

URBAN OUTFITTERS, INC.

Second Quarter, FY'15 Conference Call
August 18, 2014

Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Chief Financial Officer
David McCreight, CEO, Anthropologie Group
Margaret Hayne, President Free People Brand and CCO, URBN
Ted Marlow, CEO, Urban Outfitters Group
Trish Donnelly, President, Urban Outfitters Group, North America
Wendy B. McDevitt, President, Terrain
Glen A. Bodzy, General Counsel
Barbara Rozsas, Chief Sourcing Officer
Calvin Hollinger, Chief Administrative Officer
Matt Kaness, Chief Strategy Officer
David Ziel, Chief Development Officer
Bill Cody, Chief Talent Officer
Dave Hayne, COO, Free People Brand
Oona McCullough, Director of Investor Relations

Good afternoon, and welcome to the URBN second quarter fiscal 2015 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and six month period ending July 31, 2014.

The following discussions may include forward-looking statements. Please note that actual results may differ materially from those statements. Additional information concerning factors that could cause actual results to differ materially from projected results is contained in the Company's filings with the Securities and Exchange Commission.

We will begin today's call with Frank Conforti, our Chief Financial Officer, who will provide financial highlights for the second quarter. Dave Hayne, Chief Operating Officer, Free People Brand will provide a brief update on the Free People brand. Richard Hayne, our Chief Executive Officer, will then comment on our broader strategic initiatives. Following that, we will be pleased to address your questions.

As usual, the text of today's conference call, along with detailed management commentary, will be posted to our corporate website at www.urbanoutfittersinc.com.

I'll now turn the call over to Frank.

Frank

Thank you Oona and good afternoon everyone.

I will start my prepared commentary discussing our fiscal year 2015 second quarter results versus the prior comparable quarter. Then I will share our thoughts concerning the remainder of the year.

Total Company sales for the quarter increased by 7% to a second quarter record of \$811 million. This increase was driven by a \$39 million increase in non-comparable store sales, opening 9 new stores and a 36% jump in wholesale segment sales. Our retail segment 'comp' rate was flat for the quarter.

Within our retail segment 'comp', the direct-to-consumer channel continued to outperform stores posting positive gains driven by increases in average order value and web and mobile site visitors. Negative 'comp' store sales resulted from decreased transactions, partially offset by higher average unit selling prices, while units per transaction were flat.

By brand, our retail segment 'comp' rate increased by 21% and 6% at Free People and Anthropologie Group, respectively, and declined 10% at Urban Outfitters.

Free People Wholesale delivered another strong quarter as sales surged 36% to \$59 million. These results came from double-digit sales growth at department stores and specialty stores domestically and strong international growth.

Gross profit for the quarter increased 2% as compared to the prior comparable quarter to \$303 million. Gross profit rate declined by 194 basis points to 37.4%. The decline in gross profit rate was primarily driven by underperformance at the Urban Outfitters brand resulting in lower merchandise margins related to poor performing product and store occupancy deleverage resulting from negative store 'comps' at the brand.

Total 'SG&A' expenses for the quarter increased by 11% to \$198 million. Total 'SG&A' as a percentage of sales deleveraged by 83 basis points to 24.4%. The 'SG&A' deleverage was primarily due to increased marketing and technology expenses which drove higher direct-to-consumer traffic.

Operating income for the quarter decreased by 12% to \$105 million, with operating profit margin deleveraging by 277 basis points to 13.0%.

Net income was \$68 million or \$0.49 per diluted share.

Turning to the balance sheet, inventory increased by 4% to \$362 million. The growth in inventory was primarily related to the acquisition of inventory to stock new and 'non-comp' stores. Comparable retail segment inventory increased by 1% at cost while decreasing 8% in units.

We ended the quarter with \$409 million in cash and marketable securities. During the quarter, the Company repurchased and retired 3.7 million common shares for approximately \$126 million. We have 6.3 million shares remaining on our May 27, 2014 Board of Directors authorization to repurchase 10.0 million shares.

