December 3, 2013

Board of Directors
Abercrombie & Fitch Co.
6301 Fitch Path
New Albany, Ohio 43054

Ladies and Gentlemen:

Engaged Capital has been a significant shareholder of Abercrombie & Fitch ("ANF" or the "Company") for over a year and currently owns approximately 400,000 shares of the Company's stock. We made our initial investment in the Company because we believed that ANF was deeply undervalued despite owning two of the strongest brands in teen apparel. We perceived a substantial opportunity for the board of directors (the "Board") and management team to reverse years of underperformance and create significant shareholder value at ANF by enacting much needed changes and correcting certain missteps.

To that end, over the past year we have maintained an on-going and constructive dialogue with the Company's management team and more recently with members of the Company's Board. Those discussions, dialogue with other large shareholders, conversations with industry observers, as well as our own research and analysis, have led us to the conclusion that ANF's perennial underperformance is a result of a failure of leadership.

With the upcoming expiration of Chairman and CEO Michael Jeffries' employment contract on February 1, 2014, the Board has an important opportunity to set a new direction for the Company and reverse the years of disappointment to which ANF shareholders have grown accustomed. This decision that you will make, as our fiduciaries, will be one of the most critical in the Company's history. We are confident that an independent and objective evaluation of management's performance would result in the conclusion that an immediate leadership change is necessary. We implore you to act as unbiased stewards in your service to the Company's shareholders as you undertake any decisions regarding Mr. Jeffries' employment agreement and the future leadership of our Company.

A History of Underperformance

"This used to be the hottest teen brand in the world, yet under Jeffries' recent leadership, Abercrombie & Fitch has become practically irrelevant."

– CNBC's Jim Cramer[1]

Mr. Jeffries is rightly credited with the successful repositioning of Abercrombie & Fitch and with the creation of the Company's most valuable brand, Hollister. Owing to Mr. Jeffries' earlier achievements, ANF has enjoyed the luxury of owning two of the most prized brands in the teen apparel industry. Despite this enviable competitive position, ANF shareholders have not benefited as many years of mismanagement have led to persistent underperformance.

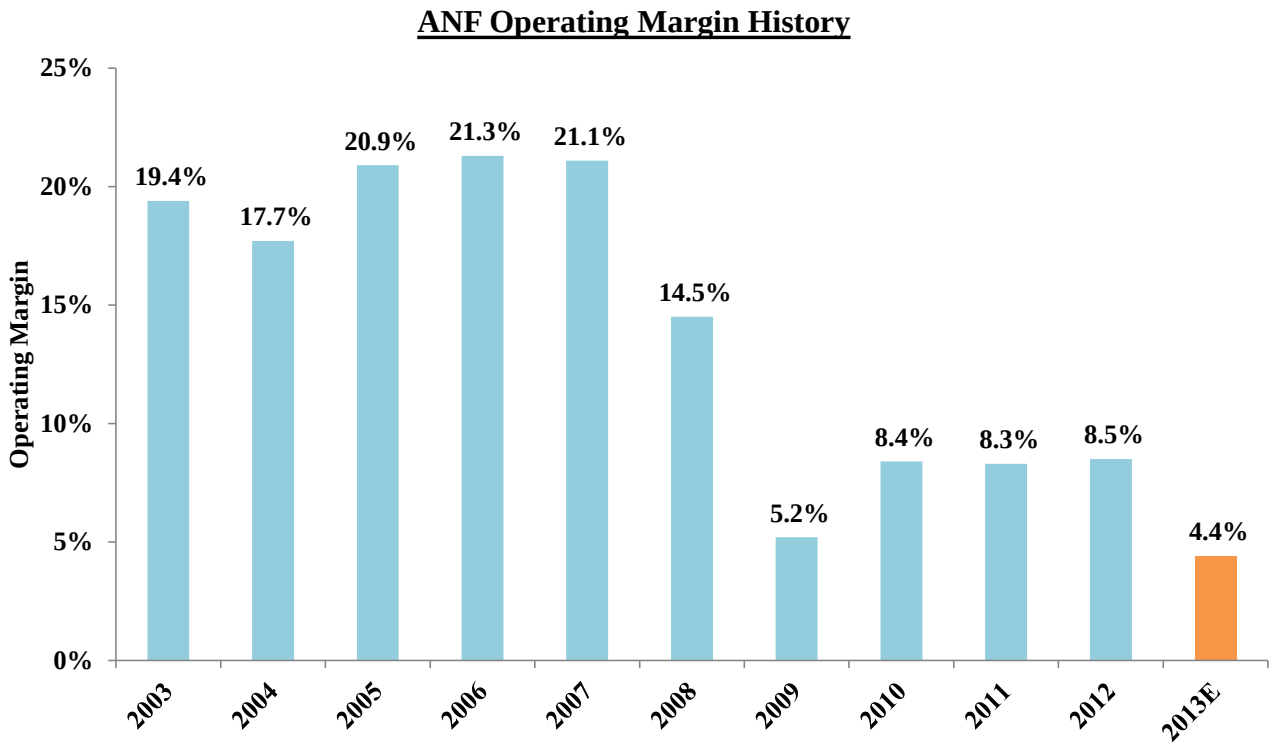
[1] "Mad Money" broadcast on November 14th, 2013.

