

Financial statement analysis

[Finance](#)



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Number of Project: Financial Statement Analysis Company American Eagle Outfitters, Inc. (AEO)

American Eagle Outfitters, Inc.

(b) Primary business activity of the firm

American Eagle Outfitters is an American clothing and accessories retailer which is based in Pittsburgh, Pennsylvania. Mark and Jerry Silverman were the founders of the company in 1977 as a subsidiary of Retail Ventures, Inc. which also owned and operated Silverman's Menswear. Ownership interests were sold by the Silvermans in the year 1991. The brand of the company particularly targets 15 to 25 years old males and females covering mainly the U. S. and Canada and having retail stores hovering around 929 with an online store as well. Low-rise jeans, graphic T-shirts, polo shirts, Henley shirts, outer wear and swimwear are some constituents of AEO's most popular products. The first store to be opened globally was in Middle East in Dubai.

(c) Financial Statement Ratios

Key Financial Statement Ratios

Most Recent Year (2011)

Prior Year (2010)

Industry Average

Current Ratio

3.0

2.9

2.4

Accounts Receivable Turnover

305.3

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298. 2

78. 2

Inventory Turnover

6. 0

5. 4

5. 0

Debt to Equity Ratio

0. 4

0. 4

1. 1

Return on Equity

10. 4%

10. 7%

30. 0%

Price Earnings Ratio

11. 72x

n/a

n/a

(d) Ratio Analysis

(i) Current Ratio: The current ratio signifies a company's ability to pay off its short term obligations that is the ability to cover up short-term liabilities (debt and payables) with short-term assets (cash, inventory and receivables). The higher the current ratio, the higher the ability of the firm to payoff short-term obligations but it can also depict inefficiency in handling illiquid assets such as inventory. AEO depicts a favorable trend in terms of this ratio as it has elevated from 2. 9 in 2010 to 3. 0 in 2011. In contrast with <https://assignbuster.com/financial-statement-analysis-essay-samples/>

the industry average, the company has performed quite well. But such a high current ratio can also show inefficiency in handling illiquid assets such as inventory but this cannot be determined without the help of Quick ratio.

(ii) Accounts Receivable Turnover: This ratio talks about the management efficiency of a firm in collecting cash from debtors who were sold goods on credit by the firm; the ratio is computed in times and shows how many times a firm generates and collects cash from debtors in a year. The higher the turnover, the more the efficient the firm is but this would also depict an aggressive or tightened credit policy and can lead to lesser sales generation. American Eagle Outfitters' trend of Accounts receivable turnover is favorable as it has increased from 2010 to 2011. This compared to the industry shows a way higher ratio and depicts that it operates a very aggressive credit policy.

(iii) Inventory Turnover: This ratio again comes under management efficiency of a company and depicts that how many times a year the inventory had been sold for cash and re-stocked; the higher the turnover the more efficient the management of the firm is. The trend of this ratio is favorable for American Eagle as it has increased in the two years reported. In contrast with the industry average, the company has performed quite well as it has a higher turnover in 2011 (6.0 times).

(iv) Debt to Equity: This ratio measures a company's financing supplied by creditors that are debt issuers and financing supplied by owners that are shareholders and depicts a picture about the company's long-term solvency. The higher the ratio the higher the risk that the company will bear as its cash flow from operations will have more burden to cover its interest and principal payments. AEO's debt to equity ratio has remained the same (0.40) in both

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2010 and 2011 and shows a stagnant trend. In comparison with the industry average figure, it has less debt financing as compared to equity (28.57%) which means that a larger proportion of its financing has been carried out through equity whereas industry average depicts that companies in this industry normally finance with 52% of debt and 48% of equity (computed with the help of the 1.1 debt to equity ratio, which is the average of the industry).

(v) Return on Equity: This ratio measures the rate of return a firm yields on stockholders' investment; the higher the return the better for the company and also to ensure shareholders' satisfaction, however a lower RoE means that the firm has taken a lot of debt and is paying a large interest expense. The trend for AEO is a little bit unfavorable as it has decreased by a meager 0.3% from the year 2010 to 2011. The company is not performing satisfactory if compared with the industry average figures which account for a 30% Return on Equity which is almost three times that of AEO.

