ABERCROMBIE & FITCH CO /DE/
Form 10-K
April 01, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 2, 2019
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 001-12107
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
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $0.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No
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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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	¨	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. ¨

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

Aggregate market value of the Registrant's Class A Common Stock (the only outstanding common equity of the Registrant) held by non-affiliates of the Registrant (for this purpose, executive officers and directors of the Registrant are considered affiliates) as of August 3, 2018: $1,655,242,985.

Number of shares outstanding of the Registrant's common stock as of March 27, 2019: 66,606,436 shares of Class A Common Stock.

DOCUMENT INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive proxy statement for the Annual Meeting of Stockholders, to be held on June 12, 2019, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

GENERAL

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 the “Company” and “we”) is a global multi-brand omnichannel 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 children under the Hollister, Abercrombie & Fitch and abercrombie kids brands. The brands share a commitment to offering unique products of enduring quality and exceptional comfort that allows customers around the world to express their own individuality and style. 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. This typically results in a fifty-two week year, but occasionally gives rise to an additional week, resulting in a fifty-three week year, as was the case for the year ended February 3, 2018. Fiscal years are designated in the consolidated financial statements and notes, as well as the remainder of this Annual Report on Form 10-K, by the calendar year in which the fiscal year commenced. All references herein to the Company’s fiscal years are as follows:

Fiscal year	Year ended	Number of weeks
Fiscal 2014	January 31, 2015	52
Fiscal 2015	January 30, 2016	52
Fiscal 2016	January 28, 2017	52
Fiscal 2017	February 3, 2018	53
Fiscal 2018	February 2, 2019	52
Fiscal 2019	February 1, 2020	52

For additional information about the Company’s business, including its results of operations for the last three fiscal years, see “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS,” as well as “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA,” of this Annual Report on Form 10-K. Additionally, a five-year summary of certain financial and operating information can be found in “ITEM 6. SELECTED FINANCIAL DATA,” of this Annual Report on Form 10-K.

The Company determines its segments after taking into consideration a variety of factors, including its organizational structure and the basis that it uses to allocate resources and assess performance. The Company’s two operating segments as of February 2, 2019 are brand-based: Hollister and Abercrombie, the latter of which includes the Company’s Abercrombie & Fitch and abercrombie kids brands, and are further described below. These operating segments have similar economic characteristics, classes of consumers, products, production and distribution methods, operate in the same regulatory environments, and have been aggregated into one reportable segment. Additional information concerning the Company’s segment and geographic information is contained in Note 16, “SEGMENT REPORTING,” of the Notes to Consolidated Financial Statements included in “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA” of this Annual Report on Form 10-K.

BRANDS

Hollister. The quintessential retail brand of the global teen consumer, Hollister celebrates liberating the spirit of an endless summer inside everyone. Inspired by California’s laidback attitude, Hollister’s clothes are designed to be lived in and made your own, for wherever life takes you. Hollister provides an engaging, welcoming and unique shopping experience around the globe. Hollister also carries its intimates brand, Gilly Hicks by Hollister, “the brand to start and end your day with,” which carries bras, bralettes, undies, loungewear and sleepwear. Gilly Hicks product is designed to be effortless and comfortable to align with customers’ on-the-go, busy lifestyle.

Abercrombie & Fitch. Abercrombie & Fitch is a specialty retailer of high-quality apparel and accessories for men and women. For more than 125 years, the iconic brand has outfitted innovators, explorers and entrepreneurs. Today, it reflects the updated attitude of the modern customer, while remaining true to its heritage of creating expertly crafted products with an effortless, American style.

abercrombie kids. abercrombie kids creates smart and creative apparel of enduring quality that celebrates the wide-eyed wonder of children from 5 to 14 years. Its products are “made for play” and are tough enough to stand up to everyday adventures.

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STRATEGIC PILLARS

The Company is focused on putting its customers at the center of everything that it does and meeting its customers' needs wherever, whenever and however they choose to shop. The Company strives to accomplish this through its three strategic pillars:

- Inspiring customers;
- Innovating relentlessly; and
- Developing leaders.

These strategic pillars reflect the Company's deep understanding of its customers, developed through in-store and online interactions, social media platforms, mobile applications, online surveys, customer reviews, loyalty programs and various other forms of customer engagement. Through the continued execution of the Company's strategic pillars and brand playbooks, the Company is aligning product, brand voice and experience around its customers and is building and enhancing capabilities to react to a rapidly evolving retail landscape.

OVERVIEW OF OPERATIONS

Omnichannel initiatives. As customer shopping preferences continue to shift and customers increasingly shop across multiple channels, the Company aims to create best-in-class customer experiences and grow profitably across channels by delivering improvements through a continuous test-and-learn approach. Although stores continue to be the primary fulfillment point for orders, the Company believes that the customers' experience in its stores is complemented by its omnichannel capabilities, a few of which include:

- Purchase-Online-Pickup-in-Store, allowing customers to purchase merchandise through one of the Company's websites or mobile apps and pick-up the merchandise in store, which often times drives incremental in-store sales;
- Order-in-Store, allowing customers to shop the brands' online offering while in-store;
- Reserve-in-Store, allowing customers to reserve merchandise online and try it on in-store before purchase;
- Ship-from-Store, which allows the Company to ship in-store merchandise to customers and increases inventory productivity; and
- Cross-channel returns, allowing customers to return merchandise purchased through one channel to a different channel.

The Company also believes that its loyalty programs, Hollister's Club Cal® and Abercrombie's A&F Club®, are important parts of its omnichannel strategy as the Company aims to seamlessly interact and connect with customers across all touchpoints. Under these programs, customers accumulate points primarily based on purchase activity and earn rewards as points are converted at certain thresholds. These rewards can be redeemed for merchandise discounts either in-store or online. The loyalty programs continue to provide timely customer insights, creating stronger customer engagement while driving a higher average level of customer spend. In addition, the Company uses its loyalty programs as a tool to stay close to its customers through members-only offers, items and experiences.

Store operations. The Company's stores continue to play an essential role in creating brand awareness serving as physical gateways to the brands. Stores also serve as local hubs for online engagement as the Company continues to grow its omnichannel capabilities to create seamless shopping experiences. Hollister and Abercrombie have launched new store prototypes, in Fiscal 2015 and Fiscal 2017, respectively, which are both open and inviting, and include accommodating features such as innovative fitting rooms and omnichannel capabilities. These new store prototypes are tailored to reflect the personality of each brand, with unique furniture, fixtures, music and scent adding to a rich brand experience. Through the enhanced store environment, the Company has seen improved store engagement and greater overall productivity on a smaller footprint.

The Company continues to evaluate and manage its store fleet through its ongoing channel optimization program, which has been designed to address shifts in customer preferences. Actions taken to optimize store productivity include remodeling, rightsizing and closing stores. At the end of Fiscal 2018, the Company operated 861 stores.

The following table details the number of retail stores operated by the Company as of February 2, 2019:

	Hollister [1]	Abercrombie [2]	Total
United States	393	270	663
International	149	49	198
Total	542	319	861

[1] Excludes eight international franchise stores as of February 2, 2019.

[2] Includes Abercrombie & Fitch and abercrombie kids brands. Locations with abercrombie kids carveouts within Abercrombie & Fitch stores are represented as a single store count. Excludes seven international franchise stores as of February 2, 2019.

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Direct-to-consumer operations. In order to create a more seamless shopping experience for its customers, the Company continues to invest in its digital infrastructure. Currently, the Company ships merchandise to direct-to-consumer customers in more than 120 countries. The Company operates 20 desktop and mobile websites for its brands globally, which are available in 11 local languages, and four mobile apps. In addition, the Company also partners with certain third-party e-commerce platforms to expand its international brand reach. The Company processes transactions in 29 currencies and through 28 forms of payment globally. Mobile engagement continues to grow, with over 70% of the Company's digital traffic generated from mobile devices in Fiscal 2018. To improve the overall mobile experience, the Company continues to develop and expand its mobile capabilities, including streamlined checkout and increased ease of navigation.

Wholesale, franchise and licensing operations. The Company continues to expand its international brand reach, create brand awareness and develop local expertise through various wholesale, franchise and licensing arrangements. As of February 2, 2019, the Company had six wholesale partnerships, primarily internationally. As of February 2, 2019, the Company's franchisees operated 15 international franchise stores across the brands. These international franchise stores are located in Mexico, Qatar and Saudi Arabia.

MERCHANDISE VENDORS

Global sourcing strategy. The Company depends on its network of third-party vendors to supply compelling, on-trend and high-quality product assortments to its customers. Maintaining close relationships with vendors allows the Company to be responsive and adaptable to customer feedback. The Company partners with vendors that are expected to respect local laws and have committed to follow the standards set forth in our Vendor Code of Conduct, which details our dedication to employing leading practices in human rights, labor rights, environmental responsibility and workplace safety. During Fiscal 2018, the Company sourced merchandise through approximately 150 vendors located throughout the world, with its largest vendor accounting for approximately 11% of merchandise sourced in Fiscal 2018, based on the cost of sourced merchandise. The Company purchased merchandise from vendors in 17 countries during Fiscal 2018, including the United States ("U.S."), and believes its product sourcing is appropriately distributed among vendors.

In Fiscal 2018, the Company's vendors were based primarily in Asia, with approximately 36% and 29% of merchandise sourced through China and Vietnam, respectively, based on the cost of sourced merchandise. The Company reduced the percentage of merchandise sourced from China from 42% in Fiscal 2017 and expects to continue to reduce this percentage in future years. In Fiscal 2018, approximately 25% of merchandise sourced globally was imported to the U.S. from China, based on the cost of sourced merchandise.

The Company's global sourcing of merchandise is generally negotiated and settled in U.S. Dollars.

