

URBAN OUTFITTERS, INC.

Third Quarter, FY'20 Conference Call
November 19, 2019

Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Chief Financial Officer
Margaret Hayne, CCO, URBN & CEO, Free People Brand
Calvin Hollinger, Chief Operating Officer
Trish Donnelly, Global CEO, Urban Outfitters Group
Hillary Super, Global President, Anthropologie Group
Sheila Harrington, President, Free People Brand
Azeez Hayne, General Counsel
Dave Hayne, President, Nuuly and Chief Digital Officer, URBN
Barbara Rozsas, Chief Sourcing Officer
David Ziel, Chief Development Officer
Oona McCullough, Director of Investor Relations

Good afternoon, and welcome to the URBN third quarter fiscal 2020 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and nine-month periods ending October 31, 2019.

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 Hillary Super, Global President, Anthropologie Group, Frank Conforti, 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 Hillary.

Hillary Super

Thank you, Oona, and good afternoon everyone.

I will begin with a review of our third quarter results, followed by early insights into holiday selling and then give an update on some of our longer-term strategic initiatives.

Anthropologie Group delivered a positive 4% retail segment ‘comp’ driven by positive ‘comps’ in women’s apparel and continued strength in both accessories and home. Higher full price ‘comps’, coupled with fewer category promotions and disciplined expense management, resulted in a solid quarter for the brand on both the top and bottom line.

As discussed earlier this year, we fell short in our casual product offer in the spring season. However, I am pleased to report that we corrected this issue and our customer has responded well to our fall assortment. Full price ‘comps’ have been positive across the majority of the apparel classifications, and we were able to achieve this with fewer category promotions in the quarter. This trend began in August with strong performance of casual bottoms, which we featured in our journal, and was buoyed further by exceptional dress performance in the balance of the period. Accessories continued to outperform, delivering its ninth consecutive quarter of positive ‘comps’. The home category also delivered a positive quarter with stand-out performance in tabletop and home fragrance, where we delivered notable product innovation.

Anthropologie has a passionate and loyal customer base and her response to our offering was particularly strong this quarter. We enjoyed growth in total customer counts for the quarter driven by new and reactivated customers. Healthy growth in our reactivated customer segment demonstrated that she has noticed the improvements that we have made to the assortment. Improved marketing helped to drive double digit-growth in digital demand and an increase in new customers.

We set Holiday early this year and initial reads are very promising, particularly in apparel and gift, which become a higher percentage of our business in the fourth quarter. In apparel, the party assortment, featured in our November journal, is performing well and within home, true holiday product is off to a very good start. We plan to transition earlier this year and are optimistic that a new fashion point of view will provide a call to action during a time that is typically a lull in the shopping season. That being said, Q4 is typically the most unpredictable time of the year and with the shortened selling season this year there is some inherent uncertainty.

Turning to Anthropologie’s long-term strategic growth initiatives:

- We believe we have an opportunity to expand our own brand business based on continued customer feedback and sales results. Moving forward, we are organizing teams and allocating resources to build the Maeve, Pilcro, and by Anthropologie labels into full lifestyle brands and to market them accordingly. These efforts should result in an increase in own brand penetration.

- We exceeded our expectations with the launch of A Plus in March, and we believe it has meaningful opportunity for growth. Seventy percent of Plus sales come from existing customers. These are customers who previously could not fully participate in our brand. With the addition of plus they have become happier, higher value customers, increasing their spend by 30%. The new customers we have acquired through A Plus are also high value and high frequency shoppers, with an average AOV that exceeds the brand average. We have focused marketing efforts going forward on acquiring new customers and continuing our growth in this segment.
- Home decor also continues to be a key growth opportunity for the brand. This quarter, we expanded our offering to include small spaces and bath, both of which are off to a strong start. Our customer is at the forefront of everything we do and in October we successfully opened a furniture distribution center which will support an improved customer experience and sales growth for years to come.
- Global expansion continues to be a key growth initiative for the brand. We opened three stores in the quarter: two in Paris and one in Belfast and expect to open an additional five stores in the fourth quarter. While EU performance in the current quarter was challenging, this was largely driven by our high concentration of UK stores, and specifically by weakness in our central London stores which we believe have been negatively impacted by the political headwinds of Brexit.

In closing, I feel that Anthropologie has tremendous opportunity for growth. The teams are working more creatively and collaboratively than ever before. They are using technology and speed to enable that creativity, and as a result, they were able to change the trajectory of the business very quickly. I would like to thank Meg, the Anthropologie leadership team, and our entire Anthropologie family for the hard work, dedication and commitment to our creative culture. It's an exciting time to be a part of the Anthropologie brand.

I will now turn the call over to Frank.

Frank Conforti

Thank you, Hillary.

As we enter the fourth quarter of fiscal year 2020, it may be helpful for you to consider the following:

Our URBN 'comp' sales have started out the fourth quarter positive. Based on our quarter-to-date performance, we believe our URBN retail segment comp sales could register low single-digit positive for the fourth quarter.

