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Wednesday, Sept. 3, 2025, at 4:30 p.m. ET

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American Eagle Outfitters(AEO 0.81%) reported that early second-half momentum in fiscal Q3 2025 is being driven by robust new customer growth from celebrity marketing campaigns, with increased traffic extending into August and Labor Day. Strategic supply chain adjustments, including country-of-origin shifts and vendor negotiations, have materially reduced an unmitigated $180 million tariff impact to an expected $70 million for the second half (fiscal Q3 and Q4 2025). Inventory was actively managed to align with category trends and anticipated demand, with management citing only minimal pull-forward related to tariffs during fiscal Q2 2025. A lower promotional cadence contributed to improved gross margins despite sales declines in fiscal Q2 2025. The company is prioritizing store fleet rationalization in parallel with an accelerated rollout of Aerie, and offline locations, dialing back on core American Eagle stores in response to evolving consumer behavior. Shareholder capital returns remain significant, with buybacks, and dividends year to date, and an intent to pay down seasonal debt by year-end.

Jay Schottenstein: Thanks, Judy, and good afternoon, everyone. Before we get into the quarterly results, I want to step back and acknowledge the team's hard work and our conviction in our long-term plans. We had a good quarter, but more importantly, we continue to strengthen our brands, improve our runway for growth, and manage the business for higher profitability. The consumer backdrop is dynamic, yet we are focused on controlling all that is within our control, providing a leading customer experience while maintaining cost disciplines. I am pleased to report on encouraging early results of the actions we are taking to reignite performance.

Last quarter, I spoke about a series of actions we are implementing, and I am pleased that the team has moved with urgency to execute. Product initiatives across brands, exciting new marketing campaigns, and greater operational disciplines are all contributing to improved business results. We have a lot of hard work ahead, yet we are excited about the progress so far. Total revenue of $1.28 billion was our second-highest ever posted for the second quarter, marking meaningful improvement from the first quarter and validating the actions we have taken. Aerie saw a dramatic turn from the first quarter, delivering comp growth of 3%. American Eagle saw a nice improvement in key go-forward categories, as Jen will review shortly.

Second-quarter traffic was positive across brands and channels, and I was pleased to see traffic momentum build throughout the second quarter, which continued into August. Following the first quarter inventory write-down, the team was focused on successfully managing through the season, delivering better sell-throughs with less promotions. We also managed the business with financial discipline, with SG&A down compared to last year. Operating income improved 2% to $103 million, significantly exceeding our expectations. Diluted EPS increased 15% to last year. It was a solid quarter, and we are encouraged by the progress. Yet our work is not complete.

We are leaving no stone unturned and are committed to growing our brands by putting our customers first and improving operational efficiencies. One component of this plan is to create greater efficiencies and speed across our supply chain. With respect to tariffs, we will begin to feel the impact in the second half, as Mike will review. We are using all levers to mitigate tariff increases. Early efforts have been successful. We have taken action to assure manufacturing options are in place in countries that make the most sense for our business moving forward. We have a highly seasoned sourcing team and strong partnerships with vendors. We will leverage these relationships as we navigate through evolving trade dynamics.

Turning to capital allocations, we continue to strike the right balance between investments to support our long-term growth agenda and returning capital to shareholders. Year to date, we have returned $276 million to shareholders through dividends and share repurchases. This includes the completion of our $200 million accelerated repurchase program earlier this year.

The fall season is off to a good start, fueled by the strength of our product lines and the success of our recent marketing campaigns. The iconic fall denim campaign with Sydney Sweeney affirms we are the American jeans brand. We saw a record-breaking new customer acquisition and brand awareness, cutting across age demographics and genders. The most recent collaboration with True Colors by Travis Kelce has kept the momentum going. We have seen periods of very strong demand from both campaigns, fueling positive traffic in August, which was up consistently throughout the month. I will end with our commitment to building on this quarter's progress. We have enduring brands with significant potential for more growth.

I am confident we will realize our potential and drive sustainable profitable growth for the long run and create greater value for our shareholders. Let me turn it over to Jen.

Jen Foyle: Thank you, Jay, and good afternoon, everyone. We saw clear improvement in the business in the second quarter. Efforts to strengthen collections across brands, lean into best sellers, and deliver higher margins are already having an impact. As we work through some of the challenges from the first quarter, we saw progressive improvements with the new deliveries. And I am encouraged that momentum strengthened into August with the arrival of our new back-to-school collections. So let me walk you through some of the new highlights.

