



AEO

First Quarter 2018 Financial Results

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

This release and related statements by management contain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995), which represent our expectations or beliefs concerning future events, including Fiscal 2018 results. All forward-looking statements made by the company involve material risks and uncertainties and are subject to change based on many important factors, some of which may be beyond the company's control. Words such as "estimate," "project," "plan," "believe," "expect," "anticipate," "intend," "potential," and similar expressions may identify forward-looking statements. Except as may be required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise and even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized. The following factors, in addition to the risks disclosed in Item 1A., Risk Factors, of the company's Annual Report on Form 10-K for the fiscal year ended February 3, 2018 and in any subsequently-filed Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission in some cases have affected, and in the future could affect, the company's financial performance and could cause actual results for Fiscal 2018 and beyond to differ materially from those expressed or implied in any of the forward-looking statements included in this release or otherwise made by management: the risk that the company's operating, financial and capital plans may not be achieved; our inability to anticipate customer demand and changing fashion trends and to manage our inventory commensurately; seasonality of our business; our inability to achieve planned store financial performance; our inability to react to raw material cost, labor and energy cost increases; our inability to gain market share in the face of declining shopping center traffic; our inability to respond to changes in e-commerce and leverage omni-channel demands; our inability to expand internationally; difficulty with our international merchandise sourcing strategies; challenges with information technology systems, including safeguarding against security breaches; and changes in global economic and financial conditions, and the resulting impact on consumer confidence and consumer spending, as well as other changes in consumer discretionary spending habits, which could have a material adverse effect on our business, results of operations and liquidity.

Non-GAAP Measures

This press release includes information on non-GAAP financial measures (“non-GAAP” or “adjusted”), including earnings per share information and the consolidated results of operations excluding certain items. These financial measures are not based on any standardized methodology prescribed by U.S. generally accepted accounting principles (“GAAP”) and are not necessarily comparable to similar measures presented by other companies. Management believes that this non-GAAP information is useful for an alternate presentation of the company’s performance, when reviewed in conjunction with the company’s GAAP financial statements. These amounts are not determined in accordance with GAAP and therefore, should not be used exclusively in evaluating the company’s business and operations.

Statements of Operations Summary-GAAP Basis

(unaudited)

(In thousands, except per share amounts)	First Quarter Ended			
	May 5, 2018	% of Revenue	April 29, 2017	% of Revenue
Total net revenue	\$ 822,961	100.0%	\$ 761,836	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	518,518	63.0%	484,014	63.5%
Gross profit	304,443	37.0%	277,822	36.5%
Selling, general and administrative expenses	210,234	25.5%	194,979	25.6%
Restructuring charges	1,568	0.2%	5,448	0.7%
Depreciation and amortization	41,935	5.1%	40,446	5.3%
Operating income	50,706	6.2%	36,949	4.9%
Other income (expense), net	502	0.0%	403	0.0%
Income before taxes	51,208	6.2%	37,352	4.9%
Provision for income taxes	11,279	1.4%	12,116	1.6%
Net income	\$ 39,929	4.8%	\$ 25,236	3.3%
Net Income per diluted share	\$ 0.22		\$ 0.14	
Growth Rate	57%			
Weighted average common shares outstanding - diluted	178,273		181,678	

GAAP to Non-GAAP Reconciliation

Statements of Operations

(unaudited)

	13 Weeks Ended May 5, 2018		
	Operating income	Net income	Diluted income per common share
GAAP Basis <i>% of Revenue</i>	\$ 50,706 <i>6.2%</i>	\$ 39,929 <i>4.8%</i>	\$ 0.22
Add:Restructuring Charges ⁽¹⁾ :	1,568	1,188	0.01
Non-GAAP Basis <i>% of Revenue</i>	\$ 52,274 <i>6.4%</i>	\$ 41,117 <i>5.0%</i>	\$ 0.23

(1) - \$1.6 million for pre-tax corporate restructuring charges, primarily consisting of corporate severance charges