As we look forward to the remainder of fiscal year 2015, it may be helpful for you to consider the following:

We are planning to open approximately 35-40 new stores during the year. By brand, we are planning approximately 11 new Urban Outfitters stores globally, including 3 new European stores, 15 new Anthropologie stores globally, including 3 new European stores and 12 new Free People stores in North America.

While we are encouraged by the Urban Outfitters brand beginning to show signs of improvement, we believe it is still possible that gross profit margin for the third quarter could continue to deleverage on a year-over-year basis. This deleverage could be due to lower merchandise margins and store occupancy expense deleverage and could occur despite continued sales and profitability momentum at the Anthropologie and Free People brands.

We believe 'SG&A' could grow at a low, double-digit rate for the year. This increase would be driven by increases related to direct and selling support expenses to support our new store growth and continued investments in technology and marketing expenditures to further customer acquisition and retention efforts.

Capital expenditures for fiscal year 2015 are planned at approximately \$215-\$235 million, driven primarily by a new fulfillment center in Gap, Pennsylvania, the expansion of our home office and new stores.

Finally, our fiscal year 2015 annual effective tax rate is planned to be approximately 35%. Please note that this annual rate includes a favorable, non-recurring federal building rehabilitation credit related to our home office expansion at the Philadelphia Navy Yard, which we believe we could receive in the third quarter of the current fiscal year.

As a reminder, the forgoing does not constitute a forecast, but is simply a reflection of our current views. The Company disclaims any obligation to update forward looking statements.

Now it is my pleasure to pass the call over to our Free People Brand Chief Operating Officer, Dave Hayne.

Dave

Thank you, Frank.

Good afternoon everyone. I'm excited to share with you some of the achievements and positive momentum we're experiencing at the Free People brand.

When I talked with you in August of last year, we had just completed a record second quarter, and I'm happy to report the same again today. We set second quarter revenue and operating income records across all three channels of our business, and collectively, the Brand achieved the single best quarter in our history. Moreover, the consolidated brand delivered over 30 percent revenue growth against similar growth the previous year. In fact, this second quarter marks the 9th consecutive quarter in which we've exceeded 25% revenue growth at Free People, an accomplishment that our 1,600 brand associates and URBN shared service partners can be proud of.

These results would obviously not be possible without product the customer finds attractive. Meg Hayne, our brand President, and Sheila Harrington, our Chief Merchandising Officer, and the design and merchant teams they lead, have consistently delivered compelling and differentiated fashion assortments that have continued to catch the customer's eye and heart – and Q2 was no different, with retail-segment, full-price comps exceeding total comps across all major product divisions.

The merchant and design teams have been hard at work on one of the company's strategic initiatives – product expansion. Customer response to our intimates offer in the second quarter exceeded expectations, and that category continues to be a stand-out in the assortment. In May, we re-launched our FP Movement activewear assortment, which offers own-brand designed apparel for yoga, dance and surf activities. The customer's reaction has been very enthusiastic, and we're excited that Movement has the potential to expand into new categories and channels. And in another new category, footwear, in the past few weeks we released our own-brand Free People shoe assortment – with early but very encouraging response on our websites, in our larger format stores, and via a select set of wholesale doors. We look forward to developing these concepts further, and Sheila and her teams are hard at work on these and more.

Turning to wholesale, July was the single strongest sales month in our history, and the team enters the back half with future bookings on pace with the current trend. The wholesale team has been supporting strong growth in our department store brick and mortar and ecommerce channels, with 13 current department store shop-in-shops and an additional 3 expected by year's end. With our specialty store partners, a large portion of Q2 growth was attributable to our shoe launch, further emphasizing the impact that new concepts can have on top line growth. We believe we have more opportunity to grow the domestic wholesale business by expanding our core collection and introducing product extensions to existing accounts, as well as onboarding new accounts.