Quality assurance and social sustainability. High quality standards are an integral part of the Company's identity and the Company's network of independent manufacturers and suppliers are expected to achieve and maintain these standards. The Company has established supplier quality standards to ensure the high quality of fabrics and other materials used in the Company's products. Both home office and field employees participate in monitoring suppliers' compliance with the Company's product quality standards. Before production begins, all factories, including subcontractors of the factories, undergo a quality assurance assessment to ensure they meet Company standards. All factories are contractually required to adhere to the Company's Vendor Code of Conduct, go through social audits which include on-site walk-throughs to appraise the physical working conditions and health and safety practices, and review payroll and age documentation. Social audits of the factories are performed at least every two years after the initial audit.

DISTRIBUTION OF MERCHANDISE INVENTORY

The Company’s distribution network is built to deliver inventory to Company-operated and international franchise stores and fulfill direct-to-consumer and wholesale orders with speed and efficiency. Generally, merchandise is shipped directly from vendors to the Company’s distribution centers (“DCs”), where it is received and inspected before being shipped to its stores or direct-to-consumer or wholesale customers. The Company primarily uses one contract carrier to ship merchandise and related materials to its North American stores and direct-to-consumer customers, and several contract carriers for its international stores and direct-to-consumer customers.

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The Company relies on its DCs to manage the receipt, storage, sorting, packing and distribution of its merchandise. Additional information pertaining to the Company's primary DCs as of February 2, 2019 is as follows:

Location	Company-owned or third-party	Primary areas of service
New Albany, Ohio	Company-owned	Stores in North America
New Albany, Ohio	Company-owned	Direct-to-consumer operations in North America and certain international direct-to-consumer operations
Reno, Nevada	Third-party	Direct-to-consumer operations in North America
Bergen op Zoom, Netherlands	Third-party	Stores, direct-to-consumer and wholesale operations in Europe
Shanghai, China	Third-party	Stores and direct-to-consumer operations in China
Hong Kong	Third-party	Stores and direct-to-consumer operations in Asia and the Middle East and wholesale operations in Asia

SEASONAL BUSINESS

The retail industry 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 common in the retail industry, the Company experiences its greatest sales activity during the Fall season due to the Back-to-School period in August and the holiday sales period in November and December.

WORKING CAPITAL

Refer to "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Annual Report on Form 10-K for a discussion of the Company's cash requirements and sources of cash available for working capital needs and investment opportunities.

COMPETITION

The Company operates in a rapidly evolving and highly competitive retail business environment. Competitors include: individual and chain specialty apparel retailers; local, regional, national and international department stores; discount stores; and online exclusive businesses. Additionally, the Company competes for consumers' discretionary spend with businesses in other product and experiential categories such as technology, restaurants, travel and media content. The Company competes primarily on the basis of quality, fashion, brand experience and selection. Operating in a highly competitive industry environment can cause the Company to engage in greater than expected promotional activity, resulting in pressure on average unit retail and gross profit. Refer to "ITEM 1A. RISK FACTORS" of this Annual Report on Form 10-K for further discussion of the potential impacts competition may have on the Company.

INFORMATION SYSTEMS

The Company's management information systems consist of a full range of retail, merchandising, human resource and financial systems. These systems include applications related to point-of-sale, direct-to-consumer, inventory management, supply chain, planning, sourcing, merchandising, payroll, scheduling and financial reporting. The Company continues to invest in technology to upgrade its core systems to create efficiencies, including the support of its direct-to-consumer operations, omnichannel capabilities, customer relationship management tools and loyalty programs.

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TRADEMARKS

The trademarks Abercrombie & Fitch®, abercrombie®, Hollister®, Gilly Hicks® and the “Moose” and “Seagull” logos are registered with the U.S. Patent and Trademark Office and registered, or the Company has applications for registration pending, with the registries of countries in key markets within the Company’s sales and distribution channels. In addition, these trademarks are either registered, or the Company has applications for registration pending, with the registries of many of the foreign countries in which the manufacturers of the Company’s products are located. The Company has also registered, or has applied to register, certain other trademarks in the U.S. and around the world. The Company believes its products are identified by its trademarks and, therefore, its trademarks are of significant value. Each registered trademark has a duration of 10 to 20 years, depending on the date it was registered, and the country in which it is registered, and is subject to an indefinite number of renewals for a like period upon continued use and appropriate application. The Company intends to continue using its core trademarks and to timely renew each of its registered trademarks that remain in use.

ENVIRONMENTAL MATTERS

The Company has committed to advancing environmental initiatives in its internal practices, by increasing education and awareness throughout its partnership base, and throughout communities in which they make and sell products. Compliance with domestic and international regulations related to environmental matters has not had, nor is it expected to have, any material effect on the Company’s capital expenditures, earnings or competitive position based on information and circumstances known to the Company at this time.

ASSOCIATE RELATIONS

As of February 2, 2019, the Company employed approximately 42,000 associates, of whom approximately 35,000 were part-time associates. On average, the Company employed approximately 14,000 full-time equivalents during Fiscal 2018.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information regarding the executive officers of the Company as of March 27, 2019:

Joanne C. Crevoiserat, 55, has been Executive Vice President and Chief Operating Officer of the Company since February 2017 and served as Executive Vice President and Chief Financial Officer of the Company from May 2014 to October 2017. In addition, Ms. Crevoiserat served as Interim Principal Executive Officer of the Company from June 2016 to February 2017, and was a member of the Office of the Chairman of the Company from October 2015 to February 2017. Prior to joining the Company, Ms. Crevoiserat served in a number of senior management roles at Kohl’s Inc., which operates family-oriented department stores and a website featuring apparel, footwear, accessories, soft home products and housewares. From June 2012 to April 2014, Ms. Crevoiserat was the Executive Vice President of Finance of Kohl’s and from November 2008 to June 2012, she served as the Executive Vice President of Merchandise Planning and Allocation of Kohl’s. Prior to her time with Kohl’s, Ms. Crevoiserat held senior finance positions with Wal-Mart Stores and May Department Stores, including Chief Financial Officer of the Filene’s, Foley’s and Famous-Barr brands. Ms. Crevoiserat has also served on the Board of Directors of At Home Group, Inc., a home décor and furnishings retailer, and as a member of its Audit Committee since January 2019.

Gregory J. Henchel, 51, has been Senior Vice President, General Counsel and Corporate Secretary of the Company since October 2018. Prior to joining the Company, Mr. Henchel served as Executive Vice President, Chief Legal Officer and Secretary of HSNi, a $3 billion multi-channel retailer, from February 2010 to December 2017. Prior to joining HSNi, Mr. Henchel was Senior Vice President and General Counsel of Tween Brands, Inc., a specialty retailer, from October 2005 to February 2010 and served as that company's Secretary from August 2008 to February 2010. Prior to his time with Tween Brands, Inc., from May 1998 to October 2005, he held various roles at Cardinal Health, Inc., a global medical device, pharmaceutical and healthcare technology company, including Assistant General Counsel of Cardinal Health from 2001 to 2005, and Senior Litigation Counsel from 1998 to 2001. Before his time at Cardinal Health, Mr. Henchel was an associate with the law firm of Jones Day from September 1993 to May 1998.

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Fran Horowitz, 55, has been Chief Executive Officer and a director of the Company since February 2017. In addition, Ms. Horowitz has been Principal Executive Officer of the Company since February 2017. Prior thereto, she had served as President & Chief Merchandising Officer for all brands of the Company since December 2015 and was a member of the Office of the Chairman of the Company from December 2014 to February 2017. Ms. Horowitz held the position of Brand President of Hollister from October 2014 to December 2015. Before joining Hollister, from October 2013 to October 2014, Ms. Horowitz served as the President of Ann Taylor Loft, a division of Ascena Retail Group, the parent company of specialty retail fashion brands in North America. Prior to Ann Taylor Loft, from February 2005 to October 2012, Ms. Horowitz held various roles at Express, Inc., a specialty apparel and accessories retailer of women's and men's merchandise, rising to the position of Executive Vice President of Women's Merchandising and Design from May 2010 to November 2012. Before her time with Express, Inc., Ms. Horowitz spent 13 years at Bloomingdale's in various merchandising roles, prior to which she served in various positions at Bergdorf Goodman, Bonwit Teller and Saks Fifth Avenue. Since March 2017, Ms. Horowitz has served on the Board of Directors of SeriousFun Children's Network, Inc., a Connecticut non-profit corporation, that provides specially-adapted camp experiences for children with serious illnesses, free of charge. Ms. Horowitz is also a member of the Columbus Partnership, a non-profit organization of chief executive officers from leading business and institutions in Columbus, Ohio, with the goal of improving economic development in the city that is home to the Company.

Scott Lipesky, 44, has been Senior Vice President and Chief Financial Officer of the Company, as well as Principal Financial Officer and Principal Accounting Officer of the Company, since October 2017. Prior to rejoining the Company, Mr. Lipesky served as Chief Financial Officer of American Signature, Inc., a privately-held home furnishings company, from October 2016 to October 2017. Prior to his time with American Signature, Inc., Mr. Lipesky served in various finance positions with the Company from November 2007 to October 2016, including as Chief Financial Officer, Hollister Brand, from September 2014 to October 2016, Vice President, Merchandise Finance from March 2013 to September 2014, Vice President, Financial Planning and Analysis from November 2012 to March 2013 and Senior Director, Financial Planning and Analysis from November 2010 to November 2012.

Kristin Scott, 51, has been President, Global Brands of the Company since November 2018. Prior thereto, she had served as Brand President of Hollister since August 2016. Before joining Hollister, Ms. Scott served in various senior positions with Victoria's Secret, a specialty retailer of women's intimate and other apparel which sells products at Victoria's Secret stores and online, from December 2007 until April 2016. Most recently, Ms. Scott served as Executive Vice President, GMM Merchandising from March 2013 to April 2016, Senior Vice President, GMM Merchandising from March 2009 to March 2013 and Senior Vice President, GMM Merchandising - Stores from December 2007 to March 2009. Prior to her time with Victoria's Secret, Ms. Scott served in merchandising positions at the Vice President level with Gap Outlet, Marshall Fields and Target.