(vi) Price to Earnings Ratio (P/E): This ratio shows the multiple or times of earnings that investors are willing to pay pertaining to their perception of the share price of a company. The higher the ratio in multiples, the better growth potential the investors perceive for the company's stock. As this ratio is calculated daily using daily market prices of the stock, this cannot be compared on a yearly basis for the same company and also not with industry averages.

(e) Earnings Per Share (EPS) Trend

The above trend has been developed taking into account Normalized EPS figures for American Eagle Outfitters, Inc. of years 2007 to 2011. The bar <https://assignbuster.com/financial-statement-analysis-essay-samples/>

chart depicts an unfavorable and decreasing trend over the five years reported. With only one rise in the EPS in 2008, the Normalized EPS has reduced considerably from 1.85 in 2008 to 1.07 in 2011 accounting for a fall of 42.16% over the four years time.

(f) Ratio Analysis Summary:

Liquidity and Debt position: After analyzing each ratio individually, the company seems to be quite stable in terms of its liquidity situation as its current ratio is depicting a favorable trend and is quite higher than the industry average; this is the same case with Accounts Receivable and Inventory Turnover which are both on favorable and increasing trends and more efficient as compared to the industry averages. This means that the company is quite able to pay off its short-term liabilities or obligations using its short-term assets and is quite liquid.

Considering the debt situation, the company's Debt to Equity ratio is quite low as compared to the industry at 28.57% ($0.4 / 1.40$) which means that the company has taken low debt which is at a level of 52% in other companies' capital structures. AEO's cash flow from operations will now bear less burden to payoff interest and principal payments but high equity also depict that dividend payments will be high.

Profitability position: Only Return on Equity was calculated and analyzed as a measure of the company's profitability. This ratio depicts an almost stagnant trend and its comparison with the industry show a very bad picture as AEO's RoE is almost 1/3 of the RoE of other companies in the same industry that is its competitors. This concludes that as AEO has a large proportion of equity in its capital structure, its roe is comparatively very low and does not give a favorable picture of the company's profitability. Moreover, AEO's P/E ratio

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shows that its share is trading at a price 11.72 times of its earnings.

(g) Cash Flow Analysis

Year

2007

2008

2009

2010

2011

Cash Flow from Operating Activities

(in \$millions)

749.27

464.66

303.31

386.46

381.16

Cash Flow from Investing Activities

(in \$millions)

-651.12

102.27

77.27

-49.07

27.61

The above table shows the cash flow from operations and investing activities for American Eagle Outfitters, Inc. for the five years period 2007 to 2011.

The cash flow from operations show a decreasing trend from 2007 to 2009 (a cumulative fall of more than 59% over three years) followed by an increase

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in 2010 and a slight decrease in 2011 which is the most recent year analyzed. Overall, the trend is unfavorable. This is not conducive for the company as this can lead to hurdles in covering negative cash flow from investing activities which are in most cases, negative for almost all companies.

Cash flow from investing activities was a large negative figure in 2007 with positivity coming in 2008 and 2009. The latest figure is a positive \$27. 61 million figure. Apart from the year 2007 when AEO had to cover a high cash outflow generating from investing activities, it didn't face difficulties in the next years up to 2011. There are unusual fluctuations in cash flow from investing activities throughout the five years mentioned above. This is mainly because of purchase of fixed assets and purchase and sale / maturity of investments.

Individually, in 2007, there were large purchases of investments which lead to a negative cash flow from investing activities. In 2008, a sale of investments of around \$2. 13 billion caused the negative figure to convert into a positive one. Purchase of fixed assets was done in every year being reported. Positive balances were seen in 2008 and 2011 due to low transactions in the field of investments.

AEO's ability to generate positive cash flows from operations seems a little bit blurred as this is dependent on the net income and positive working capital changes, both of which are showing a decreasing trend throughout the five years being discussed; this becomes a bad sign for American Eagle Outfitters, Inc. There were substantial cash flow changes from the year 2007 to 2008, 2008 to 2009, and 2009 to 2010, all of which depict a change of more than 20%. The main reason for the variation in 2010 was the reduction

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in the balance of non-cash expenses from \$227.14 million to \$36.98 million. The main reason was the reduction in the net income from 2008 to 2009. Change in working capital was the main reason for an increase of 27% from 2009 to 2010. There was no significant change in the year 2011.

