



AEO INC.

SECOND 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 third quarter 2020 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 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 for the third quarter 2020 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 impact that the COVID-19 pandemic, the 2020 U.S. Presidential election and disruption related to social unrest will have on our operations and financial results, which is difficult to accurately predict; 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 omnichannel 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)

<i>(In thousands, except per share amounts)</i>	Second Quarter Ended			
	August 1, 2020	% of Revenue	August 3, 2019	% of Revenue
Total net revenue	\$ 883,510	100.0%	\$ 1,040,879	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	618,311	70.0%	658,308	63.3%
Gross profit	265,199	30.0%	382,571	36.7%
Selling, general and administrative expenses	223,711	25.3%	253,051	24.3%
Impairment, restructuring, and COVID-19 related charges	14,611	1.7%	2,728	0.3%
Depreciation and amortization	39,114	4.4%	44,870	4.3%
Operating (loss) income	(12,237)	-1.4%	81,922	7.8%
Other (expense) income, net	(6,993)	-0.8%	3,990	0.4%
(Loss) income before taxes	(19,230)	-2.2%	85,912	8.2%
(Benefit) provision for income taxes	(5,478)	-0.6%	20,931	2.0%
Net (loss) Income	\$ (13,752)	-1.6%	\$ 64,981	6.2%
Net (loss) income per diluted share	\$ (0.08)		\$ 0.38	
Weighted average common shares outstanding - diluted	166,315		171,781	

STATEMENTS OF OPERATIONS SUMMARY-GAAP BASIS

(unaudited)

<i>(In thousands, except per share amounts)</i>	YTD Second Quarter Ended			
	August 1, 2020	% of Revenue	August 3, 2019	% of Revenue
Total net revenue	\$ 1,435,202	100.0%	\$ 1,927,169	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	1,141,697	79.5%	1,219,677	63.3%
Gross profit	293,505	20.5%	707,492	36.7%
Selling, general and administrative expenses	411,908	28.7%	483,791	25.1%
Impairment, restructuring, and COVID-19 related charges	170,231	11.9%	4,272	0.2%
Depreciation and amortization	81,844	5.7%	89,661	4.7%
Operating (loss) income	(370,478)	-25.8%	129,768	6.7%
Other (expense) income, net	(10,122)	-0.7%	8,172	0.4%
(Loss) income before taxes	(380,600)	-26.5%	137,940	7.1%
(Benefit) provision for income taxes	(109,685)	-7.6%	32,206	1.7%
Net (loss) Income	\$ (270,915)	-18.9%	\$ 105,734	5.4%
Net Income per diluted share	\$ (1.63)		\$ 0.61	
Weighted average common shares outstanding - diluted	166,461		173,701	

GAAP TO NON-GAAP RECONCILIATION STATEMENTS OF OPERATIONS

(unaudited)

	13 Weeks Ended August 1, 2020	
(\$ in thousands)	Operating (Loss) Income	Diluted (Loss) per Common Share
GAAP Basis	\$ (12,237)	\$ (0.08)
<i>% of Revenue</i>	-1.4%	
Add: Incremental COVID-19 related expenses and restructuring ⁽¹⁾ :	14,611	0.05
Non-GAAP Basis	\$ 2,374	\$ (0.03)
<i>% of Revenue</i>	0.3%	

- (1) \$14.6 million Incremental COVID-19 related expenses and restructuring charges:
- \$13.9 million of incremental COVID-19 related expenses consisting of personal protective equipment and supplies for our associates and customers
 - \$0.7 million of corporate severance charges

GAAP TO NON-GAAP RECONCILIATION STATEMENTS OF OPERATIONS

(unaudited)

	13 Weeks Ended August 3, 2019	
(\$ in thousands)	Operating Income	Diluted Earnings per Common Share
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 severance

GAAP TO NON-GAAP RECONCILIATION EARNINGS BEFORE INTEREST AND TAXES

(unaudited)

(\$ in thousands)	13 Weeks Ended	
	August 1, 2020	August 3, 2019
Net (Loss) Income	\$ (13,752)	\$ 64,981
<i>Add: (Benefit) provision for income taxes</i>	(5,478)	20,931
<i>Add: Depreciation and amortization</i>	39,114	44,870
<i>Add: Interest expense (income), net</i>	8,547	(1,605)
EBITDA	\$ 28,431	\$ 129,177
<i>Add: Incremental COVID-19 related expenses and restructuring ^{(1) (2)}</i>	14,611	2,728
Adjusted EBITDA	\$ 43,042	\$ 131,905

