



AEO INC.

FIRST QUARTER 2020 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 statements regarding COVID-19. 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 1, 2020 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 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; public health crises (including the COVID-19 pandemic); 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) | First Quarter Ended | | | |
|--|---------------------|-----------------|----------------|-----------------|
| | May 2, 2020 | % of Revenue | May 4, 2019 | % of Revenue |
| Total net revenue | \$ 551,692 | 100.0% | \$ 886,290 | 100.0% |
| Cost of sales, including certain buying, occupancy and warehousing expenses | 523,386 | 94.9% | 561,369 | 63.3% |
| Gross profit | 28,306 | 5.1% | 324,921 | 36.7% |
| Selling, general and administrative expenses | 188,197 | 34.1% | 230,741 | 26.0% |
| Impairment & Restructuring charges | 155,619 | 28.2% | 1,543 | 0.2% |
| Depreciation and amortization | 42,730 | 7.7% | 44,791 | 5.1% |
| Operating (loss) income | (358,240) | -64.9% | 47,846 | 5.4% |
| Other (expense) income, net | (3,129) | -0.6% | 4,182 | 0.5% |
| (Loss) income before taxes | (361,369) | -65.5% | 52,028 | 5.9% |
| (Benefit) provision for income taxes | (104,207) | -18.9% | 11,276 | 1.3% |
| Net (loss) income | \$ (257,162) | -46.6% | \$ 40,752 | 4.6% |
| Net (loss) income per diluted share | \$ (1.54) | | \$ 0.23 | |
| Weighted average common shares outstanding - diluted | 166,781 | | 174,073 | |

GAAP TO NON-GAAP RECONCILIATION STATEMENTS OF OPERATIONS

(unaudited)

| | 13 Weeks Ended May 2, 2020 | | |
|--|-------------------------------|--------------|----------------------------------|
| | Operating Loss | Net Loss | Diluted Loss per Common Share |
| GAAP Basis | \$ (358,240) | \$ (257,162) | \$ (1.54) |
| <i>% of Revenue</i> | -64.9% | -46.6% | |
| Add: Asset Impairment & Restructuring Charges ⁽¹⁾ : | 155,619 | 116,965 | 0.70 |
| Non-GAAP Basis | \$ (202,621) | \$ (140,197) | \$ (0.84) |
| <i>% of Revenue</i> | -36.7% | -25.4% | |

(1) \$155.6 million pre-tax impairment and restructuring charges

- \$84.1 million related to the impairment of operating ROU assets of 272 stores
- \$51.5 million related to the impairment of certain corporate and store property and equipment
- \$18.0 million of impairment of certain cost and equity method investments
- \$2.0 million of corporate severance charges

GAAP TO NON-GAAP RECONCILIATION STATEMENTS OF OPERATIONS

(unaudited)

| | 13 Weeks Ended May 4, 2019 | |
|--|-------------------------------|--------------------------------------|
| | Operating Income | Diluted Earnings per Common Share |
| GAAP Basis <i>% of Revenue</i> | \$ 47,846 5.4% | \$ 0.23 |
| Add: Restructuring Charges ⁽¹⁾ : | 1,543 | 0.01 |
| Non-GAAP Basis <i>% of Revenue</i> | \$ 49,389 5.6% | \$ 0.24 |

(1) - \$1.5 million for pre-tax corporate restructuring charges, primarily consisting of severance and closure costs for our company-owned and operated stores in China

GAAP TO NON-GAAP RECONCILIATION EARNINGS BEFORE INTEREST AND TAXES

(unaudited)

| | 13 Weeks Ended | |
|---|---------------------|------------------|
| | May 2, 2020 | May 4, 2019 |
| Net (Loss) Income | \$ (257,162) | \$ 40,752 |
| <i>Add: (Benefit) provision for income taxes</i> | (104,207) | 11,276 |
| <i>Add: Depreciation and amortization</i> | 42,730 | 44,791 |
| <i>Add: Interest expense (income), net</i> | 146 | (1,954) |
| EBITDA | \$ (318,493) | \$ 94,865 |
| <i>Impairment and restructuring ⁽¹⁾ ⁽²⁾</i> | 155,619 | 1,543 |
| Adjusted EBITDA | \$ (162,874) | \$ 96,408 |

(1) \$155.6 million pre-tax impairment and restructuring charges:

- \$84.1 million related to the impairment of operating ROU assets of 272 stores
- \$51.5 million related to the impairment of certain corporate and store property and equipment
- \$18.0 million of impairment of certain cost and equity method investments
- \$2.0 million of corporate severance charges

(2) - \$1.5 million for pre-tax corporate restructuring charges, primarily consisting of severance and closure costs for our company-owned and operated stores in China

DEMAND SALES & TOTAL REVENUE BY BRAND

Q1 2020 VS. Q1 2019

(unaudited)

| | Aerie Brand <u>% Change</u> | AE Brand <u>% Change</u> | Total⁽⁴⁾ <u>% Change</u> |
|---|--|-------------------------------------|--|
| Digital: | | | |
| Digital Demand (Ordered sales) ⁽¹⁾ | 75% | 15% | 33% |
| Total Net Revenue ⁽¹⁾ | 47% | -1% | 9% |
| Total^{(2):} | | | |
| Total Demand ⁽³⁾ | 12% | -41% | -31% |
| Total Net Revenue | -2% | -45% | -38% |

(1) Digital Demand Sales represent sales orders placed through our e-commerce channels during the period.