	Total Return Performance				
	1 yr	**2 yr**	**3 yr**	**5 yr**	**10 yr**
Absolute Returns:					
ANF	**(24%)**	**(24%)**	**(26%)**	**94%**	**36%**
Proxy Peer Group	33%	69%	79%	463%	277%
S&P 500 Apparel Retail Index	33%	91%	128%	416%	268%
S&P 500 Consumer Discretionary Index	41%	81%	91%	250%	151%
ANF Relative Returns vs:					
Proxy Peer Group	(56%)	(94%)	(106%)	(369%)	(241%)
S&P 500 Apparel Retail Index	(56%)	(115%)	(154%)	(321%)	(232%)
S&P 500 Consumer Discretionary Index	(64%)	(105%)	(117%)	(156%)	(114%)

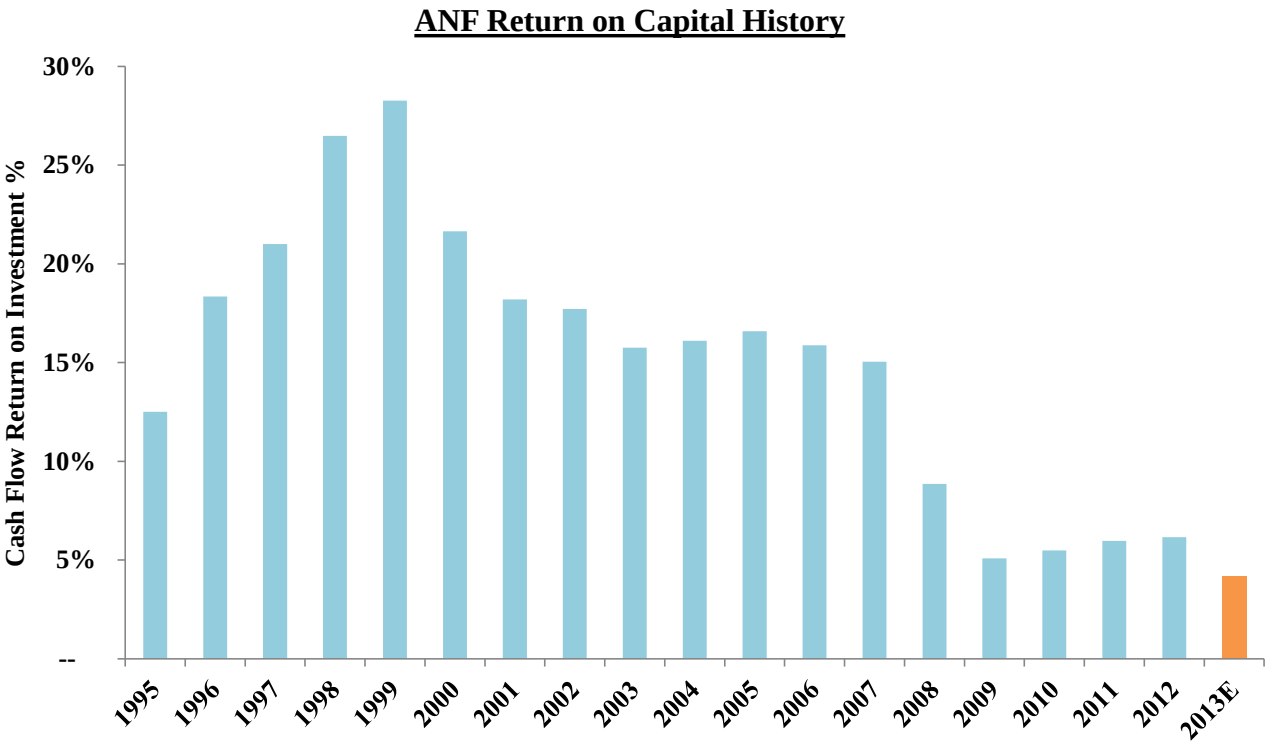
Source: FactSet. Peer group from ANF 2013 proxy filing (excludes Saks Inc.). Returns as of November 29, 2013.

