



AEO INC.

SECOND QUARTER 2019 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 2019 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 2, 2019 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 2019 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 including earnings per share, excluding non-GAAP items, which is a non-GAAP or “adjusted” financial measure. 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 more clearly reflects our financial results and 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)	Second Quarter Ended			
	August 3, 2019	% of Revenue	August 4, 2018	% of Revenue
Total net revenue	\$ 1,040,879	100.0%	\$ 964,853	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	658,308	63.3%	611,752	63.4%
Gross profit	382,571	36.7%	353,101	36.6%
Selling, general and administrative expenses	253,051	24.3%	233,971	24.3%
Restructuring charges	2,728	0.3%	-	0.0%
Depreciation and amortization	44,870	4.3%	42,739	4.4%
Operating income	81,922	7.8%	76,391	7.9%
Other income (expense), net	3,990	0.4%	860	0.1%
Income before taxes	85,912	8.2%	77,251	8.0%
Provision for income taxes	20,931	2.0%	16,918	1.8%
Net income	\$ 64,981	6.2%	\$ 60,333	6.2%
Net Income per diluted share	\$ 0.38		\$ 0.34	
Weighted average common shares outstanding - diluted	171,781		178,505	

STATEMENTS OF OPERATIONS SUMMARY-GAAP BASIS

(unaudited)

(In thousands, except per share amounts)	YTD Second Quarter Ended			
	August 3, 2019	% of Revenue	August 4, 2018	% of Revenue
Total net revenue	\$ 1,927,169	100.0%	\$ 1,787,814	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	1,219,677	63.3%	1,130,271	63.2%
Gross profit	707,492	36.7%	657,543	36.8%
Selling, general and administrative expenses	483,791	25.1%	444,205	24.9%
Restructuring charges	4,272	0.2%	1,568	0.1%
Depreciation and amortization	89,661	4.7%	84,674	4.7%
Operating income	129,768	6.7%	127,096	7.1%
Other income (expense), net	8,172	0.4%	1,362	0.1%
Income before taxes	137,940	7.1%	128,458	7.2%
Provision for income taxes	32,206	1.7%	28,196	1.6%
Net Income	\$ 105,734	5.4%	\$ 100,262	5.6%
Net Income per diluted share	\$ 0.61		\$ 0.56	
Weighted average common shares outstanding - diluted	173,701		178,730	

GAAP TO NON-GAAP RECONCILIATION STATEMENTS OF OPERATIONS

(unaudited)

	13 Weeks Ended August 3, 2019	
	Operating income	Diluted income per common share
(\$ In thousands)		
GAAP Basis	\$ 81,922	\$ 0.38
<i>% of Revenue</i>	<i>7.8%</i>	
Add: Restructuring Charges ⁽¹⁾ :	2,728	0.01
Non-GAAP Basis	\$ 84,650	\$ 0.39
<i>% of Revenue</i>	<i>8.1%</i>	

(1) - \$2.7 million for pre-tax corporate restructuring charges, primarily consisting of corporate severance

GAAP TO NON-GAAP RECONCILIATION STATEMENTS OF OPERATIONS

(unaudited)

	26 Weeks Ended August 3, 2019	
	Operating income	Diluted income per common share
GAAP Basis <i>% of Revenue</i>	\$ 129,768 6.7%	\$ 0.61
Add:Restructuring Charges ⁽¹⁾ :	4,272	0.02
Non-GAAP Basis <i>% of Revenue</i>	\$ 134,040 6.9%	\$ 0.63

(1) \$4.3 million for pre-tax corporate restructuring charges, consisting of :

- \$2.7 million of pre-tax corporate restructuring charges, primarily consisting of corporate severance
- \$1.6 million of pre-tax restructuring charges, primarily consisting of severance and closure costs for our company-owned and operated stores in China

GAAP TO NON-GAAP RECONCILIATION STATEMENTS OF OPERATIONS

(unaudited)

	26 Weeks Ended August 4, 2018	
	Operating income	Diluted income per common share
(\$ In thousands)		
GAAP Basis	\$ 127,096	\$ 0.56
<i>% of Revenue</i>	<i>7.1%</i>	
 Add: Restructuring Charges ⁽¹⁾ :	 1,568	 0.01
 Non-GAAP Basis	 \$ 128,664	 \$ 0.57
<i>% of Revenue</i>	<i>7.2%</i>	

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

KEY HIGHLIGHTS

(unaudited)

	<u>2019</u> ⁽²⁾	<u>2018</u>
Second Quarter		
Comparable Sales Change	2%	9%
Gross Margin	36.7%	36.6%
Selling, general and administrative expenses	24.3%	24.3%
Adjusted Operating Margin ⁽¹⁾	8.1%	7.9%
Adjusted EPS ⁽¹⁾	\$ 0.39	\$ 0.34
YTD Second Quarter		
Comparable Sales Change	3%	9%
Adjusted Gross Margin	36.7%	36.8%
Selling, general and administrative expenses	25.1%	24.9%
Adjusted Operating Margin ⁽¹⁾	6.9%	7.2%
Adjusted EPS ⁽¹⁾	\$ 0.63	\$ 0.57

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

(2) - Results shown include \$40M of license royalties from a third-party operator of AE stores in Japan which contributed approximately \$34M of operating income and \$0.15 of EPS.

