URBAN OUTFITTERS, INC.

Second Quarter, FY'27 Conference Call
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<u>Participants</u>

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
Emma Wisden, President, Urban Outfitters, EU
Shea Jensen, President, Urban Outfitters, North America
Tricia D. Smith, Global CEO, Anthropologie Group
Melanie Marein-Efron, CFO
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Dave Hayne, Chief Technology Officer, URBN and President, Nuuly
David Ziel, Chief Development Officer
Oona McCullough, Executive Director of Investor Relations

Good afternoon, and welcome to the URBN second quarter fiscal 2027 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, 2026.

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. 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.

Please note, on today's call, management will be speaking to our financial results on an adjusted basis which does exclude one-time benefits related to refunds for IEEPA tariffs previously paid, associated interest income and a tax benefit related to the release of a valuation allowance against certain foreign net deferred tax assets.

Each of these items is detailed in our press release as well as the investor presentation that is posted to our URBN investor relations website. I will now turn the call over to Dick.

Dick Hayne

Thank you, Oona.

In the second quarter, our teams once again produced record quarterly sales and earnings per share. Net sales grew 10% to $1.7B, operating income increased by 11%, and EPS grew 9% to $1.72. This marks the eighth consecutive quarter of record sales and profits. I salute our leaders and their teams for their talent, hard work, and remarkable consistency.

Additionally, all Retail segment brands delivered positive 'comps' and the Wholesale and Subscription segments registered record second quarter results, as well.

Now to provide more details on our Q2 performance, I'll pass the call over to Frank Conforti, our Co-President and Chief Operating Officer. After Frank, Dave Hayne, President of the Nuuly brand will update you on our Subscription rental business. Following Dave, our CFO, Melanie Marein-Efron, will walk you through our outlook for Q3 and the second half of the year. I will then wrap things up with a few closing thoughts before we open the call for your questions.

Frank, it's all yours.

Frank Conforti

Thank you, Dick, and good afternoon, everyone.

Today, I'm excited to share our Company's second-quarter record results, then I will dive into some detailed notes by brand, followed by a tariff and fuel costs update.

Overall, our teams delivered another outstanding quarter, exceeding our plans and setting new sales and operating profit records. Total URBN sales grew by over 10%, reaching a Q2 record of $1.7 billion. All our Retail segment brands delivered positive Retail segment 'comps', while four of our five brands posted record second-quarter sales. Nuuly continued its impressive double-digit revenue growth and our Wholesale segment also delivered exceptional double-digit revenue growth.

Our total URBN sales growth was partly driven by a 6% increase in the Retail segment 'comp,' with digital 'comps' slightly exceeding store 'comps'. Nuuly delivered strong 29% revenue growth, driven primarily by an increase of almost 113,000 average active subscribers compared to Q2 last year. Additionally, the Wholesale segment delivered a 19% increase in revenue, driven by growth across both specialty and department store accounts.

Next, I will turn your attention to gross profit. URBN saw an 11% increase in gross profit dollars while the gross profit rate increased by 4 bps to 37.7%. Due to strong sales, we nicely leveraged store occupancy expense and through several impactful initiatives which improved our customer service and lowered our expense per package, we were able to leverage delivery expense despite the negative fuel surcharges related to the war. These benefits were partially offset by higher initial merchandise costs due to higher year over year tariff costs, inbound freight fuel surcharges and slightly higher markdowns at the Anthropologie brand. The good news is through the team's exceptional execution we were able to offset all of these headwinds and deliver an improved gross profit margin rate. Additionally, as you will hear from Melanie in a few minutes, we believe there is an incremental margin opportunity coming in the second half of the year.

In the quarter, ‘SG&A’ increased by 10% in line with sales growth. We are happy to report that we were able to continue to invest in the business without deleveraging SG&A. The increase in 'SG&A' dollars was driven by marketing investments at several of our brands, store payroll expenses and investments in technology. The marketing efforts drove increases in traffic, both in stores and online, for the total URBN Retail segment, while Nuuly’s marketing campaigns resulted in healthy double-digit growth in average active subscribers. The increase in store payroll expenses was to support the growth in our store sales. The technology investments relate to several exciting AI related projects that we anticipate will benefit the Company for years to come.

Overall, total URBN operating income grew by 11% compared to last year, reaching an all-time record operating income for URBN of $193 million. Net income increased to $149 million, while earnings per share increased by 9% to $1.72 per diluted share.

Moving on to brand performance, starting with Anthropologie. The Anthropologie brand reported total revenue growth of 5%, driven by a 3% Retail segment ‘comp’ and new store growth. The brand generated another positive Retail segment ‘comp’ in the second quarter, extending its multi-year streak. Results were driven by positive ‘comps’ in apparel and accessories while home was flat for the quarter.