Management spent the better part of the past decade investing hundreds of millions of dollars to aggressively expand the Company's domestic footprint. This strategy resulted in a materially overbuilt U.S. store base and has now led to years of store closures and asset impairments. By the end of this fiscal year, management will have shuttered nearly 30% of the Company's U.S. stores and, according to management guidance, this total will grow to over 35% by fiscal 2015.[2] ANF's domestic store base is likely losing money today as a result of this past overinvestment. To add insult to injury, management pursued this same spendthrift capital allocation "discipline" internationally through a high-risk flagship store strategy that has saddled the Company with costly, yet poorly performing stores in both Europe and Japan. Additionally, the Company's two newest brands, Ruehl and Gilly Hicks, were costly failures. Altogether, investors have suffered through asset impairments and operating losses of over $500 million[3] during the past six years alone. These poor capital allocation decisions have resulted in operating margins that have sharply deteriorated from over 21% in 2007 to below 5% today, and return-on-capital that has dramatically declined from over 20% to levels below the Company's current cost-of-capital.

[2] Based on U.S. store closures relative to peak store count in fiscal 2008.
[3] Total pre-tax store related charges, asset impairments, and disclosed operating losses from discontinued brands. All figures from company filings.



Source: Company filings and investor presentations. 2013 based on consensus estimates per FactSet.



Source: Credit Suisse HOLT. 2013 based on consensus estimates.

Not surprisingly, this extended period of overinvestment has presented the Company with a significant opportunity to cut costs and expand cash flow. Investors should benefit from recently announced expense reductions of over $130 million[4] in fiscal 2014 with the potential for significant additional savings following store tests that will conclude this quarter. While we applaud the effort, we note that these changes are coming a full six years after margins and returns experienced their drastic decline. Further, management's recent efforts to arrest wasteful capital spending and reduce the Company's bloated cost structure have only taken place due to the strong urging of concerned shareholders.

Underperformance Has Resulted From Poor Leadership…Not Poor Asset Quality

"Management must be willing to move beyond their previously 'iconic, clearly defined' aesthetic, in order to drive meaningful comp and margin improvement. However given the current leadership, we are doubtful that this important step will be taken."

– Stifel analyst Richard Jaffe[5]

Investors have endured poor performance due to poor leadership. The Company's management team has a reputation for habitually under-estimating and under-executing on the changes needed to remain competitive in the fast moving teen apparel market. Management recognized the challenges posed by shifting industry dynamics over five years ago and acknowledged that change was necessary. However, to date little progress has been made as the Company's execution continues to miss the mark.

