

AEO Earnings Call Transcript

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Quarter: 3

Operator: Welcome to the American Eagle Outfitters, Inc. Third Quarter 2025 Earnings Conference Call. All participants will be in listen-only mode. Please signal a conference specialist by pressing the star key followed by zero. There will be an opportunity to ask questions. Please note this event is being recorded. I would now like to turn the conference over to Judy Meehan, Head of Investor Relations and Corporate Communications. Please go ahead.

Judy Meehan: Good afternoon, everyone. Joining me today for our prepared remarks are Jay Schottenstein, Executive Chairman and Chief Executive Officer, Jen Foyle, President, Executive Creative Director for American Eagle and Aerie, and Mike Mathias, Chief Financial Officer. Before we begin today's call, I need to remind you that we will make certain forward-looking statements. These statements are based upon information that represents the company's current expectations or beliefs. The results actually realized may differ materially based on risk factors included in our SEC filings. The company undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events, or otherwise, except as required by law. Also, please note that during this call, and in the accompanying press release, certain financial metrics are presented on both a GAAP and non-GAAP adjusted basis. Reconciliations of adjusted results to the GAAP results are available in the tables attached to the earnings release which is posted on our corporate website at www.aeoinc.com in the Investor Relations section. Here, you can also find our third quarter investor presentation. And now I'll turn the call over to Jay.

Jay Schottenstein: Thanks, Judy, and good afternoon. I hope everyone had an enjoyable Thanksgiving weekend. I'm extremely pleased with the trend change we've seen across brands, reflecting a number of decisive steps we've taken from merchandising to marketing to operations. These deliberate actions are having a positive impact on near-term results and also serve us well for the long run. We delivered record revenue in the third quarter and very strong momentum has carried into the fourth quarter. We're seeing an encouraging response to the newness the teams are delivering. With each new collection gaining steam, most notably, Aerie and Offline are generating exceptional growth across categories. As discussed last quarter, we have made incremental investments in advertising which is contributing to stronger demand while better positioning our business for enhanced long-term brand awareness and overall customer engagement. At the same time, we are focused on operational improvements and cost efficiencies to drive higher profitability in what continues to be a dynamic macro environment. Turning to the quarter, total revenue increased 6% to \$1.4 billion, a third-quarter record. Operating income of \$113 million exceeded our guidance of \$95 to \$100 million, fueled by higher-than-expected demand and well-controlled costs. As previously noted, our results also included about \$20 million of net impact from tariffs. Diluted EPS for the quarter of \$0.53 increased 10% compared to the adjusted EPS last year. The strong top line reflected a return to positive comps which increased 4%. This was a meaningful acceleration from the 1% decrease last quarter. Improvement was made across both brands and channels, all posting positive comps. Aerie's 11% comp in the third quarter was a real standout, where strong demand was broad-based across all categories. Growth accelerated throughout the period, which has continued into the fourth quarter, where we are seeing exceptional demand so far. As we look to the future, we continue to see untapped opportunities within Aerie and Offline, which are rapidly emerging as important customer destinations. At just under \$2 billion in revenue, and less

than 5% market share, this indicates a significant runway for future expansion, underscoring our ability to capture a much larger piece of the market as we execute our strategic initiatives. American Eagle's comp growth of 1% marked a sequential improvement from last quarter. Strength in jeans, coupled with better results in men's, were among the drivers. As Jen will review, AE's business strengthened with greater in-stocks and our strongest sellers and new product flows. Positive trends have continued so far in the fourth quarter, including a terrific Thanksgiving weekend. Beyond product, our results have benefited from the success of our recent marketing campaigns, which have driven engagement and attracted new customers. We are encouraged by the impact of the campaigns and collaborations with Cindy Sweeney and Travis Kelce, and now holiday gifting with Martha Stewart. We see measurable benefits especially across our digital channels. Looking forward, we will build on this momentum with more exciting campaigns ahead. All in all, I'm very pleased with the progress and meaningful turnaround from the first half of this year. Now the holiday season is upon us, and the fourth quarter is off to an excellent start. We are seeing a clear acceleration from the third quarter, including a record Thanksgiving weekend, with strong performance across brands and channels. As a result, we are raising our fourth-quarter outlook. We remain well-positioned with exciting new collections centered on gift-giving and events planned throughout the season to continue to delight our customers. Before I turn it over to Jen, I want to take a moment to acknowledge our incredible team for all their hard work and tremendous dedication. Their efforts have fueled a meaningful trend change across our leading brands. Great work continues, and I couldn't be more optimistic about the long-term outlook for our business. We look forward to driving more success as we head into 2026 and beyond, driving profitable growth and enhanced value for American Eagle Outfitters, Inc. Let me turn it over to Jen.