Customer growth increased by over 4% in the quarter across new, active and reactivated customers, primarily driven by the early fall influencer campaign in July that supported the transition to early fall products. This well received event enabled the team to get strong fall and holiday season product reads which the brand continues to distort into for the second half of the year.

During the quarter, the brand experienced elevated markdowns as the team continued to work through slower-turning inventory. Early reads on fall transition products have been very encouraging as fashion newness flows into the assortment – in fact, as this product hit the assortment in July, regular-price ‘comps’ turned nicely positive.

Looking at some more details on Anthropologie’s product performance, Apparel growth was driven by positive ‘comps’ in dresses and bottoms. The accessories category growth was driven in part by strong ‘comp’ performance in shoes. The Home category was flat, as a positive furniture ‘comp’ was offset by a slight decline in home accessories.

Anthropologie’s results this quarter reflect a well-managed business operating with discipline and flexibility. The brand continues to foster strong customer connections, sustain positive overall top-line growth, and deliver a healthy low teens operating margin rate.

Overall, we are pleased with the brand’s execution and, based on our current plans, we believe the brand has the ability to deliver low to mid-single-digit positive ‘comps’ in the third quarter.

Now turning to the Urban Outfitters brand. Total Urban Outfitters sales grew by 8%, and the global Retail segment 'comp' was 8%, with strength across both North America and Europe. Digital 'comps' outpaced store 'comps' in North America, while in Europe store ‘comps’ outperformed digital.

In North America, the team delivered positive 'comps' across women's apparel, accessories, and home, led by strength in our key focus categories: denim, pants, lounge, novelties, and shoes. Within women's apparel, the business is being driven by a strong bottoms trend, an emphasis on key item execution, and robust performance from our own brands such as BDG and Out From Under. The positive Retail segment 'comps' were driven by regular price sales outpacing total 'comp'.

The brand's marketing initiatives fueled positive traffic in both stores and digital this quarter, resulting in double-digit digital growth in new customer acquisition while maintaining high retention rates across their existing base. This success is rooted in the brand’s strategic commitment to platform diversification – meeting its audience wherever they engage. This quarter, the brand continued to strengthen its community engagement – leveraging user-generated content and amplifying video across social channels, expanding its reach on platforms like TikTok Search, Reddit, and ChatGPT.

Additionally, for the back-to-school season, Urban Outfitters launched its first-ever connected TV commercial, themed “All Together Now.” Featuring more than 75 real UO student-customers from over 10 universities across the United States, this campaign strongly reinforced the brand platform of supporting students through the milestones and traditions of their college journey. By leaning into this authentic, community-oriented approach, the brand continues to foster deeper connections with its core audience.

In Europe, the business continues to exceed expectations. The European team produced a 9% Retail segment ‘comp’ despite being up against difficult multi-year ‘comp’ comparisons. European stores outperformed the digital channel, leading to a healthy increase in profitability for the quarter. Their consistent execution in product and marketing is allowing the brand to continue capturing meaningful market share.

We are proud of the continued progress of the global Urban Outfitters brand. Looking ahead to the third quarter, we believe the global Retail segment 'comp' could be in the mid-single-digit range. This will primarily be driven by the North American business which we believe could deliver high single digit positive ‘comps’ while the European business could moderate to a mid-single positive ‘comp’ range due to very difficult multi-year comparisons.

Next, let’s turn to the FP Group. The FP Group delivered another impressive performance this quarter. The team achieved a total revenue increase of 15%. This growth was driven by positive Retail segment 'comps', new store growth, and strong gains in the Wholesale segment. The Retail segment ‘comp’ of 10% was broad-based across both the store and digital channels, with store performance outpacing digital during the quarter. Customer traffic and AUR was nicely positive for both channels. Positive ‘comps’ in both channels were driven by strong regular price sales, reflecting the high quality of the brands’ offerings and strong customer demand. Furthermore, customer acquisition and overall customer growth were positive across both channels, fueled by compelling content and product execution delivered by the brands creative, marketing, and product teams. The FP Groups Wholesale segment delivered, a 19% increase in revenue during the quarter, led by the continued strength of FP Movement, intimates and women's apparel across our wholesale partners. This execution, combined with well-controlled inventory, allowed the FP Group to deliver record operating profit for the second quarter. Overall the FP Group executed a nearly flawless quarter.