Starting with Aerie, we drove a nice rebound from the first quarter, delivering comp growth of 3% and achieving record second-quarter revenue. Performance was driven by positive demand across a number of major categories, including intimates, soft dressing, sleepwear, and our activewear collections at offline. While shorts were the most challenging seasonal category, we are focused on driving improvements here as well. Among the highlights, intimate has been a key area of focus within our long-range plan, and we will recapture share in the return of this category to growth. We are pleased to see customers responding to new fits and fabrics in undies and bras and more regular fashion drops.

For example, in July, we introduced the Parisian romance fashion capsule, which embraced feminine touches like lace and chic combos of our most loved silhouettes. Our Aerie customers loved it, and it was the page-turner we needed to enter the fall season strong.

Beyond intimates, offline continues to be a positive performer, and we remain excited about the growth potential as we continue to increase awareness and further expand our footprint. And now turning to American Eagle. Second-quarter comps declined, yet demand improved throughout the quarter. And I am confident that we are at an inflection point. Although the second quarter was under pressure from early spring receipts and softer demand in shorts and bottoms, AE saw solid improvement in key go-forward categories. That was especially apparent as the quarter progressed, most notably in women's jeans and tops as well as dresses where we were focused on building franchises like our new Sun Chasers collection.

Men's has also seen a nice trajectory in key classifications, including graphics, knit tops, and jeans, all positive in August. Back-to-school arrivals have been well received.

New jean styles, along with a continued focus on great outfitting across genders, led the business.

This year, we continued our long-standing partnership with the summer I turned pretty, expanding the collection with new styles and three separate drops to coincide with the storyline. In addition, as Jay mentioned, our exclusive product and marketing campaigns with Sydney Sweeney and Travis Kelce have created amazing energy and buzz. Over a year in the making, these two signature collaborations have generated a strong response driven by limited edition merchandise, demonstrating the power of celebrity style and great product. Sweeney's signature jeans sold out within a week, and some products within one day.

Demand for her curated online shop of Sid Picks has been very strong. Similarly, AE and True Colors by Travis Kelce has received tremendous engagement, fueling higher traffic and new customers. Product sell-throughs have been strong. Overall, we are very pleased with these campaigns. Since the launch, customer counts are up more than 700,000 and the campaigns combined have generated a staggering 40 billion impressions. As we look ahead, our plan is to build on this momentum to further expand brand awareness, customer engagement, and retention, and ultimately strengthen long-term brand loyalty. I am proud of our second-quarter accomplishments and the early third-quarter trends. Our work is continuing at full speed.

We are heads down, focused on the future and improving all aspects of the business to deliver sustained growth. I wanted to thank the teams, and now turn the call over to Mike.

Mike Mathias: Thanks, and good afternoon, everyone. Let me echo Jay and Jen by saying we were very encouraged to see solid progress in the second quarter, with results coming in above the expectations that we set back in May. Stronger demand coupled with lower-than-expected promotional activity and well-managed expenses enabled us to stabilize margins and deliver operating income 2% above last year. Consolidated revenue of $1.28 billion declined 1% to last year.

Comparable sales also decreased 1%. A lower average unit price was largely offset by growth in transactions, benefiting from positive traffic across selling channels. We saw demand pick up as the quarter progressed. July was our best month of the second quarter as we launched our initial back-to-school product collections. And as Jay mentioned, we were pleased to see that improvement continue into August, with consolidated comps turning positive. Gross profit dollars of $500 million reflected a gross margin of 38.9% compared to 38.6% last year. Following the first quarter inventory write-down, we ended the quarter with lower promotions.

This was partially offset by 20 basis points of deleverage of buying occupancy and warehousing, as a result of the sales decline. BOW dollars were flat to last year. SG&A was better than expected, down 1% to $342 million and was flat as a rate of sales. Compensation costs were down as a result of recent expense restructuring initiatives, offset by investments in advertising. The balance of expense categories was flat, reflecting our ongoing cost management program. Operating income came in at $103 million, up 2% for the last year. This reflected an operating margin of 8%, compared to 7.8% last year. Consolidated ending inventory cost increased 8%, units up 3%.

The inventory cost increase is primarily due to the impact of tariffs. We are comfortable with inventory positioning for the quarter, which is aligned with our plans. Our capital allocation priorities remain unchanged, focused on investing in growth, and returning cash to shareholders through dividends and share repurchases. Second-quarter CapEx totaled $71 million bringing year-to-date spend to $133 million. We continue to expect CapEx of approximately $275 million for the year. During the second quarter, we completed our $200 million accelerated repurchase program announced back in March. In total, year-to-date, we returned $231 million in buybacks. It's reduced outstanding shares by 20 million or approximately 10% of outstanding diluted shares.