APPENDIX SECTION

APPENDIX 1: INCOME STATEMENT

(All financial data in Millions of US Dollars except per share items)

2011

2010

2009

2008

2007

Period End Date

01/29/2011

01/30/2010

01/31/2009

02/02/2008

02/03/2007

Period Length

52 Weeks

52 Weeks

52 Weeks

52 Weeks

52 Weeks

Stmt Source

<https://assignbuster.com/financial-statement-analysis-essay-samples/>

10-K

10-K

10-K

10-K

10-K

Stmt Source Date

03/11/2011

03/11/2011

03/11/2011

03/26/2010

04/04/2007

Stmt Update Type

Updated

Restated

Restated

Restated

Updated

Revenue

2, 967. 56

2, 940. 27

2, 948. 68

3, 055. 42

2, 794. 41

Total Revenue

2, 967. 56

2, 940. 27

2, 948. 68

3, 055. 42

2, 794. 41

Cost of Revenue, Total

1, 796. 6

1, 766. 84

1, 751. 49

1, 632. 28

1, 453. 98

Gross Profit

1, 170. 96

1, 173. 43

1, 197. 19

1, 423. 14

1, 340. 43

Selling/General/Administrative Expenses, Total

713. 2

725. 28

690. 79

714. 59

665. 61

Research & Development

0. 0

0. 0

0. 0

0. 0

0. 0

Depreciation/Amortization

140. 5

137. 76

123. 6

109. 2

88. 03

Interest Expense (Income), Net Operating

0. 0

0. 0

0. 0

0. 0

0. 0

Unusual Expense (Income)

1. 25

0. 94

22. 89

0. 59

0. 0

Other Operating Expenses, Total

0. 0

0. 0

0. 0

0. 0

0. 0

Operating Income

316. 01

309. 45

359. 91

598. 76

586. 79

Interest Income (Expense), Net Non-Operating

0. 0

0. 0

0. 0

0. 0

0. 0

Gain (Loss) on Sale of Assets

0. 0

0. 0

0. 0

0. 0

0. 0

Other, Net

3. 5

-2. 33

18. 91

-1. 67

42. 28

Income Before Tax

295. 08

304. 38

377. 7

636. 38

629. 07

Income Tax - Total

113. 15

90. 98

147. 72

236. 36

241. 71

Income After Tax

181. 93

213. 4

229. 98

400. 02

387. 36

Minority Interest

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0. 0

0. 0

0. 0

0. 0

0. 0

Equity In Affiliates

0. 0

0. 0

0. 0

0. 0

0. 0

U. S. GAAP Adjustment

0. 0

0. 0

0. 0

0. 0

0. 0

Net Income Before Extra. Items

181. 93

213. 4

229. 98

400. 02

387. 36

Total Extraordinary Items

-41. 29

-44. 38

-50. 92

0. 0

0. 0

Discontinued Operations

-41. 29

-44. 38

-50. 92

0. 0

0. 0

Net Income

140. 65

169. 02

179. 06

400. 02

387. 36

Total Adjustments to Net Income

-0.07

-0.37

-0.36

-0.22

0.0

Preferred Dividends

0.0

0.0

0.0

0.0

0.0

General Partners Distributions

0.0

0.0

0.0

0.0

0.0

Basic Weighted Average Shares

199.98

206.17

205.17

216.12

222.66

Basic EPS Excluding Extraordinary Items

0.91

1.03

1.12

1.85

1.74

Basic EPS Including Extraordinary Items

0.7

0.82

0.87

1.85

1.74

Diluted Weighted Average Shares

201. 82

209. 51

207. 58

220. 28

228. 38

Diluted EPS Excluding Extraordinary Items

0. 9

1. 02

1. 11

1. 82

1. 7

Diluted EPS Including Extraordinary Items

0. 7

0. 81

0. 86

1. 82

1. 7

Dividends per Share - Common Stock Primary Issue

0.43

0.4

0.4

0.38

0.28

Gross Dividends - Common Stock

184.98

83.91

82.39

80.8

61.52

Depreciation, Supplemental

139.17

137.05

123.22

108.92

87.87

Normalized EBITDA

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508. 08

506. 52

577. 82

708. 55

674. 82

Normalized EBIT

367. 58

368. 76

454. 22

599. 35

586. 79

Normalized Income Before Tax

346. 65

363. 69

472. 01

636. 97

629. 07

Normalized Income After Taxes

213. 73

254. 98

287. 41

400. 39

387. 36

Normalized Income Available to Common

213. 65

254. 62

287. 05

400. 18

387. 36

Basic Normalized EPS

1. 07

1. 23

1. 4

1. 85

1. 74

Diluted Normalized EPS

1. 06

1. 22

1. 38

1. 82

1. 7

Amortization of Intangibles

1. 33

0. 72

0. 38

0. 28

0. 16

APPENDIX 2: BALANCE SHEET

(All financial data in Millions of US Dollars)