The Board of Directors of the Company dissolved the Office of the Chairman, effective February 1, 2017 with the appointment of Fran Horowitz as Chief Executive Officer of the Company. The Office of the Chairman was formed in December 2014 to allow for effective management of the Company during a transition in leadership. The executive officers serve at the pleasure of the Board of Directors of the Company.

OTHER INFORMATION

The Company makes available free of charge on its website, corporate.abercrombie.com, under the "Investors, Financials, SEC Filings," section its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission ("SEC"). The Company also makes available free of charge in the same section of its website the definitive proxy materials filed pursuant to Section 14 of the Exchange Act, as soon as reasonably practicable after the Company electronically files such material with the SEC. The SEC maintains a website that contains electronic filings by the Company and other issuers at www.sec.gov.

The Company has included certain of its website addresses throughout this filing as textual references only. The information contained within these websites is not incorporated into this Annual Report on Form 10-K.

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ITEM 1A. RISK FACTORS

FORWARD-LOOKING STATEMENTS AND RISK FACTORS.

We caution that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Annual Report on Form 10-K or made by us, our management or our spokespeople involve risks and uncertainties and are subject to change based on various factors, many of which may be beyond our control. Words such as “estimate,” “project,” “plan,” “believe,” “expect,” “anticipate,” “intend” and similar expressions may id forward-looking statements. Except as may be required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements.

Forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. The following factors, categorized by the primary nature of the associated risk, could affect our financial performance and cause actual results to differ materially from those expressed or implied in any of the forward-looking statements.

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, data protection, 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 the 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.

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;

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- 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. The following sets forth a description of the preceding risk factors that we believe may be relevant to an understanding of our business. These risk factors could cause actual results to differ materially from those expressed or implied in any of our forward-looking statements.

MACROECONOMIC AND INDUSTRY RISKS.

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.

Our business depends on consumer demand for our merchandise. Consumer purchases of discretionary items, including our merchandise, can be adversely impacted by recessionary periods and other periods where disposable income is adversely affected. Our performance is subject to factors that affect worldwide economic conditions including unemployment, consumer credit availability, consumer debt levels, reductions in net worth based on declines in the financial, residential real estate and mortgage markets, sales and personal income tax rates, fuel and energy prices, interest rates, consumer confidence in future economic and political conditions, consumer perceptions of personal well-being and security, the value of the U.S. Dollar versus foreign currencies and other macroeconomic factors. Additionally, changes in consumer preferences and discretionary spending habits may negatively impact the specialty apparel retail market. Global economic uncertainty, such as the June 2016 decision by the United Kingdom to leave the European Union and greater uncertainty with respect to trade policies, could cause changes in consumers' discretionary spending habits globally, which could have a material adverse effect on our results of operations, liquidity and capital resources if reduced consumer demand for our merchandise should occur. It could also impact our ability to fund growth and/or result in our becoming reliant on external financing, the availability and cost of which may be uncertain.

The economic conditions and factors described above could adversely affect the profitability of our business, as well as adversely affect the pace of new store openings, store remodels or rightsizes, and could affect the productivity of these stores. Finally, the economic environment may exacerbate some of the risks noted below, including consumer demand, strain on available resources, our international growth strategy, availability of real estate, interruption of the flow of merchandise from key vendors and manufacturers, and foreign currency exchange rate fluctuations.

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

Our success largely depends on our ability to anticipate and gauge the fashion preferences of our customers and provide merchandise that satisfies constantly shifting demands in a timely manner. Because we may enter into agreements for the manufacture and purchase of merchandise well in advance of the applicable selling season, we are vulnerable to changes in consumer preferences and demand, pricing shifts, and the sub-optimal selection and timing of merchandise purchases. Moreover, there can be no assurance that we will continue to anticipate consumer demands and accurately plan inventory successfully in the future. Changing consumer preferences and fashion trends, whether we are able to anticipate, identify and respond to them or not, could adversely impact our sales. Inventory levels for certain merchandise styles no longer considered to be “on trend” may increase, leading to higher markdowns to sell through excess inventory and, therefore, lower than planned margins. A distressed economic and retail environment, in which many of our competitors continue to engage in aggressive promotional activities increases the importance of reacting appropriately to changing consumer preferences and fashion trends. Conversely, if we underestimate consumer demand for our merchandise, or if our manufacturers fail to supply quality products in a timely manner, we may experience inventory shortages, which may negatively impact customer relationships, diminish brand loyalty and result in lost sales. In addition, we could be at a competitive disadvantage if we are unable to leverage data analytics to retrieve timely, customer insights to appropriately respond to customer demands. Any of these events could significantly harm our operating results and financial condition.

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

The sale of apparel and personal care products through stores and direct-to-consumer channels is a highly competitive business with numerous participants, including individual and chain specialty apparel retailers, local, regional, national and international department stores, discount stores and online businesses. Proliferation of the direct-to-consumer channel within the last few years has encouraged the entry of many new competitors and an increase in competition from established companies. We face a variety of competitive challenges, including:

- anticipating and quickly responding to changing consumer demands or preferences better than our competitors, including being able to adapt to new, emerging technologies that alter customer experience expectations;
- maintaining favorable brand recognition and effective marketing of our products to consumers in several diverse demographic markets;
- retaining customers, including our loyalty club members, as it becomes increasingly difficult due to shifts in customer preferences and demographics, and if we were to fail, it could result in increased marketing costs to acquire new customers;
- sourcing merchandise efficiently;
- developing innovative, high-quality merchandise in styles that appeal to our consumers and in ways that favorably distinguish us from our competitors; and,
- countering the aggressive pricing and promotional activities of many of our competitors without diminishing the aspirational nature of our brands and brand equity.

In light of the competitive challenges we face, we may not be able to compete successfully in the future. Further, increases in competition could reduce our sales and harm our operating results and business.

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

The functional currency of our foreign subsidiaries is generally the local currency in which each entity operates, while our consolidated financial statements are presented in U.S. Dollars. Therefore, we must translate revenues, expenses, assets and liabilities from functional currencies into U.S. Dollars at exchange rates in effect during, or at the end of the reporting period. In addition, certain of our subsidiaries transact in currencies other than their functional currency, including intercompany transactions, which results in foreign currency transaction gains or losses. Furthermore, we purchase substantially all of our inventory in U.S. Dollars. As a result, our sales, gross profit and gross profit rate from international operations will be negatively impacted during periods of a strengthened U.S. dollar relative to the functional currencies of our foreign subsidiaries. Additionally, tourism spending may be affected by changes in foreign currency exchange rates, and as a result, sales in our flagship stores and other stores with higher tourism traffic have, at times, been adversely impacted, and may continue to be adversely impacted, by fluctuations in foreign currency exchange rates. Certain events, such as the June 2016 decision by the United Kingdom to leave the European Union, and greater uncertainty with respect to trade policies, tariffs and government regulations affecting trade between the U.S. and other countries, such as the threat of additional tariffs on imported consumer goods from China, have increased global economic and political uncertainty and caused volatility in foreign currency exchange rates. Our business and results of operations may be impacted by these developments.

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.

Our stores are primarily located in shopping malls and other shopping centers, certain of which have been experiencing declines in customer traffic. Our sales at these stores, as well as sales at our flagship locations, are partially dependent upon the volume of traffic in those shopping centers and the surrounding area. Our stores may benefit from the ability of a shopping center's other tenants and area attractions to generate consumer traffic in the vicinity of our stores and the continuing popularity of the shopping center. We cannot control the loss of a significant tenant in a shopping mall or area attraction, the development of new shopping malls in the U.S. or around the world, the availability or cost of appropriate locations or the success of individual shopping malls and there is competition with other retailers for prominent locations. Although we attempt to open new stores in prominent locations, it is possible that some malls that were in prominent locations when we opened our stores may cease to be viewed as prominent. In addition, if our stores do not meet our expectations, it may be appropriate to exit the lease earlier than originally anticipated, which could result in material lease termination charges. If the popularity of shopping malls declines among our customers, our sales may decline, which would impact our gross profits and net income. All of these factors may impact our ability to meet our productivity or our growth objectives for our stores and could have a material adverse effect on our financial condition or results of operations.

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Part of our future growth is dependent on our ability to operate stores in desirable locations with capital investment and lease costs providing the opportunity to earn a reasonable return. We cannot be sure when or whether such desirable locations will become available at reasonable costs.

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

The continued threat of terrorism and the associated heightened security measures and military actions in response to acts of terrorism have disrupted commerce. Further acts of terrorism, future conflicts or civil unrest may disrupt commerce and undermine consumer confidence and consumer spending by causing domestic and/or tourist traffic in malls and in our flagship and other stores to decline, which could negatively impact our sales revenue. Furthermore, war or an act of terrorism, or the threat thereof, or any other unforeseen interruption of commerce, could negatively impact our business by interfering with our ability to obtain merchandise from foreign manufacturers. With a substantial portion of our merchandise being imported from foreign countries, failure to obtain merchandise from our foreign manufacturers or substitute other manufacturers, at similar costs and in a timely manner, could adversely affect our operating results and financial condition.

STRATEGIC RISKS.

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.

Consumers are increasingly shopping online and via mobile devices, and we have made significant investments in capital spending and labor to develop these channels globally, invested in digital media to attract new customers and developed localized fulfillment, shipping and customer service operations. As omnichannel retailing continues to grow and evolve, our customers increasingly interact with our brands through a variety of media including smart phones and tablets, and expect seamless integration across all touchpoints. Our success depends on our ability to introduce innovative means of engaging our customers and our ability to respond to shifting consumer traffic patterns and direct-to-consumer buying trends. There is no assurance that we will be able to continue to successfully maintain or expand our direct-to-consumer sales channels and omnichannel initiatives, or that we will see return on our significant investments, and failure to adequately respond to these risks and uncertainties or to successfully maintain and expand our direct-to-consumer business may have an adverse impact on our results of operations.