Our balance sheet is solid with ending cash of $127 million and total liquidity of approximately $400 million. To support the buyback program, as planned, we drew down $200 million from our revolver and seasonal cash needs. By year-end, we expect to repay the majority of outstanding debt and begin rebuilding cash. We are continuing to prioritize investments in our digital channel making foundational improvements to the shopping experience. We are also focused on optimizing our store fleet to ensure we are in the best location brands to provide the best customer experience while pursuing additional growth opportunities.

This year, we are on path to open approximately 30 Aerie and offline locations, and remodel 40 to 50 AE stores for modern store design. We now anticipate closing 35 to 40 American Eagle locations by year-end. Now turning to our outlook. The third quarter is off to a better start with quarter-to-date consolidated comps up in the mid-single digits. This includes a positive turn in the business, as Jen noted, as well as a very strong Labor Day weekend. With more than half of our quarter yet to go, our outlook for the third quarter includes a low single-digit increase in comparable sales.

Third-quarter operating income is expected to be in the range of $95 million to $100 million, which includes approximately $20 million of incremental tariff costs. Buying, occupancy, and warehousing costs are expected to increase due to new store growth for Aerie and offline, and increased digital penetration resulting in slight deleverage. SG&A is expected to increase in the high single digits driven primarily by investments in advertising. The tax rate is estimated to be approximately 25% and the weighted average share count will be roughly 172 million. For the fourth quarter, our outlook is for a low single-digit increase in comparable sales and operating profit in the range of $125 million to $130 million.

This includes approximately $40 million to $50 million of tariff impact in the fourth quarter. SG&A is expected to be down slightly for the quarter. We are encouraged by the progress this quarter, demonstrating that our initiatives are working. While this is a positive step, our teams remain sharply focused on building upon profitable sales momentum, managing costs, and driving continued improvements across the organization to deliver higher profitability. Now we can take your questions.

Operator: We will now begin the question and answer session. If you have a question, please press star then 1. The first question comes from Jay Sole with UBS. Please go ahead.

Jay Sole: Great. Thank you so much. I want to ask about the Sydney Sweeney and the Travis Kelce campaigns. Obviously, I think you know, Jen, I think you mentioned 40 billion impressions, which is a huge number. The question is, can you tell us more about how you keep the momentum going with these new customers that you have attracted? And can you tell us about what those consumers shop today by just the specific product associated with the celebrities? Or do they shop across the store and buy tops as well as bottoms? Thank you.

Jen Foyle: Sure, Jay. I wanted to introduce Craig Brahmers because we had a feeling that there would be a lot of questions around this very exciting campaign. So, let me introduce the American Eagle CMO, Craig Brahmers.

Craig Brahmers: Thanks, Jen. The American Eagle Sydney Sweeney campaign was intended to be a brand and business reset, and it has. Let me be very clear. Sydney Sweeney sells great jeans. She is a winner. And in just six weeks, the campaign has generated unprecedented new customer acquisition. To be clear, that consumer acquisition is coming from every single county in the US. This momentum is national, and it is pervasive. We experienced denim sellouts of items that Sydney has worn. We have strong positive traffic throughout this quarter, and as Jen mentioned, a staggering 40 billion impressions. But a brand campaign is not to be judged in just one day, one week, or even one month. A brand campaign endures.

We are off to a start beyond our wildest dreams. As we track consumer sentiment over the past six weeks, we have seen consideration and purchase intent meaningfully up. And now it's our opportunity to continue to convert this buzz into business and to convert these new customers into repeat customers. That's the work of the work ahead.

Jen Foyle: And to add on, Jay, what they are buying right now. I mean, you know what? Great is all brands are really seeing acceleration. As you know, we share domain on the direct side of the business. So we are obviously driving traffic to our website. Labor Day was record-breaking. It was our best Labor Day in history, actually. We had a great weekend. But there's work to do in the quarter, of course. You heard that there are some sellouts we need to chase. But, really, across our key categories, we are seeing great success. Jeans, of course, we do it very well, and really proud of that assortment. What I love about the jeans assortment is it's diversified.

So we are gaining new customers with all different body types and age groups, and we are very excited, and we believe we are getting that market share that we deserve. And Aerie intimates is back. That's so exciting to see, and we saw that acceleration in Q2 and, really, it's continuing into Q3 with the launch of our Parisian sheet capsule that I mentioned in my talking points. And lastly, Men's Acceleration has been more than exciting. We have been really up to repairing the men's business, and we are seeing categories work. And, again, in both men's and women's, what's nice is we are selling the outfit and selling tops as well.