GAAP to Non-GAAP Reconciliation Statements of Operations

(unaudited)

	13 Weeks Ended April 29, 2017		
	Operating income	Net income	Diluted income per common share
GAAP Basis	\$ 36,949	\$ 25,236	\$ 0.14
<i>% of Revenue</i>	<i>4.9%</i>	<i>3.3%</i>	
Add:Restructuring Charges ⁽¹⁾ :	5,448	3,439	0.02
Non-GAAP Basis	\$ 42,397	\$ 28,675	\$ 0.16
<i>% of Revenue</i>	<i>5.6%</i>	<i>3.7%</i>	

(1) - \$5.4 million pre-tax restructuring charges for severance and related charges, which includes corporate overhead reductions and charges for the United Kingdom, Hong Kong, and China.

GAAP to Non-GAAP Reconciliation

Statements of Operations

(unaudited)

	13 Weeks Ended July 29, 2017	
	Diluted income per common share	
GAAP Basis	\$	0.12
<i>% of Revenue</i>		
Add: Restructuring Related Charges ⁽¹⁾ :		0.04
Add: Joint Business Venture Charges ⁽²⁾ :		0.03
Non-GAAP Basis	\$	0.19
<i>% of Revenue</i>		

(1) - \$11.4 million pre-tax restructuring related charges, consisting of:

- Inventory charges related to the restructuring of the United Kingdom, Hong Kong, and China (\$1.7M), recorded as a reduction of Gross Profit
- Lease buyouts, store closure charges and severance and related charges (\$9.7M), which includes charges for the United Kingdom, Hong Kong, and China and corporate overhead reductions, recorded within Restructuring Charges.

(2) - \$9.3 million pre-tax charges for the charges related to the planned exit of a joint business venture, recorded within Other (expense) income, net.

Key Highlights

(unaudited)

	First Quarter Ended	
	May 5, 2018	April 29, 2017
Comparable Sales Change	9%	2%
Gross Margin	37.0%	36.5%
Selling, general and administrative expenses	25.5%	25.6%
Adjusted Operating Margin ⁽¹⁾	6.4%	5.6%
Adjusted EPS ⁽¹⁾	\$ 0.23	\$ 0.16

(1)- Results shown are on a Non-GAAP basis and exclude certain charges or gains for all periods presented. See accompanying tables for a reconciliation of GAAP to Non-GAAP results.

Sales Data

(unaudited)

	First Quarter Ended	
	May 5, 2018	April 29, 2017
Total net revenue change:	8%	2%
Comparable sales change:		
Consolidated	9%	2%
AE Total Brand	4%	-1%
Men's	7%	-6%
Women's	3%	2%
aerie Total Brand	38%	25%
Consolidated metric changes:		
Average dollar sale (ADS)	+Low Single-Digits	-Low Single-Digits
Average unit retail (AUR)	+Low Single-Digits	-Low Single-Digits
Comp Transactions	+ Mid Single Digits	+ Mid Single Digits
Comp Traffic	+ Low Double Digits	+ Mid Single Digits

Inventory Data

(unaudited)

(\$ in thousands)	May 5, 2018	April 29, 2017
Ending Inventory	\$404,264	\$364,274
% Change to prior year	11%	9%
Ending average unit cost change to prior year	-3%	9%
Quarterly Inventory turn ⁽¹⁾	1.35	1.39

(1) - Inventory turn is calculated as the total GAAP cost of goods sold for the quarterly periods divided by the straight average of the beginning and ending inventory balances from the consolidated balance sheets.

