| SG&A | 725.28 | 702.92 | 712.59 | 828.55 | 813.34 | 813.34 | 813.34 | 813.34 | 813.34 |
| R&D | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Unusual expense | 0.00 | 0.00 | 25.39 | 42.52 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other operating expense | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Depreciation is: Excluded from COGS | | | | | 115.00 | 115.00 | 115.00 | 115.00 | 115.00 |
| Operating Income (EBITA) | 448.15 | 479.23 | 406.62 | 520.14 | 322.95 | 322.95 | 322.95 | 322.95 | 322.95 |
| Interest income/(expense) | 0.01 | 0.01 | 0.00 | 0.00 | 6.31 | 6.31 | 6.31 | 6.31 | 6.31 |
| Gain (loss) on sale of asset | -2.75 | -24.43 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | -3.27 | 2.25 | 6.55 | 7.43 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Income before tax | 304.38 | 317.38 | 275.21 | 402.04 | 329.26 | 329.26 | 329.26 | 329.26 | 329.26 |
| Tax | 90.98 | 121.65 | 99.93 | 137.94 | 115.24 | 115.24 | 115.24 | 115.24 | 115.24 |
| Income after tax | 213.40 | 195.73 | 175.28 | 264.10 | 214.02 | 214.02 | 214.02 | 214.02 | 214.02 |
| Minority Interest | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Equity in affiliates | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net income | 213.40 | 195.73 | 175.28 | 264.10 | 214.02 | 214.02 | 214.02 | 214.02 | 214.02 |
| *Figures are in millions (\$) | | | | | | | | | |
| EPS (based off today's share count) | \$1.11 | \$1.02 | \$0.91 | \$1.37 | \$1.11 | \$1.11 | \$1.11 | \$1.11 | \$1.11 |
| P/E (historical today's price; forecasted intrinsic price) | 13.33 | 14.53 | 16.22 | 10.77 | 13.65 | 14.02 | 14.41 | 14.80 | 15.21 |
| Revenue Growth | N/A | 0.17% | 5.93% | 11.40% | -10.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Tax Rate | 29.89% | 38.33% | 36.31% | 34.31% | 35.00% | 35.00% | 35.00% | 35.00% | 35.00% |
| Implied Debt Interest Rate | 0.03% | 0.00% | 0.00% | 0.00% | NA | NA | NA | NA | NA |
| Margins | | | | | | | | | |
| COGS | 60.09% | 59.86% | 63.31% | 59.97% | 60.00% | 60.00% | 60.00% | 60.00% | 60.00% |
| Gross margin | 39.91% | 40.14% | 36.69% | 40.03% | 40.00% | 40.00% | 40.00% | 40.00% | 40.00% |
| SG&A | 24.67% | 23.87% | 22.84% | 23.84% | 26.00% | 26.00% | 26.00% | 26.00% | 26.00% |
| R&D | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Unusual expense | 0.00% | 0.00% | 0.81% | 1.22% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other operating expense | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Depreciation is: Excluded from COGS | 0.00% | 0.00% | 0.00% | 0.00% | 3.68% | 3.68% | 3.68% | 3.68% | 3.68% |
| Operating Income (EBITA) | 15.24% | 16.27% | 13.03% | 14.96% | 10.32% | 10.32% | 10.32% | 10.32% | 10.32% |
| Interest income/(expense) | 0.00% | 0.00% | 0.00% | 0.00% | 0.20% | 0.20% | 0.20% | 0.20% | 0.20% |
| Gain (loss) on sale of asset | -0.09% | -0.83% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other | -0.11% | 0.08% | 0.21% | 0.21% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Income before tax | 10.35% | 10.78% | 8.82% | 11.57% | 10.53% | 10.53% | 10.53% | 10.53% | 10.53% |
| Tax | 3.09% | 4.13% | 3.20% | 3.97% | 3.68% | 3.68% | 3.68% | 3.68% | 3.68% |
| Income after tax | 7.26% | 6.65% | 5.62% | 7.60% | 6.84% | 6.84% | 6.84% | 6.84% | 6.84% |
| Minority Interest | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Equity in affiliates | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Net income | 7.26% | 6.65% | 5.62% | 7.60% | 6.84% | 6.84% | 6.84% | 6.84% | 6.84% |

