

URBAN OUTFITTERS, INC.

Third Quarter, FY'24 Conference Call
November 21, 2023

Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Co-President & COO
Margaret Hayne, Co-President & CCO
Sheila Harrington, Global CEO, Urban Outfitters & Free People Groups
Tricia D. Smith, Global CEO, Anthropologie Group
Melanie Marein-Efron, CFO
Azeez Hayne, Chief Administrative Officer
Dave Hayne, Chief Technology Officer, URBN and President, Nuuly
Barbara Rozsas, Chief Sourcing Officer
David Ziel, Chief Development Officer
Oona McCullough, Executive Director of Investor Relations

Good afternoon, and welcome to the URBN third quarter fiscal 2024 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and nine-month period ending October 31, 2023.

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.

On today's call you will hear from, Frank Conforti, Co-President and COO, URBN; Dave Hayne, Chief Technology Officer and President of Nuuly; Sheila Harrington, Global Chief Executive Officer of Free People and Urban Outfitters; Melanie Marein-Efron, Chief Financial Officer, URBN; and Richard Hayne, Chief Executive Officer, URBN. Following that, we will be pleased to address your questions. For more detailed commentary on our quarterly performance and the text of today's conference call, please refer to our investor relations website at www.urbn.com.

I will now turn the call over to Frank.

Frank Conforti

Thank you, Oona, and good afternoon, and thank you to everyone who joined our call today. I will begin my commentary with comments on our operating results for the third quarter and then discuss more detailed notes by brand.

Overall, the third quarter performed largely in line with our expectations as discussed on the August call. URBN delivered strong sales growth of 9% to a record \$1.3 billion for the third quarter. URBN Sales growth was driven by a 6% retail segment 'comp' and robust growth from Nuuly which added \$30 million in revenue during the quarter.

Retail segment 'comp' was driven by high single-digit 'comps' in the DTC channel and mid-single digit 'comps' in stores. Sales 'comps' in both channels were the result of higher traffic and increased AUR. The Anthropologie, Free People and FP Movement brands all produced double-digit sales growth in stores and on-line, with FP Movement leading the way with a 'comp' sales increase of 49%. Each of these brands achieved record third quarter brand revenue, which more than offset a negative 'comp' at the Urban Outfitters brand.

URBN's bottom line results were even more impressive than our strong sales growth. Total URBN operating income soared 90% higher than the prior year to \$109 million and earnings jumped 123% to \$83 million or \$0.88 per diluted share.

Our earnings growth was driven in part by a 27% increase in gross profit dollars while gross profit rate surged by over 500 basis points. The improvement in gross profit rate was due to significantly improved initial margins as well as lower markdown rates at all brands.

I will now provide more details by brand, with a little help from Dave Hayne on Nuuly.

Dave Hayne

Thank you Frank, and good afternoon, everyone.

I'm happy to provide a brief update on our rental subscription business, Nuuly. Judging by our Q3 results, our model of a monthly rental subscription certainly seems to be resonating with our target customer. We often hear from new subscribers that they first learned about Nuuly from their friends or family, and after a month or two of renting from us, they then become vocal advocates for renting, and go on to tell all their friends about Nuuly. It is this viral word-of-mouth, paired with an attractive value proposition and strong execution, that has helped us grow quickly in our first few years of business, and Q3 was a continuation of this trend.

In the third quarter, Nuuly drove \$65.5M in revenue, which was an increase of 86% from last year. This revenue growth was driven by a net increase of nearly 39,000 subscribers in the quarter, up to a total of 198,000 active subscribers at quarter's end.

As you may remember from our second quarter call, we spoke about two milestones relating to the Nuuly business: one, that we thought it was possible we could reach 200,000 subscribers by the end of the year, a goal we have now achieved in November; and two, that we believed we would see our first quarter of profit in the back half of this year. Today, I'm very pleased to share that Nuuly saw an operating profit in the third quarter. This is a goal the team has been pushing very hard to achieve, and it makes me proud to see everyone's hard work recognized today.