Jennifer Foyle: Thank you, Jay, and good afternoon, everyone. I am very encouraged by the stronger performance across our brands, marking a significant turnaround from the first half of the year. This demonstrates the resilience and product leadership of our portfolio of iconic brands. The increasing customer demand, which has accelerated in the fourth quarter, is spanning new and existing customers, fueled by a well-coordinated effort across both merchandising and marketing. Compelling product collections combined with higher engagement and expanding brand awareness are driving our performance. And the teams are executing very well, leveraging our expertise in key categories and most importantly, by listening to our customers. Let me walk you through a few highlights in the third quarter, beginning with Aerie. The Aerie brand continues to exceed expectations. We achieved record revenue with the third-quarter comps up 11%, fueled by strength across all categories, including intimates, apparel, sleep, and Offline. Aerie and Offline's performance has been especially impressive with a meaningful acceleration in demand since the spring season. In fact, comps have strengthened with each new delivery. The resurgence in intimates has been very encouraging, with solid growth in both bras and undies. Greater depth and breadth of our signature fabrications, strength in new fashion across bralettes and bra tops, and fun prints with matchbacks to apparel are just a few highlights fueling the brand's double-digit growth. Aerie apparel remained consistently strong driven by bottoms, fleece, tees, and sleep, which has emerged as a powerful growth category. Offline by Aerie also continues to gain meaningful mindshare as we expand awareness and move into newer markets. We remain highly focused on growing the activewear segment. We are building on our signature fabrics and franchises such as our core leggings, while also launching newness with updated fashion silhouettes. Needless to say, we are very excited about our future for both Aerie and Offline. We are well-positioned for the remainder of the holiday season and continue to believe in the substantial long-term opportunities ahead. Moving to American Eagle, which posted a positive January comp, demonstrating a meaningful improvement from the spring season. Positive demand was fueled by trend-right new fall collection combined with bold marketing and exciting product collaborations. Underpinned by our dominance in denim, our strategies to reset the brand and firmly position American Eagle at the center of culture are beginning to yield results. The quarter marks an improvement in our men's business, where we saw nice wins across tops, sweaters, fleece, graphics, and knits. All areas we have been working to recapture. Bottoms provided a stable foundation with jeans and non-denim pants trending positive. And favorable trends have continued into the fourth quarter reflecting the positive reception of our new product. In women's, although we had a very good back-to-school season, the quarter in total was not as strong. Robust demand early in the period led to a number of

out-of-stocks in some of our best-selling items. Non-denim bottoms, shirts, and dresses proved more challenging, while knit and fleece tops as well as jeans were positive highlights, where we continue to see strong demand. And importantly, better in-stocks late in the quarter drove positive results which has continued into the fourth quarter. AE is a true holiday destination with amazing gift-giving focus combined with fun fashion and party dressing. The response to date has been highly encouraging. Now shifting gears to marketing. This fall season, American Eagle launched its largest, most impactful advertising campaigns ever, which are delivering results. By collaborating with high-profile partners who are defining culture, we are attracting more customers and have more eyes on the brand than ever before. Combined, the Sydney Sweeney and Travis Kelce partnerships have garnered more than 44 billion impressions. Total customer counts are up across brands, and customer loyalty grew 4% in the quarter. AE is clearly building long-term awareness and desirability, and has captured the attention of both new and existing customers. Traffic has also increased consistently throughout the quarter, which is most evident within our digital selling channels that include both AE and Aerie. Although it's still early days of our renewed marketing strategy, we know that having the right talent amplifies our brand and product at key moments. We are very encouraged by our progress and expect to continue fueling brand excitement into 2026 and beyond. Our recent holiday campaign with Martha Stewart is yet another example of how we are creating fun moments to delight our customers while reinforcing our position as the go-to gifting destination. The holiday season's in full swing, and as Jay mentioned, we are encouraged with the results so far. We are heads down and focused on the rest of the year to deliver long-term sales and bottom-line growth. Thanks to our amazing teams, and thanks to all of you for your ongoing support. I wish everyone a happy and healthy holiday season. And with that, I'll turn the call over to Mike.

Mike Mathias: Thanks, and good afternoon, everyone. I'm pleased to see the steady progress throughout our business, which led to strong revenue and profit above our expectations in the third quarter. In addition to generating a meaningful top-line improvement, we successfully controlled costs, created efficiencies, managed promotions, and navigated through a highly dynamic sourcing environment, minimizing the impact of tariffs. Consolidated revenue of \$1.36 billion increased percent to last year fueled by comparable sales growth of 4% with Aerie up 11% and AE up 1%. We saw growth in transactions across brands driven by higher traffic. The average unit retail price was flat to last year. Gross profit dollars of \$552 million increased 5% reflecting higher demand. The gross margin declined 40 basis points to 40.5%, compared to 40.9% last year. Net tariff pressure was as expected at \$20 million or 150 basis points. Higher markdowns were largely offset by positive sales growth and lower non-tariff costs, including favorability in freight. Buying occupancy and warehousing leverage 20 basis points due to higher sales and a continued focus on operational improvements. For example, we drove lower cost per shipment within our direct business, which has been an area of ongoing focus. SG&A; increased 10% due to investment in advertising as previously discussed. With our focus on long-term brand benefits, the campaigns are already delivering results and helping to advance our goal of expanding our reach and generating growth across brands. The balance of expense is leveraged reflecting our ongoing cost management program. Operating income of \$113 million was above our guidance of \$95 million to \$100 million driven by stronger-than-expected demand. The operating margin of 8.3% declined from an adjusted margin of 9.6% last year. Consolidated ending inventory cost was up 11%, with units up 8%. Inventories balanced across brands, reflecting better in-stocks for American Eagle jeans, new store openings, and the demand acceleration at Aerie and Offline. The increase in cost includes the impact of tariffs. Third-quarter CapEx totaled \$70 million bringing year-to-date spend to \$202 million. We continue to expect CapEx of approximately \$275 million for the year. As a reminder, this includes a one-time spend of about \$40 million to relocate our New York design center. As we previously disclosed, we're on track to open 22 Aerie and 26 Offline stores which are coming out of the gate quite strong. We'll complete about 50 AE store remodels with full upgrades to our modern design. A few great examples of recent store upgrades are the Aventura Mall and Sawgrass Mills in Miami, and our new SoHo location in New York City. All of these A-plus stores are among our best and we want to ensure the customer experience is unmatched. The upgraded footprints have allowed us to showcase our signature brands, AE, Aerie, and Offline. We're utilizing new technologies to elevate the shopping journey, create a cohesive and modern retail experience.

