

ABERCROMBIE & FITCH CO /DE/

Form 10-Q

December 12, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
x 1934

For the quarterly period ended November 3, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-12107

ABERCROMBIE & FITCH CO.

(Exact name of Registrant as specified in its charter)

Delaware

31-1469076

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

6301 Fitch Path, New Albany, Ohio 43054

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (614) 283-6500

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes " No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). x Yes " No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x

Accelerated filer "

Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company "

Emerging growth company "

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).    ☐ Yes    ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A Common Stock    Outstanding at December 7, 2018

\$.01 Par Value                      65,845,073 Shares

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Table of Contents

ABERCROMBIE & FITCH CO.  
TABLE OF CONTENTS

|                                                                                                      | Page No.  |
|------------------------------------------------------------------------------------------------------|-----------|
| <u>Part I</u>                                                                                        |           |
| Item 1. <u>Financial Statements (Unaudited)</u>                                                      |           |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)</u>               | <u>3</u>  |
| <u>Condensed Consolidated Balance Sheets</u>                                                         | <u>4</u>  |
| <u>Condensed Consolidated Statements of Cash Flows</u>                                               | <u>5</u>  |
| <u>Index for Notes to Condensed Consolidated Financial Statements</u>                                | <u>6</u>  |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                          | <u>7</u>  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>22</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>36</u> |
| Item 4. <u>Controls and Procedures</u>                                                               | <u>37</u> |
| <u>Part II</u>                                                                                       |           |
| Item 1. <u>Legal Proceedings</u>                                                                     | <u>38</u> |
| Item 1A. <u>Risk Factors</u>                                                                         | <u>38</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | <u>38</u> |
| Item 6. <u>Exhibits</u>                                                                              | <u>39</u> |
| <u>Signatures</u>                                                                                    | <u>40</u> |

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

ABERCROMBIE & FITCH CO.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)  
(Thousands, except per share amounts)  
(Unaudited)

|                                                                     | Thirteen Weeks Ended |                  | Thirty-nine Weeks Ended |                  |
|---------------------------------------------------------------------|----------------------|------------------|-------------------------|------------------|
|                                                                     | November 3, 2018     | October 28, 2017 | November 3, 2018        | October 28, 2017 |
| Net sales                                                           | \$861,194            | \$859,112        | \$2,434,507             | \$2,299,532      |
| Cost of sales, exclusive of depreciation and amortization           | 333,375              | 332,485          | 957,448                 | 913,085          |
| Gross profit                                                        | 527,819              | 526,627          | 1,477,059               | 1,386,447        |
| Stores and distribution expense                                     | 371,859              | 375,944          | 1,107,566               | 1,105,168        |
| Marketing, general and administrative expense                       | 117,181              | 124,533          | 365,961                 | 343,779          |
| Asset impairment                                                    | 656                  | 3,480            | 10,383                  | 10,345           |
| Other operating income, net                                         | (1,557)              | (70)             | (4,551)                 | (4,555)          |
| Operating income (loss)                                             | 39,680               | 22,740           | (2,300)                 | (68,290)         |
| Interest expense, net                                               | 2,857                | 4,571            | 8,898                   | 12,780           |
| Income (loss) before income taxes                                   | 36,823               | 18,169           | (11,198)                | (81,070)         |
| Income tax expense (benefit)                                        | 12,047               | 7,553            | 8,358                   | (16,062)         |
| Net income (loss)                                                   | 24,776               | 10,616           | (19,556)                | (65,008)         |
| Less: Net income attributable to noncontrolling interests           | 857                  | 541              | 2,839                   | 2,108            |
| Net income (loss) attributable to A&F                               | \$23,919             | \$10,075         | \$(22,395)              | \$(67,116)       |
| Net income (loss) per share attributable to A&F                     |                      |                  |                         |                  |
| Basic                                                               | \$0.36               | \$0.15           | \$(0.33)                | \$(0.98)         |
| Diluted                                                             | \$0.35               | \$0.15           | \$(0.33)                | \$(0.98)         |
| Weighted-average shares outstanding                                 |                      |                  |                         |                  |
| Basic                                                               | 66,818               | 68,512           | 67,775                  | 68,347           |
| Diluted                                                             | 68,308               | 69,425           | 67,775                  | 68,347           |
| Dividends declared per share                                        | \$0.20               | \$0.20           | \$0.60                  | \$0.60           |
| Other comprehensive (loss) income                                   |                      |                  |                         |                  |
| Foreign currency translation, net of tax                            | \$(3,095)            | \$(3,496)        | \$(22,640)              | \$21,183         |
| Derivative financial instruments, net of tax                        | (681)                | 5,518            | 19,026                  | (9,230)          |
| Other comprehensive (loss) income                                   | (3,776)              | 2,022            | (3,614)                 | 11,953           |
| Comprehensive income (loss)                                         | 21,000               | 12,638           | (23,170)                | (53,055)         |
| Less: Comprehensive income attributable to noncontrolling interests | 857                  | 541              | 2,839                   | 2,108            |

|                                                 |          |          |            |            |
|-------------------------------------------------|----------|----------|------------|------------|
| Comprehensive income (loss) attributable to A&F | \$20,143 | \$12,097 | \$(26,009) | \$(55,163) |
|-------------------------------------------------|----------|----------|------------|------------|

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

3

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Table of Contents

ABERCROMBIE & FITCH CO.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Thousands, except par value amounts)  
 (Unaudited)

|                                                                                                                                                     | November<br>3, 2018 | February 3,<br>2018 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Assets                                                                                                                                              |                     |                     |
| Current assets:                                                                                                                                     |                     |                     |
| Cash and equivalents                                                                                                                                | \$520,523           | \$675,558           |
| Receivables                                                                                                                                         | 87,714              | 79,724              |
| Inventories                                                                                                                                         | 572,173             | 424,393             |
| Other current assets                                                                                                                                | 109,888             | 84,863              |
| Total current assets                                                                                                                                | 1,290,298           | 1,264,538           |
| Property and equipment, net                                                                                                                         | 684,527             | 738,182             |
| Other assets                                                                                                                                        | 308,244             | 322,972             |
| Total assets                                                                                                                                        | \$2,283,069         | \$2,325,692         |
| Liabilities and stockholders' equity                                                                                                                |                     |                     |
| Current liabilities:                                                                                                                                |                     |                     |
| Accounts payable                                                                                                                                    | \$266,933           | \$168,868           |
| Accrued expenses                                                                                                                                    | 293,410             | 308,601             |
| Short-term portion of deferred lease credits                                                                                                        | 19,465              | 19,751              |
| Income taxes payable                                                                                                                                | 10,360              | 10,326              |
| Total current liabilities                                                                                                                           | 590,168             | 507,546             |
| Long-term liabilities:                                                                                                                              |                     |                     |
| Long-term portion of deferred lease credits                                                                                                         | 79,667              | 75,648              |
| Long-term portion of borrowings, net                                                                                                                | 250,142             | 249,686             |
| Leasehold financing obligations                                                                                                                     | 46,081              | 50,653              |
| Other liabilities                                                                                                                                   | 182,721             | 189,688             |
| Total long-term liabilities                                                                                                                         | 558,611             | 565,675             |
| Stockholders' equity                                                                                                                                |                     |                     |
| Class A Common Stock - \$0.01 par value: 150,000 shares authorized and 103,300 shares issued at November 3, 2018 and February 3, 2018, respectively | 1,033               | 1,033               |
| Paid-in capital                                                                                                                                     | 406,169             | 406,351             |
| Retained earnings                                                                                                                                   | 2,345,710           | 2,420,552           |
| Accumulated other comprehensive loss, net of tax                                                                                                    | (98,668 )           | (95,054 )           |
| Treasury stock, at average cost: 37,457 and 35,105 shares at November 3, 2018 and February 3, 2018, respectively                                    | (1,529,774 )        | (1,490,503 )        |
| Total Abercrombie & Fitch Co. stockholders' equity                                                                                                  | 1,124,470           | 1,242,379           |
| Noncontrolling interests                                                                                                                            | 9,820               | 10,092              |
| Total stockholders' equity                                                                                                                          | 1,134,290           | 1,252,471           |
| Total liabilities and stockholders' equity                                                                                                          | \$2,283,069         | \$2,325,692         |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.



Table of Contents

ABERCROMBIE & FITCH CO.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Thousands)  
(Unaudited)

|                                                                                 | Thirty-nine Weeks<br>Ended |                     |
|---------------------------------------------------------------------------------|----------------------------|---------------------|
|                                                                                 | November<br>3, 2018        | October<br>28, 2017 |
| Operating activities                                                            |                            |                     |
| Net loss                                                                        | \$(19,556 )                | \$(65,008 )         |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                            |                     |
| Depreciation and amortization                                                   | 136,263                    | 146,147             |
| Asset impairment                                                                | 10,383                     | 10,345              |
| Loss on disposal                                                                | 3,191                      | 5,624               |
| Amortization of deferred lease credits                                          | (16,129 )                  | (16,510 )           |
| Benefit from deferred income taxes                                              | (1,509 )                   | (15,597 )           |
| Share-based compensation                                                        | 16,907                     | 15,774              |
| Changes in assets and liabilities                                               |                            |                     |
| Inventories                                                                     | (159,421 )                 | (167,546 )          |
| Accounts payable and accrued expenses                                           | 105,452                    | 73,214              |
| Lessor construction allowances                                                  | 13,784                     | 12,954              |
| Income taxes                                                                    | (3,171 )                   | 93                  |
| Long-term lease deposits                                                        | 1,213                      | (421 )              |
| Other assets                                                                    | (8,734 )                   | 42,351              |
| Other liabilities                                                               | (1,428 )                   | (10,036 )           |
| Net cash provided by operating activities                                       | 77,245                     | 31,384              |
| Investing activities                                                            |                            |                     |
| Purchases of property and equipment                                             | (98,768 )                  | (86,300 )           |
| Proceeds from sale of property and equipment                                    | —                          | 203                 |
| Net cash used for investing activities                                          | (98,768 )                  | (86,097 )           |
| Financing activities                                                            |                            |                     |
| Purchase of treasury stock                                                      | (68,670 )                  | —                   |
| Dividends paid                                                                  | (40,550 )                  | (40,776 )           |
| Other financing activities                                                      | (8,761 )                   | (2,423 )            |
| Net cash used for financing activities                                          | (117,981 )                 | (43,199 )           |
| Effect of exchange rates on cash                                                | (16,068 )                  | 11,661              |
| Net decrease in cash and equivalents, and restricted cash                       | (155,572 )                 | (86,251 )           |
| Cash and equivalents, and restricted cash, beginning of period                  | 697,955                    | 567,632             |
| Cash and equivalents, and restricted cash, end of period                        | \$542,383                  | \$481,381           |
| Significant non-cash investing activities                                       |                            |                     |
| Change in accrual for construction in progress                                  | \$8,045                    | \$(10,445 )         |
| Supplemental information                                                        |                            |                     |
| Cash paid for interest                                                          | \$10,428                   | \$9,849             |
| Cash paid for income taxes                                                      | \$17,712                   | \$12,322            |
| Cash received from income tax refunds                                           | \$7,477                    | \$27,243            |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

5

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Table of Contents

ABERCROMBIE & FITCH CO.

INDEX FOR NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

|                                                     | Page No.  |
|-----------------------------------------------------|-----------|
| Note 1. <u>Basis of Presentation</u>                | <u>7</u>  |
| Note 2. <u>Net Income (Loss) Per Share</u>          | <u>10</u> |
| Note 3. <u>Fair Value</u>                           | <u>10</u> |
| Note 4. <u>Property and Equipment, Net</u>          | <u>11</u> |
| Note 5. <u>Income Taxes</u>                         | <u>12</u> |
| Note 6. <u>Borrowings</u>                           | <u>13</u> |
| Note 7. <u>Share-based Compensation</u>             | <u>14</u> |
| Note 8. <u>Derivative Instruments</u>               | <u>16</u> |
| Note 9. <u>Accumulated Other Comprehensive Loss</u> | <u>19</u> |
| Note 10. <u>Segment Reporting</u>                   | <u>20</u> |
| Note 11. <u>Contingencies</u>                       | <u>21</u> |

Table of Contents

ABERCROMBIE & FITCH CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

Nature of business

Abercrombie & Fitch Co. (“A&F”), a company incorporated in Delaware in 1996, through its subsidiaries (collectively, A&F and its subsidiaries are referred to as “Abercrombie & Fitch” or the “Company”), is a global, multi-brand, specialty retailer, which primarily sells its products through its wholly-owned store and direct-to-consumer channels, as well as through various third-party wholesale, franchise and licensing arrangements. The Company offers a broad assortment of apparel, personal care products and accessories for men, women and kids under the Hollister, Abercrombie & Fitch and abercrombie kids brands. The Company has operations in North America, Europe, Asia and the Middle East.

Principles of consolidation

The accompanying Condensed Consolidated Financial Statements include historical financial statements of, and transactions applicable to, the Company and reflect its assets, liabilities, results of operations and cash flows.

The Company has interests in a United Arab Emirates business venture and in a Kuwait business venture with Majid al Futtaim Fashion L.L.C. (“MAF”), each of which meets the definition of a variable interest entity (“VIE”). The Company is deemed to be the primary beneficiary of these VIEs; therefore, the Company has consolidated the operating results, assets and liabilities of these VIEs, with MAF’s portion of net income presented as net income attributable to noncontrolling interests (“NCI”) on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and MAF’s portion of equity presented as NCI on the Condensed Consolidated Balance Sheets.

Fiscal year

The Company’s fiscal year ends on the Saturday closest to January 31. All references herein to “Fiscal 2018” and “Fiscal 2017” represent the fifty-two week fiscal year ending on February 2, 2019 and the fifty-three week fiscal year ended on February 3, 2018, respectively.

Interim financial statements

The Condensed Consolidated Financial Statements as of November 3, 2018, and for the thirteen and thirty-nine week periods ended November 3, 2018 and October 28, 2017, are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, the Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in A&F’s Annual Report on Form 10-K for Fiscal 2017 filed with the SEC on April 2, 2018. The February 3, 2018 consolidated balance sheet data, included herein, were derived from audited consolidated financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”).

In the opinion of management, the accompanying Condensed Consolidated Financial Statements reflect all adjustments (which are of a normal recurring nature) necessary to state fairly, in all material respects, the financial position and results of operations and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for Fiscal 2018.



Table of Contents

## Recent accounting pronouncements

The Company reviews recent accounting pronouncements on a quarterly basis and has excluded discussion of those not applicable to the Company and those not expected to have a material impact on the Company's financial statements. The following table provides a brief description of recent accounting pronouncements the Company has adopted or is currently evaluating.

| Accounting Standards Update (ASU)                  | Description                                                                                                                                                                                                                                                                                                                                                     | Date of Adoption | Effect on the Financial Statements or Other Significant Matters                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Standards adopted                                  |                                                                                                                                                                                                                                                                                                                                                                 |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| ASU 2014-09, Revenue from Contracts with Customers | This update superseded the revenue recognition guidance in ASC 605, Revenue Recognition. The new guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. | February 4, 2018 | The Company adopted this guidance and all related amendments using the modified retrospective method, and applied the standard to contracts that were not complete as of the adoption date. Comparative period information has not been restated and continues to be reported under the accounting standards in effect for those periods. This guidance primarily impacts the classification and timing of the recognition of the Company's gift card breakage and timing of direct-to-consumer revenue. Adoption of this guidance had an immaterial impact on net income (loss) attributable to A&F in the Company's Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). |

The cumulative effect of applying the new standard on the Condensed Consolidated Balance Sheets as of November 3, 2018 was recognized as an adjustment to the opening balance of retained earnings, increasing beginning retained earnings by \$6.9 million, with corresponding reductions in accrued expenses, inventories, and other assets of \$4.7 million, \$6.4 million, and \$2.2 million, respectively, and increases to receivables and other current assets of \$6.4 million and \$4.4 million, respectively.