The wholesale team has been particularly busy on the international front, doubling non-US revenue over the same quarter last year. In Europe, our London showroom team grew their account base nicely, and doubled their revenue, yet we feel we are just beginning to scratch the surface here with much room to grow. In Japan, our distribution partner opened an additional two shops, bringing the total to nine, with another three to five planned in the back half. These shops, coupled with over 100 specialty doors in Japan, leave us very pleased with the progress of this partnership. In China, an expanded relationship with the I.T Group of Hong Kong will launch five new shop-in-shops in Shanghai, Beijing and three other top I.T locations this fall, and a new relationship with Myer department stores in Australia will see eight shop-in-shops operating by year's end. All told, Q2 revenue in Asia more than tripled over the same period last year, and the wholesale team, led by Krissy Meehan-Mashinsky, deserves credit for delivering a fantastic overall quarter.

Turning to retail, our North American team drove record Q2 sales, and successfully opened 5 new stores, bringing the current count to 97. By year's end, we anticipate having 102 stores in operation, with total gross square footage growth of approximately 16%. The 5 new stores opened in Q2 average 3,000 gross square feet, considerably more than our average, and they reflect our previously stated commitment to larger format stores to showcase our widening product assortment. As a brand, we continue to be encouraged by our customer's reaction to Free People in larger spaces, and we plan to test increasingly larger formats in the future.

Not to be outdone by stores and wholesale, the direct-to-consumer channel also posted record Q2 results, and enjoyed two year comps well into the triple digits. Direct grew its total customer base 30% year-over-year, and our customer retention has been robust. Technology investments are paying dividends – our iOS app drove 10% of sales for the channel as mobile sales grew sharply, and the FP Me program continues to drive community engagement, both in stores and online, via style pic uploads, local store events and customer communication. The FreePeople.co.uk business exploded with triple-digit growth in the second quarter as our PR and customer engagement efforts begin to take hold, and this progress has our store team exploring the UK for opportunities. Also, in early July the e-commerce team successfully launched FreePeople.cn, our localized China website. The translated website accepts Alipay payments, sells our full global assortment, and offers convenient shipping and return options, all in an effort to reduce the friction of cross-border e-commerce. Although still very early, we are excited for the launch and our ability to foster relationships with new customers in this dynamic market.

This commentary would be incomplete without acknowledging the contributions of our marketing and creative teams. Their success in elevating the Free People brand image can be seen everywhere the brand is experienced – viewed in the creative imagery of our web photography, lookbooks, and catalogs, watched in our “FP Presents” video series, read daily on our BLDG25 lifestyle blog, listened to at an FP Me dinner and backyard concert event in Nashville, or felt in the rich physical experiences created by our store display artists – wherever it be, every environment touched by these teams exudes the brand spirit, and their ability to elevate the Free People brand experience is a significant contributor to our ongoing success.

Our goal is, and has always been, to create differentiated product that our customer will appreciate, and to create lifestyle experiences she enjoys being a part of. I'd like to thank and congratulate the entire Free People family for accomplishing these goals in spades this past quarter, and I'm eager to see where our talented team will take the brand in the future.

Thank you very much for your time; I will now turn the call over to our CEO, Dick Hayne

Dick

Thank you, Dave.

Congratulations to you and the entire Free People team. What a great story. Delivering double-digit 'comp' sales increases in this environment is difficult enough, but what makes your feat so remarkable is the fact that the brand has produced second quarter double-digit 'comps' for three straight years now. Indeed, this is the ninth consecutive quarter of double-digit positive comparable sales. The Free People team has earned a well-deserved 'thank you' for an extraordinary performance.