- (1) \$14.6 million Incremental COVID-19 related expenses and restructuring charges:
- \$13.9 million of incremental COVID-19 related expenses consisting of personal protective equipment and supplies for our associates and customers
 - \$0.7 million of corporate severance charges

- (2) - \$2.7 million for pre-tax corporate restructuring charges, primarily severance

DEMAND SALES & TOTAL REVENUE BY BRAND

Q2 2020 VS. Q2 2019

(unaudited)

	Aerie Brand <u>% Change</u>	AE Brand <u>% Change</u>	Total⁽⁴⁾ <u>% Change</u>
Digital:			
Digital Demand (Ordered sales) ⁽¹⁾	113%	21%	48%
Total Net Revenue ⁽¹⁾	142%	47%	74%
Total^{(2):}			
Total Demand ⁽³⁾	25%	-29%	-19%
Total Net Revenue	32%	-26%	-15%

(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.

(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> ⁽²⁾
Second Quarter		
Total Net Revenue Change	(15)%	8 %
Gross Margin	30.0%	36.7 %
Selling, General and Administrative Expenses	25.3%	24.3 %
Adjusted Operating Margin ⁽¹⁾	0.3 %	8.1 %
Adjusted EPS ⁽¹⁾	\$ (0.03)	\$ 0.39

(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.

INVENTORY DATA

(unaudited)

(\$ in thousands)	<u>August 1, 2020</u>	<u>August 3, 2019</u>
Ending Inventory	\$421,196	\$534,762
% Change to prior year	-21%	13%
Quarterly Inventory turn ⁽¹⁾	1.47	1.33

(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>August 1, 2020</u>	<u>February 1, 2020</u>	<u>August 3, 2019</u>
ASSETS			
Cash and cash equivalents	\$ 898,787	\$ 361,930	\$ 267,166
Short-term investments	-	55,000	50,000
Merchandise inventory	421,196	446,278	534,762
Accounts receivable	107,243	119,064	98,604
Prepaid expenses and other	155,141	65,658	69,541
Total current assets	<u>1,582,367</u>	<u>1,047,930</u>	<u>1,020,073</u>
Property and equipment, net	659,351	735,120	754,031
Operating lease right-of-use assets	1,271,491	1,418,916	1,462,544
Intangible assets net, including goodwill	51,432	53,004	56,326
Non-current deferred income taxes	30,224	22,724	16,759
Other assets	33,111	50,985	49,426
Total Assets	<u>\$ 3,627,976</u>	<u>\$ 3,328,679</u>	<u>\$ 3,359,159</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	\$ 295,296	\$ 285,746	\$ 316,995
Current portion of operating lease credits	348,921	299,161	279,207
Dividends payable	22,837	-	-
Total other current liabilities	<u>173,360</u>	<u>166,849</u>	<u>167,444</u>
Total current liabilities	<u>840,414</u>	<u>751,756</u>	<u>763,646</u>
Long-term debt, net	516,953	-	-
Non-current operating lease liabilities	1,253,105	1,301,735	1,338,634
Other non-current liabilities	19,604	27,335	28,302
Total non-current liabilities	<u>1,789,662</u>	<u>1,329,070</u>	<u>1,366,936</u>
Total stockholders' equity	<u>997,900</u>	<u>1,247,853</u>	<u>1,228,577</u>
Total Liabilities and Stockholders' Equity	<u>\$ 3,627,976</u>	<u>\$ 3,328,679</u>	<u>\$ 3,359,159</u>
Total Cash and Short-Term Investments	\$ 898,787	\$ 416,930	\$ 317,166
Total Working Capital	\$ 741,953	\$ 296,174	\$ 256,427
Current Ratio	1.88	1.39	1.33

CASH RETURNED TO SHAREHOLDERS

(unaudited)

(In millions, except per share amounts)	Second Quarter Ended		YTD Second Quarter Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Cash used for share repurchases	\$0.0	\$60.0	\$20.0	\$80.0
Number of shares repurchased	0.0	3.4	1.7	4.3
Cash used for regular quarterly dividends	\$0.0	\$23.2	\$0.0	\$46.9
Total dividends per share	\$0.000	\$0.138	\$0.000	\$0.275
Total cash returned to shareholders	\$0.0	\$83.2	\$20.0	\$126.9

REAL ESTATE SUMMARY

(unaudited)