| | | | | | | Adjustment | | Adjusted Proforma | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|------------------|------------------|------------------|------------------|------------------|-------------|-------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | As of 2010-01-30 | As of 2011-01-29 | As of 2012-01-28 | As of 2013-02-02 | As of 2013-08-03 | + | - | | | | | | |
| Cash | 144.39 | 122.58 | 548.72 | 257.19 | 345.19 | | | 345.19 | 574.77 | 804.35 | 1,033.93 | 1,263.51 | 1,493.09 |
| Short term investment | 554.24 | 612.12 | 196.32 | 373.80 | 59.68 | | | 59.68 | 59.68 | 59.68 | 59.68 | 59.68 | 59.68 |
| Cash and Short term | 698.63 | 734.70 | 745.04 | 630.99 | 404.87 | | | 404.87 | 634.45 | 864.03 | 1,093.61 | 1,323.19 | 1,552.77 |
| Accounts Receivable | 9.86 | 9.72 | 22.06 | 31.40 | 55.00 | | | 55.00 | 55.00 | 55.00 | 55.00 | 55.00 | 55.00 |
| Other receivables | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Receivables | 9.86 | 9.72 | 22.06 | 31.40 | 55.00 | | | 55.00 | 55.00 | 55.00 | 55.00 | 55.00 | 55.00 |
| Total Inventory | 326.45 | 301.21 | 367.51 | 332.45 | 461.08 | | | 461.08 | 461.08 | 461.08 | 461.08 | 461.08 | 461.08 |
| Prepaid Expenses | 47.04 | 53.73 | 74.95 | 73.81 | 115.59 | | | 115.59 | 115.59 | 115.59 | 115.59 | 115.59 | 115.59 |
| Other Current Assets | 60.16 | 48.06 | 59.67 | 58.23 | 46.48 | | | 46.48 | 46.48 | 46.48 | 46.48 | 46.48 | 46.48 |
| Current Assets | 1,142.14 | 1,147.42 | 1,269.23 | 1,126.88 | 1,083.02 | 0.00 | 0.00 | 1,083.02 | 1,312.60 | 1,542.18 | 1,771.76 | 2,001.34 | 2,230.92 |
| PP&E, Gross | 1,394.81 | 1,432.80 | 1,458.52 | 0.00 | 1,460.00 | | | 1,460.00 | 1,560.00 | 1,660.00 | 1,760.00 | 1,860.00 | 1,960.00 |
| Change in Depreciation | 139.83 | 141.66 | 140.50 | 128.40 | 128.40 | | | 128.40 | 115.56 | 115.56 | 115.56 | 115.56 | 115.56 |
| Accumulated Depreciation | 681.66 | 789.68 | 876.36 | 0.00 | 940.00 | | | 940.00 | 1,055.56 | 1,171.12 | 1,286.68 | 1,402.24 | 1,517.80 |
| PP&E, Net | 713.15 | 643.12 | 582.16 | 0.00 | 520.00 | | | 520.00 | 504.44 | 488.88 | 473.32 | 457.76 | 442.20 |
| Goodwill | 11.21 | 11.47 | 11.47 | 11.48 | 11.00 | 0.00 | | 11.00 | 11.00 | 11.00 | 11.00 | 11.00 | 11.00 |
| Intangibles | 0.00 | 7.49 | 39.83 | 38.14 | 38.00 | | | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 |
| Long term investments | 197.77 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other long term assets | 48.99 | 43.51 | 29.85 | 55.00 | 53.75 | | | 53.75 | 53.75 | 53.75 | 53.75 | 53.75 | 53.75 |
| Long Term Assets | 971.12 | 705.59 | 663.31 | 104.62 | 622.75 | | | 622.75 | 607.19 | 591.63 | 576.07 | 560.51 | 544.95 |
| Total Assets | 2,113.26 | 1,853.01 | 1,932.54 | 1,231.50 | 1,705.77 | 0.00 | 0.00 | 1,705.77 | 1,919.79 | 2,133.81 | 2,347.83 | 2,561.85 | 2,775.87 |
| Accounts Payable | 158.53 | 167.72 | 183.78 | 176.87 | 161.00 | | | 161.00 | 161.00 | 161.00 | 161.00 | 161.00 | 161.00 |
| Accrued Expense | 163.40 | 146.34 | 164.52 | 189.86 | 180.00 | | | 180.00 | 180.00 | 180.00 | 180.00 | 180.00 | 180.00 |
| Other current Liabilities | 57.03 | 73.77 | 57.10 | 69.16 | 51.74 | | | 51.74 | 51.74 | 51.74 | 51.74 | 51.74 | 51.74 |
| Total Current Liabilities | 378.96 | 387.83 | 405.40 | 435.89 | 392.74 | 0.00 | 0.00 | 392.74 | 392.74 | 392.74 | 392.74 | 392.74 | 392.74 |