Overall, our remodeling program is generating comps nicely above the average. As we continue to position our fleet for profitable growth, we're also on track to close about 35 lower productivity AE stores. Our capital allocation priorities remain unchanged, and we're focused on prudently investing in growth to continue to build our brands while returning excess cash to shareholders through dividends and share repurchases. As a reminder, during the first half of this year, share repurchases totaled \$231 million and year-to-date dividend payments have totaled \$64 million. We have a strong balance sheet and ended the period with cash of \$113 million, and total liquidity of approximately \$560 million. Now turning to our outlook. The fourth quarter is off to an excellent start. As the team noted, we're encouraged by the broad-based strength across brands and channels, with particular strength in Aerie and Offline. Our inventory and product offerings are well-positioned to deliver a successful holiday season, and we're all focused on achieving a strong fourth-quarter result. Based on quarter-to-date sales trends and the recognition that we have important selling weeks still ahead, we are raising our fourth-quarter operating income guidance to a range of \$155 million to \$160 million based on comp sales growth of 8% to 9% with similar growth in total revenue. Guidance includes approximately \$50 million in 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. SG&A is expected to increase in the low to mid-single digits driven by investments in advertising. Given the top-line strength, we expect both BOW and SG&A to leverage in the fourth quarter. The tax rate is estimated to be approximately 28%, and the weighted average share count will be roughly 173 million. To wrap up our prepared remarks, clearly, we're very encouraged by the progress made across our brands. We're highly focused on delivering the remainder of the year, driving strong profit flow through, and sustaining this momentum into 2026. Now we'll open up the call for questions.

Operator: We will now begin the question and answer session. To ask a question, you may press star, then 1 on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star and then 2. Also, please limit yourself to one question and one follow-up. Re-queue to ask additional questions. The first question comes from Jay Sole with UBS. Please go ahead.

Jay Sole: Great. Thanks so much. My first question, I think, is for Mike. You talked about the acceleration fourth quarter to date. And you raised the guidance, the comp guidance, I think you said 8% to 9%, that's pretty significant from where you ended Q3. Can you just talk about where you're trending for today to be able to guide to that level? And what's driven the acceleration? And then maybe Jen, you mentioned strength in denim, if you could elaborate a little bit. If people aren't wearing skinny denim like they were, like, what are the new silhouettes that are working? And how durable are those trends? Do you think the trends that you're seeing can last, you know, well into 2026? Or beyond? And if you can help us on that, that'd be great.

Mike Mathias: Yeah. Thanks, Jay. I can talk you through the guidance. So the 8% to 9% comp increase includes nice improvements or acceleration for both brands quarter to date what we just reported in Q3. I would say if when to break it down by brand, we'd be looking for the AE brand to be in the low to mid-single digits. And Aerie in the high teens. Mixing to that 8% to 9% comp in both brands are ahead of that quarter to date. But we know we've got, you know, some big weeks ahead of us. It's only about half a quarter in. But definitely pleased with how November turned out and where we are quarter to date through Thanksgiving weekend.

Jennifer Foyle: Yeah. And denim has been very strong. In fact, particularly in women's, we saw acceleration throughout the quarter. Getting into the back half of Q3 and into black. It's been our number one Black Friday as far as denim is concerned. The jeans are certainly winning for us, and as you know, that's our key competency business. Look. Silhouettes are changing faster than ever, and you know, I always reemphasize that our team strategically do just extensive testing, and scaling. And, you know, we did have some out of stocks, particularly in women's Q3. KneeSweeney certainly accelerated some of that, and we needed to move swiftly to get back into business. And, I like what we're seeing in the denim business. So we're excited, you know, at the end of Q3 and headed into Q4.

Operator: And the next question comes from Matthew Boss with JPMorgan. Please go ahead.

Matthew Boss: Great. Thanks, and congrats on the improvement.

Jay Schottenstein: Thanks, Matt.

Matthew Boss: So, Jen, at Aerie, maybe if we could dig a little deeper. Could you speak to the drivers of the same-store sales improvement over the past two straight quarters? And with that, I guess maybe could you break into customer acquisition trends that you're seeing initiatives in place to sustain double-digit comp growth in your view?