Jay Sole: Hey, Jen. If I can follow-up on that. Obviously, the marketing campaigns have been hugely successful, but you are talking about intermittent area. Talking about men's. Can you just remind us the transition of the products from where they were in the first half of the year to how the product assortment has evolved now for back to school and what you see for toward holiday? How much of the improvement in the business is just because the assortment is better, it's more on trend, it's where you want it to be versus kind of where you were in the first half and try to separate it from all the hoopla and excitement around the marketing campaigns if possible.

Jen Foyle: Yeah. Great question, Jay. You know, where we started is you know, Aerie had work to do. Our key competency business. It's I mean, in the apparel side, and we had work to do on the fleece side. What's nice is the team worked really hard, and we have seen really incredible results in fleece. So as you know, that's a seasonal business as we head into Q3 and build into Q4, but seeing a nice uptick there. Intimates as well. Really started to see intimates turn on actually in Q1. We doubled down in Q2, and we have seen nice acceleration into Q3. So that's really basically the Aerie story. There were some seasonal products.

In Aerie shorts being one of them, which was the same for American Eagle and you know, both in both men's and women's. Shorts was really the category that we needed to get moving. And as you know, we dominate in that category. And we really couldn't accelerate long bottoms, long legs in both men's and women's to compensate for the miss and shorts. But as the quarter progressed, we saw nice upticks in the AE business, and now we are back in business in Q3. We are very excited for like I mentioned, not only our jeans business, but our tops business, sweaters, and fleece in both men's and women's. And, again, seasonally appropriate.

So that's what we have been up to.

Jay Sole: Got it. Thank you so much.

Operator: The next question comes from Paul Lejuez with Citi. Please go ahead.

Paul Lejuez: Can you give a little bit more on the comp metrics transaction ticket, maybe the components of ticket in terms of AUR and UPT? And then you gave a couple of tariff numbers. Just curious if those were gross or net, whatever they were, if you could provide the other number? And how much are relying on pricing? To get to that net number? Thanks.

Mike Mathias: Paul, yes, I can start. I can actually cover both questions. Metrics for the second quarter, AUR was down mid-single digits. So the negative 1% results had we had some healthy traffic, but with the AUR down 5%, UPD didn't offset that completely. We were able to manage that well. Our AUR on the digit in our digital channels was actually flat. And that's where some of the really markdown savings and management promotions came through the quarter. Really flowing through the revenue beats pretty much all the way to the gross margin line. They should be able to manage markdowns pretty well through the second quarter there.

On tariffs, yes, we are providing the guidance here for the third and fourth quarter. About $20 million of impact from Q3. $40 million to $50 million in Q4. So that will pressure gross margin a bit. On the low single-digit revenue guide. The team has done a tremendous job there. Our unmitigated number was closer to $180 million versus the $70 million we are guiding to. So combination of rebalancing, country of origin, cost negotiations with our vendors, optimizing freight between air and ocean costs, some price and then some pricing. So I'd say pricing is down the list. We are taking our shots there. We have increased some tickets. This gives us some flexibility in promoting those items.

Where we haven't seen really any customer resistance to some of those increases, but it's not real it's not the largest mitigation strategies. There's other components I just talked about that the team has done a great job for the mitigating the back half impact and the annual impact go forward. I guess just relative to that, down mid-single digit AUR. The second quarter, what are you expecting for the back half?

Mike Mathias: Third quarter to date, we are actually up slightly. We are up low single digits on AUR. The combination of AUR and traffic, so it driving the mid-single digit increase you know, as of as of quarter to date through literally yesterday. We are expecting that same type of dynamic for the back half on the low single-digit expectation.

Paul Lejuez: Thank you. Good luck.

Mike Mathias: Thank you.

Operator: The next question comes from Jonah Kim with TD. Thank you for taking my question. You mentioned Internet improved during the quarter. Could you just remind us what percentage of sales in this now for Aerie? And just give us more color around the strategy to recapture share there. And would love additional color around how the existing consumers performed. You mentioned nice customer new customer acquisition, but any color around the existing customer during the quarter would be helpful. Thank you.

Jen Foyle: Sure. Intimates is roughly, one-third of the business. And look, we felt like, it's time for it to come back. There have been some trends out there where crops and baby tops, baby tees, and camis were working, and I think they actually took the place of, you know, a key category for us. So I think our timing was right on when we launched the Parisian collection with lace. You know, as we know, intimates is lace, it works. So we are excited about just really doubling down on that business. We feel like it's time for Aerie 2.0. We just launched a campaign that really highlights bras. It just launched, highlights undies. It highlights our intimate categories.

