

AEROPOSTALE: THE NEXT TEEN CLOTHING RETAILER TO GO BANKRUPT?

February 10, 2015

RESEARCH SUMMARY

Today, Aeropostale (ARO) announced higher than expected earnings. But it's not what it looks like. The following developments indicate that ARO is on its way to bankruptcy.

1. In a [PR today](#), ARO said the forecasted earnings don't include asset impairments. This likely includes inventory right downs. That will show up in the GAAP earnings statment.
 2. Bigger decline in same store sales than expected. [Aeropostale said](#) the holiday quarter same-store sales fell 9% after a 15% decrease a year earlier. Analysts surveyed by Retail Metrics were looking for an 8.8% decline.
 3. They have hired a CFO replacement, David Dick, who was the former CFO of bankrupt Delia's, another teenage clothing retailer like ARO. This is a sign the company is getting ready for bankruptcy.
 4. Once a certain style goes out of fashion, it doesn't go back. Aeropostale will likely be the next in a line of bankrupt fashion clothing retailers.
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To expand on the above points:

1. Aeropostale doesn't predict GAAP earnings when it makes its prediction. As stated here: This earnings guidance does not include the impact of any asset impairments, real estate consulting fees, lease buyout costs, severance, other accelerated store closure costs or restructuring costs.

With those included, ARO's earnings will be a much worse loss than the predicted loss of (\$0.06)-(\$0.01) per diluted share.

The biggest issue is asset impairments. For example, ARO could writedown a shirt from \$10 to \$3, and then sell that shirt for \$9 and say that they made a \$6 profit, when in reality it's a \$1 loss.

2. With a bigger than expected sales decline, that's further evidence that ARO is NOT turning things around with making its clothes more fashionable and "cool" to wear. Especially if it's having fire sale discounts in its stores, and people are buying their clothes to wear for when they're painting their house or hiking in the woods.
3. Can this not be a worse omen? Why would they hire a new CFO that has experience working with retailers on the brink of bankruptcy? Expect some major cost cutting and a continual downward spiral for ARO going forward until bankruptcy.



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