

URBAN OUTFITTERS, INC.

Fourth Quarter, FY'24 Conference Call
February 27, 2024

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
Shea Jensen, President, Urban Outfitters, North America
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 fourth quarter fiscal 2024 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and twelve-month period ending January 31, 2024.

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, Richard Hayne, Chief Executive Officer, URBN, Frank Conforti, Co-President and COO and Melanie Marein-Efron, Chief Financial 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 Dick.

Dick Hayne

Thank you, Oona, and good afternoon, everyone.

Before we begin our prepared remarks, it is my pleasure to welcome Shea Jensen to today's call. As you know, Shea is our new President of Urban Outfitters, North America. She comes with deep experience in the apparel and accessories categories having spent many years at Nordstrom's and more recently, as President of Good American. Shea has been in her new role here at URBN for three weeks so she will not be answering any questions today but will be happy to respond to your questions on future calls. With that I will turn the call over to Frank to begin our discussion.

Frank Conforti

Thank you, Dick, and good afternoon, everyone.

Today I will begin the call discussing our total Company fourth quarter results versus the prior year followed by some more detailed notes by brand.

Please note, today I will be speaking to our financial results on an adjusted basis which does not include non-recurring adjustments for asset impairments, lease abandonments and a change in the revenue recognition method at Nuuly. 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. Now on to our results.

The fourth quarter performed largely in line with our thoughts as discussed on the third quarter call. Total Company sales grew by 8% to a fourth quarter record of \$1.5 billion, driven by a total Retail segment 'comp' increase of 5%, a Nuuly segment revenue increase of 69% and Wholesale segment revenue increase of 3%.

The Retail segment 'comp' was driven by a high single-digit positive digital 'comp' and a low single-digit store 'comp'. 'Comps' in both channels were primarily the result of higher traffic and transactions. January, and in particular the second and third weeks of the month, were the weakest of the quarter as we saw a negative impact on store traffic and sales 'comp' trends due to the winter storms and below average temperatures across the country. It was nice to see sales trends bounce back when the weather became more favorable.

For the quarter, the Anthropologie, Free People and FP Movement brands all produced double-digit retail segment 'comp' sales with FP Movement leading the way with a 45% increase. Nuuly also delivered robust double-digit revenue growth due to a significant increase in subscribers versus the prior year. All four of these brands achieved record fourth quarter revenue, which was partially offset by a negative 'comp' at the Urban Outfitters brand. The growth in Wholesale segment revenue was due to an increase in the regular price channel at Free People which was partially offset by a decline in sales at Urban Outfitters.

Gross profit dollars increased 20% to \$452 million while our gross profit rate increased by 293 basis points to 30.2%. The improvement in the gross profit rate was primarily due to increased initial margins at Free People and Anthropologie. In fiscal year 24, all three brands made significant progress towards our 500-basis point IMU improvement goal and now have their sights set on completing the goal by Q4 of FY'25. Markdowns were flat for the quarter versus last year but were higher than planned in the month of January as Urban Outfitters needed to promote more aggressively than planned to clear through excess inventory. As a result of the additional clearance at Urban Outfitters, their 'comp' inventory is now down 3% on a year-over-year basis and in a better position heading into the spring selling season.

Now moving on to 'SG&A' expenses. For the quarter, 'SG&A' increased 11% versus the prior comparable quarter and deleveraged by 58 basis points. The increase in expense and deleverage was primarily related to an increase in marketing and creative expense to support increased sales and continued customer growth, as well as higher incentive-based compensation costs due to the improved Company performance.

URBN's profit results were even more impressive than our strong sales growth. Total URBN operating income soared 90% above the prior year to \$81 million and earnings jumped 84% to \$66 million or \$0.69 per diluted share.

I will now provide more details by brand, starting with Anthropologie. The Anthropologie team delivered a strong 12% retail segment 'comp' in Q4. This increase was driven by high single-digit positive store 'comps' and low double-digit digital 'comps'. By category, apparel, and accessories delivered nicely positive retail segment 'comps' in the quarter while Home was flat. The strong fourth quarter completed an impressive full year of low double-digit sales 'comps' for the brand. The impressive sales growth and healthy margin expansion drove record operating profit dollars for the fourth quarter and full year.

As we enter FY'25 the Anthropologie consumer remains optimistic and continues to respond positively to a broad range of occasion and casual categories. The teams transitioned into spring early in January and the customer is responding well to the fashion newness. The home category continued to see strength in the gift and entertainment category, which was partially offset by a decline in furniture and decor.