It's pretty exciting. And, again, there's not a lot of news there on the campaign. As we are only underway, but it really just leans into our customer and letting her speak to our product because our intimates are the softest, and they feel the best on your skin. So we are really excited about talking about this whole new idea. And leaning into a category that we haven't been up to for a while, and it's time. It's time for intimates to come back.

Craig Brahmers: This is Craig. Let's talk about the new customer acquisition. We decided to level up with talent this season. And we architected with intent. Both of these individuals are generational talents that are aspirational to both men and women, as I just mentioned, we are seeing a national swell in new customer acquisition in every single county. And we just moved from one strength to the other. Sydney Sweeney has great genes with all about our best at category genes. And as Jen mentioned, our Q3 is off to a significant start in terms of our denim penetration. But then last week, we bring Travis Kelce into the conversation, and Travis is at the intersection of fandom and fashion.

Sports is driving culture in a way that it has never done before. And Travis is driving interest in fashion like never before. The launch date was the launch date was the launch date. And despite other news, we started working with Travis almost a year ago. Travis was the creator director of this campaign and of this collaboration. He was personally in our design offices working with our designers. He personally picked out fabrics and scents. He personally identified the amazing athletes that helped tell this story. And this collaboration is off to an incredible start, just dominating our men's business over the course of the Labor Day weekend, building on the men's momentum that started in July.

We could not be more excited about these back-to-back campaigns.

Jonah Kim: Got it. Thank you.

Operator: The next question comes from Janet Kloppenburg with JJK Research. Please go ahead.

Janet Kloppenburg: Hi, everybody, and I want to extend my congratulations. I'm particularly excited about the intimates business and also about the men's term. On that note, is there any product category that's not working at Aerie right now, like, the sportswear side of the business, Jen, maybe you could talk a little bit about that. And about the intimates business and if you are thinking that it's going to sustain these strong comps going forward. And then just lastly, on denim, are your ticket prices higher or will they move higher as the quarter unfolds? Thank you.

Jen Foyle: Yeah. I'll just start with denim. I mean, Mike alluded to it. You know, denim is our key category. So if you focus on the AE business, our AURs are nicely up, but I think we have done a great job just balancing out our price points. That's what we are up to. We have key price points in denim that we always learn from and build into, and that's what we did, you know, when the tariffs hit, we had to think a little harder. So I think we are well-positioned in denim with good, better, best pricing, but really trying to elevate our customer and getting them to pay for the quality that we embed into our product.

Going to intimate you know, there's so much good news in intimates. Undies, we picked up market share. Nice stack in market share, actually. And as we know, that's a fire starter to our bundles in Aerie. So to see that business come back is really exciting. But bras, our core bras, again, we have held our share, and we are gaining some more share. And think that's our focus. You know, we really want to lean into these categories. It's a category particularly in bras that the customer comes back for. To try on to get to our stores to experience the brand. So honestly, you know, again, that's what the teams are up to.

We are hopefully going to show up really unique. There's more ideas in the hopper. Like I said, we are only up to Aerie 2.0, and these new learnings are going to help us accelerate into 2026, particularly in Intimate as we are just seeing nice new wins there. Offline is continuing.

Craig Brahmers: Okay. Yeah. Offline is good. Right. Yeah.

Janet Kloppenburg: And what about the soft apparel? It's good?

Craig Brahmers: Yep.

Jen Foyle: Soft apparel, that's what we were leaning into. That's what our learning was from Q1. I think we went too fashion. There was too much fashion. We needed to balance out the price equation as well as what that customer expects from us. Now we have sets. We have a set called the Jet Set. It's amazing. If you don't own it, get into it. It's your best travel set out there. And we have just core competency crew necks in fleece. And it's just really nicely working for us. So soft apparel is great. It really was short. And as you know, we even lean into shorts into August.

So from you know, going to articulate a soft category across all three, you know, men's, women's, and Aerie, and offline, actually, all four. It would be short. They were soft.

Janet Kloppenburg: Okay. Terrific. And with respect to pricing, Mike, will we start to see a broader range of select price increases as we go forward? Or is it over? Did you take them and it's done?

Mike Mathias: I'd expect that to be ongoing, Jen. I think as we look at our forward plans into the first half of next year, we are going to continue kind of, all levers of mitigation for tariffs. So pricing will be a component of that, but optimizing country of origin cost negotiations, you know, air ocean freight optimization, and other expense line items through the you know, that embedded in our landed costs will be the bigger levers. Pricing will just be one tool in the kit.