Within the FP Group, the Free People brand had a strong second quarter, with total sales growth of 11% and a retail segment ‘comp’ of 9%. These positive ‘comps’ were driven by continued strength in key categories, led by bottoms and intimates. The FP Movement brand remains a standout, delivering exceptional results with total revenue growth of 26% and a 13% Retail segment ‘comp’. This performance was fueled by the brand's ability to consistently deliver technical innovation and fresh fashion in the activewear space. The expansion strategy for FP Movement remains on track, as they successfully opened four new stores during the quarter. This brings the total number of stand-alone stores to 97. FP Movement’s exceptional performance highlights the incredible opportunity for future growth and increased market share for the brand.

As we move into the third quarter, the consumer continues to respond positively to the Free People and FP Movement brands' fall assortment. Given this ongoing momentum, we believe the FP Group Retail segment has the ability to deliver high single-digit positive 'comps' in Q3. Additionally, we believe the FP Group Wholesale segment can deliver healthy mid-teens revenue growth in the third quarter.

The last topic I want to address is the overall tariff and freight environment and its impact on our business.

First, let's discuss fuel costs. We are currently navigating higher inbound freight costs, domestic transportation costs and higher delivery expenses driven by fuel surcharges associated with the ongoing war in the Middle East. These additional costs had a negative impact of approximately 50 bps in IMU and approximately 20 bps in outbound delivery & freight expense. We are assuming these costs and their negative margin impact will remain consistent for the remainder of the year. As we noted earlier, through the team's disciplined execution we were able to more than offset these macro headwinds and deliver increased gross profit margin dollars and rate in the quarter. If the price of oil declines and holds at any point in time in the future we would expect to see a corresponding reduction in these expenses.

Next, let’s discuss the tariffs. During the second quarter we received substantially all of our refund relating to the incremental IEEPA tariffs imposed beginning in the spring of FY’26. The remaining refund amounts and impact to our profitability are anticipated to be de minimis.

Looking ahead to the second half of the year, we begin to anniversary higher tariffs in the prior year and despite the recently enacted Section 301 tariffs our overall effective tariff rate will be favorable for the remainder of the year assuming no other changes are enacted.

In summary, the record breaking second quarter of FY'27 reflects the underlying strength of our diversified portfolio. Total revenue grew by 10%, the FP Group delivered standout performances across both Retail and Wholesale segments, Urban Outfitters continued its strong topline ‘comp’ alongside meaningful operating results improvement, Nuuly robustly grew its average active subscriber base while delivering a double-digit operating profit rate. Anthropologie sustained its positive ‘comp’ trend and strong operating margins while remaining focused on optimizing the assortment. We enter the back half of the year proud of all teams’ performances, confident in our growth plans and well-positioned to execute on our strategic priorities.

Now, I will now turn the call over to Dave Hayne, President of Nuuly and Chief Technology Officer of URBN.

Dave Hayne

Thank you, Frank, and good afternoon, everyone.

I’m pleased to share another standout quarter for Nuuly, where robust subscriber momentum drove record revenue and profitability.

In the second quarter, average active subscribers reached 484,000, up 30% versus last year, and we actually crested over 500,000 active subscribers in early June before easing back into our typical summer seasonality. This strong growth translated directly into robust financial results on both our top and bottom lines, with Q2 revenue rising 29% to $179 million, and for the first time in brand history, quarterly operating income landing at 10% – equating to $18 million. Q2 is seasonally our strongest margin quarter, and we do anticipate back-half operating rates will ease back into the high single-digits, but the ongoing bottom-line progress is very positive, and our results are a major milestone for the business. Looking ahead, for full-year FY’27, we believe Nuuly can deliver over $700 million in revenue with a high single digit operating profit rate.

So, what has been driving this strong momentum? From day one, scale was a prerequisite for success in this business model, and scale could only be achieved if subscribers found joy in our program. We have been driving this joy with a relentless focus on three core pillars: our assortment, the customer experience, and operational execution.

First, our assortment – the heart of the business, and the primary reason subscribers choose Nuuly. Our choice count is up 35% from last year to nearly 33,000 choices. We remain thrilled to have our URBN sister brands at the heart of our assortment, while continuing to broaden the selection of brands around them. Brand participation on Nuuly is truly a two-way street. Larger partners see meaningful follow-on sales across their own direct channels, while emerging brands appreciate the visibility, brand awareness and new customer acquisition they derive from the platform.

Our team is constantly on the lookout for new brand partners, and we receive regular inbound interest from potential partners as well. This past quarter, we launched Revolve’s private-label brands, including Lovers+Friends and Tularosa, which have performed well, especially with our west-coast, occasion-wear customer. We also added Collina Strada, Faithfull and Edikted, along with capsule collaborations with SIMONMILLER and Tyler McGillivary, two strong marketing moments in the quarter. Looking ahead, two exciting household names are joining the platform later this year: Nike is rolling out this month, and J.Crew will debut in October.

