

Engaged Capital Tells Abercrombie: Replace CEO *Activist Investor Sends Letter to Teen Apparel Retailer*

By DAVID BENOIT and SARA GERMANO

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An activist investor is intensifying its campaign against [Abercrombie & Fitch](#) Co. , saying the teen retailer should look for a new CEO and that a sale of the company could be its best option.

Engaged Capital said in a letter to the Abercrombie board that it should start looking for a replacement for chairman and chief executive Michael Jeffries, whose employment contract expires Feb. 1.

The hedge-fund firm, which said it owns about 0.5% of Abercrombie's stock, also said the sale of Abercrombie to a private-equity buyer "may represent the best option for shareholders."

Abercrombie on Tuesday said it welcomed "input from all shareholders" and that it had held "extensive discussions" with many shareholders, including Engaged Capital, over the past several months.

Shares rose about 5.8% to \$35.99 on news of the hedge-fund's agitation, giving the company a market capitalization of about \$2.75 billion.

Mr. Jeffries, 69 years old, became CEO in February 1992 and chairman in May 1998, after the company was spun off from its former parent, Limited Inc. (now [L Brands](#) Inc.). He is considered by the board to be the "founder" of the modern day Abercrombie & Fitch," according to a company filing.

The pressure from Engaged Capital comes at a difficult time for Abercrombie and some other teen retailers. Abercrombie posted losses of \$11.5 million in the nine months ended Nov. 2, with sales down more than 7% over the same period. In November, it announced plans to close remaining stores of its intimate apparel brand, Gilly Hicks, as well as roll out clothing in more sizes and colors in an effort to compete with "fast fashion" stores like Forever 21 and H&M.

During its third-quarter earnings call late last month, Abercrombie executives warned that it expects to continue to face challenges from fast fashion through the holiday period.

Meanwhile, Abercrombie said Tuesday its senior vice president, general counsel and secretary Ronald "Rocky" A. Robins Jr., has left after four years. He oversaw the company's legal department. No successor has yet been named.

Before Tuesday's news, Abercrombie shares were down 29% this year.

Engaged, a hedge fund launched last year, credited Mr. Jeffries for past success at the company, but said Abercrombie needs new leadership.

"Abercrombie's future success will be dependent on the company's ability to adapt to a fast changing retail environment, carefully manage expenses, and efficiently allocate capital," Engaged wrote. "Unfortunately, these are not areas where Mr. Jeffries has demonstrated expertise or competency."

Engaged said Mr. Jeffries's presence at the helm could also complicate the company's ability to sell itself.

Engaged's position is the latest activist campaign in the teen-retailing world, where companies' stock prices can fluctuate in tandem with their young, fashion-conscious consumers' tastes.

At [Aéropostale](#) Inc., a rival to Abercrombie, Hirzel Capital Management as well as an indirectly owned subsidiary of Sycamore Partners together hold about 14% of shares. Last week, Aéropostale adopted a "poison pill," or takeover defense measure, as it considers its options, it said.

Aéropostale and a third teen-apparel rival, American Eagle Outfitters Inc., report earnings Wednesday and Friday, respectively. Stock prices for those companies are also down substantially this year.

Engaged was started in 2012 by Glenn Welling, a former Credit Suisse Group AG investment banker who then joined Relational Investors LLC, one of the bigger activist firms. While small by hedge-fund status, it now has assets in the hundreds of millions, according to a person familiar with the firm.

Activists tend to build stakes to push for change at companies. Typically, a larger stake gives them better odds at forcing change, but some activists have managed success with smaller positions, as other shareholders and institutional funds have become more willing to vote against management. Engaged's stake ranks just inside the top 40 of Abercrombie holders, according to FactSet.

Write to David Benoit at david.benoit@wsj.com and Sara Germano at sara.germano@wsj.com

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