Management correctly recognized the increasing speed of fashion back in 2008…

"I think we're in a time that fashion is moving faster. It is our responsibility to produce fashion in our handwriting. We need during this time to have broader assortments."

– Chairman & CEO Michael Jeffries (November 14, 2008)

...but five years later management has still not figured out how to develop faster fashion to remain competitive...

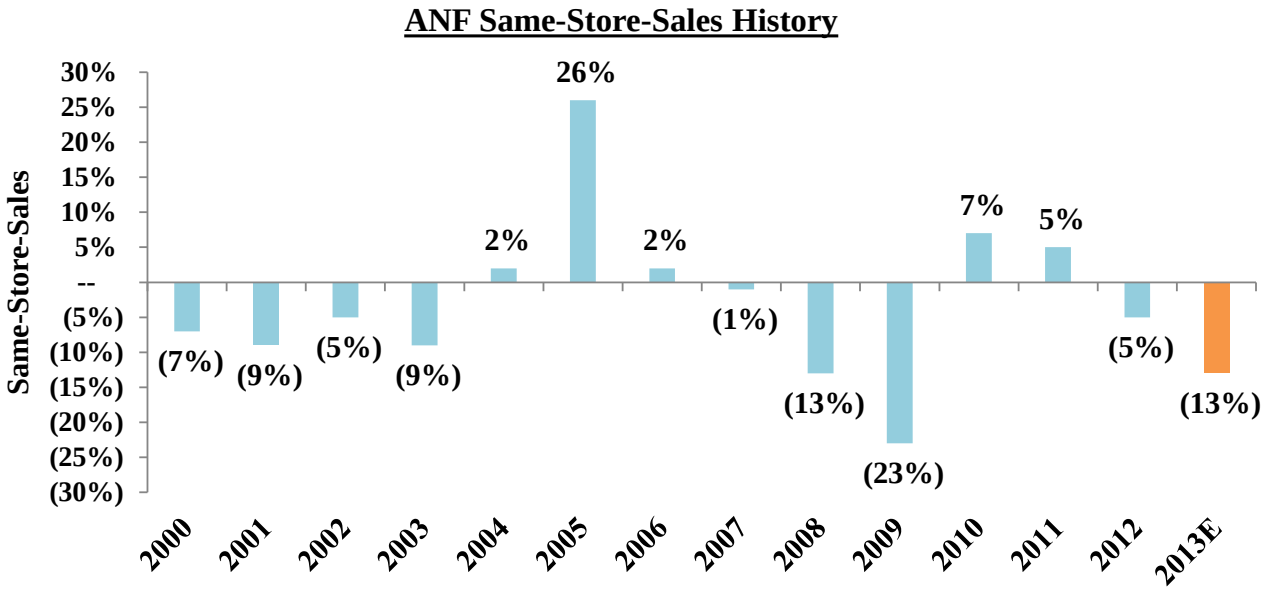
"As we look forward, it is clear that speed will be a critical factor across many areas of our business…The new need to be faster will certainly include reducing the lead times for getting the fashion component of our merchandise to stores."

– Chairman & CEO Michael Jeffries (November 6, 2013)