Total Net Revenue represents revenue recognized in accordance with the Company's revenue recognition policies, which reflect revenue upon the customer receipt date of the merchandise.

Total Net Revenue does not include revenue for orders not yet shipped to or received by customers, which was negatively impacted during Q1 2020 due to delays in fulfillment from higher than normal distribution center backlogs.

(2) Total includes Direct, Stores, and International

(3) Total Demand represents Digital demand sales plus total store revenue

(4) Total includes Aerie Brand, AE Brand, and Todd Snyder

KEY HIGHLIGHTS

(unaudited)

| | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| First Quarter | | |
| Total Net Revenue Change | (38)% | 8 % |
| Gross Margin | 5.1 % | 36.7 % |
| Selling, General and Administrative Expenses | 34.1 % | 26 % |
| Adjusted Operating Margin ⁽¹⁾ | (36.7)% | 5.6 % |
| Adjusted EPS ⁽¹⁾ | \$ (0.84) | \$ 0.24 |

(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.

INVENTORY DATA

(unaudited)

| (\$ in thousands) | <u>May 2, 2020</u> | <u>May 4, 2019</u> |
|---|------------------------|------------------------|
| Ending Inventory | \$421,729 | \$456,160 |
| % Change to prior year | -8% | 13% |
| Quarterly Inventory turn ⁽¹⁾ | 1.21 | 1.28 |

(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)

| <i>(\$ in thousands)</i> | <u>May 2, 2020</u> | <u>February 1, 2020</u> | <u>May 4, 2019</u> |
|---|------------------------|-----------------------------|------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 855,769 | \$ 361,930 | \$ 304,671 |
| Short-term investments | 29,956 | 55,000 | 45,000 |
| Merchandise inventory | 421,729 | 446,278 | 456,160 |
| Accounts receivable | 106,751 | 119,064 | 73,836 |
| Prepaid expenses and other | 144,733 | 65,658 | 70,936 |
| Total current assets | <u>1,558,938</u> | <u>1,047,930</u> | <u>950,603</u> |
| Property and equipment, net | 667,258 | 735,120 | 744,670 |
| Operating lease right-of-use assets | 1,292,769 | 1,418,916 | 1,444,225 |
| Intangible assets net, including goodwill | 51,973 | 53,004 | 57,221 |
| Non-current deferred income taxes | 25,612 | 22,724 | 20,951 |
| Other assets | 33,561 | 50,985 | 37,683 |
| Total Assets | <u>\$ 3,630,111</u> | <u>\$ 3,328,679</u> | <u>\$ 3,255,353</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Accounts payable | \$ 177,124 | \$ 285,746 | \$ 231,760 |
| Current portion of operating lease credits | 328,366 | 299,161 | 266,819 |
| Dividends payable | 22,756 | - | - |
| Total other current liabilities | <u>133,981</u> | <u>166,849</u> | <u>151,218</u> |
| Total current liabilities | <u>662,227</u> | <u>751,756</u> | <u>649,797</u> |
| Long-term debt, net | 642,972 | - | - |
| Non-current operating lease liabilities | 1,303,296 | 1,301,735 | 1,328,663 |
| Other non-current liabilities | 24,633 | 27,335 | 35,142 |
| Total non-current liabilities | <u>1,970,901</u> | <u>1,329,070</u> | <u>1,363,805</u> |
| | | | |
| Total stockholders' equity | <u>996,983</u> | <u>1,247,853</u> | <u>1,241,751</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 3,630,111</u> | <u>\$ 3,328,679</u> | <u>\$ 3,255,353</u> |
| | | | |
| Total Cash and Short-Term Investments | \$ 885,725 | \$ 416,930 | \$ 349,671 |
| Total Working Capital | \$ 896,711 | \$ 296,174 | \$ 300,806 |
| Current Ratio | 2.35 | 1.39 | 1.46 |

CASH RETURNED TO SHAREHOLDERS

(unaudited)

| (In millions, except per share amounts) | First Quarter Ended | |
|---|---------------------|----------------|
| | May 2, 2020 | May 4, 2019 |
| Cash used for share repurchases | \$20.0 | \$20.0 |
| Number of shares repurchased | 1.7 | 0.9 |
| Cash used for regular quarterly dividends | \$0.0 | \$23.6 |
| Total dividends per share | \$0.000 | \$0.138 |
| Total cash returned to shareholders | <u>\$20.0</u> | <u>\$43.6</u> |

REAL ESTATE SUMMARY

(unaudited)

| | First Quarter 2020 |
|---|-------------------------------|
| Consolidated stores at beginning of period | 1,095 |
| Consolidated stores opened during the period | |
| AE Brand | 2 |
| Aerie stand-alone | 1 |
| Tailgate Clothing Co. | 0 |
| Todd Snyder | 0 |
| Consolidated stores closed during the period | |
| AE Brand | (4) |
| Aerie stand-alone | (1) |
| Tailgate Clothing Co. | 0 |
| Total consolidated stores at end of period | 1,093 |
| AE Brand | 938 |
| Aerie stand-alone | 148 |
| Aerie side-by-side ⁽²⁾ | 175 |
| Tailgate Clothing Co. | 5 |
| Todd Snyder | 2 |
| Stores remodeled and refurbished during the period | 1 |
| Total gross square footage at end of period (in '000) | 6,822 |
| International license locations at end of period ⁽¹⁾ | 215 |
| Aerie openings | |
| Aerie stand-alone | 1 |
| Total Aerie side-by-side stores ⁽²⁾ | 1 |
| Total Aerie openings | 2 |

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

(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.

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% |



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