Operator: The next question comes from Alex Stratton with Morgan Stanley. Please go ahead.

Alex Stratton: Perfect. Thanks so much, and congrats on a really nice quarter. I just had a couple of questions here. Maybe first for Mike, just on the back half gross margin, where we were guiding to a decline for both the third quarter and the fourth quarter. Looks like fourth quarter decline is maybe two times worse or so than the third quarter. So can you just walk us through the gross margin pieces? Is that just tariff or is there anything else in there? And then maybe separately just on, you know, these recent campaign launches and some of the sales momentum that you have garnered on the back of them.

Do you have a sense for, like, how long top-line momentum lasts after those? And do you have more sort of in the hopper following these pretty big two campaigns? Thanks so much.

Mike Mathias: So I'll start with the gross margin question. Yeah. To your point, the fourth quarter impact is a little larger definitely tied to the tariff impact guidance. So $20 million for the third quarter, $40 million to $50 million for the fourth quarter. So you got a little more pressure there from tariffs in the fourth quarter. And we do have some embedded promotions assumed. We have been managing that really well all the way through the second quarter. August markdowns came in ahead of where we planned them as well. So we are leaving that embedded in our assumptions, but the team's a bit done a nice job of optimizing that the promotional levels each week. Especially digitally.

So could be some upside to that assumption within the gross margin. And then we do with the, you know, the uptick here in the back half, this mid-single digit trend, digital is definitely a big driver of that. So you have got your distribution and delivery costs, kind of variability in that. So if the mix does lean heavier toward digital, we have got some variable expense. You know, in the BOW lines, in the expenses and gross margin. So at a low single-digit assumption, we'd have some BOW deleverage between that line, and then sort of a full back half impact of the area in offline openings that they're largely second quarter and third quarter weighted.

So we'll have a little pressure. So it's equal parts of some expense delevered on a low single-digit assumption. And some the tariff impact and some embedded promotions that, we believe we can probably we believe we have seen actually some optimization of that through the second quarter and through August, so some opportunity there still. On the sales momentum, Craig, know if you want to jump in on that one.

Craig Brahmers: Yeah. Thanks, Michael. I'll go ahead and talk about that. The new has just begun. We are excited to introduce new chapters in the future. As we have already publicly announced, there will be a second drop for the American Eagle True Colors by Travis Kelce collection. We have seen incredible interest in this first drop. Expect even more in the second drop as the NFL season begins, and Travis is front and center in the national conversation. Additionally, Sydney Sweeney has great genes is not going anywhere. Sydney will be part of our team as we get into the back half of the year. And we will be introducing new elements of the campaign as we continue forward.

Operator: Once again, if you have a question, please press star then 1. The next question comes from Chris Nardone with Bank of America. Please go ahead.

Chris Nardone: Thanks, guys. Good afternoon. I just had a question on the tariff impact. It sounds like $40 million to $50 million in 4Q is roughly 250 to 300 bps. Is this a fair assumption as we think through the mitigated for the first half of next year? And then, Mike, nearer term, on your back half gross margin guidance, just a follow-up on Alex's question, what are some of the positive offsets to drive some muted gross margin expansion to absorb some of the tariffs? Thank you.

Mike Mathias: Thanks, Chris. Yes, I think if you play forward the tariff impact talked about $180 million unmitigated kind of back half impact here. But the team has done a nice job knocking it down to this sort of $70 million-ish projection we have. If you start with all the country of origin remixing, that's happened here in the back half, you know, China where we know we were at a higher penetration coming into the year is mid-single digit now in a full year. But low single digit for the back half. Some other you know, India is small for us. Rebalancing some things out of Vietnam.

So if you start with just even the country of origin remix on an annualized basis next year, that number probably around the $250 to $300 million number to start. So there are some benefits there initially. And you have you can continue to cost negotiation and all the other components I just talked about as far as levers. So we latest projection as we are playing forward 2026 numbers now is somewhere in that $125 to $150 range on a full year basis with more work to do. And we are. We are uncovering every stone around all other embedded costs in our gross margin. There's still opportunity for delivery optimization.

We have got a longer-term supply chain network optimization plan in that we are in the middle of, to optimize those expenses and gross margin. We talked about or we updated our store closure number if you noticed in our prepared remarks, it's about 35 to 40 stores this year. That's kind of double where we have been in the last several years. So as we know that our digital penetration is picking up, we are going to continue to rebalance our fixed and fixed first variable expense base. By really looking at, you know, rebalancing the store fleet especially on the AE side, to closures with repositions while we are still opening area and offline locations.