As we look forward, there is much to be excited about in Nuuly's future. With the strong partnership of our sister brands Anthropologie, Free People, FP Movement and Urban Outfitters – as well as over 400 other partner brands – we have curated what we believe is the most compelling rental clothing assortment on the market. With the help of our robust digital platform, driving both the customer experience and fulfillment center operations, Nuuly is very well positioned to further enhance our rental program with exciting new features that can drive higher customer value. And the opening of our Raymore, Missouri fulfillment center in Q4 provides the business with the urgently needed operating capacity to grow well into the future, supporting in total over three-times our current subscriber count. So, I am very excited today to be reporting our first profit as a young company, with the best rental assortment in the business, with a home-grown digital platform that empowers us to drive more program value, and with the infrastructure to realize continued growth...and most importantly, with an incredible team to help us realize this future.

Thank you, I will now turn the call back over to Frank.

Frank Conforti

Thank you, Dave. Congratulations to you and the entire Nuuly team on this incredible milestone. I know we are all confident there are many more notable milestones to come.

Now moving on to Anthropologie. The Anthropologie team delivered an exceptionally strong 13% Retail segment 'comp' in Q3. This increase was driven by double-digit positive store and digital 'comps'. Both store and digital 'comps' were driven by increased traffic and strong growth in regular price sales. Strong sales, improvements in IMU, and low third quarter mark down rates all led to record third quarter operating profit dollars for Anthropologie.

The impressive quarterly performance was largely driven by apparel and accessories. Within apparel, the Anthropologie customer continues to respond favorably to fashion newness. In the quarter Anthropologie launched its largest marketing campaign to date, Falling for Anthro, leveraging a range of talent including celebrity Phoebe Tonkin, brand ambassadors and influencers. The campaign was a resounding success resulting in strong increases in brand impressions, sessions and new customer growth. The brands incredible execution across marketing, product and operations helped to drive over 25% growth in new customers in North America.

The strength across all apparel and accessory categories, along with new customer acquisition has resulted in a nicely positive start to the holiday season.

Turning to Free People. Free People delivered yet another historically exceptional quarter. Once again achieving record sales and profits in the third quarter. Retail segment 'comps' at Free People finished the quarter up a robust 23%. The Free People brand produced a strong 18% 'comp', and the FP Movement brand produced an impressive 49% 'comp'. Total Retail segment 'comp' was driven by double-digit 'comps' in the store and digital channels. These double-digit 'comps' were driven by strong traffic growth in both channels due in part to excellent marketing, product and operations execution.

The strength of the Free People assortments, marketing campaigns and store experience has continued into the fourth quarter, resulting in a strong retail segment start to the Holiday season.

Free People wholesale segment sales decreased 4% during the third quarter. The decrease in sales was a result of weakness in department store accounts partially offset by growth in specialty store accounts. Although wholesale sales remain slightly negative, profitability has returned to a healthy level.

Now moving on to Urban Outfitters. Urban recorded a negative 14% Retail segment 'comp' in Q3. UO's negative 'comp' was the result of disappointing performance in North America and Europe. In North America, 'comp' store and digital channel sales were low double-digit negative. The brand is experiencing some improvements in their assortment and marketing execution but not enough to move the needle just yet. In Europe, the weakness was concentrated in the UK while the rest of Europe continued to see positive retail segment 'comps'. Due to the weaker than expected sales during the third quarter, as well as current forecasts for the fourth quarter, inventory levels at the Urban Outfitters brand are elevated versus where we would like them to be. These inventory levels will lead to higher markdowns than originally planned during the holiday season for the brand.

I will now turn the call to Sheila Harrington who will speak to the Free People, FP Movement and Urban Outfitters brands.

Sheila Harrington

Thank you, Frank, and good afternoon, everyone. I am pleased to provide an update for the Free People, FP Movement and Urban Outfitters brands. First, I will discuss Free People and FP Movement.