During the quarter, the team's execution of the brand strategy to target a slightly younger customer continued to gain traction. New customers in the quarter in North America increased by a remarkable 26%. The strength in apparel, accessories and gift and entertainment along with new customer acquisition has us optimistic that the Anthropologie brand can continue to drive nicely positive 'comps' in fiscal year '25.

Now I will call your attention to Free People. Once again, the Free People team produced an outstanding quarter with retail segment 'comps' achieving an impressive 19% gain versus last year. Retail segment 'comp' was driven by double-digit 'comp' growth in both the digital and store channels. During the quarter, the brand achieved strong double-digit growth across apparel, accessories and Movement. The FP Movement brand delivered another remarkable quarter,

achieving 45% retail segment growth. Record sales and improved margins helped Free People deliver record fourth quarter and full year operating profit dollars.

Early customer response to the Brand's spring trends has been strong and new and total customer counts continue to grow at a double-digit rate. We believe the brand's retail segment performance could be nicely positive in fiscal year 2025.

The Free People wholesale segment sales increased 8% during the quarter driven by sales gains in Department stores. Segment profitability improved significantly from the prior year when the brand had elevated close out channel sales to reduce inventory levels. We believe wholesale segment sales could be near flat in fiscal year 2025 while delivering improved profitability.

Now moving on to the Urban Outfitters brand. Urban recorded a 14% retail segment 'comp' decline in the quarter. UO's negative 'comp' was the result of disappointing performance in both North America and Europe. Global Retail segment 'comp' declines were driven by double-digit declines in both the digital and store channels and all product categories were negative. When we last spoke, we noted the UO brand had excess inventory entering into the holiday season. This led to significantly higher markdowns during the fourth quarter. The brand made significant improvement on these inventory levels and is entering fiscal year 2025 with leaner inventories than the prior year. With new leadership in place and better inventory control, we believe the brand could deliver gradual 'comp' sales improvements as the year progresses with the first quarter of fiscal 2025 likely looking similar to the fourth quarter of fiscal year 2024.

Finally, I will touch on the Nuuly business. Revenue and subscriber growth continue to outperform our expectations. For our rental business we see the most significant growth in subscribers during the seasonally strong first and third quarters. During the fourth quarter, average subscribers ended at 195,000, growing 56% versus the prior year and 6% versus the third quarter. As you know, we have reached full capacity in our Pennsylvania fulfillment center. The team began the process of transitioning to our second facility in Raymore, Missouri, in the fourth quarter. This transition led to incremental and some non-recurring costs in logistics, which will continue into the first quarter and abate in the second quarter. This facility will support future subscriber growth by tripling the brand's capacity. We are pleased to announce the first totes have now shipped out of Raymore, and the brand will continue to ramp up capacity as the first quarter progresses.

Let me now review the many milestones we achieved in fiscal year 2024. We delivered 8% sales growth resulting in a new record of \$5.2B in sales. Gross profit margin expanded by 370 basis points, culminating in operating profit growth of 70% or \$162 million, which drove 86% growth in earnings per diluted share. Four of our five brands delivered double-digit sales gains as well as customer growth and our newest brand and concept, Nuuly, delivered its first ever profitable quarter. We know there is always more work to be done and improvements to be made, but I would be remiss if I didn't congratulate and thank all of our employees for their extraordinary performance in fiscal 2024.

Thank you for your time, I will now turn the call over to Melanie Marein-Efron, our Chief Financial Officer.

Melanie Marein-Efron

Thank you, Frank, and good afternoon, everyone. On today's call I will discuss our thoughts on the first quarter and full fiscal year 25.

As we begin FY'25, we believe we could deliver low single-digit 'comps' for the full year and first quarter, driven by nicely positive 'comps' at Anthropologie and Free People and mid-double-digit revenue growth at Nuuly. We believe that the UO brand first quarter 'comp' will look similar to the fourth quarter with gradual improvement as the year progresses.

We believe that first quarter total Company sales growth could be mid-single digits. Sales growth in Q1 could result from mid-double-digit growth of Nuuly segment sales versus last year and Retail segment 'comp' sales growing in the low single-digit. Our growth in the Retail segment and Nuuly segments is likely to be partially offset by a slight sales decline in our Wholesale segment.