Second, the customer experience. Having 33,000 choices ensures we have something for everyone, but we recognize that large catalogs can sometimes be overwhelming. To address this we've looked beyond fashion and retail for models to emulate, and streaming platforms like Netflix and Disney+ serve vast catalogs of content to large subscriber bases, yet their experiences feel tailored to the user. Over the past year, we've improved our personalization engine to serve smarter recommendations based on style and brand affinities, resulting in big increases in satisfaction metrics. Similarly, we've also introduced a custom fit guidance engine that learns from post-rental survey data, solving a subscriber friction point by helping to identify the best size before ordering. Both of these enhancements leverage compounding data feedback loops – the more the community grows, and the more a subscriber uses Nuuly, the smarter the platform becomes for both that subscriber and the community as a whole. And more recently, we have focused on improving the checkout and delivery experience for subscribers. We've brought more certainty to the ordering process by integrating estimated delivery dates at checkout, along with options to expedite both your delivery service and fulfillment processing. We've also introduced seven-day carrier coverage for weekend deliveries, all of which give subscribers more confidence when planning their rentals around their calendar. By listening closely to customer feedback, we directed our team's energy toward these targeted enhancements to bring even more joy to the program.

Our third pillar of focus is scaling operational execution. Shipping, receiving, laundering and inspecting wardrobes for half a million subscribers requires significant investment, deep focus and continuous optimization. In Kansas City, we've meaningfully expanded our footprint from 600,000 to 1,000,000 square feet, and this building is now capable of supporting up to 600,000 subscribers. Our focus has been on automating as much of the operation as possible. Additional garment storage automation goes live this month, an automated order sortation system will go live in Q4, and an automated picking solution is planned to launch mid-next year. Together, once live and fully functional, we believe these automated innovations will save us meaningfully on logistics expenses. Additionally, we recently announced a significant new investment outside Philadelphia, just a 10-minute drive from our current facility. We are planning for the new building to open in late calendar year 2028, and it will expand our East Coast operation from 300,000 to 1,000,000 square feet, increasing our regional subscriber capacity from 200,000 to 600,000, as well as leveraging the automation suite we have developed in Kansas City. Once this project is complete, the full Nuuly network will support roughly 1.2 million subscribers with a significantly more efficient operation.

With much of our recent focus on operational improvements, and with our fulfillment investments underway, we believe it is time to revisit the customer experience and consider how we can make the Nuuly program even more valuable for subscribers. We are underway with an extension of the program, to be launched in the first half of next year, that we believe will increase average revenue per user – or ARPU – by offering new ways for subscribers to discover, access and source their personal style through Nuuly. We will share more details as the launch approaches, but we're excited about this opportunity and how it can improve the customer experience and our business metrics.

Taking a step back, I hope you can understand why we are so excited about this business. Nuuly is a genuine growth engine, and a true differentiator for URBN. The progress we're seeing is the direct result of the support from our leadership, and the incredible efforts of our extraordinary team. I want to thank our thousands of associates across our fulfillment centers and home office for their tireless work over the past several quarters. Your dedication to our subscribers is an inspiration.

Thank you, I'll now turn the call over to Melanie.

Melanie Marein-Efron

Thank you, Dave, and good afternoon, everyone. On today's call I will discuss our thoughts on the third quarter and full year fiscal 27.

We're off to a solid start this quarter, and based on what we're seeing so far, we are planning for Q3 total Company sales to grow in the high-single digit range. Our Retail segment 'comp' sales could grow mid-single digits, driven by high-single digit positive Retail segment 'comps' at the FP group, mid-single digit positive retail segment 'comps' at the Urban Outfitters brand and low to mid-single digit positive 'comps' at the Anthropologie brand. At Nuuly, the brand could deliver high twenties revenue growth, driven by continued subscriber momentum. Finally, our Wholesale segment could produce low-teens growth. We continue to believe we could deliver positive high-single digit total Company sales growth for the full year FY'27. This growth could be driven by mid-single digit retail segment 'comps', high-twenties revenue growth at Nuuly and low-teens growth for the Wholesale segment.

Based on the current sales performance and plans, we believe our third quarter gross profit margins could improve by 25 to 50 bps vs. last year. The increase in Q3 gross profit rate could be primarily due to higher IMU due to lower tariffs vs. last year and occupancy leverage, partially offset by higher fuel surcharges vs. last year. We are assuming that current oil surcharges related to the ongoing Middle East war remain in effect for the remainder of FY'27. These surcharges, which began in March 2026, impact inbound freight and outbound delivery and freight expenses. Based on the current surcharges, they represent approximately 70 bps unfavorable impact on each of the third and fourth quarters. Based on our current plans, we believe our full year FY'27 gross profit margins could improve by approximately 25 basis points vs. last year, with the second half showing a benefit to IMU.