In accordance with the new guidance, expected gift card breakage is now recognized in net sales as gift cards are redeemed. Previously, gift card breakage was recognized as other operating income when the Company determined that the likelihood of redemption was remote. Under the new guidance, direct-to-consumer revenue is recognized when control is passed to the customer, typically upon shipment or pick-up of goods. Previously, direct-to-consumer revenue

was recognized upon customer acceptance, which typically occurred upon the customer's possession of the merchandise. The Company does not expect this guidance to have a material impact on store, direct-to-consumer, wholesale, franchise or license revenues on an ongoing basis.

The Company's revenue recognition accounting policies are discussed further in this Note 1 under "Revenue Recognition."

The Company adopted this guidance under the retrospective method. For the thirty-nine weeks ended October 28, 2017, adoption of this guidance resulted in a \$1.6 million increase in net cash provided by operating activities and increases of \$20.4 million and \$22.1 million to beginning and ending cash, cash equivalents and restricted cash, respectively. In addition, captions have been updated in the Condensed Consolidated Statements of Cash Flows to reflect the inclusion of restricted cash. Restricted cash is classified as other assets on the Condensed Consolidated Balance Sheets, as was the case at year-end.

|                                            |                                                                                                                                                                                                                                                                                                                                       |                     |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| ASU 2016-18,<br>Statement of Cash<br>Flows | This update amends the guidance in ASC 230, Statement of Cash Flows. The new guidance requires an entity to show the changes in total cash, cash equivalents and restricted cash in the statement of cash flows. Consequently, an entity is no longer required to present transfers between cash and equivalents and restricted cash. | February<br>4, 2018 |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|

Standards not yet adopted

|                        |                                                                                                                                                                                                                                                                           |                     |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| ASU 2016-02,<br>Leases | This update supersedes the leasing guidance in ASC 840, Leases. The new guidance requires an entity to recognize lease assets and lease liabilities on the balance sheet and disclose key leasing information that depicts the lease rights and obligations of an entity. | February<br>3, 2019 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|

|                                                                                                                        |                                                                                                                                                                                                                                                     |                     |
|------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| ASU 2017-12,<br>Derivatives and<br>Hedging —<br>Targeted<br>Improvements to<br>Accounting for<br>Hedging<br>Activities | This update amends ASC 815, Derivatives and Hedging. The new guidance simplifies certain aspects of hedge accounting to more accurately present the economic effects of an entity's risk management activities in its financial statements. The new | February<br>3, 2019 |
|------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|

The Company expects that this guidance will result in a material increase in the Company's long-term assets and long-term liabilities on the Company's Condensed Consolidated Balance Sheets for right-of-use assets and lease liabilities as the majority of the Company's retail locations are currently categorized as operating leases. The Company plans to use the optional transition method when adopting the new standard and will be electing the practical expedient package. In addition, the Company is currently evaluating any additional impacts that this guidance may have on its consolidated financial statements, including the impairment of right-of-use assets. The Company expects this guidance will result in a material decrease in the Company's opening retained earnings related to the pre-existing impairment of right-of-use assets. The Company did not elect to early adopt this guidance.

The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements. The Company did not elect to early adopt this guidance.

guidance allows more hedging strategies to be eligible for hedge accounting and aligns the recognition and presentation of the effects of hedging instruments and hedged items within the financial statements. For cash flow and net investment hedges, the guidance requires a modified retrospective approach while the amended presentation and disclosure guidance requires a prospective approach.

## Table of Contents

The Company's significant accounting policies as of November 3, 2018 have not changed materially from those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," of the Notes to Consolidated Financial Statements contained in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of A&F's Annual Report on Form 10-K for Fiscal 2017, with the exception of those discussed below:

### Revenue recognition

The Company recognizes revenue from product sales when control of the good is transferred to the customer, generally upon pick up at, or shipment from, a Company location.

The Company provides shipping and handling services to customers in certain direct-to-consumer transactions. Revenue associated with the related shipping and handling obligations is deferred until the obligation is fulfilled, typically upon the customer's receipt of the merchandise. The related shipping and handling costs are classified in stores and distribution expense on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Revenue is recorded net of estimated returns, associate discounts, promotions and other similar customer incentives. The Company estimates reserves for sales returns based on historical experience among other factors. The sales return reserve is classified in accrued expenses on the Condensed Consolidated Balance Sheets.

The Company accounts for gift cards sold to customers by recognizing an unearned revenue liability at the time of sale, which remains until income from gift cards not expected to be redeemed, referred to as gift card breakage, is recognized as revenue proportionally with gift card redemptions. Gift cards sold to customers do not expire or lose value over periods of inactivity and the Company is not required by law to escheat the value of unredeemed gift cards to the jurisdictions in which it operates.

The Company also maintains loyalty programs, which primarily provides customers with the opportunity to earn points toward future merchandise discount rewards with qualifying purchases. The Company accounts for expected future reward redemptions by recognizing an unearned revenue liability as customers accumulate points, which remains until revenue is recognized at the earlier of redemption or expiration.

Unearned revenue liabilities are primarily recorded when prepayments for future merchandise are received through gift card purchases or when loyalty rewards are earned by a customer in a sales transaction, and are classified in accrued expenses on the Condensed Consolidated Balance Sheets and are typically recognized as revenue within a 12-month period. Unearned revenue liabilities as of November 3, 2018 and the date of adoption, February 4, 2018, were approximately \$41.6 million and \$38.7 million, respectively. On the date of adoption, February 4, 2018, an adjustment related to the adoption of new revenue recognition standards decreased the beginning of period balance by \$6.2 million. For the thirteen and thirty-nine weeks ended November 3, 2018, the Company recognized revenue of approximately \$19.9 million and \$61.2 million, respectively, related to previous deferrals of revenue resulting from the Company's gift card and loyalty programs.

The Company also recognizes revenue under wholesale arrangements, which is generally recognized upon shipment, when control passes to the wholesale partner. Revenue from the Company's franchise and license arrangements, primarily royalties earned upon sale of merchandise, is generally recognized at the time merchandise is sold to the franchisees' retail customers or to the licensees' wholesale customers.

All revenues are recognized in net sales in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). For a discussion of the disaggregation of revenue, refer to Note 10, "SEGMENT REPORTING." The

Company does not include tax amounts collected from customers on behalf of third parties, including sales and indirect taxes, in net sales.

Table of Contents

## 2. NET INCOME (LOSS) PER SHARE

Net income (loss) per basic and diluted share attributable to A&F is computed based on the weighted-average number of outstanding shares of Class A Common Stock (“Common Stock”).

Additional information pertaining to net income (loss) per share attributable to A&F is as follows:

|                                                    | Thirteen Weeks<br>Ended |           | Thirty-nine Weeks<br>Ended |           |
|----------------------------------------------------|-------------------------|-----------|----------------------------|-----------|
|                                                    | November                | October   | November                   | October   |
| (in thousands)                                     | 3, 2018                 | 28, 2017  | 3, 2018                    | 28, 2017  |
| Shares of Common Stock issued                      | 103,300                 | 103,300   | 103,300                    | 103,300   |
| Weighted-average treasury shares                   | (36,482 )               | (34,788 ) | (35,525 )                  | (34,953 ) |
| Weighted-average — basic shares                    | 66,818                  | 68,512    | 67,775                     | 68,347    |
| Dilutive effect of share-based compensation awards | 1,490                   | 913       | —                          | —         |
| Weighted-average — diluted shares                  | 68,308                  | 69,425    | 67,775                     | 68,347    |
| Anti-dilutive shares <sup>(1)</sup>                | 1,925                   | 5,181     | 3,827                      | 5,367     |

Reflects the total number of shares related to outstanding share-based compensation awards that have been

<sup>(1)</sup> excluded from the computation of net income (loss) per diluted share because the impact would have been anti-dilutive.

## 3. FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are prioritized based on a three-level hierarchy. The three levels of inputs to measure fair value are as follows:

Level 1—inputs are unadjusted quoted prices for identical assets or liabilities that are available in active markets that the Company can access at the measurement date.

Level 2—inputs are other than quoted market prices included within Level 1 that are observable for assets or liabilities, directly or indirectly.

Level 3—inputs to the valuation methodology are unobservable.

The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The three levels of the hierarchy and the distribution of the Company’s assets and liabilities that are measured at fair value on a recurring basis were as follows:

|                                                               | Assets and Liabilities at Fair Value<br>as of November 3, 2018 |           |         |           |
|---------------------------------------------------------------|----------------------------------------------------------------|-----------|---------|-----------|
| (in thousands)                                                | Level 1                                                        | Level 2   | Level 3 | Total     |
| Assets:                                                       |                                                                |           |         |           |
| Trust-owned life insurance policies (at cash surrender value) | \$—                                                            | \$105,083 | \$—     | \$105,083 |
| Money market funds                                            | 55,329                                                         | —         | —       | 55,329    |
| Derivative financial instruments                              | —                                                              | 11,056    | —       | 11,056    |
| Total assets                                                  | \$55,329                                                       | \$116,139 | \$—     | \$171,468 |

Liabilities:

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|                                  |     |     |    |      |
|----------------------------------|-----|-----|----|------|
| Derivative financial instruments | \$— | \$— | \$ | —\$— |
| Total liabilities                | \$— | \$— | \$ | —\$— |

Assets and Liabilities at Fair Value  
as of February 3, 2018

| (in thousands)                                                | Level 1   | Level 2   | Level<br>3 | Total      |
|---------------------------------------------------------------|-----------|-----------|------------|------------|
| Assets:                                                       |           |           |            |            |
| Trust-owned life insurance policies (at cash surrender value) | \$—       | \$102,784 | \$         | —\$102,784 |
| Money market funds                                            | 330,649   | —         | —          | 330,649    |
| Derivative financial instruments                              | —         | 37        | —          | 37         |
| Total assets                                                  | \$330,649 | \$102,821 | \$         | —\$433,470 |
| Liabilities:                                                  |           |           |            |            |
| Derivative financial instruments                              | \$—       | \$9,147   | \$         | —\$9,147   |
| Total liabilities                                             | \$—       | \$9,147   | \$         | —\$9,147   |

Table of Contents

The Level 2 assets and liabilities consist of trust-owned life insurance policies and derivative financial instruments, primarily foreign currency exchange forward contracts. The fair value of trust-owned life insurance policies is determined using the cash surrender value of the life insurance policies. The fair value of foreign currency exchange forward contracts is determined using quoted market prices of the same or similar instruments, adjusted for counterparty risk.

## Fair value of borrowings

The Company's borrowings under the Company's credit facilities are carried at historical cost in the accompanying Condensed Consolidated Balance Sheets.

The carrying amount and fair value of the Company's gross borrowings under the term loan credit facility were as follows:

| (in thousands)                                | November 3,<br>2018 | February 3,<br>2018 |
|-----------------------------------------------|---------------------|---------------------|
| Gross borrowings outstanding, carrying amount | \$ 253,250          | \$ 253,250          |
| Gross borrowings outstanding, fair value      | \$ 253,883          | \$ 253,250          |

No borrowings were outstanding under the Company's senior secured revolving credit facility as of November 3, 2018 or February 3, 2018.

## 4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of:

| (in thousands)                                  | November 3,<br>2018 | February 3,<br>2018 |
|-------------------------------------------------|---------------------|---------------------|
| Property and equipment, at cost                 | \$2,814,442         | \$2,821,709         |
| Less: Accumulated depreciation and amortization | (2,129,915 )        | (2,083,527 )        |
| Property and equipment, net                     | \$684,527           | \$738,182           |

The Company incurred store asset impairment charges of \$0.7 million and \$10.4 million for the thirteen and thirty-nine weeks ended November 3, 2018, respectively, and 3.5 million and \$10.3 million for the thirteen and thirty-nine weeks ended October 28, 2017, respectively, primarily related to certain of the Company's international Abercrombie & Fitch stores.

The Company had \$34.7 million and \$38.7 million of construction project assets in property and equipment, net at November 3, 2018 and February 3, 2018, respectively, related to the construction of buildings in certain lease arrangements where the Company is deemed to be the owner of the construction project.

## Table of Contents

### 5. INCOME TAXES

The Company's quarterly tax provision and the estimate of the annual effective tax rate are subject to significant variation due to several factors. These include variability in the pre-tax jurisdictional mix of earnings, changes in how the Company does business including entering into new businesses or geographies, changes in foreign currency exchange rates, changes in law, regulations, interpretations and administrative practices, relative changes of expenses or losses for which tax benefits are not recognized and the impact of discrete items. The impact of these items on the effective tax rate will be greater at lower levels of pre-tax earnings.

#### Tax Cuts and Jobs Act of 2017

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law. The Act makes broad and significantly complex changes to the U.S. corporate income tax system by, among other things: reducing the U.S. federal corporate income tax rate from 35% to 21%; transitioning U.S. international taxation to a modified territorial tax system; and imposing a mandatory one-time deemed repatriation tax, payable over eight years, on accumulated undistributed foreign subsidiary earnings and profits as of December 31, 2017. The Company recognized provisional discrete net tax charges of \$19.9 million related to the enactment of the Act in the fourth quarter of Fiscal 2017.

Primarily due to proposed regulatory guidance issued by the Internal Revenue Service, the Company recognized measurement period charges in an aggregate amount of \$2.4 million during the thirty-nine weeks ended November 3, 2018, which consisted of:

- \$2.0 million of measurement period charges during the thirteen weeks ended August 4, 2018, adjusting the provisional tax amounts related to the mandatory one-time deemed repatriation tax on accumulated undistributed foreign earnings; and,
- \$0.4 million of measurement period net charges during the thirteen weeks ended November 3, 2018, adjusting the provisional tax amounts related to the remeasurement of the Company's ending deferred tax assets and liabilities at February 3, 2018, as well as adjusting the Company's deferred tax liability on unremitted foreign earnings.

As a result of the Company's initial analysis of the impact of the Act and subsequent measurement period adjustments, the Company has incurred discrete net income tax charges in an aggregate amount of \$22.4 million since the enactment of the Act, which consists of:

- \$23.7 million of provisional tax expense related to the mandatory one-time deemed repatriation tax on accumulated undistributed foreign subsidiary earnings and profits of approximately \$385.8 million;
- \$3.5 million of provisional tax expense related to the remeasurement of the Company's ending deferred tax assets and liabilities at February 3, 2018, as a result of the U.S. federal corporate income tax rate reduction from 35% to 21%;
- \$0.8 million of provisional tax expense at the state level related to the Company's decision to repatriate \$250 million of the Company's undistributed foreign earnings to the U.S. in the fourth quarter of Fiscal 2018; and,
- \$5.6 million of tax benefit for the decrease in the Company's federal deferred tax liability on unremitted foreign earnings.

Given the significant changes resulting from and complexities associated with the Act, the estimated financial impacts related to the enactment of the Act are provisional and assessed as of November 3, 2018. The ultimate outcome may differ from these provisional amounts and could impact the provision for income taxes in Fiscal 2018, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued and actions the Company may take as a result of the Act. Provisional amounts are expected to be finalized after the Company's Fiscal 2017 U.S. corporate income tax return is

filed in the fourth quarter of Fiscal 2018, but no later than one year from the enactment of the Act.