In addition, direct-to-consumer operations are subject to numerous risks, including reliance on third-party computer hardware/software and service providers, data breaches, violations of state, federal or international laws, including those relating to online privacy, credit card fraud, telecommunication failures and electronic break-ins and similar disruptions, and disruption of internet service. Changes in foreign governmental regulations may also negatively impact our ability to deliver product to our customers. Failure to successfully respond to these risks may adversely affect sales in our direct-to-consumer business as well as damage our reputation and brands.

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

International expansion is a significant component of our growth strategy and may require significant investment, which could strain our resources and adversely impact current store performance, while adding complexity to our current operations. We are subject to domestic laws, including the Foreign Corrupt Practices Act, in addition to the laws of the foreign countries in which we operate. If any of our overseas operations, or our associates or agents, violate such laws, we could become subject to sanctions or other penalties that could negatively affect our reputation, business and operating results. In addition, increasing global economic uncertainty with respect to the June 2016 decision by the United Kingdom to leave the European Union and trade relations between the U.S. and other countries, such as China, could affect our international expansion plans.

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Additionally, we may face operational issues that could have a material adverse effect on our reputation, business and results of operations if we fail to address certain factors including, but not limited to, the following:

- address the different operational characteristics present in each country in which we operate, including employment and labor, transportation, logistics, real estate, lease provisions and local reporting or legal requirements;
- hire, train and retain qualified personnel;
- maintain good relations with individual associates and groups of associates;
- avoid work stoppages or other labor-related issues in our European stores where associates are represented by workers' councils and unions;
- retain acceptance from foreign customers;
- manage inventory effectively to meet the needs of existing stores on a timely basis; and
- manage foreign currency exchange rate risks effectively.

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

Our ability to execute our long-term strategies successfully and in a timely fashion is subject to various risks and uncertainties as described under this "Risk Factors" section. Specifically, these risks can be categorized into macroeconomic risk, strategic risk, operational risk and legal, tax, regulatory and compliance risk. Achieving the goals of our long-term strategy is also dependent on us executing the strategy successfully. Finally, it may take longer than anticipated to generate the expected benefits from our long-term strategy, the initiatives we implement in connection with our long-term strategy may not resonate with our customers and there can be no guarantee that these initiatives will result in improved operating results. In addition, failure to successfully implement our long-term strategy could have a negative impact on our growth and profitability.

OPERATIONAL RISKS.

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

Our ability to maintain our reputation is critical to our brands. Our reputation could be jeopardized if, for example, we fail to maintain high standards for merchandise quality and integrity, if our third-party vendors fail to comply with our Vendor Code of Conduct, if any actions taken by our associates don't align with our values and fail to comply with our associate code of conduct, if any third parties with which we have a business relationship fail to represent our brands in a manner consistent with our brand image and customer experience standards or as a result of a cyber-attack. Failure to comply with ethical, social, product, labor, health and safety, accounting or environmental standards, or related political considerations, could also jeopardize our reputation and potentially lead to various adverse consumer actions, including boycotts. Public perception about our products or our stores, whether justified or not, could impair our reputation, involve us in litigation, damage our brands and have a material adverse effect on our business. In addition, the increasing use of social media platforms allows for rapid communication and any negative publicity related to the aforementioned concerns may reduce demand for our merchandise. Damage to our reputation or loss of consumer confidence for these or any other reasons could have a material adverse effect on our results of operations and financial condition, as well as require additional resources to rebuild our reputation.

Our business could suffer if our information technology systems are disrupted or cease to operate effectively.

We rely heavily on our information technology systems to operate our websites; record and process transactions; respond to customer inquiries; manage inventory; purchase, sell and ship merchandise on a timely basis; and maintain cost-efficient operations. Given the significant number of transactions that are completed annually, it is vital to maintain constant operation of our computer hardware and software systems and maintain data security. Despite efforts to prevent such an occurrence, our information technology systems may be vulnerable from time to time to damage or interruption from computer viruses, power system failures, third-party intrusions, inadvertent or intentional breach by our employees and other technical malfunctions. If our systems are damaged, or fail to function properly, we may have to make monetary investments to repair or replace the systems, and we could endure delays in our operations.

While we regularly evaluate our information technology systems and requirements, we are aware of the inherent risks associated with replacing and modifying these systems, including inaccurate system information, system disruptions and user acceptance and understanding. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems could cause information to be lost or delayed, including data related to customer orders. Such a loss or delay, especially if the disruption or slowdown occurred during our peak selling seasons, could have a material adverse effect on our results of operations.

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We may be exposed to risks and costs associated with cyber-attacks, data protection, credit card fraud and identity theft that would cause us to incur unexpected expenses and reputation loss.

In the standard course of business, we receive and maintain confidential information about customers, associates and other third parties. In addition, third parties also receive and maintain certain confidential information. The protection of this information is critical to our business and subjects us to numerous laws, rules and regulations domestically and in foreign jurisdictions. The retail industry in particular has been the target of many recent cyber-attacks. Furthermore, the global regulatory environment is increasingly demanding with frequent new and changing requirements surrounding cybersecurity, information security and privacy, such as the China Cybersecurity Law and the European Union's General Data Protection Regulation, which imposes increased obligations on companies handling personal data and creates new individual privacy rights. We may incur significant costs related to prevention and to comply with laws regarding the unauthorized disclosure of confidential information, including customer payment information.

It is possible that an individual or group could defeat our security measures, or those of a third-party service provider, and access confidential information. Rapidly evolving technologies, payment capabilities and types of cyber-attacks may result in this information being compromised or breached. We endeavor to protect confidential information through the implementation of security technologies, processes and procedures, including training programs for associates to raise awareness about phishing, malware and other cyber risks and could experience increased costs associated with maintaining these protections as threats of cyber-attacks increase in sophistication and complexity. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving cyber-attacks. Actual or anticipated cyber-attacks may cause us to incur increased costs, including, but not limited to, costs to deploy additional personnel and protective technologies, train associates and engage third-party experts and consultants. Data and security breaches could occur as a result of non-technical issues, including deliberate or unintentional breach by our associates or third-party service providers that result in the unauthorized release of confidential information. Although we maintain cybersecurity insurance there can be no assurance that it will be sufficient for a specific cyber incident, or that insurance proceeds will be paid to us in a timely fashion. Exposure of customer data through any means, could result in damage to our reputation or loss of consumer confidence, regulatory fines and penalties, legal liability and costs of litigation, and could have a material adverse effect on our business, results of operations, and financial position.

Our reliance on DCs makes us susceptible to disruptions or adverse conditions affecting our supply chain.

We primarily use one contract carrier to ship merchandise and related materials to our North American stores and direct-to-consumer customers, and several contract carriers for our international stores and direct-to-consumer customers. As a result, our operations are susceptible to local and regional factors, such as system failures, accidents, economic and weather conditions, natural disasters, demographic and population changes, as well as other unforeseen events and circumstances. We rely on our DCs to manage the receipt, storage, sorting, packing and distribution of our merchandise. If our distribution operations were disrupted, our ability to replace inventory in our stores and process direct-to-consumer and wholesale orders could be interrupted negatively impacting sales and we could experience increased costs related to these disruptions. Refer to "ITEM 1. BUSINESS," for a listing of the DCs we rely on.

Changes in the cost, availability and quality of raw materials, labor, transportation, and trade relations could cause manufacturing delays and increase our costs.

Changes in the cost, availability and quality of the fabrics or other raw materials used to manufacture our merchandise could have a material adverse effect on our cost of sales, or our ability to meet customer demand. The prices for such fabrics depend largely on the market prices for the raw materials used to produce them, particularly cotton, as well as the cost of compliance with sourcing laws. The price and availability of such raw materials may fluctuate significantly, depending on many factors, including crop yields and weather patterns. Such factors may be exacerbated by legislation and regulations associated with global climate change. In addition, the cost of labor at many of our third-party manufacturers has been increasing significantly, and as the middle class in developing countries continues to grow, it is unlikely such cost pressure will abate. The Company is also susceptible to fluctuations in the cost of transportation. We may not be able to pass all or a portion of higher raw materials prices or labor or transportation costs on to our customers, which could adversely affect our gross margin and results of our operations. Recently, there has been greater uncertainty with respect to trade policies, tariffs and government regulations affecting trade between the U.S. and other countries, such as the threat of additional tariffs on imported consumer goods from China and the June 2016 decision by the United Kingdom to leave the European Union. Major developments in trade policies, such as the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business, results of operations and liquidity.

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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 do not own or operate any manufacturing facilities. As a result, the continued success of our operations is tied to our timely receipt of quality merchandise from third-party manufacturers. We source the majority of our merchandise outside of the U.S. through arrangements with approximately 150 vendors which includes foreign manufacturers located throughout the world, primarily in Asia. Political, social or economic instability in the regions in which our manufacturers are located could cause disruptions in trade, including exports to the U.S. A manufacturer's inability to ship orders in a timely manner or meet our quality standards could cause delays in responding to consumer demand and negatively affect consumer confidence or negatively impact our competitive position, any of which could have a material adverse effect on our financial condition and results of operations.

Other events that could disrupt the timely delivery of our merchandise include new trade law provisions or regulations, reliance on a limited number of shipping carriers, significant labor disputes and significant delays in the delivery of cargo due to port security considerations or capacity limitations. Furthermore, we are susceptible to increases in fuel costs which may increase the cost of distribution. If we are not able to pass this cost on to our customers, our financial condition and results of operations could be adversely affected.

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.

Our ability to succeed may be adversely impacted if we are not able to attract, retain and develop talent and future leaders, including our senior executive officers and associates. Our senior executive officers closely supervise all aspects of our business including the design of our merchandise and the operation of our stores and have substantial experience and expertise in the retail business and have an integral role in the growth and success of our brands. If we were to lose the benefit of the involvement of multiple senior executives or other personnel, our business could be adversely affected. In addition, if unexpected turnover occurs at the associate level without adequate succession plans, the loss of the services of any of these individuals, or any resulting negative perceptions of our business, could damage our reputation and our business. Competition for such qualified talent is intense, and we cannot be sure we will be able to attract, retain and develop a sufficient number of qualified individuals in future periods.

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.