Based on our current sales performance and financial plan, we believe Q3 total growth in 'SG&A' could grow at a rate below sales. The increase in SG&A dollars are based on planned marketing investments at all brands to support new customer acquisition along with increased artificial intelligence and other technology investments. Now for the full year, we believe that 'SG&A' growth could grow at a rate in line with or below sales growth. As always, if sales performance fluctuates, we maintain a certain level of variable 'SG&A' spending that we can fluctuate up and down depending on how our business is performing.

We're planning for an effective adjusted tax rate of approximately 24.75% for Q3 and for the full year. Our plan for Q3 and full year adjusted tax rate reflects the exclusion of the benefit related to the Q2 release of a valuation allowance against certain net deferred net tax assets which was included in the Q2 reported results.

Now moving onto inventory. We continue to be focused on increasing our inventory productivity and product turns. We believe that our inventory levels could grow at or below sales growth in Q3.

For FY'27, capital expenditures are planned at approximately $475 million. The FY'27 capital project spend is broken down as follows: approximately 35% for retail store expansion and support, approximately 50% for logistics investments and the remaining 15% for technology investments and home office expansion to support our growing businesses. The logistics investments are to expand our capacity and automation in both the Subscription and Retail segment businesses.

We will be opening approximately 54 new stores and closing approximately 18 stores during fiscal year 27. Our net new store growth is primarily being driven by growth in FP Movement stores. During FY'27, we plan on opening 21 FP Movement brand stores, 12 Free People brand stores, 12 Anthropologie stores and 8 Urban Outfitters stores.

As a reminder, the foregoing 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 turn the call back to Dick Hayne, Chief Executive Officer of URBN.

Dick Hayne

Thank you, Mel.

Dave, big congratulations to you and the entire Nuuly team for achieving such impressive milestones this quarter – reaching over half a million subscribers and delivering a 10% operating margin are testaments to the validity of the subscription rental concept and the great execution you and your teams have accomplished in a short amount of time. Nuuly is definitely proving to be a powerful and profitable growth engine for our Company. Thank you.

Nuuly was not the only brand to deliver a standout performance in Q2. As you heard, the Free People and FP Movement brands achieved double-digit sales and profit growth. And the Free People Wholesale segment crushed last year's strong performance by growing sales in the high teens and operating profits by 40%.

The Anthropologie brand added to its impressive 21-quarter streak by posting nicely positive 'comps'. The brand also delivered very healthy low-teens operating margins. The Urban Outfitters brand generated high single-digit ‘comp’ sales on both sides of the Atlantic. This marks continued progress for North America and reaffirms the excellent execution in Europe.

Overall, Q2 brand performance across our entire portfolio ranged from very good to outstanding. This gives me considerable confidence as we enter the second half of the fiscal year and reinforces my belief in our multi-brand strategy.

The foundation of our business has always been our talented teams with their outsized creativity, work ethic, and dedication. But as I’ve noted in previous commentaries, the strength of URBN, besides its people, lies in its structural diversification. Diversity by brand, by demography, by product category, by distribution channel, and by geography – these are all factors that allow us to deliver consistent, market-leading results across ever-changing fashion and economic cycles. And as our brands grow, especially our emerging brands, that diversification increases. By 2030 I believe URBN’s portfolio could consist of five billion dollar plus brands each concentrating on a unique customer with unique products.

Our structural advantage is further supported by the stability of our target customers. Much has been written in the media questioning the health and resilience of the consumer. However, based on what we see across our businesses every day, the economy and our customers remain in very solid shape. Job stability is real, take-home incomes are rising, and our customers continue to spend on fashion. Despite the ever-present noise, their shopping behavior has remained remarkably consistent – they are financially secure, highly engaged, and respond enthusiastically to new fashion. They continue to prioritize creativity and style over price, and our brands are delivering what the customers are looking for.

We enter the second half of the fiscal year with strong operational momentum, supported by exceptional teams, a vibrant economy, resilient consumers, and clear strategic priorities across our portfolio. In closing, I want to express my sincere gratitude to the entire URBN family, including our Co-Presidents, Meg and Frank and their teams, our brand leaders and their teams, and our 31,000 associates around the world – collectively you have produced another exceptional quarter and I thank you. I also thank our global partners and our shareholders for their ongoing support and commitment.

That concludes our prepared statements. We will now open the call to your questions.