Other

The Company incurred discrete non-cash income tax charges of \$1.8 million and \$9.8 million for the thirteen and thirty-nine weeks ended November 3, 2018, respectively, and charges of \$0.2 million and \$10.1 million for the thirteen and thirty-nine weeks ended October 28, 2017, respectively, related to the expiration of certain share-based compensation awards, recognized in income tax expense (benefit) due to changes in share-based compensation accounting standards adopted by the Company in the first quarter of Fiscal 2017.

Table of Contents

6. BORROWINGS

Asset-based revolving credit facility

On August 7, 2014, A&F, through its subsidiary Abercrombie & Fitch Management Co. (“A&F Management”) as the lead borrower (with A&F and certain other subsidiaries as borrowers or guarantors), entered into an asset-based revolving credit agreement.

On October 19, 2017, the Company, through A&F Management, entered into the Second Amendment to Credit Agreement (the “ABL Second Amendment”), amending and extending the maturity date of the asset-based revolving credit agreement. As amended, the asset-based revolving credit agreement continues to provide for a senior secured revolving credit facility of up to \$400 million (the “Amended ABL Facility”). The Amended ABL Facility will mature on October 19, 2022.

The provisions of the credit agreement for the Amended ABL Facility have not changed from those describe in Note 11, “BORROWINGS,” in the Notes to Consolidated Financial Statements contained in “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA” of A&F’s Annual Report on Form 10-K for Fiscal 2017.

As of November 3, 2018, the Company had not drawn on the Amended ABL Facility, and had availability under the Amended ABL Facility of \$398.9 million.

Term loan facility

A&F, through its subsidiary A&F Management as the borrower (with A&F and certain other subsidiaries as guarantors), also entered into a term loan credit agreement on August 7, 2014, which, as amended, provides for a term loan facility of \$300 million (the “Term Loan Facility” and, together with the Amended ABL Facility, the “Credit Facilities”).

On June 22, 2018, the Company, through A&F Management, entered into the Term Loan Second Amendment, which served to reprice the Term Loan Facility. As permitted under the credit agreement applicable to the Term Loan Facility, among other things, the Term Loan Second Amendment provided for the issuance by A&F Management of refinancing term loans in an aggregate principal amount of \$253.3 million in exchange for the term loans then outstanding under the Term Loan Facility, which resulted in the reduction of the applicable margins for term loans by 0.25%. Under the Term Loan Second Amendment, at the Company's option, borrowings under the Term Loan Facility will now bear interest at either (a) an adjusted LIBO rate no lower than 1.00% plus a margin of 3.50% per annum, reduced from a margin of 3.75% per annum, or (b) an alternate base rate plus a margin of 2.50% per annum, reduced from a margin of 2.75% per annum. Deferred financing fees associated with the repricing transaction were not significant. All other material provisions under the credit agreement applicable to the Term Loan Facility have remained unchanged.

As of November 3, 2018, the interest rate on borrowings under the Term Loan Facility was 5.78%.

The Company’s Term Loan Facility debt is presented in the Condensed Consolidated Balance Sheets, net of the unamortized discount and fees. Net borrowings as of November 3, 2018 and February 3, 2018 were as follows:

|                                      | November  | February  |
|--------------------------------------|-----------|-----------|
| (in thousands)                       | 3, 2018   | 3, 2018   |
| Borrowings, gross at carrying amount | \$253,250 | \$253,250 |
| Unamortized discount                 | (930      | ) (1,184  |

|                                             |           |          |
|---------------------------------------------|-----------|----------|
| Unamortized fees                            | (2,178 )  | (2,380 ) |
| Borrowings, net                             | 250,142   | 249,686  |
| Less: short-term portion of borrowings, net | —         | —        |
| Long-term portion of borrowings, net        | \$250,142 | 249,686  |

Table of Contents

## Representations, warranties and covenants

The Credit Facilities contain various representations, warranties and restrictive covenants that, among other things and subject to specified exceptions, restrict the ability of A&F and its subsidiaries to incur indebtedness (including guarantees), grant liens, make investments, pay dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers, dispose of certain assets or change the nature of their business. In addition, excess availability equal to the greater of 10% of the loan cap or \$30 million must be maintained under the Amended ABL Facility. The Credit Facilities do not otherwise contain financial maintenance covenants. Both Credit Facilities contain certain affirmative covenants, including reporting requirements such as delivery of financial statements, certificates and notices of certain events, maintaining insurance and providing additional guarantees and collateral in certain circumstances.

The Company was in compliance with the covenants under the Credit Facilities as of November 3, 2018.

## 7. SHARE-BASED COMPENSATION

## Financial statement impact

The Company recognized share-based compensation expense of \$6.0 million and \$16.9 million for the thirteen and thirty-nine weeks ended November 3, 2018, respectively, and \$5.4 million and \$15.8 million for the thirteen and thirty-nine weeks ended October 28, 2017, respectively. The Company recognized tax benefits associated with share-based compensation expense of \$1.3 million and \$3.4 million for the thirteen and thirty-nine weeks ended November 3, 2018, respectively, and \$2.0 million and \$6.0 million for the thirteen and thirty-nine weeks ended October 28, 2017, respectively.

## Restricted stock units

The following table summarizes activity for restricted stock units for the thirty-nine weeks ended November 3, 2018:

|                                         | Service-based<br>Restricted<br>Stock Units       |                                                     | Performance-based<br>Restricted<br>Stock Units |                                                     | Market-based<br>Restricted<br>Stock Units |                                                     |
|-----------------------------------------|--------------------------------------------------|-----------------------------------------------------|------------------------------------------------|-----------------------------------------------------|-------------------------------------------|-----------------------------------------------------|
|                                         | Number of<br>Underlying<br>Shares <sup>(1)</sup> | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value | Number of<br>Underlying<br>Shares              | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value | Number of<br>Underlying<br>Shares         | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value |
| Unvested at February 3, 2018            | 2,520,160                                        | \$ 15.35                                            | 690,174                                        | \$ 11.82                                            | 383,980                                   | \$ 16.50                                            |
| Granted                                 | 764,213                                          | 21.79                                               | 197,979                                        | 21.77                                               | 142,014                                   | 33.69                                               |
| Adjustments for performance achievement | —                                                | —                                                   | (43,999 )                                      | 20.10                                               | (36,817 )                                 | 19.04                                               |
| Vested                                  | (923,378 )                                       | 17.19                                               | —                                              | —                                                   | (7,185 )                                  | 19.04                                               |
| Forfeited                               | (154,812 )                                       | 15.41                                               | (12,998 )                                      | 12.17                                               | (12,999 )                                 | 17.28                                               |
| Unvested at November 3, 2018            | 2,206,183                                        | \$ 16.83                                            | 831,156                                        | \$ 13.74                                            | 468,993                                   | \$ 21.45                                            |

<sup>(1)</sup> Includes 449,923 unvested restricted stock units as of November 3, 2018, subject to vesting requirements related to the achievement of certain performance metrics, such as operating income and net income, for the fiscal year immediately preceding the vesting date. Holders of these restricted stock units have the opportunity to earn back one or more installments of the award if the cumulative performance requirements are met in a subsequent year.

Unvested shares related to restricted stock units with performance-based and market-based vesting conditions can achieve up to 200% of their target vesting amount and are reflected at 100% of their target vesting amount in the table above.

Fair value of both service-based and performance-based restricted stock units is calculated using the market price of the underlying Common Stock on the date of grant reduced for anticipated dividend payments on unvested shares. In determining fair value, the Company does not take into account performance-based vesting requirements. Performance-based vesting requirements are taken into account in determining the number of awards expected to vest. For market-based restricted stock units, fair value is calculated using a Monte Carlo simulation with the number of shares that ultimately vest dependent on the Company's total stockholder return measured against the total stockholder return of a select group of peer companies over a three-year period. For awards with performance-based or market-based vesting requirements, the number of shares that ultimately vest can vary from 0% to 200% of target depending on the level of achievement of performance criteria.

Service-based restricted stock units are expensed on a straight-line basis over the total award's requisite service period. Performance-based restricted stock units subject to graded vesting are expensed on an accelerated attribution basis. Performance share award expense is primarily recognized in the performance period of the award's requisite service period. Market-based restricted stock units without graded vesting features are expensed on a straight-line basis over the award's requisite service period. Compensation

Table of Contents

expense for stock options had been, and stock appreciation rights is, recognized on a straight-line basis over the award's requisite service period. The Company adjusts share-based compensation expense on a quarterly basis for actual forfeitures. Unrecognized compensation expense presented excludes the effect of potential forfeitures, and will be adjusted for actual forfeitures as they occur.

As of November 3, 2018, there was \$27.6 million, \$8.0 million and \$5.5 million of total unrecognized compensation cost, related to service-based, performance-based and market-based restricted stock units, respectively. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 16 months, 12 months and 13 months for service-based, performance-based and market-based restricted stock units, respectively.

The actual tax benefit realized for tax deductions related to the issuance of shares associated with the vesting of restricted stock units was \$0.4 million and \$5.3 million for the thirteen and thirty-nine weeks ended November 3, 2018, respectively, and \$0.2 million and \$2.7 million for the thirteen and thirty-nine weeks ended October 28, 2017, respectively.

Additional information pertaining to restricted stock units for the thirty-nine weeks ended November 3, 2018 and October 28, 2017 follows:

| (in thousands)                                | November<br>3, 2018 | October<br>28,<br>2017 |
|-----------------------------------------------|---------------------|------------------------|
| Service-based restricted stock units:         |                     |                        |
| Total grant date fair value of awards granted | \$ 16,652           | \$ 16,551              |
| Total grant date fair value of awards vested  | 15,873              | 17,531                 |
| Performance-based restricted stock units:     |                     |                        |
| Total grant date fair value of awards granted | \$ 4,310            | \$ 4,774               |
| Total grant date fair value of awards vested  | —                   | —                      |
| Market-based restricted stock units:          |                     |                        |
| Total grant date fair value of awards granted | \$ 4,784            | \$ 2,793               |
| Total grant date fair value of awards vested  | 137                 | —                      |

The weighted-average assumptions used for market-based restricted stock units in the Monte Carlo simulation during the thirty-nine weeks ended November 3, 2018 and October 28, 2017 were as follows:

|                                                   | November<br>3, 2018 | October<br>28, 2017 |
|---------------------------------------------------|---------------------|---------------------|
| Grant date market price                           | \$ 23.59            | \$ 11.43            |
| Fair value                                        | \$ 33.69            | \$ 11.79            |
| Assumptions:                                      |                     |                     |
| Price volatility                                  | 54 %                | 47 %                |
| Expected term (years)                             | 2.9                 | 2.9                 |
| Risk-free interest rate                           | 2.4 %               | 1.5 %               |
| Dividend yield                                    | 3.4 %               | 7.0 %               |
| Average volatility of peer companies              | 37.4 %              | 35.2 %              |
| Average correlation coefficient of peer companies | 0.2709              | 0.2664              |



Table of Contents

## Stock appreciation rights

The following table summarizes stock appreciation rights activity for the thirty-nine weeks ended November 3, 2018:

|                                                                                               | Number of<br>Underlying<br>Shares | Weighted-Average<br>Exercise Price | Aggregate<br>Intrinsic Value | Weighted-Average<br>Remaining<br>Contractual Life<br>(years) |
|-----------------------------------------------------------------------------------------------|-----------------------------------|------------------------------------|------------------------------|--------------------------------------------------------------|
| Outstanding at February 3, 2018                                                               | 3,010,720                         | \$ 49.35                           |                              |                                                              |
| Granted                                                                                       | —                                 | —                                  |                              |                                                              |
| Exercised                                                                                     | (50,190 )                         | 22.21                              |                              |                                                              |
| Forfeited or expired                                                                          | (1,903,746)                       | 56.65                              |                              |                                                              |
| Outstanding at November 3, 2018                                                               | 1,056,784                         | \$ 37.68                           | \$ 15,525                    | 4.0                                                          |
| Stock appreciation rights exercisable at November 3, 2018                                     | 965,488                           | \$ 39.09                           | \$ 11,644                    | 3.8                                                          |
| Stock appreciation rights expected to become exercisable in the future as of November 3, 2018 | 87,897                            | \$ 22.85                           | \$ 3,460                     | 6.4                                                          |

As of November 3, 2018, there was \$0.3 million of total unrecognized compensation cost related to stock appreciation rights. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 3 months.

The grant date fair value of stock appreciation rights that were exercised during the thirty-nine weeks ended November 3, 2018 and October 28, 2017 was \$1.3 million and \$2.2 million, respectively.

## Stock options

The following table summarizes stock option activity for the thirty-nine weeks ended November 3, 2018:

|                                               | Number of<br>Underlying<br>Shares | Weighted-Average<br>Exercise Price | Aggregate<br>Intrinsic Value | Weighted-Average<br>Remaining<br>Contractual Life<br>(years) |
|-----------------------------------------------|-----------------------------------|------------------------------------|------------------------------|--------------------------------------------------------------|
| Outstanding at February 3, 2018               | 87,200                            | \$ 78.20                           |                              |                                                              |
| Granted                                       | —                                 | —                                  |                              |                                                              |
| Exercised                                     | —                                 | —                                  |                              |                                                              |
| Forfeited or expired                          | (87,200 )                         | 78.20                              |                              |                                                              |
| Outstanding at November 3, 2018               | —                                 | \$ —                               | \$ —                         | —                                                            |
| Stock options exercisable at November 3, 2018 | —                                 | \$ —                               | \$ —                         | —                                                            |

As of November 3, 2018, there was no unrecognized compensation cost related to stock options.

## 8. DERIVATIVE INSTRUMENTS

The Company is exposed to risks associated with changes in foreign currency exchange rates and uses derivative instruments, primarily forward contracts, to manage the financial impacts of these exposures. The Company does not use forward contracts to engage in currency speculation and does not enter into derivative financial instruments for trading purposes.

The Company uses derivative instruments, primarily foreign currency exchange forward contracts designated as cash flow hedges, to hedge the foreign currency exchange rate exposure associated with forecasted foreign currency denominated intercompany inventory sales to foreign subsidiaries and the related settlement of the foreign currency denominated intercompany receivables. Fluctuations in foreign currency exchange rates will either increase or decrease the Company's intercompany equivalent cash flows and affect the Company's U.S. Dollar earnings. Gains or losses on the foreign currency exchange forward contracts that are used to hedge these exposures are expected to partially offset this variability. Foreign currency exchange forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed upon settlement date. These foreign currency exchange forward contracts typically have a maximum term of twelve months. The sale of the inventory to the Company's customers will result in the reclassification of related derivative gains and losses that are reported in accumulated other comprehensive loss ("AOCL") into earnings. Under the current accounting guidance, substantially all of the unrealized gains or losses related to designated cash flow hedges as of November 3, 2018 would be recognized in cost of sales, exclusive of depreciation and amortization, over the next twelve months. Refer to Note 1, "BASIS OF PRESENTATION," for further discussion of recent accounting pronouncements related to derivative instruments that could affect the Company's financial statements.

Table of Contents

The Company presents its derivative assets and derivative liabilities at their gross fair values on the Condensed Consolidated Balance Sheets. However, the Company's derivative contracts allow net settlements under certain conditions.

As of November 3, 2018, the Company had outstanding the following foreign currency exchange forward contracts that were entered into to hedge either a portion, or all, of forecasted foreign currency denominated intercompany inventory sales, the resulting settlement of the foreign currency denominated intercompany accounts receivable, or both:

|                 | Notional<br>(in thousands) Amount<br>(1) |
|-----------------|------------------------------------------|
| Euro            | \$ 105,013                               |
| British pound   | \$ 50,161                                |
| Canadian dollar | \$ 19,494                                |
| Japanese yen    | \$ 9,928                                 |

(1) Amounts reported are the U.S. Dollar notional amounts outstanding as of November 3, 2018.