Jennifer Foyle: Yeah. It's certainly exciting to see Aerie back on track. You know, coming off of Q1, we definitely needed to pivot as a team. And we really hunkered down and really, you know, thought about our strategy and what we needed to get back to win. Not only coming from our core competency businesses, which all accelerated and have been accelerating, starting in Q3 into Q4, but also there's new businesses in town. You know, sleep is doing quite well for us, and it's proving to be a year-round business for us, so a new category there. So, obviously, we have Offline too, which is, you know, our secondary business. Coming off of the Aerie, and that business is proven where you're hearing some desal in the athletic apparel areas. We're holding our own, and our leggings are still tried and true and winning for us. The customer acquisition has been strong. Our customers are spending more. We're seeing even so. So coming off of Q3, their actual acquisition has been accelerating. As we head into Q4, last week was an incredible week for Aerie where we saw a huge amount of customer acquisition. So we are taking advantage of our traffic. We're winning our customers. I think we're showing up really proudly. You know, we launched our new 100% real campaign. Which is tied to our core competency of how we launch this business, what our platform is. And it's talking to our community. It's speaking to her. It's playing off of no airbrushing our models. And now we've leveraged some of that into the AI world and thinking about how we approach that differently. So Aerie does things differently. We always think, you know, into the white space that sometimes can be scary, but we're so proud of what we do in this brand. And I think the team is doing an incredible job leveraging our community, amplifying marketing, but also it's 100% about our product. What we do every day is about our product and winning our customer.

Matthew Boss: That's great. And then, Mike, could you speak to expectations for markdowns in the fourth quarter relative to the third quarter, just overall health of your inventory and how best to think about gross margin levers remaining into next year?

Mike Mathias: I can start with inventory, Matt. I mean, we're very pleased and comfortable with the plus 11 in total dollars, plus eight in units. It's positioned well to continue to fuel this Aerie and Offline trend. We definitely, as Jen talked about in her remarks, kinda resetting some denim inventory to make sure we're continuing to be in stock and, you know, don't miss a sale within the AE jeans category. And, again, that plus 11 cost includes the impact of tariffs along with, you know, just supporting those businesses. On the markdown front, look. We competed in the third quarter. Markdowns are up a little bit in terms of, you know, the total impact of the quarter. Expect Q4 to be similar. We're just gonna ready to compete in these big days. We competed over the weekend. This November to trend that we've seen or the quarter day trend includes a little uptick in markdowns to compete, but definitely winning in terms of the top-line growth and the overall margin dollar growth is a testament to that. And it is in a couple places. I mean, Aerie is similar markdown rate to last year. So you're we're driving this trend on yeah, on markdown rates similar to history. We're not driving it through promotion. And then it really is competing in jeans more than anything from a category perspective that's adding to the markdown a bit. But we're you know, we think that's the right strategy from here. Gross margin then in total, really pleased with the third quarter results. We talked we disclosed the or we hit the \$20 million guidance roughly on the tariff impact. That's about 150 basis points. But as you can see, gross margin only deleveraged by 40 on the four comp. So the team is doing a great job not only just mitigating tariffs on the front end, but then finding cut-off opportunities and efficiencies on other non-tariff impacted line items within our cost. We highlighted freight but there's more work than just on the freight line. So Q4 is similar. I mean, we're guiding to a \$50 million impact in the kind of the net absolute value or the net impact of that absolute impact of that would be about 300 basis points. But we're obviously not guiding gross margin down that much. So we expect to see the same opportunities in terms of offsets and other line items. And then just on an eight to nine comp, obviously, we're leveraging a lot of expense lines that are up in gross margin, including NBOW, so including rent, digital delivery, distribution, cost, compensation up there as well. But other cost line items within our product costs are being leveraged

too. Continue to expect to do that go forward.

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

Paul Lejuez: Hi. This is Kelly on for Paul. Thanks for taking our question. First question for you guys, just could you talk about why you know, given you've had these very splashy and high-profile marketing campaigns that were more kind of you know, more based on or were American Eagle marketing campaigns and why you didn't see that accrue more to AE versus you know, what you're seeing in Aerie where it seems like you're benefiting a lot from whether that's the product assortment or maybe some of the marketing campaigns. Just help us kind of understand what's happening there. And then just secondly, on the tariff impact, I think you said \$50 million impact in the fourth quarter. Is that the right net tariff impact that we should be thinking about for the 2020? Thanks.

Jennifer Foyle: Sure. You know, as a company, we're leaning into advertising. We need to compete, you know, when we see what our competition's doing. You know, there was definitely opportunity for us to lean in and certainly, Sydney Sweeney and Travis, I mean, with the 44 billion impressions, really it was, you know, something that we did not expect. And certainly, you know, I mentioned some of the out of stocks in women's particularly, but men's certainly turned around, in the mid-single-digit comp zone, and that was really we were we were so pleased to see that. And I just wanted to say sometimes there's a halo effect in marketing. Right? So as we saw the as we got into in stock as denim, you know, we got our stock in stocks back to, more normalized levels towards the end of the quarter. We saw acceleration particularly in women's and into black, as I mentioned. It was, an incredible week for us, Thanksgiving week, and you know, Friday was amazing. So, we're seeing the results now. And, look. This is important for our future. We need to remain strong and competitive, and we need to amplify our product. The teams have been working tirelessly on, this, you know, price value equation that I think American Eagle does better than anyone. And, and we're leaning in. And this marketing will certainly amplify.

Jay Schottenstein: Okay. Then Jen, I'd like to also add. We also seen a significant increase in our loyalty members too. Saw over a million more loyalty members join us. In these past NBA in these past few months. And as Jen said, you don't see it right away. And she also pointed out that it's interesting with Cindy Sweeney, the jeans that we had made specifically for Cindy Sweeney, they sold out, like, within two days. They boomed right out right away.