Our retail stores, corporate offices, distribution centers, infrastructure projects and direct-to-consumer operations, as well as the operations of our vendors and manufacturers, are vulnerable to damage from natural disasters, pandemic disease and other unexpected events. If any of these events result in damage to our facilities, systems or stores, or the facilities or systems of our vendors or manufacturers, we may experience interruptions in our business until the damage is repaired, resulting in the potential loss of customers and revenues. In addition, we may incur costs in repairing any damage which exceeds our applicable insurance coverage.

In addition, historically, our operations have been seasonal, with a significant amount of net sales and operating income occurring in the third and fourth fiscal quarters. As a result of this seasonality, net sales and net income during any fiscal quarter cannot be used as an accurate indicator of our annual results. Unseasonable weather may diminish demand for our seasonal merchandise and severe weather conditions or changes in weather patterns may also influence consumer preferences and fashion trends, consumer traffic and shopping habits. Any of the factors listed above could reduce sales and profitability and could have a material adverse effect on our financial condition and results of operations.

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LEGAL, TAX, REGULATORY AND COMPLIANCE RISKS.

Fluctuations in our tax obligations and effective tax rate may result in volatility in our results of operations.

We are subject to income taxes in many U.S. and foreign jurisdictions. In addition, our products are subject to import and excise duties and/or sales, consumption or value-added taxes ("VAT") in many jurisdictions. We record tax expense based on our estimates of future payments, which include reserves for estimates of probable settlements of foreign and domestic tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. As a result, we expect that throughout the year, there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are evaluated. In addition, our effective tax rate in any given financial reporting period may be materially impacted by changes in the mix and level of earnings or losses by taxing jurisdictions or by changes to existing accounting rules or regulations. Fluctuations in duties could also have a material impact on our financial condition, results of operations or cash flows. In some international markets, we are required to hold and submit VAT to the appropriate local tax authorities. Failure to correctly calculate or submit the appropriate amounts could subject us to substantial fines and penalties that could have an adverse effect on our financial condition, results of operations or cash flows. In addition, tax law may be enacted in the future, domestically or abroad, that impacts our current or future tax structure and effective tax rate.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was enacted into law, which made broad and significantly complex changes to the U.S. corporate income tax system. Although the Company completed its accounting related to the Act in the fourth quarter of Fiscal 2018, the U.S. Treasury Department, the Internal Revenue Service and other standard-setting bodies could interpret or issue guidance on how provisions of the Act should be applied or otherwise administered that differs from our interpretations and could impact our effective tax rate and have a material adverse effect on our business, results of operations and liquidity. Refer to Note 9, "INCOME TAXES," of the Notes to Consolidated Financial Statements included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of this Annual Report on Form 10-K for further discussion.

Our litigation exposure could have a material adverse effect on our financial condition and results of operations.

We, along with third parties we do business with, are involved, from time to time, in litigation arising in the ordinary course of business. Litigation matters may include, but are not limited to, contract disputes, employment-related actions, labor relations, commercial litigation, intellectual property rights and shareholder actions. Any litigation that we become a party to could be costly and time consuming and could divert our management and key personnel from our business operations. Our current litigation exposure could be impacted by litigation trends, discovery of damaging facts with respect to legal matters pending against us or determinations by judges, juries or other finders of fact that are not in accordance with management's evaluation of existing claims. Should management's evaluation prove incorrect, our exposure could greatly exceed expectations and have a material adverse effect on our financial condition, results of operations or cash flows.

Failure to adequately protect our trademarks could have a negative impact on our brand image and limit our ability to penetrate new markets.

We believe our core trademarks, Abercrombie & Fitch®, abercrombie®, Hollister®, Gilly Hicks® and the "Moose" and "Seagull" logos, are essential to the effective implementation of our strategy. We have obtained or applied for federal registration of these trademarks with the U.S. Patent and Trademark Office and the registries of countries in key markets within the Company's sales and distribution channels. In addition, these trademarks are either registered, or the Company has applications for registration pending, with the registries of many of the foreign countries in which the manufacturers of the Company's products are located. There can be no assurance that we will obtain registrations that have been applied for or that the registrations we obtain will prevent the imitation of our products or infringement of our intellectual property rights by others. Although brand security initiatives are in place, we cannot guarantee that our efforts against the counterfeiting of our brands will be successful. If a third party copies our products in a manner that projects lesser quality or carries a negative connotation, our brand image could be materially adversely affected.

Because we have not yet registered all of our trademarks in all categories, or in all foreign countries in which we source or offer our merchandise now, or may in the future, our international expansion and our merchandising of products using these marks could be limited. The pending applications for international registration of various trademarks could be challenged or rejected in those countries because third parties of whom we are not currently aware have already registered similar marks in those countries. Accordingly, it may be possible, in those foreign countries where the status of various applications is pending or unclear, for a third-party owner of the national trademark registration for a similar mark to prohibit the manufacture, sale or exportation of branded goods in or from that country. Failure to register our trademarks or purchase or license the right to use our trademarks or logos in these jurisdictions could limit our ability to obtain supplies from, or manufacture in, less costly markets or penetrate new markets should our business plan include selling our merchandise in those non-U.S. jurisdictions.

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.

We are subject to numerous laws and regulations, including customs, truth-in-advertising, securities laws, consumer protection, general privacy, health information privacy, identity theft, online privacy, general employment laws, employee health and safety, minimum wage laws, unsolicited commercial communication and zoning and occupancy laws and ordinances that regulate retailers generally and/or govern the importation, intellectual property, promotion and sale of merchandise and the operation of retail stores, direct-to-consumer operations and distribution centers.

If these laws and regulations were to change, or were violated by our management, associates, suppliers, vendors or other parties with whom we do business, the costs of certain merchandise could increase, or we could experience delays in shipments of our merchandise, be subject to fines or penalties, temporary or permanent store closures, increased regulatory scrutiny or suffer reputational harm, which could reduce demand for our merchandise and adversely affect our business and results of operations. Any changes in regulations, the imposition of additional regulations, or the enactment of any new or more stringent legislation including the areas referenced above, could adversely affect our business and results of operations.

Laws and regulations at the local, state, federal and various international levels frequently change, and the ultimate cost of compliance cannot be precisely estimated. For example, the June 2016 decision by the United Kingdom to leave the European Union could cause business uncertainty and create an additional administrative burden to adhere to changes in regulatory frameworks concerning critical areas, including, but not limited to, the movement of goods or the movement of people. In addition, changes in the legal or regulatory environment affecting responsible sourcing, supply chain transparency, or environmental protection, among others, could cause our costs to increase.

In addition, changing regulatory requirements for corporate governance and public disclosure, including SEC regulations and the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") are creating additional complexities for public companies. For example, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), was enacted. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act that have required the SEC to adopt additional rules and regulations in these areas. In addition, the potential requirement to transition to, or converge with, international financial reporting standards in the future may create uncertainty and additional complexities. Stockholder activism, the current political environment, financial reform legislation, government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations. For example, there has been increasing pressure for the SEC to develop a standardized disclosure framework under which public companies would be required to disclose identified environmental, social and governance factors relating to their operations, which could create additional complexities and costs. These changing regulatory requirements may lead to additional compliance costs, as well as the diversion of our management's time and attention from strategic business activities and could have a significant effect on our reported results for the affected periods.

Our Asset-Based Revolving Credit Agreement and our Term Loan Agreement include restrictive covenants that limit our flexibility in operating our business.

Our Asset-Based Revolving Credit Agreement, as amended, expires on October 19, 2022 and our Term Loan Agreement, as amended, has a maturity date of August 7, 2021. Both our Asset-Based Revolving Credit Agreement and our Term Loan Agreement contain restrictive covenants that, subject to specified exemptions, restrict our ability to incur indebtedness, grant liens, make certain investments, pay dividends or distributions on our capital stock and engage in mergers. The inability to obtain credit on commercially reasonable terms in the future when these facilities expire could adversely impact our liquidity and results of operations. In addition, market conditions could potentially impact the size and terms of a replacement facility or facilities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The Company's headquarters and support functions occupy 502 acres, consisting of the home office, distribution and shipping facilities centralized on a campus-like setting in New Albany, Ohio, all of which are owned by the Company. Additionally, the Company leases small facilities to house its human resources, finance, design and sourcing support centers in various jurisdictions to support the Company's operations. The Company's home office, distribution and shipping facilities, design support centers and stores are currently suitable and adequate.

All of the retail stores operated by the Company, as of February 2, 2019, are located in leased facilities, primarily in shopping centers. These leases generally have initial terms between five and ten years. Certain leases also include early termination options, which can be exercised under specific conditions. The leases expire at various dates, between 2019 and 2031.

As of March 27, 2019, the Company operated 859 retail stores as detailed in the table below. In addition, the table below excludes 16 international franchise stores and two U.S. Company operated Gilly Hicks pop-up stores with initial lease terms of less than 24 months.

North America		Europe		Asia		Middle East	
Canada	18	Austria	6	China	29	Kuwait	2
United States	662	Belgium	3	Hong Kong	4	United Arab Emirates	7
Total	680	France	15	Japan	12	Total	9
		Germany	30	Republic of Korea	2		
		Ireland	2	Singapore	1		
		Italy	11	Total	48		
		Netherlands	4				
		Poland	1				
		Spain	12				
		Sweden	3				
		United Kingdom	35				
		Total	122				

For store count and gross square footage by brand and geographic region as of February 2, 2019, February 3, 2018 and January 28, 2017, refer to "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." For information regarding the DCs the Company relies on to manage the receipt, storage, sorting, packing and distribution of its merchandise, refer to "DISTRIBUTION OF MERCHANDISE INVENTORY," in "ITEM 1. BUSINESS."

ITEM 3. 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 Consolidated Balance Sheets included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA," of this Annual Report on Form 10-K. 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 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 the 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 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

A&F's Class A Common Stock ("Common Stock") is traded on the New York Stock Exchange under the symbol "ANF."