Like Free People, Anthropologie executed at an exceptionally high level during the quarter. Both brands are setting new industry standards for delivering a strong brand experience and powerful customer engagement. For the quarter, Anthropologie delivered record sales, near-record merchandise margins and record operating profits. The penetration of regular price sales continued to grow and total 'comp' sales increased by 6% on top of the strong 9% 'comp' recorded in the second quarter of last year. David and his team built upon their prior successes and delivered the highest quarterly operating profit in Anthropologie history.

Again, like Free People, the Anthropologie brand had continued success in Q2 with their expansion categories. The Bhldn wedding product is now offered online, in two standalone stores and inside five Anthropologie stores. Bhldn experienced extremely strong double-digit 'comp' sales growth during the quarter and total sales almost doubled versus the second quarter of last year.

The Anthropologie Petites assortment is now offered online and in 21 stores. Sales of that product more than tripled in the second quarter over the same period last year. The success that Anthropologie has experienced launching these categories has encouraged David to begin expanding into other categories, too. They are currently working on a larger concept store and will unveil it at our upcoming investor day this September. This prototype store will highlight additional expanded and new categories tailored specifically for the Anthropologie customer.

Turning your attention to the Urban Outfitters brand, their second quarter performance was as we expected it would be when we last spoke on our May conference call. Total retail segment 'comps' for the Urban brand decreased by 10% in the quarter, initial margins lagged the prior year and promotional activity increased as we cleared through slower moving spring merchandise. As you may recall, we said all teams, and especially the product and creative teams, were focused on getting the back-to-school product assortments right, reinvigorating the brand experience and re-engaging the core 18-28 year old customer.

To do this we outlined three major initiatives:

- First, elevate the product by offering better, more fashionable designs, improving product quality by using better fabrics and finishes, and gently raising our average retail prices.
- Second, heighten the customer experience by improving the visual merchandising through better, more cohesive storytelling and by creating more sophisticated and compelling imagery online and in stores.
- The final initiative was to back away from what had become incessant promotional activity and stand for brand integrity and authenticity.

I believe that Ted and Meg and their teams have executed upon all of these initiatives and the progress is starting to be seen in the assortments and the experience as we speak. I invite you all to visit our new Herald Square or Space Ninety8 stores in New York. I think you will agree with me that these stores have a distinct Urban Outfitters personality with fresh, exciting products and an experience that resonates with the 18-28 year old 'urban-dwelling' customer.

The progress is even more apparent in the direct-to-consumer channel where the impact from improved creative imagery, better storytelling and new product is greater than in a store. The online customer is responding nicely and regular price 'comps' have been running positive for five out of the last six weeks. At the same time, we are starting to see our retail store customers responding to the new product assortments, as well.

Given the difficult women's apparel and accessory business at the Urban brand over the past nine months, those teams were rightfully very conservative when ordering initial back-to-school inventory. Lean buys combined with strong sell-throughs of a number of items, have created more out-of-stock situations than normal. The merchants are now in chase mode so further 'comp' sales improvements will be a gradual process but the Urban group is encouraged by good early reads. Keep in mind, the near-term goal is to drive regular price traffic and business. As the cadence of promotional activity is reduced, we will use regular price 'comp' sales as a measure of progress. This is similar to what the Anthropologie brand did two years ago.

Typically at this point in the call I would provide an update on our long term strategic growth initiatives, but I will reserve that for our September 23rd Investor Day. You will have the opportunity to hear from each of the brand leaders and their teams in more detail, either in person here at our Philadelphia Navy Yard offices or via live webcast.

Before I open the line to your questions I would like to formally welcome Trish Donnelly to the URBN family. Trish recently joined the executive team as President of the Urban Outfitters brand in North America. She is already making significant contributions, and I have no doubt that she will play an instrumental role in the Urban brand's on-going growth story. Thank you, Trish and welcome.

Finally, in closing, I thank our 22,000 associates world-wide for their amazing dedication, drive and creativity. I also recognize and thank our many partners around the world. Finally, I thank our shareholders for their continued support.

That concludes my prepared remarks. I now turn the call over to your questions.