Mike Mathias: Then I can take the tariff question? I think maybe the best way to provide some color is just to give the quarterly impact. So we'd expect to go forward if tariffs hold as is in terms of the impact. We'll see how that continues to progress. About a \$25 to \$30 million impact in each of the first and second quarter. So call it somewhere between 200, maybe 225 basis points of impact in Q1. Same impact in Q2. \$40 to \$60 million, call it, in the first half. Next Q3, on the \$20 million we just incurred in Q3, we expect Q3 on a full basis to be about a \$35 to \$40 million. So call it \$15 million to \$20 million impact incrementally next year. And then we'd anniversary the roughly \$50 million that we're guiding to this fourth quarter. So it's about a 200 to 225 basis point impact on a full-year basis. But, again, with continued offsets in work, we'd expect the gross margin to not be impacted to that level just like we've seen here in Q3 and Q4.

Jay Schottenstein: Really, Mike, there may be, like, a Supreme Court ruling coming on shortly too. Like, you know, and, you know, it may have changed everything right away. Who knows?

Paul Lejuez: So the assumption then would be that you would be taking some like-for-like pricing into next year?

Mike Mathias: Yes. I think, I mean, on the pricing front, we definitely do not have a specific strategy to pass through the impact of tariffs to our customers. We continue to take shots where we know we can, where we're making price moves that, you know, we still fit within our price value equation that the customer expects, and we don't see any resistance to those price changes from the customer. And just ticket changes that allow us to create a little more room on the promotional front too to make some decisions within our lease lines. So continue to do that. I think we're seeing success doing or approaching it that way in the back half right now. We'll continue to do that next year.

Paul Lejuez: Thanks, Pete. Thank you. Best of luck.

Operator: And the next question comes from Jonah Kim with TD Cowen. Please go ahead.

Jonah Kim: You mentioned strong customer acquisition across both brands. Maybe you can give us a

little bit more detail around who those customers are and if you're gaining more higher-income cohorts. Just curious on who you are gaining share from as you acquire new customers? And then another question as a follow-up to that is what are your strategies around retaining those customers you gain in the last two quarters? Thank you so much.

Jennifer Foyle: Look. Both brands have, you know, our customer file is stronger than ever. And we certainly have seen acceleration, as I mentioned, with some, you know, really high it's going into even leaving Q3, you know, exiting Q3 and going into Q4. It's really high-end problems here that we're seeing. Look. It's what we do every day. Our teams need to certainly focus on the retention, and we've been all year long. That's what we've been up to. Our retention is not even we're winning on retention. We are winning on customer acquisition. The teams have strategies. You know? Those tend to not share publicly, but the strategies are already, you know, paying off. You can see it in the news that we're reporting today. You know, we're getting talent. We're working on our influencer programs. But we're also working on our communities. And that is the most important thing. You know, we have powerful brand platforms that we stand for something. And it wears the test of time. And when that works and we have the great product attached to it, we can win and show up in a new way. And the teams have very many strategies, whether it's, you know, upper funnel, getting out there and bringing in new customers or working on our performance marketing spend and our influencer strategies. So it's not only it's never about one part of the strategy. It's about getting the product right first and making sure that our tactics will amplify that strategy. Certainly, Sydney you know, an example, Sydney and Travis, but even the more recent Martha, I mean, that is talent that's upper funnel. You know, that is you know, us getting our brands out there in new ways. But if you let lean into Aerie and how they're working, their marketing strategy, they're leveraging our community in a new way and showing up with how do we go from not airbrushing our models, I just mentioned, into what does AI mean to, such a pure brand as Aerie with such an amazing platform. So it is about we have two different brands. We have a portfolio of brands at the same token that we leverage our brands. Certainly, we share platform, but it is about making sure that we play up each brand DNA in the right way and it's working. That strategy is working. I can just I can say that now, and there's work to do always. As we look ahead, we have exciting collaborations, new talent, and just new ideas. We're constantly thinking of new ideas.

Jonah Kim: Got it. Thank you.

Operator: And the next question comes from Rick Patel with Raymond James.

Rick Patel: I wanted to double click on your expectations for AUR in Q4. As we think about the company remaining competitive with promotions, but also factoring in some product and perhaps some pricing wins, where do you see AUR landing in the fourth quarter? And then second, what are your expectations for where inventory will end the year, both in terms of dollars and units?

Mike Mathias: Eric, yes. The AUR for the third quarter is flat even with a bit of a markdown increase just the mix of the mix of the businesses between the brands, category mix, our AURs relatively flat at company level. We're expecting a similar thing in Q4. November to date here, we saw it play out that way. Aerie's actually driving these comps on some uptick in AUR. Know we're spending a little more markdowns in the jeans category in AE to drive the business. So the mix for the quarter we'd expect right now to be similar. Around a relatively flat AUR for the fourth quarter. And I think, you know, way we'd really expect to plan the business go forward.

Rick Patel: Great. Any thoughts on inventory?

Mike Mathias: Q4, we're not providing specific guidance. But, at the end of the day here, with the uptick in the trend, exceeding plans, we're definitely in chase mode here. Which is a good thing. So when we make a we we we have we see a lot of profit flow through when we're doing that. Especially on the Aerie side of the house. So we expect, you know, inventory in line with sales. You know, we're guiding to the plus, eight to nine comp. And as of now, I'd expect similar kind of, you know, inventory line with sales or lease units in line with the sales growth knowing there'll be a tariff impact. Ongoing. But we're not not providing specific guidance at this point, but that's what we'd expect to see.