The following graph shows the changes, over the five-year period ended February 2, 2019 (the last day of A&F's Fiscal 2018) in the value of $100 invested in (i) shares of A&F's Common Stock; (ii) Standard & Poor's 500 Stock Index (the "S&P 500"); and (iii) Standard & Poor's Apparel Retail Composite Index (the "S&P Apparel Retail"), including reinvestment of dividends. The plotted points represent the closing price on the last trading day of the fiscal year indicated.

PERFORMANCE GRAPH (1)
COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN*
Among Abercrombie & Fitch Co., the S&P 500 Index and the S&P Apparel Retail Index

	2/1/14	1/31/15	1/30/16	1/28/17	2/3/18	2/2/19
Abercrombie & Fitch Co.	$100.00	$73.71	$78.54	$35.45	$68.02	$73.41
S&P 500	$100.00	$114.22	$113.46	$136.20	$172.17	$168.19
S&P Apparel Retail	$100.00	$126.18	$135.71	$136.85	$148.94	$165.26

* $100 invested on 2/1/14 in stock or 1/31/14 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

(1) This graph shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to SEC Regulation 14A or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that A&F specifically requests that the graph be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act of 1933, as amended, or the Exchange Act.

As of March 27, 2019, there were approximately 2,900 stockholders of record. However, when including investors holding shares of Common Stock in broker accounts under street name, A&F estimates that there are approximately 26,500 stockholders.

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The following table provides information regarding the purchase of shares of the 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 Exchange Act, during each fiscal month of the quarterly period ended February 2, 2019:

Period (fiscal month)	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet be Purchased under the Plans or Programs (3)
November 4, 2018 through December 1, 2018	1,119	$ 17.24	—	3,571,938
December 2, 2018 through January 5, 2019	20,291	$ 19.15	—	3,571,938
January 6, 2019 through February 2, 2019	493	$ 19.29	—	3,571,938
Total	21,903	$ 19.06	—	3,571,938

(1) All of the 21,903 shares of A&F's Common Stock purchased during the thirteen weeks ended February 2, 2019 were withheld for tax payments due upon the vesting of employee restricted stock units, classified in other financing activities on the Consolidated Statements of Cash Flows. included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of this Annual Report on Form 10-K.

(2) No shares were repurchased during the thirteen weeks ended February 2, 2019 pursuant to A&F's publicly announced stock repurchase authorization. On August 14, 2012, A&F's Board of Directors authorized the repurchase of up to 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 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.

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ITEM 6. SELECTED FINANCIAL DATA

The following financial information is derived from our Consolidated Financial Statements. The information presented below should be read in conjunction with "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Annual Report on Form 10-K and the Company's Consolidated Financial Statements and notes thereto included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of this Annual Report on Form 10-K. We have also included certain nonfinancial information to enhance the understanding of our business.

(in thousands, except per share and per square foot amounts, return on average stockholders' equity, comparable sales, ratios and store data)	Fiscal 2018	Fiscal 2017 (1)	Fiscal 2016	Fiscal 2015	Fiscal 2014
Statements of operations data					
Net sales	$3,590,109	$3,492,690	$3,326,740	$3,518,680	$3,744,030
Gross profit (2)	$2,159,916	$2,083,842	$2,028,568	$2,157,543	$2,313,570
Operating income	$127,366	$72,050	$15,188	$72,838	$113,519
Net income attributable to A&F	$74,541	$7,094	$3,956	$35,576	$51,821
Net income per basic share attributable to A&F	$1.11	$0.10	$0.06	$0.52	$0.72
Net income per diluted share attributable to A&F	$1.08	$0.10	$0.06	$0.51	$0.71
Basic weighted-average shares outstanding	67,350	68,391	67,878	68,880	71,785
Diluted weighted-average shares outstanding	69,137	69,403	68,284	69,417	72,937
Cash dividends declared per share	$0.80	$0.80	$0.80	$0.80	$0.80
Balance sheet data					
Working capital (3)	$777,033	$756,992	$653,300	$644,277	$679,016
Current ratio (4)	2.39	2.49	2.34	2.20	2.40
Cash and equivalents	$723,135	$675,558	$547,189	$588,578	$520,708
Total assets	$2,385,593	$2,325,692	$2,295,757	$2,433,039	$2,505,167
Borrowings, net	$250,439	$249,686	$262,992	$286,235	$293,412
Leasehold financing obligations	$46,337	$50,653	$46,397	$47,440	$50,521
Total long-term liabilities	$608,055	$565,675	$557,718	$602,614	$629,510
Total stockholders' equity	$1,218,621	$1,252,471	$1,252,039	$1,295,722	$1,389,701
Return on average stockholders' equity (5)	6 %	1 %	0 %	3 %	3 %
Other financial and operating data					
Net cash provided by operating activities (6)	$352,933	$287,658	$185,169	$315,755	$300,629
Net cash used for investing activities	$152,393	$106,798	$136,746	$122,567	$175,074
Net cash used for financing activities	$131,691	$74,813	$84,509	$106,943	$181,453
Depreciation and amortization	$178,030	$194,549	$195,414	$213,680	$226,421
Purchases of property and equipment	$152,393	$107,001	$140,844	$143,199	$174,624
Free cash flow (7)	$200,540	$180,657	$44,325	$172,556	$126,005
Comparable sales (8)	3 %	3 %	(5)%	(3)%	(8)%
Net store sales per average gross square footage	$372	$359	$343	$360	$381
Number of stores at end of period	861	868	898	932	969

Gross store square footage at end of period	6,566	6,710	7,007	7,292	7,517

(1) Fiscal 2017 was a fifty-three week year.

(2) Gross profit is derived from cost of sales, exclusive of depreciation and amortization.

(3) Working capital is computed by subtracting current liabilities from current assets.

(4) Current ratio is computed by dividing current assets by current liabilities.

(5) Return on average stockholders' equity is computed by dividing net income attributable to A&F by the average stockholders' equity balance, during the applicable year.

(6) Prior period figures have been updated to reflect the impact of adoption of ASU 2016-18, Statement of Cash Flows which requires an entity to explain the changes in total of cash and equivalents, and restricted cash and equivalents in the statement of cash flows.

(7) Free cash flow is computed by subtracting capital expenditures from net cash provided by operating activities, both of which are disclosed in the table above, preceding the measure of free cash flow.

(8) Comparable sales are calculated on a constant currency basis and exclude revenue other than store and digital sales. Refer to the discussion below in "NON-GAAP FINANCIAL MEASURES" in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Annual Report on Form 10-K for further details on the comparable sales calculation.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read together with the Company’s audited consolidated financial statements and notes thereto, which are included in this Annual Report on Form 10-K in “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.”

INTRODUCTION

MD&A is provided as a supplement to the accompanying consolidated financial statements and notes thereto to help provide an understanding of the Company’s results of operations, financial condition, and liquidity. MD&A is organized as follows:

- Overview. This section provides a general description of the Company’s business and certain segment information as well as an overview of key performance indicators reviewed by various members of management to gauge the Company’s results.

- Current Trends and Outlook. This section provides a summary of the Company’s performance from Fiscal 2016 through Fiscal 2018. In addition, this section discusses the Company’s long-term plans for growth, as well as certain of management’s expectations for the upcoming fiscal year.

- Results of Operations. This section provides an analysis of certain components of the Company’s Consolidated Statements of Operations and Comprehensive Income (Loss) for Fiscal 2018 and Fiscal 2017 as compared to the respective prior fiscal year.

- Liquidity and Capital Resources. This section provides a discussion of the Company’s financial condition and liquidity as of February 2, 2019, which includes (i) an analysis of financial condition as compared to the prior fiscal year end; (ii) an analysis of changes in cash flows for Fiscal 2018 and Fiscal 2017 as compared to the respective prior fiscal year; (iii) an analysis of liquidity, including the availability under credit facilities, payments of dividends, and outstanding debt and covenant compliance; and (iv) a summary of contractual and other obligations as of February 2, 2019.

- Recent Accounting Pronouncements. The recent accounting pronouncements the Company has adopted or is currently evaluating, including the dates of adoption or expected dates of adoption, as applicable, and anticipated effects on the Company’s audited consolidated financial statements are included in this Annual Report on Form 10-K in “ITEM 8. FINANCIAL STATEMENT AND SUPPLEMENTARY DATA.”

- Critical Accounting Policies and Estimates. This section discusses accounting policies considered to be important to the Company’s results of operations and financial condition, which typically require significant judgment and estimation on the part of management in their application.

- Non-GAAP Financial Measures. This section provides a discussion of certain financial measures provided with MD&A that have been determined to not be in accordance with accounting principles generally accepted in the U.S. (“GAAP”), including information on why the Company believes the non-GAAP financial measures provided within MD&A are useful to investors.

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OVERVIEW

The Company is a global multi-brand omnichannel 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 children under the Hollister, Abercrombie & Fitch and abercrombie kids brands. The brands share a commitment to offering unique products of enduring quality and exceptional comfort that allows customers around the world to express their own individuality and style. The Company has operations in North America, Europe, Asia and the Middle East.

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, production and distribution methods, operate in the same regulatory environments, and have been aggregated into one reportable segment.

The Company's fiscal year ends on the Saturday closest to January 31, typically resulting in a fifty-two week year, but occasionally giving rise to an additional week, resulting in a fifty-three week year, as was the case for Fiscal 2017.

KEY PERFORMANCE INDICATORS

The following measurements are among the key performance indicators reviewed by various members of management to gauge the Company's results:

- Comparable sales;
- Comparative results of operations with the prior year's results converted at the current year's foreign currency exchange rate to remove the impact of foreign currency exchange rate fluctuation;
- Gross profit and gross profit rate;
- Cost of sales, exclusive of depreciation and amortization, as a percentage of net sales;
- Stores and distribution expense as a percentage of net sales;
- Marketing, general and administrative expense as a percentage of net sales;
- Operating income and operating income as a percentage of net sales ("operating income margin");
- Net income (loss) and net income (loss) attributable to A&F;
- Inventory per gross square foot and inventory to sales ratio;
- Cash flow and liquidity determined by the Company's current ratio, working capital and free cash flow;
- Store metrics such as net sales per gross square foot, average number of transactions per store and store contribution (defined as store sales less direct costs of operating the store);
- Transactional metrics such as traffic and conversion, performance across key product categories, average unit retail, average unit cost, average units per transaction and average transaction values;
- Return on invested capital and return on equity; and
- Customer-centric metrics such as customer satisfaction, brand health scores and certain metrics related to the loyalty programs.

