Abercrombie shares drop 30% as high costs dent margin forecast

24 May 2022

Abercrombie & Fitch Co on Tuesday lost nearly a third of its market value after the retailer cut its annual forecasts for sales and margins and posted a surprise quarterly loss due to a surge in freight and raw material costs.

Decades-high inflation has pushed consumers to cut spending on discretionary goods such as apparel, while persistent supply chain issues, worsened by the war in Ukraine, have dented profits.

Abercrombie, which had airfreighted goods to push its products through a clogged supply chain for the key holiday season, was left with excess inventory in the quarter after the festive period.

To clear the stock, the company offered more discounts and clearance sales, which further crimped its margins in
To clear the stock, the company offered more discounts and clearance sales, which further crimped its margins in the quarter to 55.3% from 63.4% last year.

"We are in an extremely inflationary period (where) everything from food to gas is costing more and we expect those pressures to weigh on consumer confidence," Chief Executive Fran Horowitz said.

In contrast, high-end players including Ralph Lauren and French brand Chanel on Tuesday forecast upbeat 2022, as the companies cushion the impact of inflation through price increases.

Including Tuesday's losses, Abercrombie shares have fallen nearly 44% this year, extending last week's declines after major retailers including Walmart Inc and Kohl's Corp flagged weakening demand for discretionary goods.

"Without a clearer outlook on the year, let alone 2023, we believe it will be hard for share to recapture these losses," William Blair analyst Dylan Carden wrote in a note, with Abercrombie executives saying they expect things to stay the same in the current quarter.

The millennial-focused retailer expects net sales to be flat to up 2% in fiscal 2022, compared with its earlier forecast of a 2% to 4% growth. Analysts on average expect sales to increase 3.5% to $3.84 billion, according to Refinitiv IBES data.