Rick Patel: Thanks very much.

Operator: And the next question comes from Chris Nardone with Bank of America. Please go ahead.

Chris Nardone: Thanks, guys. Good afternoon. So first, can you just refresh us on how we should think about plans for both the Eagle and Aerie store fleets heading into next year? And if the recent results of

both businesses have changed, how you're thinking about that versus maybe ninety days ago?

Mike Mathias: Yeah, Chris. I think for the AE brand, we talked about closing roughly 35 stores at the end of this year. You know, we're looking forward into plans next year, and we expect that to slow down as we've largely closed, I think, over the last three, four years kind of the lower productivity stores in the fleet. On the in the mainline AE fleet. So 35 at the end of this year here in January, maybe something lower than that, I would expect next year. On the Aerie and Offline growth front, we talked about 22 Aerie 26 Offline openings this year in 2025. We're looking at a similar 40 to 50 store count at the moment. Probably similar waiting Offline, a little higher count Offline than Aerie. But we are looking at this tremendous growth, and if we did anything, we'd maybe accelerate some openings on the Aerie and Offline side, but those plans are still in work. Right now, a similar 40 to 50 count is what's in the plan.

Chris Nardone: Okay. Got it. And then just a quick follow-up. Think you alluded Aerie comps are running above the high teens for the quarter, quarter to date. And if AUR is roughly flattish, can you just unpack a little bit further? It sounds like you're seeing inflections across the product suite. But are there particular channels, whether that's digital versus retail, or certain categories where you're seeing the biggest inflection? Just trying to understand a little bit better what has changed so drastically over the last six months.

Mike Mathias: Yeah. Look. Correct. The guidance we're giving at the eight to nine comp I'll just reiterate, American Eagle low to mid-single expectations, Aerie high teens, both brands are running ahead of that trend November to date or through the Thanksgiving weekend. Digital ahead of stores. And I think you know, the marketing campaigns that Jen and Jay are talking about, the traffic we're seeing digitally off of those campaigns, is significant, and that's where we're seeing a lot of the gains from those efforts and from the effectiveness of those campaigns. So digital was both channels were positive in Q3, but digital was on a the high end or the high single-digit level for Q3. And we'd expect for Q4 at a plus eight to nine, same kind of outcome that digital would really outpace stores, and we've seen that through November and especially over the holiday weekend here where both channels were positive, and we're happy with success in both channels, but digital is where we're seeing the outpaced growth at the moment.

Jennifer Foyle: And in Aerie specifically, I mean, as I mentioned before, men's, we saw an incredible turnaround. In Aerie specifically, all categories are working. Look. The team when you have to pivot coming off of Q1, we focused on our product and winning that customer back and ensuring that we could get that momentum, that we deserve again. This brand is incredible. And I did want to say, I need to remind everyone on this call that Aerie's brand is only at 55 to 60%. So when I think about our opportunity as we, you know, build into February 2026. We have an incredible runway in front of us. So we're pulling in product as we speak. We're chasing and the team's working fast and furiously so that we can continue this momentum into next year.

Jay Schottenstein: And also, Jen, I think our merchandise is better too. Which helps.

Jennifer Foyle: I'd like to say that. Yes.

Chris Nardone: Alright. Thank you, guys. Best of luck.

Operator: And the next question comes from Alex Straton with Morgan Stanley. Please go ahead.

Alexandra Straton: Thanks so much, and congrats on a nice quarter. On these big campaigns that you guys have pursued, you just give us some context on where you think you'll end the year on marketing expense as a percentage of sales versus typical. Like, are you investing more than history? And then as we think about next year, should that line item continue to move higher? Or how do you think about kind of that flywheel between the marketing investment and growth?

Mike Mathias: For this year, yes. We're I mean, obviously, we made a significant investment in Q3. Q4 is up as well within our guidance, not anywhere near the increase on a percentage basis to Q3 was. Really pleased with the SG&A; leverage we'll see in Q4 off of this comp guide. Advertising is still deleveraging a bit, but we're leveraging all other expense categories as intended pretty significantly in the fourth quarter. For the year, we're gonna wind up somewhere in the mid-fours as a percentage. And historically, we've been more in the like, last year, for example, around 4%. So we're definitely resetting a baseline for advertising spend at the moment. It's working. We're continuing to monitor it. Jen and I have and our teams are working very closely and cross-functionally on really on a week-to-week basis,

how we're pulsing the spend in advertising on top of the campaigns that are obviously planned well ahead of time. I'd expect we expect in our initial plans here for next year is to continue this in the first half. Possibly passing more toward a 5% type of rate to reset ourselves and then leverage all other expense lines, funnel some expense some investment toward advertising. An anniversary this come next, you know, next year around this time in the third quarter. I think that 5% is a good sweet spot that we'd like to maintain over time. So as we're kinda resetting the baseline, we're passing toward 5%. Like the top-line growth we're seeing from it, again, just to reiterate, anniversary it come next year and start to just maintain that type of rate, and we'll evaluate things from there.

Jay Schottenstein: And, Mike, can we have some other we have some tricks in the bag too? We're not saying, but we have more tricks in the bag.