Based on the current sales performance and plan, we believe our gross profit margins for the first quarter could improve by approximately 25 basis points versus first quarter fiscal year 24. The increase in gross profit rate could be primarily due to higher initial product margins from cross-functional initiatives which will favorably impact initial product margins. We believe that improvements in the initial product margin could be largely offset by higher logistics costs in the first quarter. The planned increase in logistics costs is primarily driven by the transition and start-up of the new Nuuly rental fulfillment facility in Missouri. As Frank mentioned, this transition began at the end of FY'24 and will continue into the second quarter, albeit to a lesser extent.

When thinking about gross profit margins for the full year, it is important to remember our 3-year plan to recapture 500 basis points of initial product margin from the base established in the fourth quarter FY'22. This plan was announced two years ago on this call. This year, FY'25, is the third year of our initiative. In FY'23 and FY'24, we made tremendous progress as a result of lower inbound freights costs and our cross-functional initiatives to improve initial product margins and there is still more product margin opportunity to be realized. We believe that gross profit margins in FY'25 could improve by approximately 50 to 100 basis points versus the full year fiscal 24. In FY'25, improved gross profit margins could be driven by higher initial product margins at all brands and the opportunity for lower markdowns at the Urban Outfitters brand as a result of more tightly controlled inventory in the second half of the year.

Based on our current sales performance and financial plan, we believe total growth in 'SG&A' could outpace sales growth for the quarter and year. The deleverage of 'SG&A' primarily relates to the Urban Outfitters brand. While we have reduced expenses at the Urban Outfitters brand, we do not believe that it is prudent to reduce expenses at the rate of negative sales performance that we believe could occur in FY'25. The growth in 'SG&A' primarily relates to increases in marketing expenses to support growth in customers and sales in the Free People, FP Movement, Anthropologie and Nuuly brands. In Q1, 'SG&A' could grow in the low double-digits, while the year will be much closer to our sales growth. We believe the delta between 'SG&A' and sales growth rates will be larger in the first half of the year than the second half of the year.

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.

Our annual effective tax rate is planned to be approximately 24% for the year and 25% for the first quarter.

Now moving onto inventory. As a result of the more reliable supply chain with faster speed and increased reliability, we have been able to bring product in closer to demand in the past year. This has allowed us to speed up our product turns in FY'24 and manage to a lower weeks of supply. In the coming year, we will continue to be focused on increasing our product turns. We believe that our inventory levels could grow at a rate below sales growth.

As you may have noticed, our FY'24 capital expenditure came in approximately \$35M lower than our planned spend. FY'24 capital spend was lower than planned due to timing of FY'24 project cashflows which have shifted into FY'25. For FY'25 capital expenditure is planned at approximately \$210 million, including \$35M timing shift of capital spend from FY'24. The FY'25 capital project spend is broken down as follows: approximately 50% is related to retail store expansion and support, approximately 25% is related logistics capacity investments including the Nuuly rental fulfillment in Raymore, Missouri, which Frank referenced, and the remaining 25% would be our normal capital investments supporting IT, home office and logistics operations.

We will be opening approximately 58 new stores and closing approximately 21 stores during fiscal year 25. Our net new store growth is being driven by growth in FP Movement, Free People and Anthropologie stores. During FY'25, we plan on opening 25 FP Movement stores, 13 Free People stores and 14 Anthropologie stores.

Based on our current plans, we plan to repurchase shares to at a minimum offset the dilution in FY'25. Of course, share repurchase activity will be contingent on market conditions and board of director approval.

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 turn the call over to Dick Hayne, Chief Executive Officer of URBN.

Dick Hayne

Thank you, Mel.

As you heard from Frank and Mel, four of our brands – Anthropologie, Free People, FP Movement and Nuuly all delivered strong Q4 performances and given their current trends, I am optimistic about their prospects for this year. We believe each of these brands can continue to post healthy 'comps', albeit at a somewhat lower rate than last year. Our fifth brand, Urban Outfitters, continued to fall short of our expectations with double-digit negative 'comps' in Q4, and they remain negative so far in February.

Today, I'll discuss the opportunities we see for sales growth this year and say a few words about our current view of the consumer. Entering our fiscal year 2025, we enjoy two young, fast-growing brands plus two larger brands that posted excellent 'comps' and gained market share last year. For FY'25, we are planning a similar outcome for these four brands but expect 'comp' sales to moderate slightly. In Q1, we are planning total Retail segment 'comps' to be around 3% and total URBN revenues to increase by mid-single digits.