So we are going to look at every single line item like we have been for a few years on all of our expense management endeavors over the last two and a half years. We are going to continue to do that to find offsets to this tariff impact through gross margin. The next year.

Chris Nardone: Got it. And then, Jen or Mike, can you just talk a little bit about some of the progress you are seeing in the men's side of the business given the campaigns and whether you are seeing greater comp growth in your denim business versus the rest of the AE brand.

Jen Foyle: Yes. I mean, denim's been certainly trending very nicely. You know, it's actually on par because it's such a big penetration, to our business. So, we obviously love the results. Men's has been a journey. For sure. The team's been you know, we have a first of all, we have a new merchant who's come in strong and has some great ideas. And, you know, starting in Q1, we really just took charge and really pivoted that business and said, you know, we cannot keep you know, we need to get this business back for obvious reasons. And it was our time, and I think they have done a nice job balancing out the fashion.

So tops, graphics, polos, polo sweaters, and, of course, our bottoms, mostly denim have been significantly on an uptick. So we are here to deliver more, and we know we are still owed more on the men's side of the business. To be perfectly frank. So, the team is looking at how fast we can grab that.

Operator: The next question comes from Rakesh Patel with Raymond James. Please go ahead.

Rakesh Patel: Congrats on the strong execution. I had a question on the duration of the Sidney Sweeney and Travis Kelce campaigns. Are these a three two initiative, or should we expect they'll run through the rest of the year? Just given the success that you are seeing, how should we think about what's embedded in your marketing spend for the back half of the year?

Craig Brahmers: I'll take the first part of that question. This is Craig again. The City Sweeting Great Jeans campaign is here and will continue with it through the remainder of the year. And, again, we'll be introducing new elements along the way. Travis is just getting going. The first week has just been astounding. The traffic, the new customer acquisition, the sell-through is so strong, and we are excited to drop a second drop in the coming weeks, again, at the height of the NFL season. And so this is a moment to take big swings, and we have big talent. We have big amplification. The world is talking about us.

We know that purchase intent is significantly and meaningfully up and we'll be looking to convert this buzz into business all through the back half of the year.

Mike Mathias: Yeah. I can add on to Steve's question. Oh, go ahead, Richard. Sorry. Go ahead. I was just going to drop the advertising expense question. So within SG&A, we have a high single digits expectation for SG&A growth in the third quarter. Largely the advertising increase to support these campaigns. All the line items are up slightly. So leading to that high single-digit result. But then for the fourth quarter, we are looking for more of a result similar to the second quarter, meaning SG&A dollars being flat to actually slightly down. Advertising would still be up a bit, and we are going to, you know, kind of manage that week to week.

So I'd expect advertising to be up sort of low single digits. A large portion of this expense to support the campaign is hitting the third quarter even though we will continue some things into the fourth quarter. And then the rest of SG&A outside of advertising is going to be down slightly in the fourth quarter. So, yeah, the brunt of the advertising expense related to everything Craig's outlining is in the third quarter.

Rakesh Patel: Got it. And then also had a quick question on inventory. Just curious, given the acceleration that you are seeing in the August comp, how we should think about inventory plans for 3Q and 4Q?

Mike Mathias: Yes. We are very pleased with our position coming into the second quarter as we talked about. Our trend is up mid-single digits. Units were up 3%. Costs up eight. That differential of five points pretty much all based on or driven by the tariff impact. Would expect a similar dynamic through the quarter during Q3. And then into Q4, we have the same idea that there's going to be a tariff impact unit increase, we think, be more commensurate with our sales trend. We are chasing some things at the moment that may have an end-of-quarter impact, but anything we are chasing now is largely in jeans and has long life kind of non-markdown liable goods attached to them.

It's for the fourth quarter for holiday. And a lot of things don't carry, especially jeans assortment carrying through the first half of next year. So very pleased with where we sit with inventory, and we'll continue to manage alongside our revenue expectations, especially on the unit growth knowing there's a tariff cost impact to the balance sheet dollars.

Operator: The next question comes from Cory Tarlow with Jefferies. Please go ahead.

Cory Tarlow: Great. Thanks. Mike, I wanted to ask on SG&A. I noticed in a while, that SG&A actually leveraged in the quarter on a negative comp, and we haven't seen that in quite some time. Could you maybe talk a little bit about in the quarter about some of the changes that you have made in the business from an SG&A perspective? And kind of what sticks, what comes out, and then and how to think about that going forward, and then maybe what the leverage point might be on comp to actually drive some leverage on SG&A?