The Company also uses foreign currency exchange forward contracts to hedge certain foreign-currency-denominated net monetary assets/liabilities. Examples of monetary assets/liabilities include cash balances, receivables and payables. Fluctuations in foreign currency exchange rates result in transaction gains or losses being recorded in earnings, as U.S. GAAP requires that monetary assets/liabilities be remeasured at the spot exchange rate at quarter-end or upon settlement. The Company has chosen not to apply hedge accounting to these instruments because there are no differences in the timing of gain or loss recognition on the hedging instruments and the hedged items.

As of November 3, 2018, the Company had outstanding the following foreign currency exchange forward contracts that were entered into to hedge foreign-currency-denominated net monetary assets/liabilities:

|      | Notional<br>(in thousands) Amount<br>(1) |
|------|------------------------------------------|
| Euro | \$ 3,427                                 |

(1) Amount reported is the U.S. Dollar notional amount outstanding as of November 3, 2018.

The location and amounts of derivative fair values on the Condensed Consolidated Balance Sheets as of November 3, 2018 and February 3, 2018 were as follows:

| (in thousands)                                     | Location             | November 3,<br>2018 | February 3,<br>2018 | Location         | November 3,<br>2018 | February 3,<br>2018 |
|----------------------------------------------------|----------------------|---------------------|---------------------|------------------|---------------------|---------------------|
| Derivatives designated as hedging instruments:     |                      |                     |                     |                  |                     |                     |
| Foreign currency exchange forward contracts        |                      | \$ 11,050           | \$ 37               |                  | \$ —                | \$ 9,108            |
| Derivatives not designated as hedging instruments: |                      |                     |                     |                  |                     |                     |
| Foreign currency exchange forward contracts        |                      | \$ 6                | \$ —                |                  | \$ —                | \$ 39               |
| Total                                              | Other current assets | \$ 11,056           | \$ 37               | Accrued expenses | \$ —                | \$ 9,147            |

Refer to Note 3, “FAIR VALUE,” for further discussion of the determination of the fair value of derivative instruments.

| (in thousands)                                             |  |                                                              |  |                                                                           | Thirteen Weeks Ended                                               |                                                                 | Thirty-nine Weeks Ended |                                                                                     |          |                   |  |
|------------------------------------------------------------|--|--------------------------------------------------------------|--|---------------------------------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------|-------------------------|-------------------------------------------------------------------------------------|----------|-------------------|--|
| Derivatives not designated as hedging instruments:Location |  |                                                              |  |                                                                           | November 3, 2018                                                   | October 28, 2017                                                | November 3, 2018        | October 28, 2017                                                                    |          |                   |  |
| Foreign currency exchange forward contracts gain (loss)    |  |                                                              |  |                                                                           | Other operating income, net                                        |                                                                 | \$ (1,912)              | \$ 634                                                                              | \$ 2,684 | \$ 83             |  |
| Effective Portion                                          |  |                                                              |  |                                                                           | Ineffective Portion and Amount Excluded from Effectiveness Testing |                                                                 |                         |                                                                                     |          |                   |  |
| Amount of Gain (Loss) Recognized in AOCI                   |  | Location of Gain (Loss) Reclassified from AOCL into Earnings |  | Amount of Gain (Loss) Reclassified from AOCL into Earnings <sup>(2)</sup> |                                                                    | Location of Gain Recognized in Earnings on Derivative Contracts |                         | Amount of Gain (Loss) Recognized in Earnings on Derivative Contracts <sup>(3)</sup> |          |                   |  |
| Thirteen Weeks Ended                                       |  |                                                              |  |                                                                           | Thirty-nine Weeks Ended                                            |                                                                 |                         |                                                                                     |          |                   |  |
| November 3, 2018                                           |  | October 28, 2017                                             |  | November 3, 2018                                                          |                                                                    | October 28, 2017                                                |                         | November 3, 2018                                                                    |          | October 28, 2017  |  |
| Derivatives in cash flow hedging relationships:            |  |                                                              |  |                                                                           |                                                                    |                                                                 |                         |                                                                                     |          |                   |  |
| Foreign currency exchange forward contracts                |  | \$2,051 \$1,775                                              |  | Cost of sales, exclusive of depreciation and amortization                 |                                                                    | \$2,814 \$(3,544)                                               |                         | Other operating income, net                                                         |          | \$ 1,265 \$ 975   |  |
| Thirteen Weeks Ended                                       |  |                                                              |  |                                                                           | Thirty-nine Weeks Ended                                            |                                                                 |                         |                                                                                     |          |                   |  |
| November 3, 2018                                           |  | October 28, 2017                                             |  | November 3, 2018                                                          |                                                                    | October 28, 2017                                                |                         | November 3, 2018                                                                    |          | October 28, 2017  |  |
| Derivatives in cash flow hedging relationships:            |  |                                                              |  |                                                                           |                                                                    |                                                                 |                         |                                                                                     |          |                   |  |
| Foreign currency exchange forward contracts                |  | \$18,716 \$(10,627)                                          |  | Cost of sales, exclusive of depreciation and amortization                 |                                                                    | \$(2,408) \$536                                                 |                         | Other operating income, net                                                         |          | \$ 4,320 \$ 2,136 |  |

(1) The amount represents the change in fair value of derivative contracts due to changes in spot rates.

(2) The amount represents the reclassification from AOCL into earnings when the hedged item affects earnings, which is when merchandise is sold to the Company's customers.

(3) The amount represents the change in fair value of derivative contracts due to changes in the difference between the spot price and forward price that is excluded from the assessment of hedge effectiveness and, therefore, recognized in earnings.

Table of Contents

## 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The activity in accumulated other comprehensive loss for the thirteen and thirty-nine weeks ended November 3, 2018 was as follows:

| (in thousands)                                                        | Thirteen Weeks Ended November 3, 2018            |                                                                           |            |
|-----------------------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------|------------|
|                                                                       | Foreign<br>Currency<br>Translation<br>Adjustment | Unrealized<br>Gain (Loss)<br>on<br>Derivative<br>Financial<br>Instruments | Total      |
| Beginning balance at August 4, 2018                                   | \$(104,492)                                      | \$ 9,600                                                                  | \$(94,892) |
| Other comprehensive (loss) income before reclassifications            | (3,111 )                                         | 2,051                                                                     | (1,060 )   |
| Reclassified from accumulated other comprehensive loss <sup>(1)</sup> | —                                                | (2,814 )                                                                  | (2,814 )   |
| Tax effect                                                            | 16                                               | 82                                                                        | 98         |
| Other comprehensive loss                                              | (3,095 )                                         | (681 )                                                                    | (3,776 )   |
| Ending balance at November 3, 2018                                    | \$(107,587)                                      | \$ 8,919                                                                  | \$(98,668) |
| (in thousands)                                                        | Thirty-nine Weeks Ended November 3, 2018         |                                                                           |            |
|                                                                       | Foreign<br>Currency<br>Translation<br>Adjustment | Unrealized<br>Gain (Loss)<br>on<br>Derivative<br>Financial<br>Instruments | Total      |
| Beginning balance at February 3, 2018                                 | \$(84,947 )                                      | \$ (10,107 )                                                              | \$(95,054) |
| Other comprehensive (loss) income before reclassifications            | (22,656 )                                        | 18,716                                                                    | (3,940 )   |
| Reclassified from accumulated other comprehensive loss <sup>(1)</sup> | —                                                | 2,408                                                                     | 2,408      |
| Tax effect                                                            | 16                                               | (2,098 )                                                                  | (2,082 )   |
| Other comprehensive (loss) income                                     | (22,640 )                                        | 19,026                                                                    | (3,614 )   |
| Ending balance at November 3, 2018                                    | \$(107,587)                                      | \$ 8,919                                                                  | \$(98,668) |

<sup>(1)</sup> Amount represents (gain) loss reclassified from accumulated other comprehensive loss to cost of sales, exclusive of depreciation and amortization, on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss).

The activity in accumulated other comprehensive loss for the thirteen and thirty-nine weeks ended October 28, 2017 was as follows:

| (in thousands)                     | Thirteen Weeks Ended October 28, 2017            |                                                                           |             |
|------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------|-------------|
|                                    | Foreign<br>Currency<br>Translation<br>Adjustment | Unrealized<br>Gain (Loss)<br>on<br>Derivative<br>Financial<br>Instruments | Total       |
| Beginning balance at July 29, 2017 | \$(101,448)                                      | \$ (9,923 )                                                               | \$(111,371) |

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|                                                                       |              |           |                |   |
|-----------------------------------------------------------------------|--------------|-----------|----------------|---|
| Other comprehensive (loss) income before reclassifications            | (2,451       | ) 1,775   | (676           | ) |
| Reclassified from accumulated other comprehensive loss <sup>(1)</sup> | —            | 3,544     | 3,544          |   |
| Tax effect                                                            | (1,045       | ) 199     | (846           | ) |
| Other comprehensive (loss) income                                     | (3,496       | ) 5,518   | 2,022          |   |
| Ending balance at October 28, 2017                                    | \$ (104,944) | \$ (4,405 | ) \$ (109,349) |   |
| Thirty-nine Weeks Ended October 28, 2017                              |              |           |                |   |

| (in thousands)                                                        | Unrealized   |             |                |
|-----------------------------------------------------------------------|--------------|-------------|----------------|
|                                                                       | Foreign      | Gain (Loss) | Total          |
|                                                                       | Currency     | on          |                |
|                                                                       | Translation  | Derivative  |                |
|                                                                       | Adjustment   | Financial   |                |
|                                                                       |              | Instruments |                |
| Beginning balance at January 28, 2017                                 | \$ (126,127) | \$ 4,825    | \$ (121,302)   |
| Other comprehensive income before reclassifications                   | 22,228       | (10,627     | ) 11,601       |
| Reclassified from accumulated other comprehensive loss <sup>(1)</sup> | —            | (536        | ) (536         |
| Tax effect                                                            | (1,045       | ) 1,933     | 888            |
| Other comprehensive income (loss)                                     | 21,183       | (9,230      | ) 11,953       |
| Ending balance at October 28, 2017                                    | \$ (104,944) | \$ (4,405   | ) \$ (109,349) |

Amount represents (gain) loss reclassified from accumulated other comprehensive loss to cost of sales, exclusive <sup>(1)</sup> of depreciation and amortization, on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss).

Table of Contents

## 10. SEGMENT REPORTING

The Company's two operating segments are brand-based: Hollister and Abercrombie, the latter of which includes the Company's Abercrombie & Fitch and abercrombie kids brands. These operating segments have similar economic characteristics, classes of consumers, products, and production and distribution methods, operate in the same regulatory environments, and have been aggregated into one reportable segment. Amounts shown below include net sales from wholesale, franchise and licensing operations, which are not a significant component of total revenue, and are aggregated within their respective areas.

The following table provides the Company's net sales by operating segment for the thirteen and thirty-nine weeks ended November 3, 2018 and October 28, 2017.

|                | Thirteen Weeks<br>Ended |                     | Thirty-nine Weeks<br>Ended |                     |
|----------------|-------------------------|---------------------|----------------------------|---------------------|
| (in thousands) | November<br>3, 2018     | October<br>28, 2017 | November<br>3, 2018        | October<br>28, 2017 |
| Hollister      | \$515,125               | \$508,086           | \$1,439,589                | \$1,329,401         |
| Abercrombie    | 346,069                 | 351,026             | 994,918                    | 970,131             |
| Total          | \$861,194               | \$859,112           | \$2,434,507                | \$2,299,532         |

The following table provides the Company's net sales by geographic area for the thirteen and thirty-nine weeks ended November 3, 2018 and October 28, 2017.

|                | Thirteen Weeks<br>Ended |                     | Thirty-nine Weeks<br>Ended |                     |
|----------------|-------------------------|---------------------|----------------------------|---------------------|
| (in thousands) | November<br>3, 2018     | October<br>28, 2017 | November<br>3, 2018        | October<br>28, 2017 |
| United States  | \$562,590               | \$554,673           | \$1,543,162                | \$1,434,019         |
| Europe         | 187,516                 | 192,698             | 549,530                    | 543,578             |
| Other          | 111,088                 | 111,741             | 341,815                    | 321,935             |
| Total          | \$861,194               | \$859,112           | \$2,434,507                | \$2,299,532         |

## Table of Contents

### 11. CONTINGENCIES

The Company is a defendant in lawsuits and other adversary proceedings arising in the ordinary course of business. The Company's legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes estimated liabilities for the outcome of litigation where losses are deemed probable and the amount of loss, or range of loss is reasonably estimable. The Company also determines estimates of reasonably possible losses or ranges of reasonably possible losses in excess of related accrued liabilities, if any, when it has determined that a loss is reasonably possible and it is able to determine such estimates. Based on currently available information, the Company cannot estimate a range of reasonably possible losses in excess of these accrued charges for legal contingencies. In addition, the Company has not established accruals for certain claims and legal proceedings pending against the Company where it is not possible to reasonably estimate the outcome of or potential liability, and cannot estimate a range of reasonably possible losses for these legal matters.

Actual liabilities may differ from the amounts recorded, due to uncertainties regarding final settlement agreement negotiations, court approvals and the terms of any approval by the courts, and there can be no assurance that final resolution of legal matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company's assessment of the current exposure could change in the event of the discovery of additional facts.

#### Certain legal matters

The Company was a defendant in two separate class action lawsuits filed by former associates of the Company who are represented by the same counsel. The first lawsuit, filed in 2013, alleged failure to indemnify business expenses and a series of derivative claims for compelled patronization, inaccurate wage statements, waiting time penalties, minimum wage violations and unfair competition under California state law on behalf of all non-exempt hourly associates at Abercrombie & Fitch, abercrombie kids, Hollister and Gilly Hicks stores in California. Four subclasses of associates were certified, and the matter was before a U.S. District Court of California. The second lawsuit, filed in 2015, alleged that associates were required to purchase uniforms without reimbursement in violation of federal law, and laws of the states of New York, Florida and Massachusetts, as well as derivative putative state law claims and sought to pursue such claims on a class and collective basis. On December 12, 2017, a U.S. District Court of California granted the parties' stipulation to transfer and combine the first-filed lawsuit with the second-filed lawsuit then pending before a U.S. District Court of Ohio. Both matters were mediated and the parties signed a settlement with a maximum potential payment of \$25.0 million subject to a claim process. On February 16, 2018, a U.S. District Court of Ohio granted preliminary approval of the proposed settlement and ordered that notice of the proposed settlement be given to the absent members of the settlement class. On November 7, 2018, the U.S. District Court of Ohio granted final approval of the proposed settlement, which will result in a full and final settlement of all claims in both lawsuits on a class-wide basis for an ultimate settlement amount of approximately \$10.1 million, to be paid by the Company in the fourth quarter of Fiscal 2018, based on the actual claims made by members of the class. As of November 3, 2018, the Company had accrued charges for this payment obligation of \$10.1 million, classified within accrued expenses on the accompanying Condensed Consolidated Balance Sheet.