Balance Sheet Summary

(unaudited)

(\$ in thousands)	May 5, 2018	April 29, 2017
ASSETS		
Cash and cash equivalents	\$ 289,700	\$ 225,197
Short-term investments	20,000	-
Merchandise inventory	404,264	364,274
Accounts receivable	72,800	79,432
Prepaid expenses and other	87,832	94,769
Total current assets	874,596	763,672
Property and equipment, net	732,179	710,500
Intangible assets, net	45,966	48,462
Total other long-term assets	78,173	110,559
Total Assets	\$ 1,730,914	\$ 1,633,193
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 207,774	\$ 208,857
Total other current liabilities	227,030	211,734
Total current liabilities	434,804	420,591
Total non-current liabilities	88,729	94,729
Total stockholders' equity	1,207,381	1,117,873
Total Liabilities and Stockholders' Equity	\$ 1,730,914	\$ 1,633,193
Total Cash and Short-Term Investments	\$ 309,700	\$ 225,197
Total Working Capital	\$ 439,792	\$ 343,081
Current Ratio	2.01	1.82
Trailing Twelve Month ROIC ⁽¹⁾	17.8%	17.0%

(1)- Trailing twelve month return on invested capital is calculated as the total trailing twelve month reported GAAP net income divided by the straight average of the beginning and ending stockholders' equity balances from the consolidated balance sheets.

Cash Returned to Shareholders

(unaudited)

(In millions, except per share amounts)	First Quarter Ended	
	May 5, 2018	April 29, 2017
Cash used for share repurchases	\$44.9	\$87.7
Number of shares repurchased	2.3	6.0
Cash used for regular quarterly dividends	\$24.2	\$22.1
Total dividends per share	\$0.1375	\$0.1250
Total cash returned to shareholders	\$69.1	\$109.8

Real Estate Summary

(unaudited)

	First Quarter Fiscal 2017	Fiscal Year 2018 Guidance
Stores at beginning of period	1,047	1,047
Stores opened during the period		
AE Brand	4	15 - 20
Aerie stand-alone	1	10 - 15
Tailgate Clothing Co.	0	1
Todd Snyder	0	1
Stores closed during the period		
AE Brand	(2)	(10) - (15)
Aerie stand-alone	(1)	(5)-(10)
Stores at end of period	1,049	1,049 - 1,069
Stores remodeled and refurbished during the period	23	60 - 70
Total gross square footage at end of period last year	6,637	6,581
Total gross square footage at end of period this year	6,598	Not Provided
Square footage change	-0.6%	+ Low-Single Digits
International licensed stores at end of period ⁽¹⁾	217	261
Aerie side-by-side stores ⁽²⁾		
New AE store	0	5 - 10
Remodeled AE store	2	20

(1) The international licensed stores are not included in the consolidated store or gross square footage amounts.

(2) Aerie side-by-side stores are included in the AE Brand store count as they are considered part of the AE Brand store to which they are attached.

Quarterly Store Activity

(unaudited)

	Ending Feb 3, 2018	Q1 2018		Open as of May 5, 2018
		Openings	Closings	
<i>AE Mainline Stores</i>	772	1	(2)	771
US	652	1	(1)	652
Canada	77	-	-	77
Mexico	31	-	-	31
China	6	-	(1)	5
Hong Kong	6	-	-	6
UK	-	-	-	-
<i>Factory Stores</i>	161	3	-	164
US	150	2	-	152
Canada	8	1	-	9
Mexico	3	-	-	3
Total AE	933	4	(2)	935
US Stand alone	91	1	(1)	91
Canada Stand alone	18	-	-	18
Total aerie	109	1	(1)	109
Tailgate Clothing Co.	4	-	-	4
Todd Snyder	1	-	-	1
Total Company	1,047	5	(3)	1,049
aerie Side by Side**	116	2	-	118
US Side by Side	90	2	-	92
Canada Side by Side	13	-	-	13
Mexico Side by Side	13	-	-	13

**aerie Side by Side stores are NOT counted as a separate store as they are part of AE Mainline or Factory stores.

International Licensed Store Locations

(unaudited)

Q1 2018 Ending Licensed Stores: 217

Israel	43
Japan	34
Saudi Arabia/KSA	21
South Korea	20
Chile	15
Colombia	15
UAE	14
Philippines	10
Thailand	6
Greece	5
Kuwait	5
Lebanon	5
Qatar	4
Egypt	4
Panama	3
Bahrain	2
Costa Rica	2
Guatemala	2
Morocco	2
Curacao	1
Dominican Republic	1
Jordan	1
Oman	1
Peru	1
Total	217