Mike Mathias: Thanks for the question. I think we have been talking about this for a good two almost three years now around our expense management initiatives. You know, SG&A has been definitely benefited from work on those major lines that we always talk about. I mean, the biggest drivers of SG&A are store salaries, corporate compensation, advertising, and our services line. So that's, like, 80% plus of your SG&A incentive is built into that compensation bucket. We have been hard at work at that for a few years.

The second you know, really, full year is a result of that even though there's some with advertising kind of being pulsed by quarter, the full year is going to be up in our projections here. Basically, piece together the guidance one to 2% with advertising being the only thing actually up and everything else being kind of flat to down. So those efforts are in place forever. We look forward to 2026, we will just be back to what we have been continuing to talk about, which is the longer-term three to 5% revenue algorithm we intend to keep and A flat or even leverage SG&A on that kind of revenue result.

So you know, a comp in that kind of low to mid-single digit range with total growth in that three to five, we intend to leverage SG&A. That's our continued goal go forward.

Cory Tarlow: Got it. That's super helpful. And then just a quick follow-up, if I could. I know that you talked about in the release, lower compensation costs. So and I think instead of comp might have come out initially, does it come back? What does it look like this year, next year? Thanks so much.

Mike Mathias: Yeah. We definitely did some restructuring things in the first quarter. We had some benefits in the second quarter around that. We'll continue to look at opportunities to optimize compensation in total across the P&L. Incentive comp is down this year. So we'll look for mitigation efforts if there's some sort of normalized number next year. But we'll talk about that when we get to 2026 guidance when we actually set those compensate those incentives annual incentive plans, provide more color at that point.

At the end of the day, we are going to look at SG&A as a total bucket and again, just reiterate that goal that on that three to 5% revenue, expectation on a longer-term basis, our goal our intent is to leverage SG&A at that level.

Cory Tarlow: Great. Thanks so much for all the color, best of luck.

Operator: Our last question comes from Marni Shapiro with The Retail Safer. Please go ahead.

Marni Shapiro: Hey, guys. Congratulations on the improvements, and the denim has just looked absolutely outstanding. So I'm curious a couple of things. I just wanted to clarify in the inventory increase, was any of that pull-forward inventory don't know if I missed that, but I just wanted to check on that. And then Jen, can you talk a little bit just about in the product assortment? Travis Kelce has this, you know, kind of assortment. Sydney Sweeney had her sold-out butterfly jean, and then I think Sid's picks I think that's what you titled it. Are you going to do a real collection with her?

And then kind of just thinking into next year, if it's not them, could these things continue with other people? Is this something that you would look to do again?

Mike Mathias: I gave the inventory quickly. So minor, there's a little bit of pull forward of inventory based on the timing of all the tariffs intentions there in early August, but very minor in the grand scheme of our plus three units plus eight costs.

Marni Shapiro: Excellent. Thanks.

Jen Foyle: Early reads on Travis have been strong as we mentioned. And the nice thing is we are selling really high price points. The customer is loving it, and it's right price. So we love that. And, as Craig mentioned, we have a second drop. And we'll see what's in store for the rest. Sydney's meeting. Again, really nice sell-through on the butterfly gene. The team's you know, has we have ideas cooking. Let me just say that. And, you know, just leaning into great genes. That's really what I'll say for now. There's more to come. We are thinking about some exciting holiday campaigns and how we leverage the product within these campaigns.

Marni Shapiro: Okay. Don't spill the tea then. Can I just ask you one quick follow-up on swimwear? Now that we are out of swim season and it's been kind of an up and down category for you, have you hindsighted 2025 and even 2024? And how are you thinking about it for 2026?

Jen Foyle: Well, let me just say based on our short business, I'm glad we didn't over pitch swim. So we did we really did a great job in that business. We sold out of fashion. We planned it accordingly. We actually beat the plan. Didn't have a lot of clearance at the end of the season. So we are going to take those lessons and apply them, you know, for future seasons. It is an up and down category. And we are going to take those lessons that we have learned again over a few seasons now, a few spring seasons, and apply them on the go.

We have a new lens, our new merchant, who's in place, who's been with us for over six or eight months now. She's doing a great job, and she has some new ideas. She brings some fresh perspectives for the business.

Marni Shapiro: Fantastic. Thanks, guys.

Jen Foyle: Thanks, Marnie. Alright, everyone. Thanks for your participation tonight, and have a great evening.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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