As Frank reported, the total Free People brand had an exceptional quarter with total brand revenue up 18%. The consistently strong growth over the past few years at Free People can be attributed to the team's maniacal focus on the consumer and the use of creativity in product, experience, and marketing. We believe the brand can continue to achieve growth by expanding its reach and its product offerings. Distorting into select labels, including 'Intimately FP', 'Free-est' and 'We the Free' along with our core Free People label, will allow us to complete the customer's lifestyle looks and welcome more people into the brand.

‘We the Free’ enjoyed robust growth this quarter. The ‘We The Free’ label offers heritage-inspired staples, which capture the spirit of FP through hand touched details and wash. The ‘We The Free’ label includes several product categories, but we believe the significant growth opportunity exists in denim, accessories and footwear. It currently accounts for over 20% of the brand’s retail segment net sales and is experiencing outsized growth. We plan for this label and the denim category particularly to be a meaningful part of our continued growth.

As mentioned, marketing is key factor in Free People’s growth. The brand launched several successful marketing campaigns during the quarter and throughout the year, targeting consumers across multiple social platforms and achieved double-digit growth of new customers in Q3.

Free People’s revenue is currently concentrated in North America with 148 stores and a strong digital business. However, we believe, with its unique aesthetic and strong fashion handwriting, Free People has the opportunity to be a larger global brand. Just over five years ago, we opened our first European store in Amsterdam. Today we operate 12 stores in Europe with locations in the Netherlands, France, and the UK. Our total international business grew by 34% and was profitable in Q3. We believe that strong growth could continue over the next several years.

Moving on to FP Movement. FP Movement offers women’s activewear at the intersection of fashion and function and looks to re-define the female activewear market by infusing a strong feminine voice into a business long dominated by male sensibilities.

The FP Movement design and buying teams have found unique opportunities to express this feminine voice and define the brand successfully. One example is the creation and marketing of the ‘Righteous Runsie’, a one-piece performance product the team created to capture white space in the activewear market. The teams continue to develop and strive for excellence in performance pieces for Studio, Run and Outdoors.

After experimenting with shop-in-shops in Free People stores for several years, we decided to open our first standalone Movement store in 2020. Since then, we’ve opened additional stores and currently have 37 locations in the US. Four-wall performance has greatly exceeded our expectations. Sales productivity per square foot as well as overall store profitability of these standalone Movement stores are performing at similar levels to the Free People brand despite Movement being a young brand that is still building brand awareness. Given the success of the current store fleet, we plan to open at least 25 additional FP Movement stores in FY25.

The Wholesale team delivered over 60% year-over-year growth this quarter. While achieving this growth, they also ensured we are selling to the correct partners who are aligned with our brand aesthetics and values.

The Marketing and Digital teams not only connected with consumers across various social platforms and with strong brand athletic ambassadors, but they also connected with customers in person through experiential events in local markets such as organized runs and workout events. These efforts lead to over 50% new customer growth for the FP Movement brand in the quarter.

The success of the FP Movement brand continues to build across all three distribution channels – retail, digital, and wholesale. Total revenues grew by 55% in the third quarter. We’re still in the early stages of growth, but our eyes are on our goal of achieving \$1 billion in annual revenue.

Thanks to Meg and the teams at both Free People and FP Movement for helping to produce such amazing results in Q3 and your continued passion for the brand and our consumers.

Turning to the Urban Outfitters brand. On our last call we noted we had some improvement in women’s and men’s apparel ‘comps’ in stores during the early back-to-school season. While the trend in apparel ‘comps’ did improve, and in stores, our men’s business was positive for the quarter, total retail segment ‘comp’ improvement fell short of our goals. We know there is much more work to be done. Negative traffic trends within stores and online remain our single largest challenge, and we know we have declined in consideration for our target consumer.