2011

2010

2009

2008

2007

Period End Date

01/29/2011

01/30/2010

01/31/2009

02/02/2008

02/03/2007

Stmt Source

10-K

10-K

10-K

10-K

10-K

Stmt Source Date

03/11/2011

03/26/2010

03/30/2009

04/02/2008

04/02/2008

Stmt Update Type

Updated

Updated

Updated

Updated

Restated

Assets

Cash and Short Term Investments

734. 7

698. 64

483. 85

619. 94

813. 81

Cash

122. 58

144. 39

0. 0

0. 0

0. 0

Cash & Equivalents

0. 0

0. 0

473. 34

116. 06

59. 74

Short Term Investments

612. 12

554. 24

10. 51

503. 88

754. 08

Total Receivables, Net

36. 72

34. 75

41. 47

31. 92

26. 05

Accounts Receivable - Trade, Net

9. 72

9. 86

19. 96

11. 73

26. 05

Notes Receivable - Short Term

0. 0

7. 83

5. 18

0. 0

0. 0

Receivables - Other

27. 0

17. 06

16. 34

20. 19

0. 0

Total Inventory

301. 21

326. 45

294. 93

286. 49

263. 64

Prepaid Expenses

53. 73

47. 04

59. 66

35. 49

33. 72

Other Current Assets, Total

48. 06

60. 16

45. 45

47. 0

51. 89

Total Current Assets

1, 174. 41

1, 167. 03

925. 36

1, 020. 83

1, 189. 11

Property/Plant/Equipment, Total - Net

643. 12

713. 14

740. 24

625. 57

481. 65

Goodwill, Net

11. 47

11. 21

10. 71

11. 48

9. 95

Intangibles, Net

0. 0

0. 0

0. 0

0. 0

0. 0

Long Term Investments

5. 92

197. 77

251. 01

165. 81

264. 94

Note Receivable - Long Term

0. 0

0. 0

0. 0

0. 0

0. 0

Other Long Term Assets, Total

45. 08

48. 99

36. 36

43. 99

33. 91

Other Assets, Total

0. 0

0. 0

0. 0

0. 0

0. 0

Total Assets

1, 880. 0

2, 138. 15

1, 963. 68

1, 867. 68

1, 979. 56

Liabilities and Shareholders Equity

Accounts Payable

167. 72

158. 53

152. 07

157. 93

171. 15

Payable/Accrued

0. 0

0. 0

0. 0

0. 0

0. 0

Accrued Expenses

146. 35

163. 4

136. 41

166. 21

170. 47

Notes Payable/Short Term Debt

0. 0

30. 0

75. 0

0. 0

0. 0

Current Port. of LT Debt/Capital Leases

0. 0

0. 0

0. 0

0. 0

0. 0

Other Current Liabilities, Total

73. 77

57. 03

38. 28

52. 04

123. 0

Total Current Liabilities

387. 84

408. 96

401. 76

376. 18

464. 62

Total Long Term Debt

0. 0

0. 0

0. 0

0. 0

0. 0

Deferred Income Tax

0. 0

0. 0

0. 0

0. 0

0. 0

Minority Interest

0. 0

0. 0

0. 0

0. 0

0. 0

Other Liabilities, Total

141. 09

150. 68

152. 88

151. 04

97. 63

Total Liabilities

528. 93

559. 63

554. 65

527. 22

562. 25

Redeemable Preferred Stock

0. 0

0. 0

0. 0

0. 0

0. 0

Preferred Stock - Non Redeemable, Net

0. 0

0. 0

0. 0

0. 0

0. 0

Common Stock

2. 5

2. 49

2. 49

2. 48

2. 46

Additional Paid-In Capital

546. 6

554. 4

513. 57

493. 4

453. 42

Retained Earnings (Accumulated Deficit)

