

Abercrombie & Fitch Co.: Capital choices after the tariff refund

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Abercrombie & Fitch Co. ended its second quarter with 15 consecutive quarters of year-over-year sales growth. It also reported flat comparable sales and an operating margin that management estimated had received a 790-basis-point benefit from about \$100 million of IEEPA tariff refunds. At the same time, its FY2026 outlook called for continued store investment and repurchases. The fiscal third quarter was still underway, and the fall selling season had not yet been reported. [C1, C2]

For this classroom exercise, assume you advise A&F's leadership on whether the one-time refund should change how the company evaluates or paces its FY2026 capital plan. Should A&F maintain its current investment and repurchase outlook, stage discretionary repurchases while more fall-season evidence arrives, or emphasize business investment and liquidity over incremental buybacks? This is a hypothetical decision assignment, not evidence of an internal dispute, cash constraint, or refund earmark.

Strong sales, varied underlying signals

For the 13 weeks ended August 1, 2026, A&F reported net sales of \$1.267 billion, up 4.8% from the prior-year quarter. Comparable sales were flat. Comparable sales measure sales from eligible stores and digital channels at constant exchange rates; they do not include all channels in the same way as total net sales. [C1, pp. 27-28; C2, pp. 1-2]

The aggregate concealed different patterns. Abercrombie brand sales grew 8% and comparable sales grew 4%. Hollister brand sales grew 2%, while its comparable sales declined 3%. By region, Americas comparable sales grew 1%, EMEA declined 4%, and APAC grew 13%. A single company-wide growth rate therefore did not describe every brand or geography. [C1, pp. 27-28; C2, p. 2]

A&F reported GAAP operating income of \$252.7 million and operating margin of 19.9% for Q2. Management estimated that approximately \$100 million of pre-tax IEEPA tariff refunds contributed about 790 basis points to the quarter's operating margin and \$1.75 to diluted EPS, using a 26% tax rate. These are management's estimates of the refund impact, not a separately reported normalized result. [C1, p. 4; C2, pp. 1-2]

The company's cost-of-sales discussion adds context. It attributed an approximately 850-basis-point year-over-year decline in the Q2 cost-of-sales rate primarily to a 690-basis-point net tariff benefit, higher average unit retail from selected ticket and promotional changes, and an approximately 20-basis-point freight headwind. The 690-basis-point figure is the net tariff benefit within cost of sales; it is not the same measure as the 790-basis-point estimated refund

effect on operating margin. Other costs and expenses also affected the final operating margin. [C1, p. 29]

The refund bridge and the fall ahead

After the August 1 quarter-end, A&F disclosed \$18 million of additional IEEPA refunds received. About \$4 million had already been recognized as a receivable at quarter-end; the remaining \$14 million was expected to reduce Q3 cost of sales, with accrued interest recognized in interest income. The Q2 release's refund estimates were \$20 million for Q3 and \$120 million for FY2026, excluding interest. These figures describe related pieces of the refund process and should not be added together as separate benefits. [C1, Note 18, p. 22, and MD&A p. 27; C2, p. 3, footnote 2]

The August outlook projected FY2026 sales growth of about 5%, operating margin of 14.5%-15.0%, and diluted EPS of \$13.10-\$13.60. It assumed the impact of tariffs and refunds remained uncertain. The second half includes the company's fall and holiday seasons; A&F says those periods historically carry the greatest sales activity. Results through August 1 therefore did not yet show how the full fall season would perform. [C1, pp. 25, 27-29; C2, p. 3]

Investment and capital-return plans

Management's FY2026 outlook included approximately \$250 million in capital expenditures, about 50 owned-and-operated store openings and 20 closures (roughly 30 net openings), and 80 remodels or right-sizes at owned-and-operated stores. It also projected at least \$500 million in FY2026 share repurchases. These were forward-looking outlook figures, not contracts or legal commitments. [C2, p. 3, footnotes 6-7]

The repurchase outlook is distinct from the company's authorization. In March 2025, A&F's board authorized a \$1.3 billion repurchase program. As of August 1, \$568 million remained; year-to-date the company had repurchased about 3.2 million shares for approximately \$282 million. The 10-Q says repurchases depend on excess liquidity, market and business conditions, and other factors, and may be discontinued at any time. The company was not obligated to repurchase a specific amount. [C1, p. 35]

A&F reported \$627.7 million of cash and cash equivalents plus \$10.3 million of marketable securities at August 1. Its stated liquidity measure was approximately \$1.1 billion and included available borrowing under its asset-based credit facility. The company had \$449.5 million of borrowing capacity available after minimum availability requirements; it had no borrowings outstanding. Do not add that capacity again to a liquidity measure that already includes it. [C1, pp. 3, 34-36]

First-half operating cash flow was \$313.4 million, compared with \$112.9 million a year earlier. The company attributed the increase primarily to higher net income and recognition of IEEPA refunds, partly offset by expense deleverage and other factors. Working-capital timing also affected cash flow, including merchandise payables, taxes, receivables, and inventory receipts. First-half cash generation is not a clean recurring run rate. [C1, pp. 35-36]

Three paths to consider

The alternatives below are analytical choices for the case, not proposals disclosed by A&F.