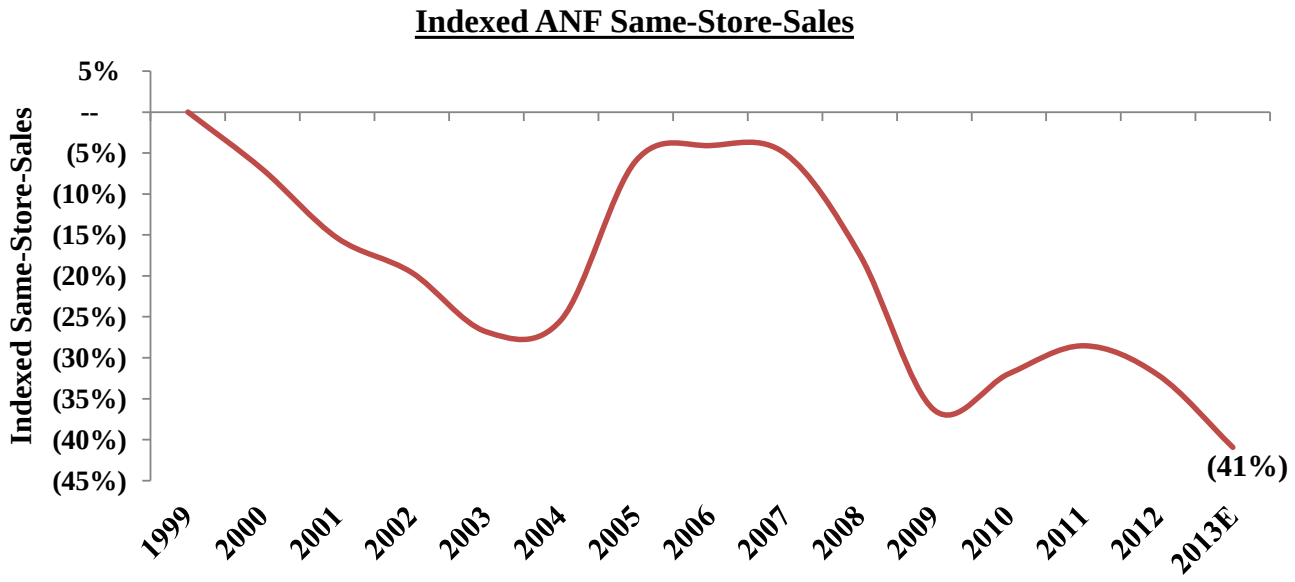
The difficultly in adapting to apparel trends is clearly evident when looking at ANF's same-store-sales history. Since 2000, ANF has only generated positive same-store-sales five times while experiencing material declines in eight of the last fourteen years. Over this time period, compounded same-store-sales have declined by 41%.

[4] The Company has disclosed over $100 million in currently identified cost savings, plus the removal of $30 million in annual operating losses from the closure of all Gilly Hicks locations. Additional store-level cost savings are anticipated to be announced early next year.

[5] "Playing Good Defense, But Merchandise Is Key and We Are Not Optimistic" published November 6th, 2013.



Source: Company filings and investor materials. 2013 based on consensus estimates per FactSet and includes DTC sales.



Source: Company filings and investor materials. Sales indexed to 1999 using data from above chart.

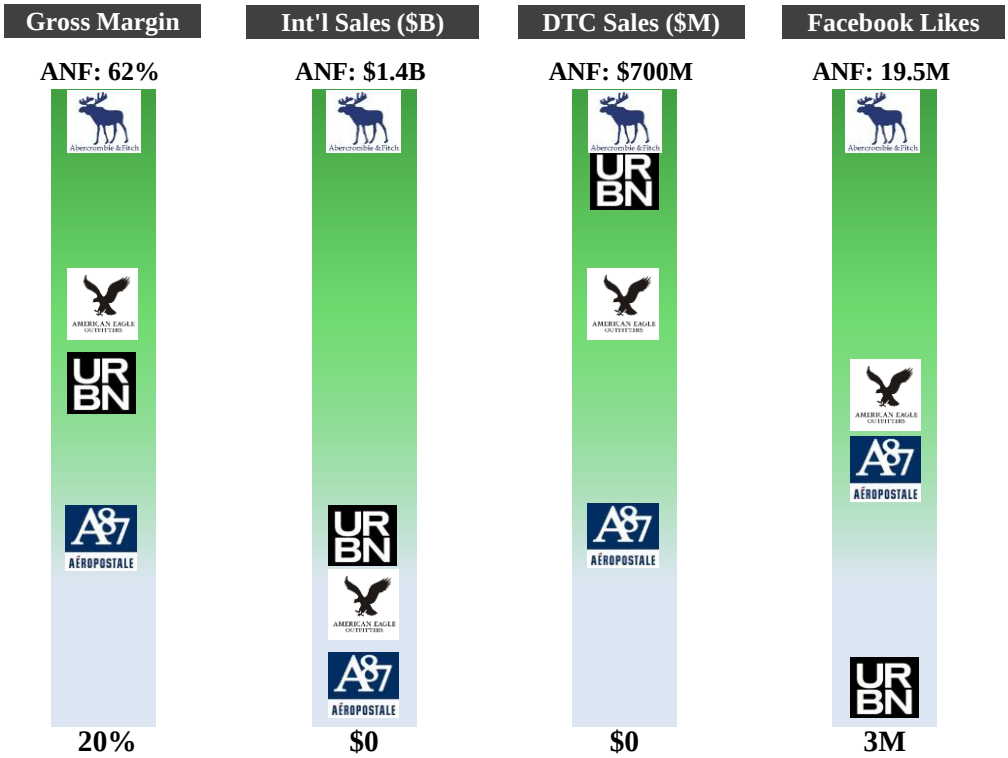
In addition, ANF's corporate culture makes it difficult for the Company to attract and retain management talent. This is evident from the significant executive turnover the Company has experienced over the past ten years and the fact that as Mr. Jeffries approaches 70 years of age, no credible successor exists inside the Company's executive ranks. Our numerous conversations with industry experts and ANF alumni have only further confirmed the above assessment of ANF's culture. More recently, publicity around Mr. Jeffries' past public statements and the apparent intrusion of his private life into Company business have caused unnecessary controversy, no doubt damaging the Company's public profile, employee morale, and likely sales. Due to these factors, Mr. Jeffries' continued involvement in the Company would likely hamper efforts to hire a qualified successor.