1, 711. 93

1, 764. 05

1, 694. 16

1, 601. 78

1, 302. 35

Treasury Stock - Common

-938. 02

-759. 26

-786. 8

-792. 68

-362. 63

Unrealized Gain (Loss)

0. 0

-6. 4

0. 0

0. 0

0. 0

Other Equity, Total

28. 07

23. 24

-14. 39

35. 49

21. 71

Total Equity

1, 351. 07

1, 578. 52

1, 409. 03

1, 340. 46

1, 417. 31

Total Liabilities & Shareholders' Equity

1, 880. 0

2, 138. 15

1, 963. 68

1, 867. 68

1, 979. 56

Total Common Shares Outstanding

194. 37

206. 83

205. 28

204. 48

221. 28

Total Preferred Shares Outstanding

0. 0

0. 0

0. 0

0. 0

0. 0

APPENDIX 3: CASH FLOW STATEMENT

(All financial data in Millions of US Dollars)

2011

2010

2009

2008

2007

Period End Date

01/29/2011

01/30/2010

01/31/2009

02/02/2008

02/03/2007

Period Length

52 Weeks

52 Weeks

52 Weeks

52 Weeks

52 Weeks

Stmt Source

10-K

10-K

10-K

10-K

10-K

Stmt Source Date

03/11/2011

03/11/2011

03/11/2011

03/26/2010

03/30/2009

Stmt Update Type

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Updated

Reclassified

Reclassified

Reclassified

Reclassified

Net Income/Starting Line

140. 65

169. 02

179. 06

400. 02

387. 36

Depreciation/Depletion

145. 55

139. 83

126. 36

110. 75

89. 7

Amortization

0. 0

0. 0

0. 0

0. 0

0. 0

Deferred Taxes

11. 89

-36. 03

24. 47

-8. 15

-27. 57

Non-Cash Items

74. 25

80. 48

51. 15

36. 98

227. 14

Discontinued Operations

19. 85

30. 51

9. 12

0. 0

0. 0

Unusual Items

25. 67

3. 69

24. 01

0. 99

0. 0

Other Non-Cash Items

28. 72

46. 28

18. 02

36. 0

227. 14

Changes in Working Capital

8. 83

33. 16

-77. 73

-74. 94

72. 65

Accounts Receivable

-3. 79

6. 66

-10. 02

-5. 66

7. 45

Inventories

18. 71

-33. 7

-5. 63

-19. 07

-53. 53

Prepaid Expenses

-9. 05

12. 92

-23. 18

-1. 33

-4. 2

Other Assets

-1. 38

1. 15

0. 39

-3. 24

-5. 36

Accounts Payable

5. 23

8. 36

-3. 47

-15. 56

32. 35

Accrued Expenses

6. 55

33. 12

-52. 44

-34. 71

88. 15

Other Liabilities

-7. 45

4. 67

16. 62

4. 64

7. 79

Cash from Operating Activities

381. 16

386. 46

303. 31

464. 66

749. 27

Capital Expenditures

-84. 26

-127. 08

-243. 56

-250. 41

-225. 94

Purchase of Fixed Assets

-84. 26

-127. 08

-243. 56

-250. 41

-225. 94

Other Investing Cash Flow Items, Total

111. 87

78. 01

320. 84

352. 68

-425. 18

Sale of Fixed Assets

0. 0

0. 0

0. 0

0. 0

12. 35

Sale/Maturity of Investment

177. 47

80. 35

393. 56

2, 126. 89

915. 95

Purchase of Investments

-62. 8

0. 0

-48. 66

-1, 772. 65

-1, 353. 34

Other Investing Cash Flow

-2. 81

-2. 34

-24. 07

-1. 56

-0. 14

Cash from Investing Activities

27. 61

-49. 07

77. 27

102. 27

-651. 12

Financing Cash Flow Items

6. 07

1. 4

0. 69

6. 16

19. 43

Other Financing Cash Flow

6. 07

1. 4

0. 69

6. 16

19. 43

Total Cash Dividends Paid

-183. 17

-82. 99

-82. 39

-80. 8

-61. 52

Issuance (Retirement) of Stock, Net

-226. 84

8. 8

0. 37

-437. 42

-125. 67

Issuance (Retirement) of Debt, Net

-32. 59

-47. 02

72. 82

-1. 91

-1. 0

Cash from Financing Activities

-436. 53

-119. 81

-8. 51

-513. 97

-168. 76

Foreign Exchange Effects

1. 39

3. 03

-14. 79