In order to change the trajectory of the Urban Outfitters business, our teams have identified three priorities. They are curating the right mix of products from meaningful national and emerging brands, improving the relevancy of our internally generated brand products, and connecting with and inspiring our customers where they are. Let me expand on each priority.

First, Urban Outfitters has always been a “Brand of Brands”. We rely on offering a compelling assortment of national and emerging brands to drive traffic and sales. We need to modernize our brand offering to be more relevant to our Gen Z consumer. This has been an important part of differentiating Urban from its competitors and we believe this assortment has been ‘off-pitch’ since the pandemic. Some successes in our current business with popular brands, brand collaborations, and unique offerings within our external brands re-reinforce this belief. Each merchant team across all divisions is currently reviewing their brand portfolio and working with new brands to build the most relevant mix possible.

Second, the continued development and evolution of our internal proprietary products remains critical to our long-term growth and profitability. Strong own brand product provides us with the ability to distort into the right items for our consumers with the right price architecture. Recent successes within the apparel business support when we get this price value correct, we see strong response from the consumer. This fall we were able to distort into a more feminine sensibility with labels such as Kimchi Blue and Silence and Noise. This feminine attribute showed higher productivity and drove an outsized percentage of Women’s apparel.

Third, is how and where we connect with our consumer. Historically Urban Outfitters has been known to be early adopters in fashion, and in marketing. We know we got behind prior to the pandemic and missed the opportunity to follow our consumers when they changed their platform preferences. We need to develop inspiring and relevant content and meet the consumer where they are, be it on YouTube, Tic Tok, or in our stores. We have begun to see progress, with sequential improvement throughout the quarter on new, reactivated, and total digital customers. While we are gaining momentum, rebuilding this relationship with the consumer will take time.

I am convinced that our laser focus on our target consumer and executing on our three priorities will lead to a return to long-term growth and profitability for the brand. I am grateful to our teams for their commitment and dedication to Urban Outfitters.

Now turning your attention to the Urban brand in Europe, total retail segment sales in Europe delivered growth in Q3. Positive retail segment sales were driven by new store openings while 'comp' sales were negative. By geography, business on the mainland was 'comp' positive in both channels while sales in the UK were more challenged. We believe our connection with consumers across Europe remains strong, and we have a large opportunity to continue to grow our brand in this region.

Tomorrow, our first flagship Urban Outfitters store opens in Madrid on Gran Via, which boasts one of the highest pedestrian traffic counts in the city. The store is housed in a repurposed cinema and commands unparalleled street visibility. Strategic openings such as this will be key to increasing the Urban brand's name recognition which should also drive greater digital penetration.

Congratulations to our European teams on this momentous opening, along with the other first to market openings this past year. And I would like to say thank you to our total Urban Outfitters global teams for their passion, hard work and drive to service our consumer both in stores and digitally around the world.

I will now turn the call over to Melanie.

Melanie Marein-Efron

Thank you, Sheila and good afternoon, everyone.

Now I will discuss our thoughts on the fourth quarter and fiscal year 24 financial performance.

Consumer demand in October slowed slightly versus the first two months of the third quarter. November sales have started off similar to October. Based on the start to the quarter, we believe fourth quarter total Company sales growth could be in the mid-single digits. Sales growth in Q4 could result from low-single-digit growth in Retail segment 'comp' sales and high double-digit growth of Nuuly segment sales versus last year. Our growth in the Retail and Nuuly segments is likely to be partially offset by sales decline in our Wholesale segment similar to Q3.

Now on to gross profit margin. Based on current sales performance and plan, we believe URBN's gross margin rate for the fourth quarter could improve by approximately 300 basis points compared to the prior year fourth quarter. The increase in gross profit margin could be primarily driven by higher initial product margins from lower inbound freight as well as cross functional initiatives which will favorably impact product margins.