Current Leadership Impedes Opportunities to Enhance Shareholder Value

"The biggest roadblock [to a transaction] would be management. With CEO Jeffries still at the helm and a hand-picked board, it would be tough for an outsider to take the company private."

– FBR analyst Susan Anderson[6]

Despite years of poor leadership, the Company still maintains brands with both domestic and international appeal, a highly profitable direct-to-consumer ("DTC") business, and significant cash flow generation potential. ANF is the largest global player in the U.S. teen apparel market with an international business that generated $1.4 billion[7] in sales last fiscal year and over 30% four-wall margins. The Company's high margin DTC business was also larger than its teen apparel peers[8] with approximately $700 million in annual sales in fiscal 2012. A further testament to the resiliency of ANF's brands is the Company's continued maintenance of the highest gross margins[9] in teen retail.



Source: Company filings for the fiscal year ended Jan/Feb 2013. Facebook data inclusive of all company-owned brands.

These attributes have led industry analysts to consistently cite ANF as an attractive target for private equity investors. As recently as last week, two industry analysts published separate reports highlighting this fact. FBR's Susan Anderson noted that "ANF has the most attractive valuation, solid FCF, potential for operating improvement and best ability to leverage up in an LBO out of the three teen retailers [AEO, ANF, ARO]."[6] Similarly, Jefferies analyst Randal Konik called out ANF as one of the most attractive takeout candidates in the specialty retail space.[10] We agree. A sale of the Company to a private equity buyer may represent the best option for shareholders. However, as we have learned through discussions with industry insiders and private equity firms, Mr. Jeffries' presence represents a major stumbling block to a transaction.

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[6] "ARO Focus of Takeout Activity, but ANF a Better Bet" published November 27th, 2013.
[7] Includes DTC sales.
[8] Aeropostale, American Eagle, and Urban Outfitters.
[9] Adjusted to exclude rent expense from gross profit calculation.
[10] "LBO Analysis Update #4: Most Attractive = ARO, ANF, and BODY" published November 25th, 2013.