In addition to the matters discussed above, the Company was a defendant in certain other class action lawsuits filed by former associates of the Company. These lawsuits, assigned to the same judge in a U.S. District Court of California, alleged non-exempt hourly associates of the Company were not properly compensated, in violation of federal and California law, for call-in practices requiring associates to engage in certain pre-shift activities in order to determine whether they should report to work and the Company's alleged failure to pay reporting time pay and all wages earned at termination. In addition, these lawsuits included derivative claims alleging inaccurate wage statements and unfair competition under California state law on behalf of non-exempt hourly associates. One of these lawsuits was mediated

and the parties involved have signed a \$9.6 million settlement agreement, which was preliminary approved by a U.S. District Court of California. On November 20, 2018 the U.S. District Court of California granted final approval of the proposed settlement, which will result in a full and final settlement of all claims made therein for an ultimate settlement amount of \$9.6 million, to be paid by the Company in the fourth quarter of Fiscal 2018. The ultimate settlement amount could be subject to appeal from class members. As of November 3, 2018, the Company had accrued charges for this legal contingency of \$9.6 million, classified within accrued expenses on the accompanying Condensed Consolidated Balance Sheet. There can be no absolute assurance of the ultimate outcome of this litigation.

Table of Contents

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## OVERVIEW

## Business summary

The Company is a global, multi-brand, specialty retailer, which primarily sells its products through its wholly-owned store and direct-to-consumer channels, as well as through various third-party wholesale, franchise and licensing arrangements. The Company offers a broad assortment of apparel, personal care products and accessories for men, women and kids under the Hollister, Abercrombie & Fitch and abercrombie kids brands. The Company has operations in North America, Europe, Asia and the Middle East.

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the consolidated financial statements and notes by the calendar year in which the fiscal year commences. All references herein to "Fiscal 2018" represent the fifty-two-week fiscal year ending on February 2, 2019, and to "Fiscal 2017" represent the fifty-three-week fiscal year that ended February 3, 2018.

Due to the seasonal nature of the retail apparel industry, the results of operations for any current period are not necessarily indicative of the results expected for the full fiscal year. The seasonality of the Company's operations may also lead to significant fluctuations in certain asset and liability accounts.

## Summary results of operations

The table below summarizes the Company's results of operations and reconciles financial measures determined in accordance with accounting principles generally accepted in the U.S. ("GAAP") to non-GAAP financial measures for the thirteen and thirty-nine week periods ended November 3, 2018 and October 28, 2017. Additional discussion about why the Company believes that these non-GAAP financial measures are useful to investors is provided below under "NON-GAAP FINANCIAL MEASURES."

|                                                                                            | November 3, 2018 |                               |             | October 28, 2017 |                               |             |
|--------------------------------------------------------------------------------------------|------------------|-------------------------------|-------------|------------------|-------------------------------|-------------|
| (in thousands, except change in comparable sales, gross profit rate and per share amounts) | GAAP             | Excluded Items <sup>(1)</sup> | Non-GAAP    | GAAP             | Excluded Items <sup>(1)</sup> | Non-GAAP    |
| Thirteen Weeks Ended                                                                       |                  |                               |             |                  |                               |             |
| Net sales                                                                                  | \$861,194        | \$—                           | \$861,194   | \$859,112        | \$—                           | \$859,112   |
| Change in net sales                                                                        | 0                | %                             |             |                  |                               |             |
| Change in comparable sales <sup>(2)</sup>                                                  |                  |                               | 3           | %                |                               | 4           |
| Gross profit rate                                                                          | 61.3             | %                             | —           | %                | 61.3                          | %           |
| Operating income                                                                           | \$39,680         | \$3,005                       | \$36,675    | \$22,740         | \$(14,550)                    | \$37,290    |
| Net income attributable to A&F                                                             | \$23,919         | \$1,536                       | \$22,383    | \$10,075         | \$(10,433)                    | \$20,508    |
| Net income per diluted share attributable to A&F                                           | \$0.35           | \$0.02                        | \$0.33      | \$0.15           | \$(0.15 )                     | \$0.30      |
| Thirty-nine Weeks Ended                                                                    |                  |                               |             |                  |                               |             |
| Net sales                                                                                  | \$2,434,507      | \$—                           | \$2,434,507 | \$2,299,532      | \$—                           | \$2,299,532 |
| Change in net sales                                                                        | 6                | %                             |             |                  |                               |             |
| Change in comparable sales <sup>(2)</sup>                                                  |                  |                               | 3           | %                |                               | 0           |

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|                                                |           |   |            |   |           |   |           |   |            |   |           |   |
|------------------------------------------------|-----------|---|------------|---|-----------|---|-----------|---|------------|---|-----------|---|
| Gross profit rate                              | 60.7      | % | —          | % | 60.7      | % | 60.3      | % | —          | % | 60.3      | % |
| Operating (loss) income                        | \$(2,300  | ) | \$(11,266) |   | \$8,966   |   | \$(68,290 | ) | \$(20,685) |   | \$(47,605 | ) |
| Net loss attributable to A&F                   | \$(22,395 | ) | \$(10,547) |   | \$(11,848 | ) | \$(67,116 | ) | \$(14,958) |   | \$(52,158 | ) |
| Net loss per diluted share attributable to A&F | \$(0.33   | ) | \$(0.16    | ) | \$(0.17   | ) | \$(0.98   | ) | \$(0.22    | ) | \$(0.76   | ) |

(1) Refer to “RESULTS OF OPERATIONS” for details on excluded items.

Comparable sales are calculated on a constant currency basis. Due to the calendar shift resulting from the 53<sup>rd</sup>

(2) week in Fiscal 2017, comparable sales for the thirteen weeks ended November 3, 2018 are compared to the thirteen weeks ended November 4, 2017. Refer to the discussion below in “NON-GAAP FINANCIAL MEASURES” for further details on the comparable sales calculation.

Table of Contents

As of November 3, 2018, the Company had \$520.5 million in cash and equivalents, and \$253.3 million in gross borrowings outstanding under the Term Loan Facility. Net cash provided by operating activities was \$77.2 million for the thirty-nine weeks ended November 3, 2018. The Company also used cash of \$68.7 million to repurchase approximately 2.9 million shares of A&F's Common Stock in the open market, \$98.8 million for capital expenditures and \$40.6 million to pay dividends during the thirty-nine weeks ended November 3, 2018.

As of October 28, 2017, the Company had \$459.3 million in cash and equivalents, and \$268.3 million in gross borrowings outstanding under the Term Loan Facility. Net cash provided by operating activities was \$31.4 million for the thirty-nine weeks ended October 28, 2017. The Company also used cash of \$86.3 million for capital expenditures and \$40.8 million to pay dividends during the thirty-nine weeks ended October 28, 2017.

## STORE ACTIVITY

Store count and gross square footage by brand and geography for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively, were as follows:

|                                      | Hollister <sup>(1)</sup> |               | Abercrombie <sup>(2)</sup> |               | Total         |               |
|--------------------------------------|--------------------------|---------------|----------------------------|---------------|---------------|---------------|
|                                      | United States            | International | United States              | International | United States | International |
| February 3, 2018                     | 394                      | 144           | 285                        | 45            | 679           | 189           |
| New                                  | 6                        | 3             | 4                          | 3             | 10            | 6             |
| Closed                               | —                        | —             | (5 )                       | —             | (5 )          | —             |
| November 3, 2018                     | 400                      | 147           | 284                        | 48            | 684           | 195           |
| Gross square footage (in thousands): |                          |               |                            |               |               |               |
| November 3, 2018                     | 2,705                    | 1,219         | 2,156                      | 639           | 4,861         | 1,858         |
|                                      |                          |               |                            |               |               |               |
|                                      | Hollister <sup>(1)</sup> |               | Abercrombie <sup>(2)</sup> |               | Total         |               |
|                                      | United States            | International | United States              | International | United States | International |
| January 28, 2017                     | 398                      | 145           | 311                        | 44            | 709           | 189           |
| New                                  | 1                        | —             | 3                          | 1             | 4             | 1             |
| Closed                               | (3 )                     | —             | (10 )                      | (1 )          | (13 )         | (1 )          |
| October 28, 2017                     | 396                      | 145           | 304                        | 44            | 700           | 189           |
| Gross square footage (in thousands): |                          |               |                            |               |               |               |
| October 28, 2017                     | 2,694                    | 1,216         | 2,355                      | 615           | 5,049         | 1,831         |

(1) Excludes eight international franchise stores as of November 3, 2018, five international franchise stores as of each of February 3, 2018 and October 28, 2017, and three international franchise stores as of January 28, 2017.

(2) Includes Abercrombie & Fitch and abercrombie kids brands. Excludes six international franchise stores as of November 3, 2018, four international franchise stores as of each of February 3, 2018 and October 28, 2017, and one international franchise store as of January 28, 2017.

## Table of Contents

### CURRENT TRENDS AND OUTLOOK

We are pleased with our third quarter performance, with net sales up slightly despite adverse impacts from the calendar shift resulting from Fiscal 2017's 53<sup>d</sup> week and changes in foreign currency exchange rates, and our fifth consecutive quarter of positive comparable sales, with growth across brands. We delivered comparable sales of 3%, on top of 4% last year, with continued gross profit rate stabilization. Our strong U.S omnichannel business, and 16% global digital sales growth, confirm that our playbooks are working.

During the third quarter, we improved net income over last year, while continuing to invest in the transformation of our business. As previously discussed, these transformation initiatives are focused on the following four pillars:

- continuing our global store network optimization;
- enhancing digital and omnichannel capabilities;
- streamlining our end-to-end concept to customer process by investing in capabilities to position our supply chain for greater speed and efficiency, while leveraging data and analytics to offer the right product at the right time; and
- optimizing our marketing investments, including leveraging our growing loyalty programs.

As expected, we had a solid start to the holiday season, demonstrating the effectiveness of our continued focus on the customer. We are well-positioned to deliver top-line growth, gross profit rate expansion and operating expense leverage for the full year.

#### Fourth quarter of Fiscal 2018 outlook

For the fourth quarter of Fiscal 2018, we expect:

Net sales to be down mid single digits, including the adverse effect from the calendar shift and the loss of Fiscal 2017's 53<sup>d</sup> week of approximately \$60 million and the adverse effect from changes in foreign currency exchange rates.

• Comparable sales to be up low single digits.

• A gross profit rate flat to up slightly from the Fiscal 2017 rate of 58.4%.

• GAAP operating expense, excluding other operating income to be down in the range of 1-2% from Fiscal 2017 adjusted non-GAAP operating expense of \$561 million.

• Other operating income, which fluctuates due to changes in foreign currency exchange rates, to be approximately \$2 million.

• An effective tax rate in the mid-to-upper 20s.

• A weighted average fully-diluted share count of approximately 68 million shares, excluding the effect of potential share buybacks.

• Inventory to be flat to up low single digits from Fiscal 2017 ending inventory of \$424 million.

#### Full year Fiscal 2018 outlook

For Fiscal 2018, we expect:

- Net sales to be up in the range of 2% to 4%, including the adverse effect from the loss of Fiscal 2017's 53<sup>d</sup> week of approximately \$40 million, partially offset by a benefit from foreign currency exchange rates.

• Comparable sales to be up in the range of 2% to 4%.

• A gross profit rate up slightly from the Fiscal 2017 rate of 59.7%.

• GAAP operating expense, excluding other operating income to be up approximately 2% from Fiscal 2017 adjusted operating expense of \$2 billion, including \$11 million of net charges this year related to asset impairment and certain legal matters that are excluded from adjusted non-GAAP operating expense. We expect adjusted non-GAAP operating expense to be up approximately 1.5%.

An effective tax rate in the mid-to-upper 30s, including discrete non-cash net income tax charges of approximately \$9 million related to share-based compensation accounting standards that went into effect in Fiscal 2017. The full year effective tax rate also includes discrete net tax charges of \$2 million related to the Tax Cuts and Jobs Act of 2017 provisional estimate, which are excluded from adjusted non-GAAP results.

A weighted average fully-diluted share count of approximately 69 million shares, excluding the effect of potential share buybacks.

Capital expenditures to be approximately \$145 million, including approximately \$90 million for store updates and new stores, and approximately \$55 million for the continued rollout of omnichannel and CRM capabilities, including investments in our loyalty programs, information technology and other investments.

To deliver approximately 70 new store experiences through new store prototypes, remodeled stores and right-sizes.

To close up to 40 stores, primarily in the U.S.

## Table of Contents

### NON-GAAP FINANCIAL MEASURES

This Quarterly Report on Form 10-Q includes discussion of certain financial measures under “RESULTS OF OPERATIONS” on both a GAAP and a non-GAAP basis. The Company believes that each of the non-GAAP financial measures presented in this “ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” is useful to investors as it provides a measure of the Company’s operating performance excluding the effect of certain items that the Company believes do not reflect its future operating outlook, and therefore supplements investors’ understanding of comparability of operations across periods. Management used these non-GAAP financial measures during the periods presented to assess the Company’s performance and to develop expectations for future operating performance. These non-GAAP financial measures should be used as a supplement to, and not as an alternative to, the Company’s GAAP financial results, and may not be calculated in the same manner as similar measures presented by other companies.

#### Financial information on a constant currency basis

The Company provides certain financial information on a constant currency basis to enhance investors’ understanding of underlying business trends and operating performance by removing the impact of foreign currency exchange rate fluctuations. The effect from foreign currency exchange rates, calculated on a constant currency basis, is determined by applying the current period’s foreign currency exchange rates to the prior year’s results and is net of the year-over-year impact from hedging. The per diluted share effect from foreign currency exchange rates for Fiscal 2018 is calculated using a 27% effective tax rate.

#### Comparable sales

In addition, the Company provides comparable sales, defined as the aggregate of (1) year-over-year sales for stores that have been open as the same brand at least one year and whose square footage has not been expanded or reduced by more than 20% within the past year, with the prior year’s net sales converted at the current year’s foreign currency exchange rates to remove the impact of foreign currency exchange rate fluctuations, and (2) year-over-year direct-to-consumer sales with the prior year’s net sales converted at the current year’s foreign currency exchange rates to remove the impact of foreign currency exchange rate fluctuations. Comparable sales excludes revenue other than store and direct-to-consumer sales. Due to the calendar shift in Fiscal 2018, resulting from the 53<sup>rd</sup> week in Fiscal 2017, comparable sales for the Fiscal 2018 quarterly periods ended May 5, 2018, August 4, 2018, November 3, 2018 and February 2, 2019 are to be compared to the thirteen weeks ended May 6, 2017, August 5, 2017, November 4, 2017 and February 3, 2018, respectively. Management uses comparable sales to understand the drivers of year-over-year changes in net sales as well as a performance metric for certain performance-based restricted stock units. The Company believes comparable sales is a useful metric as it can assist investors in distinguishing the portion of the Company’s revenue attributable to existing locations from the portion attributable to the opening or closing of stores. The most directly comparable GAAP financial measure is change in net sales.

#### Calendar shift impact

The estimated impact from the calendar shift, resulting from Fiscal 2017’s 53<sup>d</sup> week, is calculated on a constant currency basis using the difference between net sales for the thirteen weeks and thirty-nine weeks ended November 4, 2017 and reported net sales for the thirteen and thirty-nine weeks ended October 28, 2017. In addition, the estimated impact from the calendar shift on net income (loss) per diluted share is calculated using the gross profit rate differential between shifted weeks, an assumption for the variable component of operating expenses for changes in net sales, a 27% effective tax rate and the prior year period’s weighted-average diluted shares.

## Excluded items

The following financial measures are disclosed on a GAAP and on an adjusted non-GAAP basis excluding the following items, as applicable:

| Financial measures <sup>(1)</sup>                                                    | Excluded items                                                                                                                                             |
|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Marketing, general and administrative expense                                        | Benefits and charges related to certain legal matters                                                                                                      |
| Operating income (loss)                                                              | Asset impairment; benefits and charges related to certain legal matters                                                                                    |
| Net income (loss) and net income (loss) per share attributable to A&F <sup>(2)</sup> | Asset impairment; benefits and charges related to certain legal matters; discrete net tax charges related to the Act; and the tax effect of excluded items |

<sup>(1)</sup> Certain of these financial measures are also expressed as a percentage of net sales.