| Notes Payables/Short Term Debt | 30.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Current port. Of LT Debt/Capital Leases | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Long term Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Capital Lease Obligations | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Interest Earning Debt | 30.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred Income tax | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Minority Interest | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other liabilities | 150.68 | 141.09 | 128.55 | 98.96 | 183.67 | | | 183.67 | 183.67 | 183.67 | 183.67 | 183.67 | 183.67 |
| Total Liabilities | 559.64 | 528.92 | 533.95 | 534.85 | 576.41 | 0.00 | 0.00 | 576.41 | 576.41 | 576.41 | 576.41 | 576.41 | 576.41 |
| Redeemable Preferred Stock | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Non-redeemable Preferred Stock | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Common Stock | 2.49 | 2.50 | 2.50 | 2.50 | 2.50 | | 0.00 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Additional Paid-in capital | 554.40 | 546.60 | 552.80 | 627.07 | 583.00 | 0.00 | 0.00 | 583.00 | 583.00 | 583.00 | 583.00 | 583.00 | 583.00 |
| Dividends Paid | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Retained Earnings | 1,764.05 | 1,711.93 | 1,771.46 | 1,553.06 | 1,592.00 | | | 1,592.00 | 1,806.02 | 2,020.04 | 2,234.06 | 2,448.08 | 2,662.10 |
| Treasury Stock | -759.25 | -938.02 | -938.57 | -990.73 | -1,000.00 | | 0.00 | -1,000.00 | -1,000.00 | -1,000.00 | -1,000.00 | -1,000.00 | -1,000.00 |
| Other Equity | 23.24 | 28.07 | 28.66 | 29.30 | 29.30 | | | 29.30 | 29.30 | 29.30 | 29.30 | 29.30 | 29.30 |
| Total Equity | 1,584.93 | 1,351.08 | 1,416.85 | 1,221.20 | 1,206.80 | 0.00 | 0.00 | 1,206.80 | 1,420.82 | 1,634.84 | 1,848.86 | 2,062.88 | 2,276.90 |
| Liability + Equity | 2,144.57 | 1,880.00 | 1,950.80 | 1,756.05 | 1,783.21 | 0.00 | 0.00 | 1,783.21 | 1,997.23 | 2,211.25 | 2,425.27 | 2,639.29 | 2,853.31 |
| Variance | -31.31 | -26.99 | -18.26 | -524.55 | -77.44 | | | -77.44 | -77.44 | -77.44 | -77.44 | -77.44 | -77.44 |
| Debt/Equity | 0.02 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Inventory Turnover | 9.01 | 9.78 | 8.49 | 10.46 | 6.78 | | | 7.54 | 6.78 | 6.78 | 6.78 | 6.78 | 6.78 |
| Inventory Turnover Days | 40.52 | 37.33 | 42.99 | 34.91 | 53.80 | | | 48.42 | 53.80 | 53.80 | 53.80 | 53.80 | 53.80 |
| Days Inventory Outstanding | 67.44 | 62.36 | 67.90 | 58.21 | 89.66 | | | 80.73 | 89.66 | 89.66 | 89.66 | 89.66 | 89.66 |
| Accounts Receivable Turnover | 298.20 | 303.01 | 141.44 | 110.69 | 56.88 | | | 63.20 | 56.88 | 56.88 | 56.88 | 56.88 | 56.88 |
| Accounts Receivable Turnover Days | 1.22 | 1.20 | 2.58 | 3.30 | 6.42 | | | 5.78 | 6.42 | 6.42 | 6.42 | 6.42 | 6.42 |
| Days Payable Outstanding | 32.75 | 34.72 | 33.96 | 30.97 | 31.31 | | | 28.19 | 31.31 | 31.31 | 31.31 | 31.31 | 31.31 |
| Days Sales Outstanding | 1.22 | 1.20 | 2.58 | 3.30 | 6.42 | | | 3.30 | 5.78 | 6.42 | 6.42 | 6.42 | 6.42 |
| Cash Conversion Cycle | 35.91 | 28.84 | 36.53 | 30.54 | 64.77 | | | 55.84 | 64.13 | 64.77 | 64.77 | 64.77 | 64.77 |
| Net tangible assets/share | \$8.17 | \$6.91 | \$7.09 | \$6.08 | \$6.01 | | | | \$7.12 | \$8.23 | \$9.34 | \$10.45 | \$11.56 |