3. 36

-0. 18

Net Change in Cash

-26. 37

220. 62

357. 28

56. 32

-70. 79

Net Cash - Beginning Balance

693. 96

473. 34

116. 06

59. 74

130. 53

Net Cash - Ending Balance

667. 59

693. 96

473. 34

116. 06

59. 74

APPENDIX 4: KEY FINANCIAL STATEMENT RATIOS

KEY FINANCIAL STATEMENT RATIOS

All Amounts in US Dollars except ratios and percentages

THIS YEAR (2011)

LAST YEAR (2010)

Industry

Amounts

Answer

Amounts

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Answer

Average

Liquidity ratios

Current Ratio

Current Assets

=

1, 174, 410, 000

=

3. 0

1, 167, 030, 000

=

2. 9

2. 4

Current Liabilities

387, 840, 000

408, 960, 000

Quick Ratio, or

Quick Assets *

819, 470, 000

2. 1

785, 710, 000

1. 9

1. 4

" Acid Test"

Current Liabilities

387, 840, 000

408, 960, 000

* Quick assets include Cash, Marketable Securities, and Accounts Receivable
(excludes Inventory)

Asset Management Ratios

Inventory

Cost of Goods Sold

1, 796, 600, 000

6. 0

1, 766, 840, 000

5. 4

5. 0

Turnover

Inventory*

301, 210, 000

326, 450, 000

Accts Receivable

Sales

2, 967, 560, 000

305. 3

2, 940, 270, 000

298. 2

78. 2

Turnover

Accts Receivable*

9, 720, 000

9, 860, 000

* Textbooks generally use " average" for the year (beginning + ending) / 2,
but its OK to use ending only

Debt (Leverage) (Long-term Solvency) Ratios

Debt to

Total Liabilities

528, 930, 000

0. 3

559, 630, 000

0. 3

-

Assets

Total Assets

1, 880, 000, 000

2, 138, 150, 000

Debt to

Total Liabilities

528, 930, 000

0. 4

559, 630, 000

0. 4

1. 1

Equity

Total Equity

1, 351, 070, 000

1, 578, 520, 000

Times interest

EBIT*

316, 010, 000

-

309, 450, 000

-

78. 8

Earned

Interest expense

-

-

* EBIT means " Earnings before Interest and Taxes"

Profitability Ratios (not applicable if net loss)

Net Profit

Net Income

140, 650, 000

4. 7%

169, 020, 000

5. 7%

6. 9%

Margin (%)

Sales

2, 967, 560, 000

2, 940, 270, 000

Gross Profit

Gross Profit

1, 170, 960, 000

39.5%

1,173,430,000

39.9%

40.3%

on Sales (%)

Sales

2,967,560,000

2,940,270,000

Return

Net Operating Income

316,010,000

64.9%

309,450,000

58.6%

11.8%

on Assets (%)

Total Operating Assets

487,240,000

527,740,000

aka ROI

Return

Net Income

140,650,000

10.4%

169,020,000

10.7%

30. 0%

on Equity (%)

Total Equity

1, 351, 070, 000

1, 578, 520, 000

Market Value Ratios

Earnings per

Net Income

140, 650, 000

0. 7

169, 020, 000

0. 8

Industry avg.

Share (EPS)

No. shares outstanding

194, 370, 000

206, 830, 000

not relevant

Price/Earnings*

Market Price

12. 54

11. 72

prior year not required

16. 8

Ratio (P/E)

EPS

1. 07

* P/E ratio changes daily with market price. If EPS is negative, ratio is " not applicable". Use " Basic" , not " Diluted".

*Basic Normalized EPS has been used for computation of P/E ratio and has been extracted from the 2011 Income Statement and the Market Price pertaining to October 20, 2011 has been taken into account, source: MSN Money, 2011.

References

American Eagle Outfitters, Inc. Annual report and Financial Data Retrieved October 20, 2011 from <http://moneycentral.msn.com>