The Company also presents income tax expense (benefit) and the effective tax rate on both a GAAP and on an adjusted non-GAAP basis excluding the items listed under “Operating income (loss),” as applicable, in the table above and discrete net tax charges related to the Act. The tax effect of excluded items is the difference between the tax provision calculation on a GAAP basis and on an adjusted non-GAAP basis.

Table of Contents

## RESULTS OF OPERATIONS

## THIRTEEN AND THIRTY-NINE WEEKS ENDED NOVEMBER 3, 2018 VERSUS OCTOBER 28, 2017

## Net sales

|                            | Thirteen Weeks<br>Ended<br>November 3, 2018    |             | October 28,<br>2017 |          |                                              |
|----------------------------|------------------------------------------------|-------------|---------------------|----------|----------------------------------------------|
| (in thousands)             | Net Sales                                      | Net Sales   | \$<br>Change        | % Change | Change in Comparable<br>Sales <sup>(1)</sup> |
| Hollister                  | \$515,125                                      | \$508,086   | \$7,039             | 1%       | 4%                                           |
| Abercrombie <sup>(2)</sup> | 346,069                                        | 351,026     | (4,957 )            | (1)%     | 1%                                           |
| Total net sales            | \$861,194                                      | \$859,112   | \$2,082             | 0%       | 3%                                           |
| United States              | \$562,590                                      | \$554,673   | \$7,917             | 1%       | 6%                                           |
| International              | 298,604                                        | 304,439     | (5,835 )            | (2)%     | (3)%                                         |
| Total net sales            | \$861,194                                      | \$859,112   | \$2,082             | 0%       | 3%                                           |
|                            | Thirty-nine Weeks<br>Ended<br>November 3, 2018 |             | October 28,<br>2017 |          |                                              |
| (in thousands)             | Net Sales                                      | Net Sales   | \$ Change           | % Change | Change in Comparable<br>Sales <sup>(1)</sup> |
| Hollister                  | \$1,439,589                                    | \$1,329,401 | \$110,188           | 8%       | 4%                                           |
| Abercrombie <sup>(2)</sup> | 994,918                                        | 970,131     | 24,787              | 3%       | 2%                                           |
| Total net sales            | \$2,434,507                                    | \$2,299,532 | \$134,975           | 6%       | 3%                                           |
| United States              | \$1,543,162                                    | \$1,434,019 | \$109,143           | 8%       | 7%                                           |
| International              | 891,345                                        | 865,513     | 25,832              | 3%       | (2)%                                         |
| Total net sales            | \$2,434,507                                    | \$2,299,532 | \$134,975           | 6%       | 3%                                           |

Comparable sales are calculated on a constant currency basis. Due to the calendar shift resulting from the 53<sup>rd</sup> week in Fiscal 2017, comparable sales for the thirteen weeks ended November 3, 2018 are compared to the thirteen

<sup>(1)</sup> weeks ended November 4, 2017. Comparable sales for the thirty-nine weeks ended November 3, 2018 are compared to the thirty-nine weeks ended November 4, 2017. Refer to “NON-GAAP FINANCIAL MEASURES,” for further details on the comparable sales calculation.

<sup>(2)</sup> Includes Abercrombie & Fitch and abercrombie kids brands.

For the third quarter of Fiscal 2018, net sales were up slightly as compared to the third quarter of Fiscal 2017, with units sold approximately flat year-over-year and average unit retail up slightly. The year-over-year change in net sales reflects:

• Changes in foreign currency exchange rates, which adversely impacted net sales by approximately \$7 million, or 1%;

• The calendar shift resulting from Fiscal 2017's 53<sup>d</sup> week, which adversely impacted net sales by approximately \$20 million, or 2%; and,

• Positive comparable sales of 3%, which do not include impacts from changes in foreign currency exchange rates or the calendar shift.

For the year-to-date period of Fiscal 2018, net sales increased 6% as compared to the year-to-date period of Fiscal 2017, primarily attributable to an increase in units sold. The year-over-year change in net sales reflects:

- Changes in foreign currency exchange rates, which benefited net sales by approximately \$26 million, or 1%;

- The calendar shift resulting from Fiscal 2017's 53<sup>d</sup> week, which benefited net sales by approximately \$20 million, or 1%; and,

- Positive comparable sales of 3%, which do not include impacts from changes in foreign currency exchange rates or the calendar shift.

Table of Contents

## Cost of sales, exclusive of depreciation and amortization

| (in thousands)                                            | Thirteen Weeks Ended    |                | October 28, 2017 |                |
|-----------------------------------------------------------|-------------------------|----------------|------------------|----------------|
|                                                           | November 3, 2018        | % of Net Sales | October 28, 2017 | % of Net Sales |
| Cost of sales, exclusive of depreciation and amortization | \$333,375               | 38.7%          | \$332,485        | 38.7%          |
| Gross profit                                              | \$527,819               | 61.3%          | \$526,627        | 61.3%          |
| (in thousands)                                            | Thirty-nine Weeks Ended |                | October 28, 2017 |                |
|                                                           | November 3, 2018        | % of Net Sales | October 28, 2017 | % of Net Sales |
| Cost of sales, exclusive of depreciation and amortization | \$957,448               | 39.3%          | \$913,085        | 39.7%          |
| Gross profit                                              | \$1,477,059             | 60.7%          | \$1,386,447      | 60.3%          |

For the third quarter of Fiscal 2018, cost of sales, exclusive of depreciation and amortization, as a percentage of net sales was approximately flat as compared to the third quarter of Fiscal 2017.

For the year-to-date period of Fiscal 2018 cost of sales, exclusive of depreciation increased \$44.4 million as compared to the year-to-date period of Fiscal 2017, primarily driven by the year-over-year increase in net sales and an increase in freight costs. For the year-to-date period of Fiscal 2018 cost of sales, exclusive of depreciation and amortization, as a percentage of net sales decreased by approximately 40 basis points as compared to the year-to-date period of Fiscal 2017 primarily due to costs increasing at a lower rate than the relative increase in net sales.

## Stores and distribution expense

| (in thousands)                  | Thirteen Weeks Ended    |                | October 28, 2017 |                |
|---------------------------------|-------------------------|----------------|------------------|----------------|
|                                 | November 3, 2018        | % of Net Sales | October 28, 2017 | % of Net Sales |
| Stores and distribution expense | \$371,859               | 43.2%          | \$375,944        | 43.8%          |
| (in thousands)                  | Thirty-nine Weeks Ended |                | October 28, 2017 |                |
|                                 | November 3, 2018        | % of Net Sales | October 28, 2017 | % of Net Sales |
| Stores and distribution expense | \$1,107,566             | 45.5%          | \$1,105,168      | 48.1%          |

For the third quarter of Fiscal 2018, stores and distribution expense as a percentage of net sales decreased by approximately 60 basis points as compared to the third quarter of Fiscal 2017, primarily due to expense reduction efforts within store occupancy expense, partially offset by higher direct-to-consumer expense as a percentage of total net sales. For the third quarter of Fiscal 2018, store occupancy expense, a component of stores and distribution expense which includes rent, depreciation, utilities and other store expenses, decreased as a percentage of net sales by approximately 130 basis points as compared to the third quarter of Fiscal 2017.

For the year-to-date period of Fiscal 2018, stores and distribution expense as a percentage of net sales decreased by approximately 260 basis points as compared to the year-to-date period of Fiscal 2017, primarily due to the leveraging effect from higher net sales and expense reductions within store occupancy expense, partially offset by higher direct-to-consumer expense as a percentage of total net sales and \$3.9 million of lease termination charges related to the A&F flagship store lease in Copenhagen. For the year-to-date period of Fiscal 2018, store occupancy expense decreased as a percentage of net sales by approximately 210 basis points as compared to the year-to-date period of Fiscal 2017.



Table of Contents

## Marketing, general and administrative expense

| (in thousands)                                                     | Thirteen Weeks Ended    |                | October 28, 2017 |                |
|--------------------------------------------------------------------|-------------------------|----------------|------------------|----------------|
|                                                                    | November 3, 2018        | % of Net Sales |                  | % of Net Sales |
| Marketing, general and administrative expense                      | \$ 117,181              | 13.6%          | \$ 124,533       | 14.5%          |
| Deduct:                                                            |                         |                |                  |                |
| Benefits (charges) related to certain legal matters <sup>(1)</sup> | 3,005                   | 0.3%           | (11,070 )        | (1.3)%         |
| Adjusted non-GAAP marketing, general and administrative expense    | \$ 120,186              | 14.0%          | \$ 113,463       | 13.2%          |
| (in thousands)                                                     | Thirty-nine Weeks Ended |                | October 28, 2017 |                |
|                                                                    | November 3, 2018        | % of Net Sales |                  | % of Net Sales |
| Marketing, general and administrative expense                      | \$ 365,961              | 15.0%          | \$ 343,779       | 14.9%          |
| Deduct:                                                            |                         |                |                  |                |
| Charges related to certain legal matters <sup>(2)</sup>            | (2,595 )                | (0.1)%         | (11,070 )        | (0.5)%         |
| Adjusted non-GAAP marketing, general and administrative expense    | \$ 363,366              | 14.9%          | \$ 332,709       | 14.5%          |

The third quarter of Fiscal 2018 includes benefits of \$3.0 million related to an update of previously accrued legal charges in connection with a class action settlement, which received final court approval in the fourth quarter of

- <sup>(1)</sup> Fiscal 2018. The third quarter of Fiscal 2017 includes legal charges of \$11.1 million in connection with a proposed settlement of two related class actions, which received final court approval in the fourth quarter of Fiscal 2018.

See Note 11, “CONTINGENCIES.”

The year-to-date period of Fiscal 2018 includes legal charges of \$5.6 million and benefits of \$3.0 million, each updating previously accrued legal charges in connection with class action settlements, which received final court

- <sup>(2)</sup> approval in the fourth quarter of Fiscal 2018. The year-to-date period of Fiscal 2017 includes legal charges of \$11.1 million in connection with a proposed settlement of two related class actions, which received final court approval in the fourth quarter of Fiscal 2018. See Note 11, “CONTINGENCIES.”

For the third quarter of Fiscal 2018, marketing, general and administrative expense as a percentage of net sales decreased by approximately 90 basis points as compared to the third quarter of Fiscal 2017, primarily due to the net year-over-year impact of items presented above and expense reduction efforts, partially offset by increases in marketing and expenses related to the transformation of the business. Excluding items presented above, third quarter of Fiscal 2018 adjusted non-GAAP marketing, general and administrative expense as a percentage of net sales increased by approximately 80 basis points as compared to the third quarter of Fiscal 2017.

For the year-to-date period of Fiscal 2018, marketing, general and administrative expense as a percentage of net sales increased by approximately 10 basis points as compared to the year-to-date period of Fiscal 2017, primarily due to increases in marketing and expenses related to the transformation of the business, partially offset by the leveraging effect from increased net sales, the net year-over-year impact of items presented above and expense reduction efforts. Excluding items presented above, year-to-date Fiscal 2018 adjusted non-GAAP marketing, general and administrative expense as a percentage of net sales increased by approximately 40 basis points as compared to the year-to-date period of Fiscal 2017.

## Asset impairment

The Company incurred store asset impairment charges of \$0.7 million and \$10.4 million for the third quarter and year-to-date period of Fiscal 2018, respectively, and \$3.5 million and \$10.3 million for the third quarter and year-to-date period of Fiscal 2017, respectively, primarily related to certain of the Company's international Abercrombie & Fitch stores.

Table of Contents

## Other operating income, net

|                             | Thirteen Weeks Ended    |                  |
|-----------------------------|-------------------------|------------------|
|                             | November 3, 2018        | October 28, 2017 |
| (in thousands)              | % of Net Sales          | % of Net Sales   |
| Other operating income, net | \$1,557 0.2%            | \$70 0.0%        |
|                             | Thirty-nine Weeks Ended |                  |
|                             | November 3, 2018        | October 28, 2017 |
| (in thousands)              | % of Net Sales          | % of Net Sales   |
| Other operating income, net | \$4,551 0.2%            | \$4,555 0.2%     |

For the third quarter of Fiscal 2018, other operating income, net as a percentage of net sales increased by approximately 20 basis points as compared to the third quarter of Fiscal 2017, primarily due to higher foreign currency exchange rate related gains, partially offset by a change in classification of gift card breakage, discussed further in Note 1, “BASIS OF PRESENTATION.”

For the year-to-date period of Fiscal 2018, other operating income, net as a percentage of net sales was approximately flat as compared to the year-to-date period of Fiscal 2017 as higher foreign currency exchange rate related gains were offset by a change in classification of gift card breakage, discussed further in Note 1, “BASIS OF PRESENTATION.”

## Operating income (loss)

|                                                                    | Thirteen Weeks Ended    |                   |
|--------------------------------------------------------------------|-------------------------|-------------------|
|                                                                    | November 3, 2018        | October 28, 2017  |
| (in thousands)                                                     | % of Net Sales          | % of Net Sales    |
| Operating income                                                   | \$39,680 4.6%           | \$22,740 2.6%     |
| Deduct:                                                            |                         |                   |
| Asset impairment                                                   | — 0.0%                  | 3,480 0.4%        |
| (Benefits) charges related to certain legal matters <sup>(1)</sup> | (3,005 ) (0.3)%         | 11,070 1.3%       |
| Adjusted non-GAAP operating income                                 | \$36,675 4.3%           | \$37,290 4.3%     |
|                                                                    | Thirty-nine Weeks Ended |                   |
|                                                                    | November 3, 2018        | October 28, 2017  |
| (in thousands)                                                     | % of Net Sales          | % of Net Sales    |
| Operating loss                                                     | \$(2,300) (0.1)%        | \$(68,290) (3.0)% |
| Deduct:                                                            |                         |                   |
| Certain asset impairment                                           | 8,671 0.4%              | 9,615 0.4%        |
| Charges related to certain legal matters <sup>(2)</sup>            | 2,595 0.1%              | 11,070 0.5%       |
| Adjusted non-GAAP operating income (loss)                          | \$8,966 0.4%            | \$(47,605) (2.1)% |

The third quarter of Fiscal 2018 includes benefits of \$3.0 million related to an update of previously accrued legal charges in connection with a class action settlement, which received final court approval in the fourth quarter of

<sup>(1)</sup> Fiscal 2018. The third quarter of Fiscal 2017 includes legal charges of \$11.1 million in connection with a proposed settlement of two related class actions, which received final court approval in the fourth quarter of Fiscal 2018. See Note 11, “CONTINGENCIES.”

The year-to-date period of Fiscal 2018 includes legal charges of \$5.6 million and benefits of \$3.0 million, each updating previously accrued legal charges in connection with class action settlements, which received final court

<sup>(2)</sup> approval in the fourth quarter of Fiscal 2018. The year-to-date period of Fiscal 2017 includes legal charges of \$11.1 million in connection with a proposed settlement of two related class actions, which received final court approval in the fourth quarter of Fiscal 2018. See Note 11, “CONTINGENCIES.”

For the third quarter of Fiscal 2018, operating income was \$39.7 million as compared to \$22.7 million for the third quarter of Fiscal 2017. Excluding items presented above, third quarter of Fiscal 2018 adjusted non-GAAP operating income was \$36.7 million, as compared to \$37.3 million for the third quarter of Fiscal 2017. Changes in foreign currency exchange rates benefited operating income by approximately \$4 million, net of hedging.