Mike Mathias: Yeah. There's more to come. We'll talk we've seen things on our fourth-quarter call in March probably to talk about more exciting things to come.

Alexandra Straton: That's great. Maybe one follow-up for you, Mike. Just kinda zooming out here. I know there's been some wrenches in your medium-term outlook since you provided it a couple of years ago. But maybe as we move into the final year of that plan and excluding some of the non-controllable headwinds like tariffs, can you just like big picture talk about where you've made the most progress versus that plan and where there's still more work to be done in this final year here?

Mike Mathias: Yeah. I mean, I'll stop on starting the top line. I know it'd be obviously had a few missteps here in the first half of the year in the first quarter, but the net result of this year with this guide is actually gonna wind up kind of in that low to mid-single or, you know, within the algorithm we talked about wanting to achieve every year. So, you know, we'll be at a kinda low single-digit trajectory on a full year with this back half being, you know, kinda mid to high mid to high single-digit range. So I think that's the continued focus. I'd also say we made a lot of headway in just the culture change around expenses in total. We continue to control costs across the P&L.; I think the leverage that we see that we're seeing here in BOW this back half of the year and then SG&A; in this fourth quarter is a testament to that. Even with the significant increase in advertising this year, you know, you just asked about, I just provided the color on, all the other SG&A; line items are leveraging in this year. And SG&A; in total will be relatively flat. On the year at the kind of low single-digit total year outcome. So that's a big change for us over the last several years. It's been a massive focus to have a different mentality around controlling expense, allowing us to funnel some of these dollars toward advertising. And so we'll continue to do that. Yeah, to your point, you know, the tariff headwind is something we can't control, but mean, our goal is still this 10% aspiration. Tariff's gonna set that back a little bit. But we're gonna continue down the path that we're on on controlling all other costs. Investing some dollars in advertising, fueling Aerie and Offline, you know, hitting that kinda low single plus trajectory in AE. And, you know, pathing back toward that 10% that is still our ultimate goal.

Jay Schottenstein: Yeah. And, Mike, you know, as a general thing, this team, after the first quarter and, you know, Jen couldn't emphasize it enough. Really took a hard look at everything. We went through all the different areas of the business. Every single area, every opportunity, the merchandise, to the operations, looking where, you know, where you know, what you know, what's important, what's not important to the company. The dedication of the associates has been amazing the last few months. And I'm so proud of this team because that first quarter, we got kicked very hard and nobody quit. Nobody cried about it. Nobody quit. Everybody went to figure out how can we do things better. Transformational, looking for where the real opportunities are, looking for where we should go in the future, where the opportunities are, and what's it gonna take to be the best. And one thing I'm very proud of, if you go into our stores, we have the best-looking stores, the best-maintained stores in the mall. If you walk in the mall, our stores look the best. If you don't look at our new store, stores, you go to down to Soho, and you look at our new store we just opened in Soho, you go to Aventura down in Miami, you'd be very impressed by the stores. They're very, very impressive stores. They're very functional stores. And so, you know, I think that, you know, that we're very excited. I know what we have planned for marketing next year. Know where the merchants are focused. I know the excitement that everybody has in this company. And it's gonna be great.

Operator: And the next question comes from Janet Kloppenburg with JJK Research Associates. Please go ahead.

Janet Kloppenburg: Hi, everybody, and I'm glad congratulations, and Jay, I agree the stores look terrific. Aerie in particular, but American Eagle as well. I just wanted to ask about I think you had to chase product earlier in the year. As well. Jen. And I'm wondering what's going on there. And if that situation is resolved now. With the comps being as healthy as they are, and then for Mike, on a 4% comp, you weren't able did you leverage buying an occupancy? I think you may have. And what is the is the target point on that? And in terms of price increases, are they all behind you now? Have you taken them all? Or are there more to come? Thank you.

Jennifer Foyle: Yes. For sure. Thanks, by the way, Janet. It's primarily, it's been in women's denim. To be frank. We've been sort of on in chase mode since Q1 and, you know, quite frankly, we haven't been able to keep up with the demands. And, you know, as you know, we have a huge short business, and that business never really turned on. You know, we expect shorts to turn on and that never happened. So then we continue to see as we enter Q2, you know, back half of Q1 into Q2, this demand in long legs, and we really couldn't keep up with that demand. So moving into Q3, we felt like we were in a better position, but we wanted to be prudent as well with our inventories as as you know, denim is probably our higher cost of goods as well. But it's our biggest business. So it's always an art managing that business. And, with the launch of the Sydney Sweeney and actually Travis, you know, we couldn't really keep up with that demand. The team's worked swiftly. We were definitely in the right businesses. We definitely had the right silos and the right investment in silhouettes. Which led to some of that out of stock. Good news there. Bad news, we needed a little bit more inventory to carry and to and to get that business move you know, to get women's in total, because of the penetration of denim. So good news is, certainly in the back half of Q3, we saw nice, levels of inventory getting back into our key silhouettes. The top five jeans, just to give you some perspective, we planned at up this is, you know, just top five jean styles in women's. We planned up 25%. They were up 50% on demand. So, we had a lot of work to do. We feel better as we head into Q4. And nodding to what Mike mentioned, we're going to look at denim a little bit differently so that we're all you know, we're maintaining that business while we grow new categories.