While not all of these metrics are disclosed publicly by the Company due to the proprietary nature of the information, the Company publicly discloses and discusses many of these metrics within this MD&A.

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CURRENT TRENDS AND OUTLOOK

Throughout the lifetime of our Company, we have taken strides to transform our brands as consumer habits and shopping preferences change. We aim to keep pace with and anticipate our customers' needs through a test-and-learn mentality, which has been embedded throughout our organization. Our plans for long-term growth are centered around our strategic pillars and are best categorized into three planned phases:

- Phase I: Stabilizing while Transforming
  - Fiscal 2015 through Fiscal 2017
- Phase II: Growing while Transforming
  - Fiscal 2018 through Fiscal 2020
- Phase III: Accelerating Growth
  - Fiscal 2021 and thereafter

During Phase I, "Stabilizing while Transforming," we transformed the organization by centering it around the customer, which included developing playbooks with the customer in mind, that align product, brand voice and experience. Transforming the organization included implementing a new brand-centric organizational structure, with branded core customer-facing functions. This built the foundation for the return to growth across brands, channels and geographies experienced in the fourth quarter of Fiscal 2017. As our brands gained momentum, we ended this phase with a strong balance sheet, reduced fixed costs and improved real estate productivity.

Fiscal 2018 was the first year of Phase II, "Growing while Transforming," which we expect to continue through Fiscal 2020. We have developed the following key transformation initiatives in order to deliver on our Fiscal 2020 targets:

- Continuing our global store network optimization;
- Enhancing digital and omnichannel capabilities;
- Increasing the speed and efficiency of our concept-to-customer product life cycle, while leveraging data and analytics to offer the right product at the right time; and
- Improving our customer engagement through our loyalty programs and marketing optimization.

Our Fiscal 2020 targets, which were previously disclosed at our 2018 Investor Day include:

- A low single-digit net sales CAGR through positive comparable sales and global market expansion;
- Modest gross profit rate expansion from reduced promotions driven by improving brand health, improved speed to market and implementing new analytics tools to drive smarter pricing decisions;
- Continued operating expense leverage with our lease flexibility being a major contributor; and ultimately
- Doubling our Fiscal 2017 adjusted non-GAAP operating income margin of 2.9%.

By keeping our customers at the center of everything we do and with our transformation initiatives gaining traction, we ended Fiscal 2018 on a strong note, and recorded our second consecutive full year of sales growth, while exceeding $1 billion in annual digital sales. Most importantly, while delivering on the top-line, we drove gross profit rate improvement and operating expense leverage resulting in operating income margin expansion and net income improvement for the full year.

For the full year of Fiscal 2019, we expect:

- Net sales to be up in the range of 2% to 4%, driven by positive comparable sales and net new store contribution, partially offset by the adverse impact of changes in foreign currency exchange rates;
- Comparable sales to be up low-single digits;
- Gross profit rate to be up slightly from the Fiscal 2018 rate of 60.2%;
- Operating expense, excluding other operating income, to be up approximately 2% from Fiscal 2018 adjusted non-GAAP operating expense of $2.03 billion;
- The effective tax rate to be in the mid-to-upper 20s;

- A weighted average diluted share count of approximately 69 million shares, excluding the effect of future share buybacks; and
- Capital investments of approximately $200 million.

This outlook excludes the impact of the new lease accounting standard which we are required to adopt in Fiscal 2019. For additional details on the standard, refer to Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Recent accounting pronouncements," of the Notes to Consolidated Financial Statements included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of this Annual Report on Form 10-K.

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The Company plans to continue its store optimization efforts and expects to deliver approximately 85 new store experiences in Fiscal 2019 across brands, including approximately 40 new stores, approximately 25 remodeled stores and approximately 20 right-sizes. Approximately 50% of leases are due for renewal by the end of Fiscal 2020, and certain other leases also include early termination options that can be exercised by the Company under specific conditions, allowing for significant lease flexibility. In addition, the Company may also elect to exit or modify its other leases, and could incur charges related to these actions. The Company expects to close up to 40 stores in Fiscal 2019, primarily in the U.S.

As we look further out past Fiscal 2020 to Phase III, "Accelerating Growth," we aim to take market share in the U.S. and grow our business globally. Specifically, we see addressable market opportunities for our brands across Europe and Asia and believe these expansion plans support our long-term vision of becoming one of the leading global omnichannel apparel retailers in the world.

Overall, we are excited about the future of our brands and our transformation initiatives are gaining traction, keeping us on track to deliver on our Fiscal 2020 targets. With a strong balance sheet, proven cost management discipline and a clear plan for building on the foundations we have laid to date, we will continue to focus our attention and our investments on engaging our customers with compelling assortments and new experiences in clearly defined brand voices, positioning our business for sustainable long-term growth.

Certain risks and challenges

The June 2016 decision by the United Kingdom to leave the European Union has caused greater uncertainty related to the free movement of goods, services, people and capital between the United Kingdom and the European Union, consumer behavior, economic conditions and foreign currency exchange rates. The potential impacts of United Kingdom's withdrawal from the European Union remain unclear and could adversely impact certain areas of our business, including, but not limited to, an increase in duties and delays in the delivery of merchandise from our Netherlands DC to our stores and direct-to-consumer customers in the United Kingdom if trade barriers materialize at ports of entry and departure. The potential impacts of United Kingdom's withdrawal from the European Union could also adversely impact the operations of our vendors.

To mitigate our risk, our team has begun to proactively prepare for potential adverse impacts by collaborating across the organization as well as working with external partners to develop the necessary contingency plans. We have also taken actions to reduce, to the extent possible, the potential material impact of any incremental duty exposure.

In addition, there has been greater uncertainty with respect to trade policies, tariffs and government regulations affecting trade between the U.S. and other countries, such as the threat of additional tariffs on imported consumer goods from China. Major developments in trade policies, such as the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business and results of operations, including an adverse effect on economic growth in both our domestic and international markets.

To mitigate this risk, our team has taken actions to proactively prepare for potential impacts, including shifting production into other countries and regions to both existing and new partners as necessary. We believe we have a number of tools available to help further mitigate this risk and we continue to focus on the diversification of our global supply chain. For context, in Fiscal 2018, approximately 25% of our merchandise was imported to the U.S. from China. We believe we have the ability to migrate up to half of this production out of China and expect to reduce this percentage to under 20% in Fiscal 2019. In Fiscal 2018, additional tariffs have had a limited, immaterial impact on the Company's results.

It is possible that our preparations for these events are not adequate and that these events could adversely affect our business and results of operations. For further discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations, refer to "ITEM 1A. RISK FACTORS," included in this Annual Report on Form 10-K.

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Additional information pertaining to our results for Fiscal 2016, Fiscal 2017 and Fiscal 2018 follows:

(1) Fiscal 2017 was a fifty-three week year.
(2) Refer to "RESULTS OF OPERATIONS," for details on excluded items.
(3) Includes Abercrombie & Fitch and abercrombie kids brands.

The table below summarizes our results of operations determined in accordance with GAAP and non-GAAP financial measures, and other financial data for Fiscal 2018, Fiscal 2017 and Fiscal 2016.

	Fiscal 2018		Fiscal 2017 [1]		Fiscal 2016	
(in thousands, except change in net sales, comparable sales, gross profit rate, operating income margin and per share amounts)	GAAP	Non-GAAP [2]	GAAP	Non-GAAP [2]	GAAP	Non-GAAP [2]
Statements of operations data						
Net sales	$3,590,109		$3,492,690		$3,326,740	
Change in net sales	3 %		5 %		(5)%	
Comparable sales [3]		3 %		3 %		(5)%
Gross profit rate	60.2 %		59.7 %		61.0 %	
Operating income	$127,366	$ 138,632	$72,050	$ 100,781	$15,188	$ 3,262
Operating income margin	3.5 %	3.9 %	2.1 %	2.9 %	0.5 %	0.1 %
Net income (loss) attributable to A&F	$74,541	$ 79,789	$7,094	$ 45,005	$3,956	$ (4,070)
Net income (loss) per diluted share attributable to A&F	$1.08	$ 1.15	$0.10	$ 0.65	$0.06	$ (0.06)
Statements of cash flows data						
Net cash provided by operating activities	$352,933		$287,658		$185,169	
Purchases of property and equipment	$152,393		$107,001		$140,844	
Dividends paid	$53,714		$54,392		$54,066	
Purchase of treasury stock	$68,670		$—		$—	
Repayments of borrowings	$—		$15,000		$25,000	

(1) Fiscal 2017 was a fifty-three week year.
(2) Refer to "RESULTS OF OPERATIONS," for details on excluded items.
(3) Comparable sales are calculated on a constant currency basis and exclude revenue other than store and digital sales. Refer to the discussion below in "NON-GAAP FINANCIAL MEASURES," for further details on the comparable sales calculation.

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The table below provides certain components of our consolidated balance sheets as of February 2, 2019 and February 3, 2018.

(in thousands)	February 2, 2019	February 3, 2018
Cash and equivalents	$723,135	$675,558
Borrowings, gross at carrying amount	$253,250	$253,250
Inventories	$437,879	$424,393

Store count and gross square footage details as of January 28, 2017, February 3, 2018 and February 2, 2019 were as follows:

	Hollister [1]		Abercrombie [2]		Total	
	United States	International	United States	International	United States	International
January 28, 2017	398	145	311	44	709	189
New	3	—	4	2	7	2
Closed	(7)	(1)	(30)	(1)	(37)	(2)
February 3, 2018	394	144	285	45	679	189
New	8	5	5	4	13	9
Closed	(9)	—	(20)	—	(29)	—
February 2, 2019	393	149	270	49	663	198
Gross square footage (in thousands):						
January 28, 2017	2,737	1,218	2,411	641	5,148	1,859
February 3, 2018	2,681	1,200	2,210	619	4,891	1,819
February 2, 2019	2,658	1,234	2,028	646	4,686	1,880

(1) Excludes eight international franchise stores as of February 2, 2019, five international franchise stores as of February 3, 2018 and three international franchise stores as of January 28, 2017.