Q1 2018 Openings
<u>Country</u>
Israel (1)
Kuwait (2)
Saudi Arabia (1)
South Korea (2)
UAE (1)
Q1 2018 Closings
Singapore (2)
South Korea (2)

APPENDIX

Historical Quarterly Store Data by Brand

(unaudited)

	Consolidated from						Consolidated from							
	AE Brand		aerie		Continuing Operations		AE Brand		aerie		Continuing Operations *			
	End Store	End Gross	End Store	End Gross	End Store	End Gross	End Store	End Gross	End Store	End Gross	End Store	End Gross		
	Count	Square Feet	Count	Square Feet	Count	Square Feet	Count	Square Feet	Count	Square Feet	Count	Square Feet		
2003	1st Qtr.	761	3,884,174	-	-	761	3,884,174	2011 1st Qtr.	931	5,727,853	150	590,278	1,081	6,318,131
	2nd Qtr.	776	4,012,383	-	-	776	4,012,383	2011 2nd Qtr.	931	5,757,301	151	593,859	1,082	6,351,160
	3rd Qtr.	798	4,161,583	-	-	798	4,161,583	2011 3rd Qtr.	937	5,805,078	158	623,862	1,095	6,428,940
	4th Qtr.	805	4,239,497	-	-	805	4,239,497	2011 4th Qtr.	911	5,666,422	158	623,862	1,069	6,290,284
	Total	805	4,239,497	-	-	805	4,239,497	Total	911	5,666,422	158	623,862	1,069	6,290,284
2004	1st Qtr.	809	4,285,182	-	-	809	4,285,182	2012 1st Qtr.	911	5,680,673	157	621,170	1,068	6,301,843
	2nd Qtr.	825	4,390,790	-	-	825	4,390,790	2012 2nd Qtr.	908	5,669,359	155	613,669	1,063	6,283,028
	3rd Qtr.	839	4,489,606	-	-	839	4,489,606	2012 3rd Qtr.	909	5,690,552	154	610,110	1,063	6,300,662
	4th Qtr.	846	4,540,095	-	-	846	4,540,095	2012 4th Qtr.	893	5,606,396	151	596,882	1,044	6,203,278
	Total	846	4,540,095	-	-	846	4,540,095	Total	893	5,606,396	151	596,882	1,044	6,203,278
2005	1st Qtr.	845	4,549,729	-	-	845	4,549,729	2013 1st Qtr.	896	5,632,943	141	558,695	1,037	6,191,638
	2nd Qtr.	854	4,631,461	-	-	854	4,631,461	2013 2nd Qtr.	921	5,840,401	135	532,832	1,056	6,373,233
	3rd Qtr.	866	4,729,612	-	-	866	4,729,612	2013 3rd Qtr.	932	5,935,360	132	520,137	1,064	6,455,497
	4th Qtr.	869	4,772,487	-	-	869	4,772,487	2013 4th Qtr.	944	6,024,950	122	478,536	1,066	6,503,486
	Total	869	4,772,487	-	-	869	4,772,487	Total	944	6,024,950	122	478,536	1,066	6,503,486
2006	1st Qtr.	876	4,847,077	-	-	876	4,847,077	2014 1st Qtr.	949	6,069,574	108	425,786	1,057	6,495,360
	2nd Qtr.	883	4,911,192	-	-	883	4,911,192	2014 2nd Qtr.	966	6,214,646	106	417,410	1,072	6,632,056
	3rd Qtr.	900	5,031,014	2	5,054	902	5,036,068	2014 3rd Qtr.	988	6,387,514	104	408,559	1,092	6,796,073
	4th Qtr.	903	5,129,625	3	7,337	906	5,136,962	2014 4th Qtr.	955	6,216,819	101	396,291	1,056	6,613,110
	Total	903	5,129,625	3	7,337	906	5,136,962	Total	955	6,216,819	101	396,291	1,056	6,613,110