Mike Mathias: And, Jan, on 20 basis points in the third quarter on the four comp. And then, you know, that's a good target for us, that low to mid-single-digit result to leverage expense really across the board other than this advertising reset we're talking about. And then the fourth quarter on the eight to nine comp, we'd obviously definitely expect a large BOW with that kind of result as well. And SG&A; will leverage significantly on that kind of result for the fourth quarter.

Janet Kloppenburg: Okay. And then just on pricing.

Mike Mathias: Yeah. We talked about a little earlier. We're not I mean, AOR is flat for Q3. We're expecting similar AUR in Q4. We're not passing through the impact of tariffs to the consumer purposely. We are taking our shots on price moves where, you know, as Jen has said, keeping maintaining that price value equation that our customer expects and making sure we're not impacting conversion. And give ourselves a little room on the promotional side when we do that as well. So we'll continue to kind of optimize that, take our shots, but you know, net AUR similar to last year, is the intent.

Operator: And the next question comes from Janine Stitche with BTIG. Please go ahead.

Janine Stitche: Hi. Thanks for taking my question, and congrats on a great quarter. With this quarter-to-date acceleration, it sounds like a lot of it's been driven by traffic and new customer acquisition. Just wondering what you're seeing on conversion, particularly with some of the product improvements you've made. And then maybe if you can just share your thoughts on the Gen Z consumer. We've certainly heard a lot about that consumer potentially being pressured and pulling back, but does it seem like you're seeing that at all in your business. So I'd just love to hear your thoughts on kind of where the consumer is and how they're spending.

Mike Mathias: Yeah. I think on the metric side of things, traffic was definitely a driver in Q3. We continue to see that here in the fourth quarter through November. With AUR flat, it's been a mix of sort of traffic and then ADS or, you know, the UPT part of the ADS equation. AUR flat, some uptick in UPTs, and then traffic with conversion being relatively flat. With AUR being relatively flat. That's sort of your mix of metrics that, we saw in the third quarter and, you know, early days here in Q4. Obviously, a big traffic uptick that we've capitalized on through November and through Thanksgiving, and we'll see how

that continues to play out, but with AUR relatively flat. Would assume a similar kind of mix of metrics. Traffic being a driver, ADS being a driver with AUR flat, conversion relatively flat. And we'll see how it pans out through December.

Jennifer Foyle: Yeah. We are we're not feeling that you know, we're entertaining Gen Z in all of our brands. So, even when you look at Martha Stewart, that might be a question mark. Right? Why Martha Stewart? But Martha Stewart resonates with Gen Z. That's a perfect example of what we're up to. We're seeing momentum in all age groups. We do have still some opportunity on the lower age scale in AE women's in particular. And we're up to, you know, invigorating some product to entertain that age bracket. But, honestly, you know, we're not seeing it. And, also, this is a critical time too for giving too. So we see mom and dad out there purchasing as well.

Operator: We have time for one more question. Last question comes from Corey Tarlowe with Jefferies. Please go ahead.

Corey Tarlowe: Great. Thanks for taking my question. Mike, I just wanted to ask on SG&A; for Q3 and Q4 and just kinda how to think about it next year from a dollar perspective. Is there anything that either comes in or goes out, whether it's marketing, I think you talked maybe you talked about incentive comp in prior years, how to think about that. Just structurally understanding on a rate basis, obviously, with Q4 sales being so strong. Gonna be a bit of a delta there, but curious what you could unpack for us. Thanks so much.

Mike Mathias: Sure. Yes. I think, as I said, we'd expect to see continued investment in advertising through the 5% rate annually. So we'll anniversary things in the back half that we're doing currently. Incentive comp's a bit of a TBD. We're still setting plans for 2026. Those annual plans are based on our EBIT target is the success metric. So we'll probably we'll give more color in March around 2026 SG&A; and how we think that'll pan out by quarter. With advertising and possibly a bit of more incentive comp in the mix. The more to come in March.

Corey Tarlowe: Great. Thanks. And then just a quick follow-up on Aerie. The momentum has been very, very strong. Curious what you think is specifically working there versus the competition when you either walk the mall or view kind of the competitive set? How you think about your market share gains and the opportunity there? Thanks so much.

Jennifer Foyle: Yeah. I did mention the brand awareness still is, you know, we have opportunity there. We're still only at 55% to 60%. So as we gain, you know, and look towards the future, we have a lot of opportunity there. You know, it's never about one thing. Certainly, we double downed on the product. The design team and merchant team really came together. And thought about our future strategies and where we were seeing some, you know, losses and how we recalibrated all of our categories. And the team did an excellent job from launching new ideas to, you know, rebuilding old franchises, i.e., undies. Undies is a fire starter for an or for, you know, any order, any basket. And, our undies tables have never looked better. So it's all about the product. But, strategically, we built into promotions that make sense. But we pulled back in other areas where it doesn't make sense. And then you layer on this great marketing campaign that we've had in Aerie, which it's been really resonating, 100% real. It's what we're all about. And you know, the team's doubled down. And our influencer campaign getting our clothes on our influencers, has been a real win. And, there's more to come. We have so many great new ideas, innovations for the future. The team's 100% locked and loaded on thinking about each category, new fabrications, new ideas, new launches, newness in general, has been a win for Aerie. Our new drops, and that's been really working. So, we have a lot in store for 2026. But in the meantime, we're pulling goods in for to pull out Q4. We're excited about what's happening right now.

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