For the year-to-date period of Fiscal 2018, operating loss was \$2.3 million as compared to \$68.3 million for the year-to-date period of Fiscal 2017. Excluding items presented above, year-to-date Fiscal 2018 adjusted non-GAAP operating income was \$9.0 million as compared to adjusted non-GAAP operating loss of \$47.6 million for the year-to-date period of Fiscal 2017. Changes in foreign currency exchange rates benefited operating loss by approximately \$10 million, net of hedging.

Table of Contents

## Interest expense, net

|                       | Thirteen Weeks Ended    |                | October 28, 2017 |                |
|-----------------------|-------------------------|----------------|------------------|----------------|
|                       | November 3, 2018        |                |                  |                |
| (in thousands)        |                         | % of Net Sales |                  | % of Net Sales |
| Interest expense      | \$5,643                 | 0.7%           | \$6,114          | 0.7%           |
| Interest income       | (2,786 )                | (0.3)%         | (1,543 )         | (0.2)%         |
| Interest expense, net | \$2,857                 | 0.3%           | \$4,571          | 0.5%           |
|                       | Thirty-nine Weeks Ended |                | October 28, 2017 |                |
|                       | November 3, 2018        |                |                  |                |
| (in thousands)        |                         | % of Net Sales |                  | % of Net Sales |
| Interest expense      | \$17,000                | 0.7%           | \$16,781         | 0.7%           |
| Interest income       | (8,102 )                | (0.3)%         | (4,001 )         | (0.2)%         |
| Interest expense, net | \$8,898                 | 0.4%           | \$12,780         | 0.6%           |

Interest expense, net primarily consists of interest expense on borrowings outstanding under the Company's Term Loan Facility, partially offset by realized gains from the trust-owned life insurance policies held in the irrevocable rabbi trust (the "Rabbi Trust") and interest income earned on the Company's investments and cash holdings.

For the third quarter and the year-to-date period of Fiscal 2018, interest expense, net as a percentage of net sales decreased as compared to the third quarter and year-to-date period of Fiscal 2017 by approximately 20 basis points and 20 basis points, respectively, primarily due to higher interest income earned on the Company's investments and cash holdings.

## Income tax expense (benefit)

|                                                          | Thirteen Weeks Ended    |                    | October 28, 2017 |                    |
|----------------------------------------------------------|-------------------------|--------------------|------------------|--------------------|
|                                                          | November 3, 2018        |                    |                  |                    |
| (in thousands, except ratios)                            |                         | Effective Tax Rate |                  | Effective Tax Rate |
| Income tax expense                                       | \$12,047                | 32.7%              | \$7,553          | 41.6%              |
| Deduct:                                                  |                         |                    |                  |                    |
| Tax effect of excluded items <sup>(1)</sup>              | (1,064 )                |                    | 4,117            |                    |
| Tax Cuts and Jobs Act of 2017 net charges <sup>(2)</sup> | (405 )                  |                    | —                |                    |
| Adjusted non-GAAP income tax expense                     | \$10,578                | 31.3%              | \$11,670         | 35.7%              |
|                                                          | Thirty-nine Weeks Ended |                    | October 28, 2017 |                    |
|                                                          | November 3, 2018        |                    |                  |                    |
| (in thousands, except ratios)                            |                         | Effective Tax Rate |                  | Effective Tax Rate |
| Income tax expense (benefit)                             | \$8,358                 | (74.6)%            | \$(16,062)       | 19.8%              |
| Deduct:                                                  |                         |                    |                  |                    |
| Tax effect of excluded items <sup>(1)</sup>              | 3,166                   |                    | 5,727            |                    |
| Tax Cuts and Jobs Act of 2017 net charges <sup>(2)</sup> | (2,447 )                |                    | —                |                    |
| Adjusted non-GAAP income tax expense (benefit)           | \$9,077                 | 13,348.5%          | \$(10,335)       | 17.1%              |

<sup>(1)</sup> Refer to "Operating income (loss)" for details of excluded items. The tax effect of excluded items is the difference between the tax provision calculation on a GAAP basis and on an adjusted non-GAAP basis.

<sup>(2)</sup> Discrete tax charges related to the Act. See Note 5, "INCOME TAXES," for further discussion.

For the third quarter of Fiscal 2018, the effective tax rate was 32.7% as compared to 41.6% for the third quarter of Fiscal 2017. In the third quarter of Fiscal 2018, the effective tax rate was impacted by discrete income tax net charges of \$0.4 million related to the provisional estimate of the Act and discrete non-cash income tax charges related to the

expiration of certain share-based compensation awards of \$1.8 million. In the third quarter of Fiscal 2017, the effective tax rate was impacted by discrete non-cash income tax charges related to the expiration of certain share-based compensation awards of \$0.2 million. Excluding items presented above in the table under “Operating income (loss),” and charges related to the Act, the third quarter Fiscal 2018 adjusted non-GAAP effective tax rate was 31.3% as compared to 35.7% for the third quarter of Fiscal 2017.

Table of Contents

For the year-to-date period of Fiscal 2018, the effective tax rate was -74.6% as compared to 19.8% for the year-to-date period of Fiscal 2017. In both the Fiscal 2018 and Fiscal 2017 year-to-date period, the effective tax rate was impacted by discrete non-cash income tax charges related to the expiration of certain share-based compensation awards of \$9.8 million and \$10.1 million, respectively. In addition, for the year-to-date period of Fiscal 2018 the effective tax rate was also impacted by a discrete income tax net charges of \$2.4 million related to the provisional estimate of the Act. Excluding items presented above in the table under “Operating income (loss),” and charges related to the Act, the year-to-date Fiscal 2018 adjusted non-GAAP effective tax rate, which is highly sensitive at lower levels of pre-tax earnings, was not meaningful as compared to 17.1% for the year-to-date period of Fiscal 2017.

For the third quarter and the year-to-date period of Fiscal 2018, the year-over-year change in the effective tax rate, which is highly sensitive at lower levels of pre-tax earnings, was primarily driven by changes in the level and mix of consolidated pre-tax earnings between operating and valuation allowance jurisdictions and the reduction in the U.S. federal corporate income tax rate from 35% to 21% as a result of the enactment of the Act in the fourth quarter of Fiscal 2017.

## Net income (loss) and Net income (loss) per share attributable to A&amp;F

|                                                                                   | Thirteen Weeks Ended    |                | October 28, 2017 |                |
|-----------------------------------------------------------------------------------|-------------------------|----------------|------------------|----------------|
|                                                                                   | November 3, 2018        | % of Net Sales | October 28, 2017 | % of Net Sales |
| (in thousands)                                                                    |                         |                |                  |                |
| Net income attributable to A&F                                                    | \$23,919                | 2.8%           | \$10,075         | 1.2%           |
| Adjusted non-GAAP net income attributable to A&F <sup>(1)</sup>                   | \$22,383                | 2.6%           | \$20,508         | 2.4%           |
| Net income per diluted share attributable to A&F                                  | \$0.35                  |                | \$0.15           |                |
| Adjusted non-GAAP net income per diluted share attributable to A&F <sup>(1)</sup> | \$0.33                  |                | \$0.30           |                |
|                                                                                   | Thirty-nine Weeks Ended |                | October 28, 2017 |                |
|                                                                                   | November 3, 2018        | % of Net Sales | October 28, 2017 | % of Net Sales |
| (in thousands)                                                                    |                         |                |                  |                |
| Net loss attributable to A&F                                                      | \$ (22,395 )            | (0.9)%         | \$ (67,116 )     | (2.9)%         |
| Adjusted non-GAAP net loss attributable to A&F <sup>(1)</sup>                     | \$ (11,848 )            | (0.5)%         | \$ (52,158 )     | (2.3)%         |
| Net loss per diluted share attributable to A&F                                    | \$ (0.33 )              |                | \$ (0.98 )       |                |
| Adjusted non-GAAP net loss per diluted share attributable to A&F <sup>(1)</sup>   | \$ (0.17 )              |                | \$ (0.76 )       |                |

<sup>(1)</sup> Excludes items presented above under “Operating income (loss),” and “Income tax expense (benefit).”

For the third quarter of Fiscal 2018, net income per diluted share attributable to A&F was \$0.35 as compared to \$0.15 for the third quarter of Fiscal 2017. Excluding items presented above under “Operating income (loss),” and “Income tax expense (benefit),” third quarter of Fiscal 2018 adjusted non-GAAP net income per diluted share attributable to A&F was \$0.33, as compared to \$0.30 last year. The year-over-year change in net income per diluted share attributable to A&F reflects:

- Changes in foreign currency exchange rates, which benefited net income per diluted share attributable to A&F by approximately \$0.05, net of hedging; and,
-

The calendar shift resulting from Fiscal 2017's 53<sup>d</sup> week, which was estimated to have adversely impacted net income per diluted share attributable to A&F by approximately \$0.05.

For the year-to-date period of Fiscal 2018, net loss per diluted share attributable to A&F was \$0.33 as compared to \$0.98 for the year-to-date period of Fiscal 2017. Excluding items presented above under "Operating income (loss)," and "Income tax expense (benefit)," year-to-date Fiscal 2018 adjusted non-GAAP net loss per diluted share attributable to A&F was \$0.17, as compared to \$0.76 last year. The year-over-year change in net loss per diluted share attributable to A&F reflects:

- Changes in foreign currency exchange rates, which benefited net loss per diluted share attributable to A&F by approximately \$0.11, net of hedging; and,

- The calendar shift resulting from Fiscal 2017's 53<sup>d</sup> week, which was estimated to have benefited net loss per diluted share attributable to A&F by approximately \$0.14.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL SOURCES AND USES OF CASH

Seasonality of cash flows

The Company's business has two principal selling seasons: the spring season, which includes the first and second fiscal quarters ("Spring") and the fall season, which includes the third and fourth fiscal quarters ("Fall"). As is typical in the apparel industry, the Company experiences its greatest sales activity during Fall due to Back-to-School and Holiday sales periods. The Company relies on excess operating cash flows, which are largely generated in Fall, to fund operations throughout the year and to reinvest in the business to support future growth. The Company also has a revolving credit facility available as a source of additional funding.

Credit Facilities

On August 7, 2014, A&F, through its subsidiary A&F Management as the lead borrower (with A&F and certain other subsidiaries as borrowers or guarantors), entered into an asset-based revolving credit agreement.

On October 19, 2017, the Company, through A&F Management, entered into the ABL Second Amendment, amending and extending the maturity date of the asset-based revolving credit agreement to October 19, 2022. The Amended ABL Facility continues to provide for a senior secured credit facility of up to \$400 million.

As of November 3, 2018, the borrowing base on the Amended ABL Facility was \$400.0 million.

The Company uses, in the ordinary course of business, stand-by letters of credit under the Amended ABL Facility. As of November 3, 2018 and February 3, 2018, the Company had not drawn on the Amended ABL Facility, but had outstanding stand-by letters of credit under the Amended ABL Facility of approximately \$1.1 million and \$1.9 million, respectively. The Company has no other off-balance sheet arrangements.

A&F, through its subsidiary A&F Management as the borrower (with A&F and certain other subsidiaries as guarantors), also entered into a term loan agreement on August 7, 2014, which provides for a Term Loan Facility of \$300 million.

On June 22, 2018, the Company, through A&F Management, entered into the Term Loan Second Amendment, which, among other things, repriced the Term Loan Facility by reducing the applicable margins for term loans by 0.25%.

The material provisions of the Credit Facilities have not changed from those disclosed in Note 11, "BORROWINGS," of the Notes to Consolidated Financial Statements contained in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of A&F's Annual Report on Form 10-K for Fiscal 2017, except as described in Note 6, "BORROWINGS" of the Notes to Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)," of this Quarterly Report on Form 10-Q.

Operating activities

For the thirty-nine weeks ended November 3, 2018, net cash provided by operating activities was \$77.2 million as compared to \$31.4 million for the thirty-nine weeks ended October 28, 2017. The year-over-year change in cash flow associated with operating activities was primarily due to higher cash receipts from increased net sales, decreased rent payments, and increased payments to vendors in the fourth quarter of Fiscal 2017 which resulted in lower cash

payments in Fiscal 2018 as compared to the prior year. These year-over-year changes were partially offset by an increase in incentive compensation payments in Fiscal 2018 primarily related to Fiscal 2017 performance, and income tax refunds received in Fiscal 2017 from prior year tax returns.

#### Investing activities

For the thirty-nine weeks ended November 3, 2018 and October 28, 2017, cash used for investing activities included capital expenditures of \$98.8 million and \$86.3 million, respectively, primarily for store updates and new stores, as well as direct-to-consumer and omnichannel and information technology investments.

## Table of Contents

### Financing activities

For the thirty-nine weeks ended November 3, 2018, cash used for financing activities consisted primarily for the repurchase of approximately 2.9 million shares of A&F's Common Stock in the open market with a market value of approximately \$68.7 million and dividend payments of \$40.6 million. For the thirty-nine weeks ended October 28, 2017, cash used for financing activities consisted primarily of dividend payments of \$40.8 million.

### FUTURE CASH REQUIREMENTS AND SOURCES OF CASH

The Company's capital allocation strategy remains to prioritize investments in the business to build on the foundation for sustainable long-term growth and invest in projects that have the highest expected return, and to evaluate opportunities to accelerate potential investments, including improvements in customer experience, both in stores and online. These improvements include store remodels and right-sizes, new store openings, and acceleration of our transformation efforts. The Company also evaluates store closures quarterly, including flagship lease buyouts and kick-outs. In addition, the Company returns cash to stockholders through dividends and completes share repurchases as deemed appropriate. Capital allocation priorities and investments are reviewed by the Company's Board of Directors considering both liquidity and valuation factors.

To execute its capital allocation strategy, the Company relies on excess operating cash flows, which are largely generated in the Fall season, to fund operations throughout the fiscal year and to reinvest in the business to support future growth. The Company also has availability under the Amended ABL Facility as a source of additional funding. Over the next twelve months, the Company's primary cash requirements will be to fund operating activities, including the acquisition of inventory, and obligations related to compensation, leases, any obligations related to lease buyouts or kickouts we may exercise, taxes and other operating activities, as well as to fund capital expenditures, marketing initiatives, quarterly dividends to stockholders subject to approval by A&F's Board of Directors and debt service requirements, including voluntary debt prepayments, or required repayments, if any, based on annual excess cash flows, as defined in the credit agreement applicable to the Term Loan Facility.

The Company may repurchase shares of its Common Stock and, if it were to do so, would anticipate funding such repurchases by utilizing free cash flow generated from operations or proceeds from the Amended ABL Facility. As of November 3, 2018, A&F had the ability to repurchase up to 3.6 million shares as part of the A&F Board of Directors' previously approved authorization.

### Income taxes

As of November 3, 2018, certain foreign subsidiaries have lent approximately \$266.9 million to certain U.S. subsidiaries resulting in \$331.9 million of the Company's \$520.5 million of cash and equivalents being held by U.S. subsidiaries. The Company is not dependent on dividends from its foreign affiliates to fund its U.S. operations or pay dividends to A&F's stockholders. As a result of the adoption of a modified territorial system under the Act, future earnings from foreign subsidiaries are generally not subject to additional federal tax upon repatriation. Because of the complexities associated with the Act, the Company has not fully concluded on its position with respect to reinvestment of remaining and future foreign earnings and whether its existing international structure for the various jurisdictions is the optimal structure for the future, but expects to complete this assessment in Fiscal 2018.