Broad Recognition and Support For Leadership Change

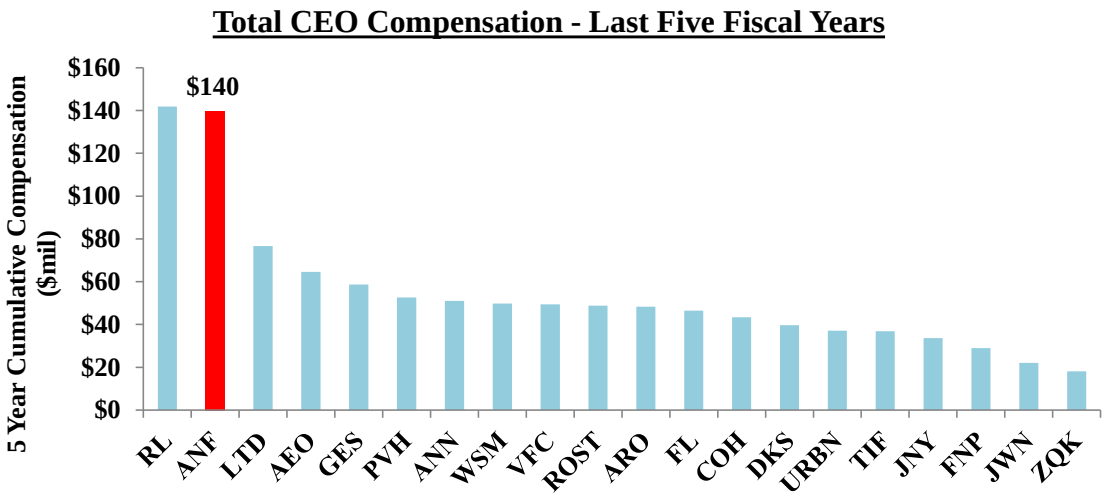
"Is this the single worst run retailer in the world?"

– CNBC's Brian Sullivan[11]

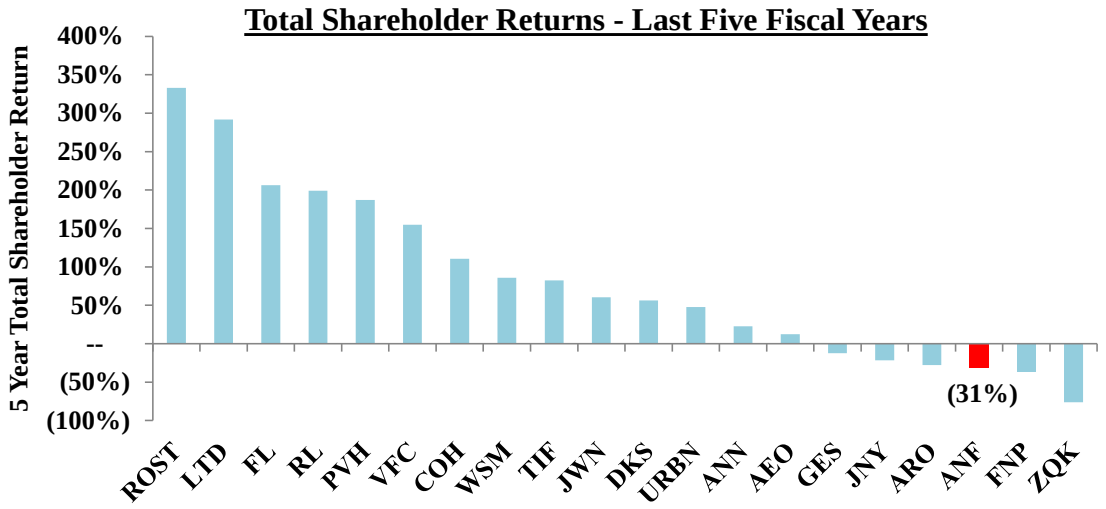
The Board needs to come to the same conclusion that everyone else already has – it is time for new leadership at ANF. The renewal of Mr. Jeffries' employment contract would be a direct contradiction to what shareholders want and the Company needs. ANF's future success will be dependent on the Company's ability to adapt to a fast changing retail environment, carefully manage expenses, and efficiently allocate capital. Unfortunately, these are not areas where Mr. Jeffries has demonstrated expertise or competency, as evidenced by the Company's persistently negative comps, elevated expense structure, and declining return-on-capital. Contrary to the Board's perception, our conversations with other ANF shareholders, potential shareholders, and industry analysts have indicated widespread agreement with this belief. The Board needs to look no further than the reaction to the Company's recent Analyst Day to understand how shareholders perceive Mr. Jeffries' plan to turnaround the business. Typically, analyst events are positive catalysts for a company's stock, but after listening attentively to management presentations for three hours, shareholders voted with their feet and sent the stock reeling, down over 13% that day.[12]