	Second Quarter 2020	YTD Second Quarter 2020
Consolidated stores at beginning of period	1,093	1,095
Consolidated stores opened during the period		
AE Brand	1	3
Aerie stand-alone	14	15
Todd Snyder	1	1
Consolidated stores closed during the period		
AE Brand	(8)	(12)
Aerie stand-alone	(2)	(3)
Tailgate Clothing Co.	(1)	(1)
Total consolidated stores at end of period	1,098	1,098
AE Brand	931	
Aerie stand-alone	160	
Aerie side-by-side ⁽²⁾	175	
Tailgate Clothing Co.	4	
Todd Snyder	3	
Stores remodeled and refurbished during the period	3	4
Total gross square footage at end of period (in '000)	6,828	6,828
International license locations at end of period ⁽¹⁾	220	220
Aerie openings		
Aerie stand-alone	14	15
Total Aerie side-by-side stores ⁽²⁾	2	3
Total Aerie openings	16	18

(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.

INTERNATIONAL LICENSED STORE LOCATIONS

Q2 2020 Ending Licensed Stores:
220

	Q2 2020	Q2 2019
Israel	48	48
Saudi Arabia/KSA	27	26
UAE	21	14
Colombia	17	16
India	17	10
Philippines	11	10
Chile	10	16
Greece	9	10
Thailand	9	6
Egypt	7	4
Kuwait	7	5
South Korea	7	15
Qatar	5	4
Lebanon	4	4
Oman	4	3
Bahrain	3	2
Costa Rica	3	2
Panama	3	2
Guatemala	2	2
Andorra	1	0
Curacao	1	1
Dominican Republic	1	1
El Salvador	1	0
Hungary	1	0
Jordan	1	1
Japan	0	33
Peru	0	1
Total	220	236

Q2 2020 Openings
Saudi Arabia/KSA (1)
India (1)
Thailand (1)
Bahrain (1)
Andorra (1)

Q2 2020 Closings
Saudi Arabia/KSA (1)
Peru (1)