In the third quarter of Fiscal 2018, the Company decided to repatriate \$250 million of the Company's undistributed foreign earnings to the U.S. in the fourth quarter of Fiscal 2018. See Note 5, "INCOME TAXES," for further discussion, including the impact of provisional tax expense at the state level. If additional funds were to be repatriated to the U.S., there could be implications at the state and foreign levels.

#### Capital expenditures

For Fiscal 2018, the Company expects capital expenditures to be approximately \$145 million, primarily for store updates and new stores, as well as direct-to-consumer, omnichannel and information technology and other investments.

#### Other

The Company expects cash payments to be paid in the fourth quarter of Fiscal 2018, in connection with certain legal matters, which received final court approval in the fourth quarter of Fiscal 2018. See Note 11, “CONTINGENCIES.”

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS

The Company uses, in the ordinary course of business, stand-by letters of credit under the Amended ABL Facility. The Company has no other off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

The Company's contractual obligations consist primarily of operating leases, purchase orders for merchandise inventory, unrecognized tax benefits, certain retirement obligations, lease deposits and other agreements to purchase goods and services that are legally binding and that require minimum quantities to be purchased. These contractual obligations impact the Company's short-term and long-term liquidity and capital resource needs. During the thirty-nine weeks ended November 3, 2018, there were no material changes in the contractual obligations as of February 3, 2018, with the exception of those obligations which occurred in the normal course of business (primarily changes in the Company's merchandise inventory-related purchases and lease obligations, which fluctuate throughout the year as a result of the seasonal nature of the Company's operations).

RECENT ACCOUNTING PRONOUNCEMENTS

The Company describes its significant accounting policies in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," of the Notes to Consolidated Financial Statements contained in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of A&F's Annual Report on Form 10-K for Fiscal 2017. Refer to Note 1, "BASIS OF PRESENTATION--Recent accounting pronouncements" of the Notes to Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)," of this Quarterly Report on Form 10-Q for recent accounting pronouncements, including the dates of adoption or expected dates of adoption, as applicable, and estimated effects on the Condensed Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company describes its critical accounting policies and estimates in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," of A&F's Annual Report on Form 10-K for Fiscal 2017. There have been no other significant changes in critical accounting policies and estimates since the end of Fiscal 2017, except as described in Note 1, "BASIS OF PRESENTATION--Recent accounting pronouncements" of the Notes to Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)," of this Quarterly Report on Form 10-Q.

## Table of Contents

### SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Company cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Quarterly Report on Form 10-Q or made by the Company, its management or spokespeople involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond the Company's control. Words such as "estimate," "project," "plan," "believe," "expect," "anticipate," "intend," and similar expressions may identify forward-looking statements. Future economic and industry trends that could potentially impact revenue and profitability are difficult to predict. Therefore, there can be no assurance that the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate. In light of the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company, or any other person, that the objectives of the Company will be achieved. The forward-looking statements included herein are based on information presently available to the management of the Company. Except as may be required by applicable law, the Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

The following factors, categorized by the primary nature of the associated risk, including the disclosures under the heading "FORWARD-LOOKING STATEMENTS AND RISK FACTORS" in "ITEM 1A. RISK FACTORS" of A&F's Annual Report on Form 10-K for Fiscal 2017, in some cases have affected and in the future could affect the Company's financial performance and could cause actual results for Fiscal 2018 and beyond to differ materially from those expressed or implied in any of the forward-looking statements included in this Quarterly Report on Form 10-Q or otherwise made by management:

#### Macroeconomic and industry risks include:

Changes in global economic and financial conditions, and the resulting impact on consumer confidence and consumer spending, as well as other changes in consumer discretionary spending habits, could have a material adverse effect on our business, results of operations and liquidity;

Failure to anticipate customer demand and changing fashion trends and to manage our inventory commensurately could adversely impact our sales levels and profitability;

- Our market share may be negatively impacted by increasing competition and pricing pressures from companies with brands or merchandise competitive with ours;

Fluctuations in foreign currency exchange rates could adversely impact our financial condition and results of operations;

Our ability to attract customers to our stores depends, in part, on the success of the shopping malls or area attractions that our stores are located in or around; and,

The impact of war, acts of terrorism or civil unrest could have a material adverse effect on our operating results and financial condition.

#### Strategic risks include:

The expansion of our direct-to-consumer sales channels and omnichannel initiatives are significant components of our growth strategy, and the failure to successfully develop our position across all channels could have an adverse impact on our results of operations;

Our international growth strategy and ability to conduct business in international markets may be adversely affected by legal, regulatory, political and economic risks; and,

Failure to successfully implement our strategic plans could have a negative impact on our growth and profitability.

#### Operational risks include:

Failure to protect our reputation could have a material adverse effect on our brands;

Our business could suffer if our information technology systems are disrupted or cease to operate effectively;  
We may be exposed to risks and costs associated with cyber-attacks, credit card fraud and identity theft that would cause us to incur unexpected expenses and reputation loss;  
Our reliance on DCs makes us susceptible to disruptions or adverse conditions affecting our supply chain;  
Changes in cost, availability and quality of raw materials, labor, transportation, and trade relations could cause manufacturing delays and increase our costs;  
We depend upon independent third parties for the manufacture and delivery of all our merchandise, and a disruption of the manufacture or delivery of our merchandise could result in lost sales and could increase our costs;  
We rely on the experience and skills of our senior executive officers and associates, the loss of whom could have a material adverse effect on our business; and,  
Extreme weather conditions, including natural disasters, pandemic disease and other unexpected events, could negatively impact our facilities, systems and stores, as well as the facilities and systems of our vendors and manufacturers, which could result in an interruption to our business and adversely affect our operating results.

## Table of Contents

Legal, tax, regulatory and compliance risks include:

- Fluctuations in our tax obligations and effective tax rate may result in volatility in our results of operations;
- Our litigation exposure could have a material adverse effect on our financial condition and results of operations;
- Failure to adequately protect our trademarks could have a negative impact on our brand image and limit our ability to penetrate new markets;
- Changes in the regulatory or compliance landscape and compliance with changing regulations for accounting, corporate governance and public disclosure could adversely affect our business, results of operations and reported financial results; and,
- Our Asset-Based Revolving Credit Agreement and our Term Loan Agreement include restrictive covenants that limit our flexibility in operating our business.

The factors listed above are not our only risks. Additional risks may arise and current evaluations of risks may change, which could lead to material, adverse effects on our business, operating results and financial condition.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Investment securities

The Rabbi Trust includes amounts to meet funding obligations to participants in the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan I, the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan II and the Supplemental Executive Retirement Plan. The Rabbi Trust assets primarily consist of trust-owned life insurance policies which are recorded at cash surrender value. The change in cash surrender value of the trust-owned life insurance policies held in the Rabbi Trust resulted in realized gains of \$0.8 million and \$2.3 million for the thirteen and thirty-nine weeks ended November 3, 2018, respectively, and realized gains of \$0.8 million and \$2.3 million for the thirteen and thirty-nine weeks ended October 28, 2017, respectively, which are recorded in interest expense, net on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

The Rabbi Trust assets are included in other assets on the Condensed Consolidated Balance Sheets as of November 3, 2018 and February 3, 2018, and are restricted in their use as noted above.

### Interest rate risks

As of November 3, 2018, the Company has approximately \$253.3 million in gross borrowings outstanding under its Term Loan Facility and no borrowings outstanding under its Amended ABL Facility. The Credit Facilities carry interest rates that are tied to LIBO rate, or an alternate base rate, plus a margin. The interest rate on the Term Loan Facility has a 100 basis point LIBO rate floor, and assuming no changes in the Company's financial structure as it stands, an increase in market interest rates of 100 basis points would increase annual interest expense by approximately \$2.6 million. This hypothetical analysis for the fifty-two weeks ending February 2, 2019 may differ from the actual change in interest expense due to potential changes in interest rates or gross borrowings outstanding under the Company's Credit Facilities.

## Table of Contents

### Foreign exchange rate risk

A&F's international subsidiaries generally operate with functional currencies other than the U.S. Dollar. Since the Company's Condensed Consolidated Financial Statements are presented in U.S. Dollars, the Company must translate all components of its condensed consolidated financial statements from functional currencies into U.S. Dollars at exchange rates in effect during or at the end of the reporting period. The fluctuation in the value of the U.S. Dollar against other currencies affects the reported amounts of revenues, expenses, assets and liabilities. The potential impact of currency fluctuation increases as international expansion increases.

A&F and its subsidiaries have exposure to changes in foreign currency exchange rates associated with foreign currency transactions and forecasted foreign currency transactions, including the sale of inventory between subsidiaries and foreign-currency-denominated assets and liabilities. The Company has established a program that primarily utilizes foreign currency exchange forward contracts to partially offset the risks associated with the effects of certain foreign currency transactions and forecasted transactions. Under this program, increases or decreases in foreign currency exchange rate exposures are partially offset by gains or losses on forward contracts, to mitigate the impact of foreign currency gains or losses. The Company does not use forward contracts to engage in currency speculation. All outstanding foreign currency exchange forward contracts are recorded at fair value at the end of each fiscal period.

The fair value of outstanding foreign currency exchange forward contracts included in other current assets was \$11.1 million as of November 3, 2018 and insignificant as of February 3, 2018. The fair value of outstanding foreign currency exchange forward contracts included in accrued expenses was \$9.1 million as of February 3, 2018. Foreign currency exchange forward contracts are sensitive to changes in foreign currency exchange rates. The Company assessed the risk of loss in fair values from the effect of a hypothetical 10% devaluation of the U.S. Dollar against the exchange rates for foreign currencies under contract. Such a hypothetical devaluation would decrease derivative contract fair values by approximately \$17.6 million. As the Company's foreign currency exchange forward contracts are primarily designated as cash flow hedges of forecasted transactions, the hypothetical change in fair value would be largely offset by the net change in fair values of the underlying hedged items.

## ITEM 4.CONTROLS AND PROCEDURES

### Disclosure controls and procedures

A&F maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in the reports that A&F files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to A&F's management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

A&F's management, including the Chief Executive Officer of A&F (who serves as Principal Executive Officer of A&F) and the Senior Vice President and Chief Financial Officer of A&F (who serves as Principal Financial Officer and Principal Accounting Officer of A&F), evaluated the effectiveness of A&F's design and operation of its disclosure controls and procedures as of the end of the fiscal quarter ended November 3, 2018. The Chief Executive Officer of A&F (in such individual's capacity as the Principal Executive Officer of A&F) and the Senior Vice President and

Chief Financial Officer of A&F (in such individual's capacity as the Principal Financial Officer of A&F) concluded that A&F's disclosure controls and procedures were effective at a reasonable level of assurance as of November 3, 2018, the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in internal control over financial reporting

There were no changes in A&F's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during A&F's fiscal quarter ended November 3, 2018 that materially affected, or are reasonably likely to materially affect, A&F's internal control over financial reporting.

Table of Contents

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The Company is a defendant in lawsuits and other adversary proceedings arising in the ordinary course of business. The Company's legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes estimated liabilities for the outcome of litigation where losses are deemed probable and the amount of loss, or range of loss is reasonably estimable. The Company also determines estimates of reasonably possible losses or ranges of reasonably possible losses in excess of related accrued liabilities, if any, when it has determined that a loss is reasonably possible and it is able to determine such estimates. The Company's accrued charges for certain legal contingencies are classified within accrued expenses on the Condensed Consolidated Balance Sheet included in "ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)," of this Quarterly Report on Form 10-Q. In addition, the Company has not established accruals for certain claims and legal proceedings pending against the Company where it is not possible to reasonably estimate the outcome of or potential liability, and cannot estimate a range of reasonably possible losses for these legal matters.

Actual liabilities may differ from the amounts recorded, due to uncertainties regarding final settlement agreement negotiations, court approvals and the terms of any approval by the courts, and there can be no assurance that final resolution of legal matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company's assessment of the current exposure could change in the event of the discovery of additional facts.

## ITEM 1A. RISK FACTORS

The Company's risk factors as of November 3, 2018 have not changed materially from those disclosed in Part I, "ITEM 1A. RISK FACTORS" of A&F's Annual Report on Form 10-K for Fiscal 2017.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of equity securities during the third quarter of Fiscal 2018 that were not registered under the Securities Act of 1933, as amended.

The following table provides information regarding the purchase of shares of Common Stock of A&F made by or on behalf of A&F or any "affiliated purchaser" as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during each fiscal month of the thirteen weeks ended November 3, 2018:

| Period (Fiscal Month)                     | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup> | Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs <sup>(3)</sup> |
|-------------------------------------------|-------------------------------------------------|------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| August 5, 2018 through September 1, 2018  | 2,811                                           | \$ 25.85                     | —                                                                                               | 4,756,426                                                                                     |
| September 2, 2018 through October 6, 2018 | 1,202,648                                       | \$ 21.12                     | 1,184,488                                                                                       | 3,571,938                                                                                     |
| October 7, 2018 through November 3, 2018  | 5,575                                           | \$ 18.15                     | —                                                                                               | 3,571,938                                                                                     |
| Total                                     | 1,211,034                                       | \$ 21.12                     | 1,184,488                                                                                       | 3,571,938                                                                                     |

(1)

26,546 shares of A&F's Common Stock purchased during the thirteen weeks ended November 3, 2018 represented shares which were withheld for tax payments due upon the vesting of employee restricted stock units, classified in other financing activities on the Condensed Consolidated Statements of Cash Flows.

- (2) 1,184,488 shares of A&F's Common Stock were repurchased during the thirteen weeks ended November 3, 2018 pursuant to A&F's publicly announced stock repurchase authorization. On August 14, 2012, A&F's Board of Directors authorized the repurchase of 10.0 million shares of A&F's Common Stock, which was announced on August 15, 2012.

- (3) The number shown represents, as of the end of each period, the maximum number of shares of A&F's Common Stock that may yet be purchased under A&F's publicly announced stock repurchase authorization described in footnote 2 above. The shares may be purchased, from time-to-time, depending on market conditions.

Table of Contents

ITEM 6. EXHIBITS

| Exhibit No. | Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1        | <u>Offer Letter from Abercrombie &amp; Fitch to Gregory J. Henchel, executed by Mr. Henchel on September 3, 2018.*</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 10.2        | <u>Executive Agreement entered into between Abercrombie &amp; Fitch Management Co. and Gregory J. Henchel, effective as of September 13, 2018, the execution date by Abercrombie &amp; Fitch Management Co.*</u>                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 31.1        | <u>Certifications by Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>                                                                                                                                                                                                                                                                                                                                                                                                               |
| 31.2        | <u>Certifications by Senior Vice President and Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>                                                                                                                                                                                                                                                                                                                                                                                     |
| 32.1        | <u>Certifications by Chief Executive Officer (Principal Executive Officer) and Senior Vice President and Chief Financial Officer (Principal Financial Officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</u>                                                                                                                                                                                                                                                                                                                                                                              |
| 101         | The following materials from Abercrombie & Fitch Co.'s Quarterly Report on Form 10-Q for the quarterly period ended November 3, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Thirteen and Thirty-nine Weeks Ended November 3, 2018 and October 28, 2017; (ii) Condensed Consolidated Balance Sheets at November 3, 2018 and February 3, 2018; (iii) Condensed Consolidated Statements of Cash Flows for the Thirty-nine Weeks Ended November 3, 2018 and October 28, 2017; and (iv) Notes to Condensed Consolidated Financial Statements.* |

\* Filed herewith.

\*\*Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ABERCROMBIE & FITCH CO.

Date: December 12, 2018 By/s/ Scott Lipesky

Scott Lipesky

Senior Vice President and Chief Financial Officer

(Principal Financial Officer and Authorized Officer)