SN VALUATION

LBO Adjusted Proforma Cash Flow

Ticker:

AEO

| | 52 weeks ending 2010-01-30 | 52 weeks ending 2011-01-29 | 52 weeks ending 2012-01-28 | 53 weeks ending 2013-02-02 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Net Income | 169.02 | 140.65 | 151.71 | 232.11 | 214.02 | 214.02 | 214.02 | 214.02 | 214.02 |
| Depreciation | 139.83 | 141.66 | 140.50 | 128.40 | 115.56 | 115.56 | 115.56 | 115.56 | 115.56 |
| Net Income + Depreciation | 308.85 | 282.31 | 292.21 | 360.51 | 329.58 | 329.58 | 329.58 | 329.58 | 329.58 |
| Amortization | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred Taxes | -36.03 | 11.88 | 4.21 | -31.42 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Non Cash Items | 80.48 | 79.93 | 15.79 | 109.46 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Change in Working capital | 33.16 | 7.04 | -72.95 | 36.51 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Accounts Receivable | 0.00 | 0.14 | -12.34 | -9.34 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Receivables | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Inventory | 0.00 | 25.24 | -66.30 | 35.06 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Prepaid Expenses | 0.00 | -6.69 | -21.22 | 1.14 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Accounts Payable | 0.00 | 9.19 | 16.06 | -6.91 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash from Operating Activities | 386.46 | 381.16 | 239.26 | 475.06 | 329.58 | 329.58 | 329.58 | 329.58 | 329.58 |
| Capital Expenditures Expenditures | -129.08 | -78.70 | -123.65 | -95.06 | -100.00 | -100.00 | -100.00 | -100.00 | -100.00 |
| Long term investment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Investing Activities | 80.01 | 106.31 | 36.27 | -96.37 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash from Investing Activities | -49.07 | 27.61 | -87.38 | -191.43 | -100.00 | -100.00 | -100.00 | -100.00 | -100.00 |
| Financing Cash flow items | 1.40 | 6.07 | 0.37 | 13.28 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Cash Dividends Paid | -82.98 | -183.17 | -85.59 | -403.49 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Issuance (Retirement) of Stock | 8.80 | -226.84 | -12.25 | -101.28 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Issuance (Retirement) of Current Portion Debt | - | - | - | - | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Issuance (Retirement) of Long Term Debt | -47.02 | -32.59 | -3.26 | -3.07 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash from Financing Activities | -119.80 | -436.53 | -100.73 | -494.56 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Foreign Exchange effect | 3.03 | 1.39 | 0.80 | 0.50 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Beginning Cash Balance | -220.62 | 0.00 | 0.00 | 0.00 | 345.19 | 574.77 | 804.35 | 1,033.93 | 1,263.51 |
| Net Change in Cash | 220.62 | -26.37 | 51.95 | -210.43 | 229.58 | 229.58 | 229.58 | 229.58 | 229.58 |
| Ending Cash Balance | 0.00 | 0.00 | 51.95 | -210.43 | 574.77 | 804.35 | 1,033.93 | 1,263.51 | 1,493.09 |
| Capex to Revenue | 4.39% | 2.67% | 3.96% | 2.73% | 3.20% | 3.20% | 3.20% | 3.20% | 3.20% |
| Depreciation to Sales | 4.76% | 4.81% | 4.50% | 3.69% | 3.69% | 3.69% | 3.69% | 3.69% | 3.69% |
| Amortization to Sales | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| A/R to Sales | 0.34% | 0.33% | 0.71% | 0.90% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Distributable FCF/EV Yield | 13.83% | 16.76% | 6.23% | 11.63% | 9.41% | 9.41% | 9.41% | 9.41% | 9.41% |
| Dividend Yield | -2.92% | -6.44% | -3.01% | -14.19% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| FCF (Ops-Investing) | 340.36 | 485.63 | 201.20 | 783.49 | 229.58 | 229.58 | 229.58 | 229.58 | 229.58 |

SN VALUATION

LBO Debt Schedule

Ticker:

AEO

| | Proforma | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|----------------|---------------|---------------|---------------|---------------|---------------|
| Net Change in Cash | -210.43 | 229.58 | 229.58 | 229.58 | 229.58 | 229.58 |
| Current Portion Debt Repayment | | | | | | |
| Long Term Debt Repayment | | | | | | |
| Outstanding Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Current Portion Debt Balance | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Long Term Debt Balance | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Forward Libor Curve | | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Spread | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Interest Rate | | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Interest Expense | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash Balance | | 630.99 | | | | |
| Interest @ 1.0% | | 6.31 | 6.31 | 6.31 | 6.31 | 6.31 |
| Net Interest Expense/(Income) | | (6.31) | (6.31) | (6.31) | (6.31) | (6.31) |
| Net Interest Rate | | N/A | N/A | N/A | N/A | N/A |
| EBITDA | | 322.95 | 322.95 | 322.95 | 322.95 | 322.95 |
| EBITDA/Interest Expense Coverage | | N/A | N/A | N/A | N/A | N/A |

Interest Rate Coverage Table

| Debt Rating | | | | | |
|-------------|--|--|--|--|--|
| AAA | | | | | |
| AA | | | | | |
| A+ | | | | | |
| A | | | | | |
| A- | | | | | |
| BBB | | | | | |
| BB+ | | | | | |
| BB | | | | | |
| B+ | | | | | |
| B | | | | | |
| B- | | | | | |
| CCC | | | | | |
| CC | | | | | |
| C | | | | | |
| D | | | | | |

*Source: NYU; Professor Damodaran

Altman Z Score

Company Name:

American Eagle

Ticker:

AEO

| Period | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Working Capital | 763.18 | 759.59 | 863.83 | 690.28 | 919.86 | 1,149.44 | 1,379.02 | 1,608.60 | 1,838.18 |
| Total Assets | 2,113.26 | 1,853.01 | 1,932.54 | 1,705.77 | 1,919.79 | 2,133.81 | 2,347.83 | 2,561.85 | 2,775.87 |
| X1 | 0.36 | 0.41 | 0.45 | 0.40 | 0.48 | 0.54 | 0.59 | 0.63 | 0.66 |
| Retained Earnings | 1,764.05 | 1,711.93 | 1,771.46 | 1,592.00 | 1,806.02 | 2,020.04 | 2,234.06 | 2,448.08 | 2,662.10 |
| Total Assets | 2,113.26 | 1,853.01 | 1,932.54 | 1,705.77 | 1,919.79 | 2,133.81 | 2,347.83 | 2,561.85 | 2,775.87 |
| X2 | 0.83 | 0.92 | 0.92 | 0.93 | 0.94 | 0.95 | 0.95 | 0.96 | 0.96 |
| EBITDA | 448.15 | 479.23 | 406.62 | 520.14 | 437.95 | 437.95 | 437.95 | 437.95 | 437.95 |
| Total Assets | 2,113.26 | 1,853.01 | 1,932.54 | 1,705.77 | 1,919.79 | 2,133.81 | 2,347.83 | 2,561.85 | 2,775.87 |
| X3 | 0.21 | 0.26 | 0.21 | 0.30 | 0.23 | 0.21 | 0.19 | 0.17 | 0.16 |
| Market Value of Equity | 2,843.81 | 2,843.81 | 2,843.81 | 2,843.81 | 2,921.60 | 3,001.52 | 3,083.63 | 3,167.98 | 3,254.64 |
| Total Liabilities | 559.64 | 528.92 | 533.95 | 576.41 | 576.41 | 576.41 | 576.41 | 576.41 | 576.41 |
| X4 | 5.08 | 5.38 | 5.33 | 4.93 | 5.07 | 5.21 | 5.35 | 5.50 | 5.65 |
| Net Sales | 2,940.27 | 2,945.29 | 3,120.07 | 3,475.80 | 3,128.22 | 3,128.22 | 3,128.22 | 3,128.22 | 3,128.22 |
| Total Assets | 2,113.26 | 1,853.01 | 1,932.54 | 1,705.77 | 1,919.79 | 2,133.81 | 2,347.83 | 2,561.85 | 2,775.87 |
| X5 | 1.39 | 1.59 | 1.61 | 2.04 | 1.63 | 1.47 | 1.33 | 1.22 | 1.13 |
| Altman Z Score | 6.74 | 7.45 | 7.32 | 7.80 | 7.32 | 7.24 | 7.19 | 7.17 | 7.17 |

$$Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 1.0 \times X5$$

Z-SCORE ABOVE 3.0 –The company is considered 'Safe' based on the financial figures only.