APPENDIX

HISTORICAL QUARTERLY STORE DATA BY BRAND

	Consolidated from Continuing Operations							Consolidated from Continuing Operations *								
	AE Brand		aerie		AE Brand		aerie		AE Brand		aerie		AE Brand		aerie	
	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	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	2013	1st Qtr.	896	5,632,943	141	558,695	1,037	6,191,638	
	2nd Qtr.	825	4,390,790	-	-	825	4,390,790		2nd Qtr.	921	5,840,401	135	532,832	1,056	6,373,233	
	3rd Qtr.	839	4,489,606	-	-	839	4,489,606		3rd Qtr.	932	5,935,360	132	520,137	1,064	6,455,497	
	4th Qtr.	846	4,540,095	-	-	846	4,540,095		4th Qtr.	944	6,024,950	122	478,536	1,066	6,503,486	
	Total	846	4,540,095	-	-	846	4,540,095		Total	944	6,024,950	122	478,536	1,066	6,503,486	
2005	1st Qtr.	845	4,549,729	-	-	845	4,549,729	2014	1st Qtr.	949	6,069,574	108	425,786	1,057	6,495,360	
	2nd Qtr.	854	4,631,461	-	-	854	4,631,461		2nd Qtr.	966	6,214,646	106	417,410	1,072	6,632,056	
	3rd Qtr.	866	4,729,612	-	-	866	4,729,612		3rd Qtr.	988	6,387,514	104	408,559	1,092	6,796,073	
	4th Qtr.	869	4,772,487	-	-	869	4,772,487		4th Qtr.	955	6,216,819	101	396,291	1,056	6,613,110	
	Total	869	4,772,487	-	-	869	4,772,487		Total	955	6,216,819	101	396,291	1,056	6,613,110	
2006	1st Qtr.	876	4,847,077	-	-	876	4,847,077	2015	1st Qtr.	956	6,233,394	98	383,638	1,054	6,617,032	
	2nd Qtr.	883	4,911,192	-	-	883	4,911,192		2nd Qtr.	960	6,264,006	97	379,351	1,057	6,643,357	
	3rd Qtr.	900	5,031,014	2	5,054	902	5,036,068		3rd Qtr.	970	6,343,955	98	377,357	1,068	6,721,312	
	4th Qtr.	903	5,129,625	3	7,337	906	5,136,962		4th Qtr.	949	6,228,755	97	372,357	1,047	6,601,112	
	Total	903	5,129,625	3	7,337	906	5,136,962		Total	949	6,228,755	97	372,357	1,047	6,601,112	
2007	1st Qtr.	909	5,188,241	3	7,337	912	5,195,578	2016	1st Qtr.	950	6,237,871	95	363,909	1,046	6,601,780	
	2nd Qtr.	914	5,278,756	5	10,566	919	5,289,322		2nd Qtr.	951	6,245,820	91	346,771	1,044	6,598,956	
	3rd Qtr.	928	5,421,689	32	104,810	960	5,526,499		3rd Qtr.	952	6,265,099	97	363,424	1,052	6,638,008	
	4th Qtr.	929	5,444,174	39	137,595	968	5,581,769		4th Qtr.	943	6,222,548	102	380,554	1,050	6,619,267	
	Total	929	5,444,174	39	137,595	968	5,581,769		Total	943	6,222,548	102	380,554	1,050	6,619,267	
2008	1st Qtr.	942	5,545,675	55	199,113	997	5,744,788	2017	1st Qtr.	944	6,237,016	103	382,854	1,053	6,637,435	
	2nd Qtr.	951	5,645,346	81	297,160	1,032	5,942,506		2nd Qtr.	942	6,224,214	109	400,448	1,057	6,642,227	
	3rd Qtr.	958	5,708,713	111	419,935	1,069	6,128,648		3rd Qtr.	943	6,222,195	110	403,048	1,058	6,641,401	
	4th Qtr.	954	5,700,320	116	439,343	1,070	6,139,663		4th Qtr.	933	6,169,370	109	395,284	1,047	6,580,812	
	Total	954	5,700,320	116	439,343	1,070	6,139,663		Total	933	6,169,370	109	395,284	1,047	6,580,812	
2009	1st Qtr.	953	5,723,465	129	494,734	1,082	6,218,199	2018	1st Qtr.	935	6,183,421	109	398,447	1,048	6,598,026	
	2nd Qtr.	954	5,736,761	132	505,695	1,086	6,242,456		2nd Qtr.	939	6,213,412	109	408,389	1,053	6,640,759	
	3rd Qtr.	952	5,745,294	137	529,123	1,089	6,274,417		3rd Qtr.	941	6,230,107	110	413,272	1,057	6,662,337	
	4th Qtr.	938	5,686,232	137	529,123	1,075	6,215,355		4th Qtr.	934	6,189,989	115	438,355	1,055	6,647,302	
	Total	938	5,686,232	137	529,123	1,075	6,215,355		Total	934	6,189,989	115	438,355	1,055	6,647,302	
2010	1st Qtr.	938	5,703,529	139	538,190	1,077	6,241,719	2019	1st Qtr.	936	6,205,898	119	456,506	1,061	6,662,404	
	2nd Qtr.	934	5,691,552	144	560,582	1,078	6,252,134		2nd Qtr.	939	6,228,664	131	505,389	1,075	6,740,653	
	3rd Qtr.	935	5,708,403	147	575,096	1,082	6,283,499		3rd Qtr.	945	6,275,892	142	554,419	1,094	6,836,504	
	4th Qtr.	929	5,705,645	148	582,780	1,077	6,288,425		4th Qtr.	940	6,254,049	148	576,867	1,095	6,830,916	
	Total	929	5,705,645	148	582,780	1,077	6,288,425		Total	940	6,254,049	148	576,867	1,095	6,830,916	
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.	945	6,275,892	142	554,419	1,094	6,836,504	
	4th Qtr.	911	5,666,422	158	623,862	1,069	6,290,284		4th Qtr.	940	6,254,049	148	576,867	1,095	6,830,916	
	Total	911	5,666,422	158	623,862	1,069	6,290,284		Total	940	6,254,049	148	576,867	1,095	6,830,916	
2012	1st Qtr.	911	5,680,673	157	621,170	1,068	6,301,843	2020	1st Qtr.	938	6,246,343	148	575,509	1,093	6,821,852	
	2nd Qtr.	908	5,669,359	155	613,669	1,063	6,283,028		2nd Qtr.	931	6,205,098	160	618,083	1,098	6,827,912	
	3rd Qtr.	909	5,690,552	154	610,110	1,063	6,300,662		Total	931	6,205,098	160	618,083	1,098	6,827,912	
	4th Qtr.	893	5,606,396	151	596,882	1,044	6,203,278									
	Total	893	5,606,396	151	596,882	1,044	6,203,278									

*- 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.