SALES DATA

(unaudited)

	Second Quarter Ended		YTD Second Quarter Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Total net revenue change:	8%	14%	8%	11%
Comparable sales change:				
Consolidated	2%	9%	3%	9%
AE Total Brand	-1%	7%	1%	6%
aerie Total Brand	16%	27%	15%	32%
Consolidated metric changes:				
Average dollar sale (ADS)	- Mid Single - Digits	+ Mid Single - Digits	- Low Single - Digits	+ Low Single - Digits
Average unit retail (AUR)	- Mid Single - Digits	+ Low Single - Digits	- Low Single - Digits	+ Low Single - Digits
Comp Transactions	+ Mid Single - Digits	+ Mid Single - Digits	+ Mid Single - Digits	+ Mid Single - Digits
Comp Traffic	+ High Single - Digits	+ High Single - Digits	+ High Single - Digits	+ High Single - Digits

INVENTORY DATA

(unaudited)

(\$ in thousands)	August 3, 2019	August 4, 2018
Ending Inventory	\$534,762	\$466,112
% Change to prior year	15%	11%
Quarterly Inventory turn ⁽¹⁾	1.33	1.41

(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)	August 3, 2019	August 4, 2018
ASSETS		
Cash and cash equivalents	\$ 267,166	\$ 323,322
Short-term investments	50,000	40,000
Merchandise inventory	534,762	466,112
Accounts receivable	98,604	74,153
Prepaid expenses and other	69,541	93,493
Total current assets	1,020,073	997,080
Property and equipment, net	754,031	732,350
Operating lease right-of-use assets	1,462,544	-
Intangible assets net, including goodwill	56,326	59,990
Non-current deferred income taxes	16,759	8,558
Other assets	49,426	52,771
Total Assets	\$ 3,359,159	\$ 1,850,749
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 316,995	\$ 264,247
Current portion of operating lease liabilities	279,207	-
Total other current liabilities	167,444	243,773
Total current liabilities	763,646	508,020
Non-current operating lease liabilities	1,338,634	-
Other non-current liabilities	28,302	82,152
Total non-current liabilities	1,366,936	82,152
Total stockholders' equity	1,228,577	1,260,577
Total Liabilities and Stockholders' Equity	\$ 3,359,159	\$ 1,850,749
Total Cash and Short-Term Investments	\$ 317,166	\$ 363,322
Total Working Capital	\$ 256,427	\$ 489,060
Current Ratio	1.33	1.96

The Company adopted ASC 842, *Leases* as of February 3, 2019 under the modified retrospective approach and has not revised comparative periods.

CASH RETURNED TO SHAREHOLDERS

(unaudited)

	Second Quarter Ended		YTD Second Quarter Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
(In millions, except per share amounts)				
Cash used for share repurchases	\$60.0	\$0.0	\$80.0	\$44.9
Number of shares repurchased	3.4	-	4.3	2.3
Cash used for regular quarterly dividends	\$23.2	\$24.2	\$46.9	\$48.6
Total dividends per share	\$0.138	\$0.138	\$0.275	\$0.275
Total cash returned to shareholders	\$83.2	\$24.2	\$126.9	\$93.5

REAL ESTATE SUMMARY

(unaudited)

	Second Quarter 2019	YTD Second Quarter 2018	Fiscal 2019 Guidance
Consolidated stores at beginning of period	1,061	1,055	1,055
Consolidated stores opened during the period			
AE Brand	6	13	15 - 20
Aerie stand-alone	13	17	35 - 40
Tailgate Clothing Co.	0	0	0
Todd Snyder	0	0	0
Consolidated stores closed during the period			
AE Brand	(3)	(8)	(10) - (15)
Aerie stand-alone	(1)	(1)	(5) - (10)
Tailgate Clothing Co.	(1)	(1)	
Total consolidated stores at end of period	1,075	1,075	1,080-1,100
AE Brand	939		
Aerie stand-alone	131		
Aerie side-by-side ⁽²⁾	158		
Tailgate Clothing Co.	4		
Todd Snyder	1		
Stores remodeled and refurbished during the period	24	47	40 - 50
Total gross square footage at end of period (in '000)	6,741	6,741	Not Provided
International license locations at end of period ⁽¹⁾	236	236	261
Aerie Openings			
Aerie stand-alone	13	17	35 - 40
Aerie side-by-side stores ⁽²⁾			
New AE store	3	5	10 - 15
Remodeled AE store	4	6	15 - 20
Total side-by-side	7	11	25-35
Total Aerie Openings	20	28	60 - 75

(1) International license locations are not included in the consolidated store data or the total gross square footage calculation.