(2) Abercrombie includes the Abercrombie & Fitch and abercrombie kids brands. Locations with abercrombie kids carveouts within Abercrombie & Fitch stores are represented as a single store count. Excludes seven international franchise stores as of February 2, 2019, four international franchise stores as of February 3, 2018 and one international franchise store as of January 28, 2017.

During Fiscal 2018, we delivered 67 new store experiences, through opening the 22 new store prototypes disclosed above, remodeling 29 stores and right-sizing 16 stores to smaller footprints.

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RESULTS OF OPERATIONS

FISCAL 2018 COMPARED TO FISCAL 2017 AND FISCAL 2017 COMPARED TO FISCAL 2016

The Company's fiscal year ends on the Saturday closest to January 31, typically resulting in a fifty-two week year, but occasionally giving rise to an additional week, resulting in a fifty-three week year, as was the case for Fiscal 2017. All references herein to the Company's fiscal years are as follows:

Fiscal year	Fiscal year period	Number of weeks
Fiscal 2016	January 31, 2016 through January 28, 2017	52
Fiscal 2017	January 29, 2017 through February 3, 2018	53
Fiscal 2018	February 4, 2018 through February 2, 2019	52

When comparing Fiscal 2018 to Fiscal 2017, the non-comparable week in the Company's results is the first week of Fiscal 2017. When comparing Fiscal 2017 to Fiscal 2016, the non-comparable week in the Company's results is the last week of Fiscal 2017, the additional, 53rd week.

Net sales

(in thousands)	Fiscal 2018	Fiscal 2017	% Change	Comparable Sales (1)	Fiscal 2016	% Change	Comparable Sales (1)
Hollister	$2,152,538	$2,038,598	6%	5%	$1,839,716	11%	8%
Abercrombie (2)	1,437,571	1,454,092	(1)%	1%	1,487,024	(2)%	(2)%
Total net sales	$3,590,109	$3,492,690	3%	3%	$3,326,740	5%	3%
United States	$2,321,700	$2,208,618	5%	6%	$2,123,808	4%	4%
International	1,268,409	1,284,072	(1)%	(2)%	1,202,932	7%	1%
Total net sales	$3,590,109	$3,492,690	3%	3%	$3,326,740	5%	3%

(1) Comparable sales are calculated on a constant currency basis and exclude revenue other than store and direct-to-consumer sales. Refer to the discussion in "NON-GAAP FINANCIAL MEASURES" for further details on the comparable sales calculation.

(2) Includes Abercrombie & Fitch and abercrombie kids brands.

For Fiscal 2018, net sales increased 3% as compared to Fiscal 2017, primarily attributable to an increase in units sold, partially offset by slightly lower average unit retail. The year-over-year change in net sales reflects:

- The loss of a week in Fiscal 2018 as compared to Fiscal 2017, which was estimated to have adversely impacted net sales by approximately $37 million, or 1%; and
- Positive comparable sales of 3%, which excludes impacts from the loss of a week in Fiscal 2018 as compared to Fiscal 2017 and changes in foreign currency exchange rates.

For Fiscal 2017, net sales increased 5% as compared to Fiscal 2016, primarily attributable to an increase in units sold, partially offset by lower average unit retail. The year-over-year change in net sales reflects:

- The additional, 53rd week in Fiscal 2017 as compared to Fiscal 2016, which was estimated to have benefited net sales by approximately $41 million, or 1%;
- Changes in foreign currency exchange rates, which benefited net sales by approximately $20 million, or 1%, net of hedging; and
- Positive comparable sales of 3%, which excludes impacts from Fiscal 2017's 53rd week and changes in foreign currency exchange rates.

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Cost of sales, exclusive of depreciation and amortization

	Fiscal 2018		Fiscal 2017		Fiscal 2016	
(in thousands)		% of Net Sales		% of Net Sales		% of Net Sales
Cost of sales, exclusive of depreciation and amortization	$1,430,193	39.8%	$1,408,848	40.3%	$1,298,172	39.0%
Gross profit	$2,159,916	60.2%	$2,083,842	59.7%	$2,028,568	61.0%

For Fiscal 2018, cost of sales, exclusive of depreciation and amortization, increased $21.3 million as compared to Fiscal 2017, primarily driven by the year-over-year increase in net sales and an increase in freight costs. For Fiscal 2018, cost of sales, exclusive of depreciation and amortization, as a percentage of net sales decreased by approximately 50 basis points as compared to Fiscal 2017, primarily due to costs increasing at a lower rate than the relative increase in net sales.

For Fiscal 2017, cost of sales, exclusive of depreciation and amortization, increased $110.7 million as compared to Fiscal 2016, primarily driven by the year-over-year increase in net sales. For Fiscal 2017, cost of sales, exclusive of depreciation and amortization, as a percentage of net sales increased by approximately 130 basis points as compared to Fiscal 2016, primarily due to costs increasing at a higher rate than the relative increase in net sales.

Stores and distribution expense

	Fiscal 2018		Fiscal 2017		Fiscal 2016	
(in thousands)		% of Net Sales		% of Net Sales		% of Net Sales
Stores and distribution expense	$1,542,022	43.0%	$1,542,425	44.2%	$1,578,460	47.4%

For Fiscal 2018, stores and distribution expense as a percentage of net sales decreased by approximately 120 basis points as compared to Fiscal 2017, primarily due to the leveraging effect from higher net sales and expense reductions within store occupancy expense, resulting in a decrease in store occupancy expense as a percentage of net sales of approximately 140 basis points. This was partially offset by increased direct-to-consumer expense as a percentage of total net sales, including an increase of approximately 30 basis points for shipping and handling costs in Fiscal 2018 as compared to Fiscal 2017 and higher digital marketing spend. Although the Company has experienced higher shipping and handling costs as a percentage of total net sales, the Company leveraged shipping and handling costs as a percentage of digital net sales.

For Fiscal 2017, stores and distribution expense as a percentage of net sales decreased by approximately 320 basis points as compared to Fiscal 2016, primarily due to a decrease in store occupancy expense as a percentage of net sales of approximately 240 basis points and expense reduction efforts. The decrease in store occupancy expense as a percentage of net sales was primarily due to the adverse impact of $15.6 million of flagship lease termination charges on Fiscal 2016 expense and the leveraging effect from higher net sales. This was partially offset by higher direct-to-consumer expense as a percentage of total net sales, including an increase of approximately 50 basis points for shipping and handling costs in Fiscal 2017 as compared to Fiscal 2016.

Store occupancy expense is a component of stores and distribution expense which includes rent, depreciation, utilities, and other store expenses.

Shipping and handling costs include costs incurred to store, move and prepare product for shipment, and costs incurred to physically move product to customers, associated with direct-to-consumer operations.

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Marketing, general and administrative expense

(in thousands)	Fiscal 2018	% of Net Sales	Fiscal 2017	% of Net Sales	Fiscal 2016	% of Net Sales
Marketing, general and administrative expense	$484,863	13.5%	$471,914	13.5%	$453,202	13.6%
Excluded items:						
Certain legal charges (1)	(2,595)	(0.1)%	(15,070)	(0.4)%	—	0.0%
Indemnification recovery (2)	—	0.0%	—	0.0%	6,000	0.2%
Adjusted non-GAAP marketing, general and administrative expense	$482,268	13.4%	$456,844	13.1%	$459,202	13.8%

(1) Includes legal charges in connection with the settlement of two class actions, which received final court approval and were paid in the fourth quarter of Fiscal 2018. See Note 17, "CONTINGENCIES."

(2) Includes benefits related to an indemnification recovery of certain legal settlements which were recognized in Fiscal 2015.

For Fiscal 2018, marketing, general and administrative expense as a percentage of net sales was approximately flat as compared to Fiscal 2017, with the leveraging effect from higher net sales, the net year-over-year impact of the certain legal charges presented above, a reduction in depreciation expense on IT assets and the adverse impact of the additional week on last year's expense, partially offset by increased investments in marketing and the Company's transformation initiatives and increased compensation costs. Excluding the items presented above, Fiscal 2018 adjusted non-GAAP marketing, general and administrative expense as a percentage of net sales increased by approximately 30 basis points as compared to Fiscal 2017.

For Fiscal 2017, marketing, general and administrative expense as a percentage of net sales decreased by approximately 10 basis points as compared to Fiscal 2016, primarily due to expense reduction efforts and the leveraging effect from higher net sales, partially offset by the net year-over-year impact of the excluded items presented above and increased performance-based compensation and marketing expense. Excluding the items presented above, Fiscal 2017 adjusted non-GAAP marketing, general and administrative expense as a percentage of net sales decreased by approximately 70 basis points as compared to Fiscal 2016.

Asset impairment

(in thousands)	Fiscal 2018	% of Net Sales	Fiscal 2017	% of Net Sales	Fiscal 2016	% of Net Sales
Asset impairment	$11,580	0.3%	$14,391	0.4%	$7,930	0.2%
Excluded item:						
Certain asset impairment charges	(8,671)	(0.2)%	(13,661)	(0.4)%	(6,356)	(0.2)%
Adjusted non-GAAP asset impairment	$2,909	0.1%	$730	0.0%	$1,574	0.0%

For Fiscal 2018 and Fiscal 2017, the Company incurred store asset impairment charges primarily related to certain of the Company's international Abercrombie & Fitch stores. For Fiscal 2016, the Company incurred store asset impairment charges primarily related to the Company's abercrombie kids flagship store in London.

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Other operating income, net