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Abercrombie & Fitch Co. F1Q09 (Qtr End 05/02/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Jeff Klinefelter - Piper Jaffray.

Jeff Klinefelter - Piper Jaffray

The question is on the guidance that you are providing for the income statement line items in the second quarter. Just curious if you could repeat the store and distribution expense directional guidance that you provided. You are anticipating the store-related expenses being roughly flat in dollars but could you just go through the components of that and MG&A and how you expect that to trend versus Q1?

Jonathan Ramsden

What we tried to do is to call out that there were two significant components within stores and distribution that behave somewhat differently, and I think probably one of the reasons why we were from the consensus for the quarter is that we probably hadn't done a good job of communicating the significance of those occupancy costs within stores and distribution expense.

So just to recap, for the first quarter occupancy costs were 47% of total stores and distribution expense. In dollar terms, quarter-to-quarter, we see that being flat into Q2 and then we see it progressively increasing somewhat in the latter half of the year due to the additional store openings. The other piece of store and distribution expense, which is payroll, other variable costs and we also have DTC and DC costs in there, is the piece that is more variable with sales over time. So that one is harder for us to give more specific guidance on.

What we are saying there is that the de-leveraging effect year-over-year in the first quarter, which was approximately 5%, that caption represented 30% of sales this year versus 25% last year. We see that de-leveraging effect reducing progressively quarter-by-quarter over the balance of the year.

The exact magnitude of that reduction will depend on same store sales and also our ongoing implementation of expense savings, but directionally, it's going to reduce we think fairly significantly over the course of the year.

Operator

Your next question comes from Brian Tunick – JP Morgan.

Brian Tunick – JP Morgan

Mike, you talked about these meaningful pricing changes. Just wondering if you could drill down between abercrombie and Hollister. When we visit the stores we see things that are higher price points and lower price points. Maybe just talk about that.

And any learnings from the clearance events that there have obviously a lot of people talking about.

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