Now moving on to 'SG&A' expenses. We believe 'SG&A' growth for the fourth quarter could increase in the high single digits. Our planned growth in 'SG&A' could be primarily driven by higher overall payroll due to increased store payroll expenses and higher incentive pay from improved company performance. In addition, we expect marketing expenses could be higher versus last year to support growth in customers and sales. As always, if sales performance fluctuates, we maintain a certain level of variable 'SG&A' spending that we can adjust up and down depending on how our business is performing.

We are currently planning our effective tax rate to be approximately 26.5% for the fourth quarter.

Now moving onto inventory. We believe that inventory levels in the fourth quarter could grow at a rate below sales growth. We have made significant progress this year controlling our inventory to sales ratio and expect to continue that trend into next year.

Capital expenditures for the fiscal year are planned at approximately \$235 million. The spend is primarily related to investments in additional distribution facilities. Earlier this year, we opened our highly automated omni fulfillment facility in Kansas City, Kansas. In addition, we are investing in a new rental fulfillment facility in Missouri within the Kansas City region. We are targeting to open this facility in the beginning of fiscal year 25.

Lastly, we will be opening approximately 27 new stores and closing approximately 22 stores during fiscal year 24.

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 I am pleased to turn the call over to Dick.

Dick Hayne

Thank you, Mel, and good afternoon, everyone.

As you've heard from my colleagues, four of our five brands delivered outstanding results in Q3. The Free People, FP Movement and Anthropologie brands all set new third quarter records for both sales and profits. The Nuuly brand posted record active subscribers and revenues, adding \$30 million in additional revenues during the quarter. Nuuly also achieved a huge milestone in Q3 by recording their first quarterly profit. All of this as they celebrated only their fourth anniversary since launching the concept.

Moving on to an overview of our fourth quarter prospects, there's been much market chatter about a slowdown in consumer spending. As Melanie reported, our brands did experience a slight moderation in demand beginning in early October. I want to emphasize the word 'slight'. November-to-date business is in line with October results and customers continue to choose fashion newness as their preferred purchase and are willing to pay full price for what they want. We're still planning Q4 retail segment 'comps' at both the Anthropologie and Free People brands

to remain double-digit positive and the Urban brand to show some improvement but remain negative. Our Q4 plan calls for the Company's total retail segment to produce 'comps' of 3%.

As we prepare to enter our fiscal year 2025, we enjoy two young brands which have produced strong revenue growth this past year and several larger brands that drove excellent 'comps' and we believe will continue to attract new customers and gain market share. Together these should drive nicely positive retail segment 'comps' in FY25. In addition, we possess the opportunity to further improve merchandise margins while holding the line on 'SG&A' increases. This bodes well for profitability, so we remain encouraged that FY25 could produce solid growth in sales and profits.

We are, of course, acutely aware that our single largest opportunity to improve the bottom-line rests with our ability to turn the Urban brand around. To that end, and as Sheila discussed, we are highly focused on building the team, improving the product offering, and strengthening our marketing efforts. We have made significant progress in our search for a brand President which is a critical step in moving forward.

Looking further into the future, I believe we are witnessing the beginning of another watershed period in retail – much like the impact e-commerce had beginning in the early 2000's, and mobile commerce had the following decade. Current advances in machine learning technology hold the promise to transform the business of retail once again. Data science and artificial intelligence have the potential to deliver much shorter product lead times, more accurate demand forecasts, better allocations, more personalized marketing, and optimized inventory planning, among many other benefits. These technologies should improve efficiency, reduce waste, and provide cost savings across a wide range of functions. Our brand teams and I are especially excited by the potential for Generative AI to augment and enhance our already superb creative capabilities. We expect to give you an annual update and appraisal of our progress in realizing the benefits of these amazing new tools.

In closing, I thank our brand and shared service leaders and their merchant, creative and operating teams and our 24,000 associates worldwide. Their efforts produced another outstanding quarter, and I thank them. I am constantly humbled by their remarkable dedication and creativity. I also recognize and thank our many partners around the globe. Finally, I thank our shareholders for their continued support. That concludes our prepared remarks, and I now turn the call over for your questions.