I'll now discuss each brand starting with Anthropologie. The focus at Anthro has been on modernizing the product assortment, enhancing the store and digital selling environments, and providing inspirational creative content. This has allowed the brand to grow its customer base across multiple age demographics, with a particular emphasis on capturing additional customers under 40. To reach that younger customer, the team modernized core categories like denim and dresses, elevated the market brands offered, and accentuated product categories that resonate especially well with younger customers, like intimate apparel, accessories, and shoes. These efforts saw great success in fiscal '24 and helped to drive a 12% 'comp' increase and a 26% increase in new customers in Q4. Building on this success, for spring the team has expanded two new product concepts with dedicated shop-in-shops inside 50 Anthropologie stores and featured these concepts on Anthropologie.com. The first shop consists of vacation-ready fashion essentials like sundresses, cover-ups, sandals, shorts, accessories, and skin care. The second shop features an expanded range of intimates, loungewear, sleep, and beauty essentials. These two concepts are enjoying outsized 'comp' gains and are helping to drive nicely positive retail segment 'comp' increases in February. Overall, we believe the Anthropologie Group can deliver mid-single-digit comps for the year and the first half.

Moving to the Free People brand, where FP Movement continues to lead this brand's remarkable growth. Last year Movement achieved retail segment sales growth of 53% and has continued to deliver powerful double-digit, retail segment 'comp' growth in February this year. Movement continues to focus on growing its brand recognition and broadening its reach across all three of its channels of distribution.

Last year, Movement's 38 stand-alone stores far surpassed our performance expectations with average sales per square foot exceeding those at the average Free People locations. We believe this provides an opportunity to open many additional stores and increase the size of new stores to approximately 2,600 gross square feet, or 30% larger than the current fleet average. Our data confirms that opening new brick and mortar locations not only augments brand recognition, but also lifts digital sales in the surrounding ZIP codes. In FY'25, the team plans to open an additional 25 Movement stores, a 66% increase over the current base. We believe that Movement has the highest store count opportunity of all URBN brands both in North America and globally.

The wholesale channel provides Movement with an additional method of building name recognition. Partnering with premiere, activity-based specialty accounts give the brand additional credibility within the activewear space and helps to drive engagement.

The Free People collection business also plans to deliver solid growth. This year, the team will execute a growth strategy centered on attracting additional digital customers through more robust

marketing efforts while expanding the product offering in areas like footwear and accessories. The brand is also expanding its sub-brand Free-est which concentrates on effortless attire with a beach sensibility. To that end, in mid-February, the brand opened a 2,800 square foot Free-est pop-up shop in Palm Beach, FL, that is generating sales significantly above our very optimistic plan. While it's still early days for this sub-brand, expanding the Free-est concept might provide yet another growth opportunity for the Free People brand in the future – stay tuned!

I now turn your attention to Nuuly, URBN's fast-growing apparel rental business. Nuuly delivered an exceptionally strong fiscal year, outpacing expectations for both top and bottom-line performance and recording its first profitable quarter in Q3. Faster-than-planned subscriber growth during the year accelerated the brand's need to invest in a second fulfillment center. That center, located outside Kansas City, is now operational and will slowly ramp up fulfillment in the first quarter. Opening this facility has created additional one-time expenses, thus, in Q4, Nuuly incurred a small operating loss, and we expect a slightly larger loss in Q1. However, we plan for the brand to return to profitability in Q2 and be profitable for the full year. At full capacity, the new facility will allow the total number of subscribers to more than triple from current levels.

We are acutely aware that our single largest opportunity to improve URBN's bottom-line is turning around the Urban brand in North America. To that end, we are highly focused on building the team, improving the product offering, and strengthening our marketing efforts. As I announced earlier, Shea Jensen has joined the UO team as President of North America. Additionally, Dmitri Siegel has re-joined the team as Chief Creative and Digital Officer. I believe these two leaders, working with their teams and Sheila, will spearhead the brand's renaissance in North America. Our plan calls for the brand to deliver slow, but steady progress over the course of this year and reach flat 'comps' in Q4.

Turning now to the health of our customers – we believe they, as a group, are in good shape. They're not as exuberant as they were when first coming out of the pandemic; they don't have as many weddings and events to attend; they are less apt to move and have recently refurbished their living spaces, so demand for categories like dressier footwear and home furnishings are trending softer, but they do enjoy a secure job and are earning more money than ever. They tend to be optimistic, want the latest fashion, and are willing to spend some of those extra earnings to enjoy them. Their mood and financial condition create an environment conducive to our brands' success. Our job, as always, is to ensure that we give them products and experiences that exceed their expectations. We believe we are poised to do just that.

In closing, I thank our brand and shared service leaders, their merchant, creative and operating teams and our 27,000 associates worldwide. They delivered an outstanding, record-setting performance in FY'24. 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.