Blue

Z-SCORE BETWEEN 2.7 and 2.99 – 'On Alert'. This zone is an area where one should 'Exercise Caution'.

Green

Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years.

Yellow

Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very High.

Red

| Year | Present Value | Holding Period | | | | | Terminal Value | | | Sale Price |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|---------------|---------------|-----------------------------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | TBV at Year 5 + 3 Years FCF |
| Tangible Book Value | 1,195.80 | 1,409.82 | 1,623.84 | 1,837.86 | 2,051.88 | 2,265.90 | | | | 2,265.90 |
| Annual Change | | 214.02 | 214.02 | 214.02 | 214.02 | 214.02 | | | | |
| Annual FCF | 380.00 | 229.58 | 229.58 | 229.58 | 229.58 | 229.58 | 229.58 | 229.58 | 229.58 | 688.74 |
| Annual Op. Cash Flow | 475.06 | 329.58 | 329.58 | 329.58 | 329.58 | 329.58 | 329.58 | 329.58 | 329.58 | |
| Annual PP&E Investment | (95.06) | (100.00) | (100.00) | (100.00) | (100.00) | (100.00) | (100.00) | (100.00) | (100.00) | |
| Today's Tangible Book Value | 1,195.80 | 1,358.86 | 1,544.16 | 1,754.72 | 1,993.99 | 2,265.90 | | | | 2,954.64 |
| Intrinsic Value IRR | 13.64% | | | | | | | | | |
| Market Price | 2,843.81 | 2,865.64 | 2,887.63 | 2,909.80 | 2,932.13 | 2,954.64 | | | | 2,954.64 |
| Market Price IRR | 0.77% | | | | | | | | | |

| | | |
|--------------|----------------|-----------------|
| Debt | 50.00% | 1,421.90 |
| Equity | 50.00% | 1,421.90 |
| Total | 100.00% | 2,843.81 |

| | Present Value | Holding Period | | | | | Terminal Value | | | Sale Price | |
|-----------------------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|-----------------|
| | Historic | ProForma | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| Book Equity | 1206.8 | 1,421.90 | 1,604.10 | 1,786.29 | 1,968.48 | 2,150.67 | 2,332.86 | | | | |
| Goodwill | 11 | 1,648.01 | 1,648.01 | 1,648.01 | 1,648.01 | 1,648.01 | 1,648.01 | | | | |
| Debt | 0 | 1,421.90 | 1,421.90 | 1,421.90 | 1,421.90 | 1,421.90 | 1,421.90 | | | | 1,421.90 |
| Debt Interest Rate | | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | | | | |
| Additional Interest Expense | | 48.97 | 48.97 | 48.97 | 48.97 | 48.97 | | | | | |
| Tangible Book Value | 1195.8 | -226.10 | -43.91 | 138.28 | 320.47 | 502.66 | 684.85 | | | | 684.85 |
| Annual Change | | | 182.19 | 182.19 | 182.19 | 182.19 | 182.19 | | | | |
| Annual FCF | 380.00 | | 197.75 | 197.75 | 197.75 | 197.75 | 197.75 | 197.75 | 197.75 | 197.75 | 593.25 |
| Annual Net Income | 264.10 | | 182.19 | 182.19 | 182.19 | 182.19 | 182.19 | 182.19 | 182.19 | 182.19 | |
| Annual Op. Cash Flow | 475.06 | | 297.75 | 297.75 | 297.75 | 297.75 | 297.75 | 297.75 | 297.75 | 297.75 | |
| Dividend Payments | | | | | | | | | | | |
| Annual PP&E Investment | (95.06) | | (100.00) | (100.00) | (100.00) | (100.00) | (100.00) | (100.00) | (100.00) | (100.00) | |
| Debt Paydown | 0.00 | | | | | | 0.00 | 0.00 | 0.00 | | |

Sale Price in Year 5 **1,278.10**

Capital Left for Equity Investor **1,278.10**
 Dividend Payments **0.00**
 Total Cash In Flow **1,278.10**

We assume the debt taken on by the investor is now on the Co's books, so the investor has no more liability from the deal.

Invested Equity **1,421.90**
 IRR **-2.11%**

Value Creation
 TBV Growth (equals sum of NI Year 1-5) 910.95
 Cash Flow (Year 6-8) 593.25
1,504.21

Value Dilution
 Debt 1,421.90
 Goodwill 1,637.01
 Additional Interest 244.84
3,303.75