2007	1st Qtr.	909	5,188,241	3	7,337	912	5,195,578	2015 1st Qtr.	956	6,233,394	98	383,638	1,054	6,617,032
	2nd Qtr.	914	5,278,756	5	10,566	919	5,289,322	2015 2nd Qtr.	960	6,264,006	97	379,351	1,057	6,643,357
	3rd Qtr.	928	5,421,689	32	104,810	960	5,526,499	2015 3rd Qtr.	970	6,343,955	98	377,357	1,068	6,721,312
	4th Qtr.	929	5,444,174	39	137,595	968	5,581,769	2015 4th Qtr.	949	6,228,755	97	372,357	1,047	6,601,112
	Total	929	5,444,174	39	137,595	968	5,581,769	Total	949	6,228,755	97	372,357	1,047	6,601,112
2008	1st Qtr.	942	5,545,675	55	199,113	997	5,744,788	2016 1st Qtr.	950	6,237,871	95	363,909	1,046	6,601,780
	2nd Qtr.	951	5,645,346	81	297,160	1,032	5,942,506	2016 2nd Qtr.	951	6,245,820	91	346,771	1,044	6,598,956
	3rd Qtr.	958	5,708,713	111	419,935	1,069	6,128,648	2016 3rd Qtr.	952	6,265,099	97	363,424	1,052	6,638,008
	4th Qtr.	954	5,700,320	116	439,343	1,070	6,139,663	2016 4th Qtr.	943	6,222,548	102	380,554	1,050	6,619,267
	Total	954	5,700,320	116	439,343	1,070	6,139,663	Total	943	6,222,548	102	380,554	1,050	6,619,267
2009	1st Qtr.	953	5,723,465	129	494,734	1,082	6,218,199	2017 1st Qtr.	944	6,237,016	103	382,854	1,053	6,637,435
	2nd Qtr.	954	5,736,761	132	505,695	1,086	6,242,456	2017 2nd Qtr.	942	6,224,214	109	400,448	1,057	6,642,227
	3rd Qtr.	952	5,745,294	137	529,123	1,089	6,274,417	2017 3rd Qtr.	943	6,222,195	110	403,048	1,058	6,641,401
	4th Qtr.	938	5,686,232	137	529,123	1,075	6,215,355	2017 4th Qtr.	933	6,169,370	109	395,284	1,047	6,580,812
	Total	938	5,686,232	137	529,123	1,075	6,215,355	Total	933	6,169,370	109	395,284	1,047	6,580,812
2010	1st Qtr.	938	5,703,529	139	538,190	1,077	6,241,719	2018 1st Qtr.	935	6,183,421	109	398,447	1,049	6,598,026
	2nd Qtr.	934	5,691,552	144	560,582	1,078	6,252,134	2018 2nd Qtr.						
	3rd Qtr.	935	5,708,403	147	575,096	1,082	6,283,499	2018 3rd Qtr.						
	4th Qtr.	929	5,705,645	148	582,780	1,077	6,288,425	2018 4th Qtr.						
	Total	929	5,705,645	148	582,780	1,077	6,288,425	Total	935	6,183,421	109	398,447	1,049	6,598,026

*- Consolidated total includes Tailgate Clothing Co. and Todd Snyder stores.

Legend of Numerical Guidance

<u>Description</u>	<u>% Range</u>
Flat	0.0%
Slight	0.1% - 0.9%
Low Single Digits	1.0% - 3.3%
Mid Single Digits	3.4% - 6.6%
High Single Digits	6.7% - 9.9%
Low Double Digits	10.0% - 12.9%
Low Teens	13.0% - 13.3%
Mid Teens	13.4% - 16.6%
High Teens	16.7% - 19.9%
Low Twenties	20.0% - 23.3%
Mid Twenties	23.4% - 26.6%
High Twenties	26.7% - 29.9%



AEO