As further evidence of shareholder frustration, we would encourage the Board to review the voting results of the Company's recent annual meetings. While all directors will stand for reelection in 2014, only six directors stood for reelection at the 2013 annual meeting. Of those six, four received less than 85% support from shareholders while running unopposed. Even worse, shareholder support for ANF's say-on-pay proposals was an astounding 56%, 25%, and 20%, for 2011, 2012, and 2013, respectively. To put this in perspective, the average approval rating for say-on-pay proposals in the S&P 500 has been approximately 90% in each of the past three years. Declining every year, ANF's results represent the 2nd lowest say-on-pay approval rating in the entire S&P 500 and the 6th lowest in the Russell 3000 in each of the past two years![13] As the following charts indicate, over the last five years Mr. Jeffries has received $140 million in compensation despite delivering negative shareholder returns that are among the worst in the Company's peer group. Such a massive and glaring level of shareholder discontent is not surprising given this Board's penchant for rewarding "basement" performance with "penthouse" compensation.

[11] Comments made following management's Analyst Day presentation on November 6th, 2013.
[12] While the Company preannounced earnings after-market the previous day, intraday trading indicates ANF fell by an incremental ~8% following management's Analyst Day presentation.
[13] ISS Corporate Services, "2013 U.S. Compensation Snapshot," November 1, 2013 and ISS Voting Data.



Source: Total CEO compensation from company proxy filings. Peer group from ANF 2013 proxy filing (excludes EXPR and Saks Inc.).



Source: FactSet. Five year trailing total compounded returns ending on the date of each company's most recently completed fiscal year, consistent with compensation time periods as disclosed in proxy statements.

With ample evidence of dissatisfaction and persistent underperformance on almost every credible measure, shareholders can only wonder how the Board has remained oblivious to their concerns; or worse, why the Board remains so obstinate in its defense of Mr. Jeffries? Continuing on the present course under the leadership of Mr. Jeffries will further cement the loss of shareholder confidence in the Board's ability to act as independent and effective stewards of the Company.

The Board Has An Obligation and An Opportunity To Act: The Time Is Now

"Failure is not fatal, but failure to change might be."

– John Wooden

Succession planning is one of the most critical responsibilities of a board of directors. Our recent interactions with members of the Nominating and Board Governance Committee confirmed that there are no internal successors to Mr. Jeffries. The Board has a significant opportunity with the upcoming expiration of Mr. Jeffries' employment contract to set a new direction for the Company under new leadership. Given the Company's history of operational missteps, taken together with Mr. Jeffries' age and his increasingly controversial reputation, the Board must not let this opportunity pass. We urge the Board to immediately commence a CEO search for candidates with relevant retail apparel and turnaround experience. Our initial research indicates that numerous qualified executives would be interested in the opportunity. While losing Mr. Jeffries' leadership may have been negatively perceived in the past, it should now be abundantly clear that a transition in leadership is not just needed, but absolutely required, to restore investor confidence in the Company's future.

We realize this is a difficult and sensitive issue. No one can take away Mr. Jeffries' accomplishments and standing as the "father" of the Company's two great brands. The opportunities ANF has today were born by his vision years ago. However, every business reaches a point where a transition from one type of leader to another is required to keep the company thriving, and that time has arrived for ANF. Installing a new leader at this critical juncture in the Company's history would demonstrate the Board's commitment to act in the best interests of shareholders. We urge you, our fiduciaries, not to wait any longer but to make the difficult decision required of this Board and finally put our Company back on a course towards creating value for shareholders.

Sincerely yours,

Glenn W. Welling
Managing Member
Engaged Capital