

## Three Things You Can Watch Forever: Fire Burning, Water Falling, and Retail Stocks Reporting Earnings

May 19, 2022 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

After yesterday's [declines](#) in [many retail stocks](#) and ongoing inflation concerns, ones appetite to look at retail might disappear for quite a long time. We think this is exactly the time to start looking again at the sector.

We recently wrote about Kontoor Brands: "[Kontoor Brands: Buy American Jeans. I am](#)". Kontoor Brands a global lifestyle apparel company with a portfolio led by two of the world's most iconic consumer brands, [Wrangler](#), and [Lee](#). Company stated that it has confidence in raising fiscal year revenue and EPS guidance. Kontoor Brands was a 2019 [spin-off](#) from VF Corporation.

Some of you may remember the article Warren Buffett published in October of 2008 in the midst of credit market crisis "[Buy American. I am](#)".

Such long-term and balanced perspective is always a healthy ingredient worth adding to the toxic cocktail of stock market [story](#) of volatility, emotions, sentiment, and short-term perspective.

Today we want to continue with this idea of buying American, and especially American [jeans](#).

So, we take a look at [American Eagle Outfitters](#).

Company is a leading global specialty retailer and operates under two brands: [American Eagle](#) and [Aerie](#) and total \$5 bil in sales (last FY).

American Eagle Outfitters aims to grow Aerie segment significantly and achieve FY 2023 sales of \$2,200 million (FY 2021 sales were \$1,376 million).

Company has a market capitalization of \$2,784 million (assuming full conversion of convertible debt), an Enterprise Value of \$2,349 million is currently valued at an EV/EBITDA multiple of x4.02 (average EBITDA for FY 2019 and FY 2021, without FY 2020).

Based on company's objectives for FY 2023, it aims for \$5.8 bil in sales and 800 mil in operating income. This can bring EBITDA to about \$967 mil.

Using our valuation assumptions and applying an EV/EBITDA valuation of multiple of x7.5 we believe that shares of American Eagle Outfitters could be valued at \$38.5 per share in two years.

This would provide an upside of about 186% or approximately 93% percent annual return.

We also believe that give current [story structure](#) of company and its shares, it can become a buyout target or activist investors target.