(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	Q1 2019		Open as of	Q2 2019		Open as of
	Feb 2, 2019	Openings	Closings	May 4, 2019	Openings	Closings	August 3, 2019
AE Mainline Stores	766	2	(4)	764	3	(3)	764
US	646	1	-	647	2	(3)	646
Canada	76	-	-	76	-	-	76
Mexico	34	1	-	35	-	-	35
China	4	-	(4)	-	-	-	-
Hong Kong	6	-	-	6	1	-	7
Factory Stores	161	5	(1)	172	3	-	175
US	154	5	(1)	158	3	-	161
Canada	10	-	-	10	-	-	10
Mexico	4	-	-	4	-	-	4
Total AE	934	7	(5)	936	6	(3)	939
US Stand alone	97	4	-	101	13	(1)	113
Canada Stand alone	18	-	-	18	-	-	18
Total aerie	115	4	-	119	13	(1)	131
Tailgate Clothing Co.	5	-	-	5	-	(1)	4
Todd Snyder	1	-	-	1	-	-	1
Total Company	1,055	11	(5)	1,061	19	(5)	1,075
aerie Side by Side**	147	4	-	151	7	-	158
US Side by Side	115	3	-	118	7	-	125
Canada Side by Side	15	-	-	15	-	-	15
Mexico Side by Side	17	1	-	18	-	-	18

**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)

Q2 2019 Ending Licensed Stores:
236

	Q2 2019	Q4 2018	Q2 2018
Israel	48	47	46
Japan	33	34	34
Saudi Arabia/KSA	26	26	22
South Korea	15	16	18
Chile	16	16	15
Colombia	16	16	15
UAE	14	14	14
Philippines	10	12	11
Greece	10	7	7
India	10	6	2
Thailand	6	6	6
Kuwait	5	5	5
Lebanon	4	5	5
Qatar	4	4	4
Egypt	4	4	4
Oman	3	1	1
Panama	2	2	2
Bahrain	2	2	2
Costa Rica	2	2	2
Guatemala	2	2	2
Curacao	1	1	1
Dominican Republic	1	1	1
Jordan	1	1	1
Peru	1	1	1
Morocco	0	0	2
Total	236	231	223

Q2 2019 Openings
Greece (1)
India (1)
Israel (1)

Q2 2019 Closings
South Korea (1)
UAE (1)

APPENDIX

HISTORICAL QUARTERLY STORE DATA BY BRAND

(unaudited)

	Consolidated from Continuing							Consolidated from Continuing							
	AE Brand		aerie		Operations			AE Brand		aerie		Operations *			
	End Store Count	End Gross Square Feet	End Store Count	End Gross Square Feet	End Store Count	End Gross Square Feet		End Store Count	End Gross Square Feet	End Store Count	End Gross Square Feet	End Store Count	End Gross Square Feet		
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		2nd Qtr.	908	5,669,359	155	613,669	1,063	6,283,028
	3rd Qtr.	839	4,489,606	-	-	839	4,489,606		3rd Qtr.	909	5,690,552	154	610,110	1,063	6,300,662
	4th Qtr.	846	4,540,095	-	-	846	4,540,095		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		2nd Qtr.	921	5,840,401	135	532,832	1,056	6,373,233
	3rd Qtr.	866	4,729,612	-	-	866	4,729,612		3rd Qtr.	932	5,935,360	132	520,137	1,064	6,455,497
	4th Qtr.	869	4,772,487	-	-	869	4,772,487		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		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		3rd Qtr.	988	6,387,514	104	408,559	1,092	6,455,073
	4th Qtr.	903	5,129,625	3	7,337	906	5,136,962		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		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		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		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		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		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		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		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		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		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	1,048	6,598,026
	2nd Qtr.	934	5,691,552	144	560,582	1,078	6,252,134		2nd Qtr.	939	6,213,412	109	408,389	1,053	6,640,759
	3rd Qtr.	935	5,708,403	147	575,096	1,082	6,283,499		3rd Qtr.	941	6,230,107	110	413,272	1,057	6,662,337
	4th Qtr.	929	5,705,645	148	582,780	1,077	6,288,425		4th Qtr.	934	6,189,989	115	438,355	1,055	6,647,302
	Total	929	5,705,645	148	582,780	1,077	6,288,425		Total	934	6,189,989	115	438,355	1,055	6,647,302
2011	1st Qtr.	931	5,727,853	150	590,278	1,081	6,318,131	2019	1st Qtr.	936	6,205,898	119	456,506	1,061	6,662,404
	2nd Qtr.	931	5,757,301	151	593,859	1,082	6,351,160		2nd Qtr.	939	6,228,664	131	505,389	1,075	6,740,653
	3rd Qtr.	937	5,805,078	158	623,862	1,095	6,428,940		3rd Qtr.						
	4th Qtr.	911	5,666,422	158	623,862	1,069	6,290,284		4th Qtr.						
	Total	911	5,666,422	158	623,862	1,069	6,290,284		Total	939	6,228,664	131	505,389	1,075	6,740,653

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

LEGEND OF NUMERICAL GUIDANCE

Description	% Range
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 INC.