1. **Maintain the current balanced outlook.** Continue planned store and other capex while executing the repurchase outlook, subject to management's stated discretion. This preserves the announced growth-and-return mix. The risk is treating refund-supported Q2 performance as durable before fall trading and tariff exposure are clearer.
2. **Stage discretionary repurchases while protecting operating investment.** Keep the store/capex outlook, but reassess repurchase pacing as fall results, refund realization, and inventory needs emerge. This preserves flexibility. The risk is delaying capital return despite strong reported performance and potentially attractive share valuation; the case provides no valuation conclusion.
3. **Emphasize operating investment or liquidity over incremental buybacks.** Favor store investment, flexibility, or a larger liquidity cushion while monitoring demand and tariff uncertainty. This could protect future options, but the company has not disclosed store-level returns, an underinvestment problem, or a target cash reserve.

Your assignment

Recommend how A&F should evaluate and pace its FY2026 capital plan after the refund. Identify what should proceed, what remains discretionary, and what information would change your choice.

- How should decision-makers distinguish recurring operating performance from refund-related margin and cash effects?
- Which brand, region, and store-investment data should determine whether the planned openings, remodels, or right-sizes are earning their capital?
- Should the \$500 million FY26 repurchase outlook affect the decision differently from the remaining discretionary authorization?
- What fall-season, cash-flow, inventory, or tariff evidence should trigger a review of repurchase pace or investment?
- What are the risks of waiting, investing more, or returning additional cash?

Exhibit 1. Q2 2026 operating performance

Measure	Q2 FY2026	Comparison
Net sales	\$1,266.689m	\$1,208.560m prior year; +4.8%
Comparable sales	Flat	Constant-currency comparable-store/digital measure
Operating income (GAAP)	\$252.700m	19.9% of net sales
Net income	\$185.539m	GAAP
Management-estimated IEEPA refund effect	~\$100m pre-tax	~790 bps operating margin; ~\$1.75 diluted EPS

Sources: C1, statements of operations p. 4 and MD&A pp. 27-29; C2, pp. 1-2. Refund effect is management-estimated, not a normalized earnings figure.

Exhibit 2. Q2 brand and regional results

Brand / region	Net-sales growth	Comparable-sales growth
Abercrombie brand	+8%	+4%
Hollister brand	+2%	−3%
Americas	+5%	+1%
EMEA	+2%	−4%
APAC	+19%	+13%
Company	+4.8%	Flat

Sources: C1, MD&A pp. 27-28 and Note 16 pp. 19-20; C2, p. 2. Net sales by region reflect the physical store/geography fulfilling the order. Brands and regions are different views of the same consolidated business.

Exhibit 3. FY2026 management outlook and separate repurchase authorization

Item	FY2026 outlook as of Aug. 26	Separate 10-Q fact as of Aug. 1
Net-sales growth	About +5%	Q2 +4.8%; Q2 comps flat
Operating margin / diluted EPS	14.5%-15.0% / \$13.10-\$13.60	Q2 GAAP margin 19.9%; refund estimate included
Capital expenditures	~\$250m	\$129.4m spent year-to-date
Store openings / closures	~50 openings / ~20 closures; ~30 net	Owned-and-operated stores
Remodels / right-sizes	80	Owned-and-operated stores
Share repurchases	At least \$500m for FY26	Guidance, not legal minimum
2025 repurchase authorization	-	\$1.3bn authorization; \$568m remained; may be discontinued at any time

Sources: C1, pp. 34-36; C2, p. 3, footnotes 6-7. Management outlook is not a company obligation. The authorization and outlook are distinct.

Exhibit 4. IEEPA refund timing and interpretation

Disclosure	Amount	Accounting/period description
Q2 refund impact	~\$100m	Management-estimated pre-tax Q2 benefit; estimated ~790 bps operating-margin impact
Post-quarter refunds received	~\$18m	C1 subsequent-event disclosure after Aug. 1
Included in quarter-end receivable	~\$4m	Already recognized at Aug. 1
Remaining amount	~\$14m	Expected to reduce Q3 cost of sales; interest treated separately
Q3 / FY26 outlook	~\$20m / ~\$120m	Company estimates, excluding accrued interest

Sources: C1, Note 18 p. 22 and MD&A p. 27; C2, p. 3, footnote 2. Do not sum amounts across rows as if they were nonoverlapping incremental earnings or cash.

Exhibit 5. Liquidity and cash flow

Measure	Value	Period/basis
Cash and cash equivalents	\$627.716m	Aug. 1, 2026
Marketable securities	\$10.283m	Aug. 1, 2026
Available ABL borrowing capacity	\$449.5m	After minimum availability requirement
Company-defined total liquidity	~\$1.1bn	Includes available borrowing capacity
H1 operating cash flow	\$313.401m	26 weeks ended Aug. 1
H1 capital expenditures	\$129.4m	FY26 YTD

Source: C1, balance sheet p. 3 and MD&A pp. 34-36. H1 cash generation includes refund and working-capital effects; do not treat it as a recurring run rate.

Source notes

- **C1:** Abercrombie & Fitch Co., Form 10-Q, 13 and 26 weeks ended Aug. 1, 2026, filed Sept. 4, 2026. [SEC filing](#).
- **C2:** Abercrombie & Fitch Co., Q2 FY2026 earnings release, Aug. 26, 2026, furnished as Exhibit 99.1 to Form 8-K. [SEC exhibit](#).
- **C3:** Abercrombie & Fitch Co., Form 10-K, FY2025, filed Mar. 26, 2026. [SEC filing](#).