Now moving on to gross profit margin. We believe URBN's gross margin rate for the fourth quarter, could deleverage by approximately 200 basis points. The decrease in gross profit rate could be due to the following. First, a higher Retail segment markdown rate primarily due to elevated inventory levels and underperforming product at the Urban Outfitters brand. Second, lower margins in our Wholesale segment due to higher discounts in department stores and high inventory levels. Next, higher logistics expenses due in part to the increased penetration of the digital channel as well as the increased labor expenses due to the competitive market for employment in the U.S. Lastly, the operation of our subscription business, Nuuly.

Based on our current sales performance and financial plan, we believe total SG&A could grow by approximately 6% for the quarter. The growth in SG&A could primarily relate to digital marketing investments to support our digital channel sales growth in our Retail segment. Total Retail segment SG&A is expected to grow at approximately 3%. The remaining SG&A growth could relate to our new business initiatives including Nuuly, China expansion and European facilities expansion.

Our annual effective tax rate is planned to be approximately 25% for the fourth quarter.

Capital expenditures for the fiscal year are planned at \$250 million. The spend and increase to the prior year is primarily related to investments in additional and expanded distribution facilities, the opening of new stores and our new European home office.

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, our URBN Chief Executive Officer.

Dick Hayne

Thank you, Frank, and good afternoon everyone.

Today I'll speak briefly to our third quarter results and provide some commentary on current business trends before turning the call over to your questions.

I begin with our third quarter performance. As previously mentioned by Hillary, the Anthropologie brand delivered strong top and bottom line performance. North American customers purchased more regular-priced apparel, accessories and home products which resulted in higher AUR. This combined with increases in sessions and conversion to drive double-digit gains in digital sales and a positive 4% brand 'comp'. The Anthropologie A Plus line of women's apparel, continues to exceed sales expectations and helped to fuel those 'comps', as well. Quarterly expenses were tightly controlled; they decreased year-over-year on both a dollar and rate basis. Ending 'comp' inventory landed slightly higher than plan but the team is comfortable with current levels and doesn't see a high risk to fourth quarter margins. In sum, Q3 execution at Anthro was superb. Congratulations to Hillary, Meg and the entire Anthropologie team. I'm excited by the momentum the brand has achieved heading into the holiday season.

Speaking of excitement, the Free People brand continues to impress. Third quarter retail segment results ‘crushed-it’, exceeding even the brand’s own superior performance in the first half of the year. Driven by particularly robust digital demand, retail segment ‘comps’ jumped by 9%. Like Anthropologie, Free People experienced strength across nearly all apparel classes with outsized performance from FP Movement, the company’s activewear brand. Offsetting some of the excitement, was an atypically weak quarter for the wholesale segment. Issues with our department store partners led to a 7% dip in third quarter revenues even though specialty brick, pure-play digital and international customer groups all delivered double-digit sales gains. Fourth quarter sales to department stores may be softer this year versus last, as well. However, we are confident that current wholesale performance does not reflect that channel’s potential and believe it can return to growth next year. Overall, the Free People brand is executing at an exceptionally high level. Excellent fashion content and superior marketing have combined to create a brand strongly resonating with its customers and driving full price sales. I extend my thanks to Sheila, Meg and the Free People team for a job well done.

While both Anthropologie and Free People delivered nicely positive retail segment growth, ‘comps’ at the Urban brand were disappointingly flat for the quarter – registering minus 1% in North America and plus 3% in Europe. Poor sales in metro stores, especially New York, and weaker than planned digital results caused North American ‘comps’ to suffer. The apparel offering in North America did improve versus the prior two quarters but was still not compelling enough to offset difficult comparisons from the prior year. Better product results came from the accessories, beauty and home products but before Urban can post outstanding results like last year, the apparel offering will need to be closer to the fashion bullseye. In Europe, positive ‘comps’ were driven by better reaction to their apparel offering, strength in the accessories, beauty and home categories and stronger digital sales. On both sides of the Atlantic, markdown rates increased against record lows in the prior year. Given Urban’s higher than planned ending inventory in the third quarter, Q4 rates will likely increase, even though both geographies are planning for continued sales improvement. My thanks go to Trish, Meg and the Urban teams for their hard work as they strive to improve upon last year’s record results. Going forward into the first half of next year, comparisons become substantially easier.

Now let me turn your attention to our analysis of the retail environment and current business trends. As we enter the Holiday season and based on what we observed in the third quarter, the North American consumer seems to be in excellent shape. The economy is strong, jobs are plentiful, and the consumer sentiment remains high. She is willing to spend when offered compelling products and the value is right. We see plenty of fashion newness in all the product categories we sell. Apparel remains in the early stage of a silhouette change and there’s certainly enough new fashion to drive positive ‘comps’. We expect her to spend more this Holiday than in years past and, like always, she will be looking for value and convenience in addition to compelling products.

In keeping with this spending thesis, total URBN retail segment ‘comp’ sales for November are currently mid-single digit positive. Importantly, all three brands are showing increases. A word of caution, however, the big upcoming events – Black Friday and Cyber Monday – have an outsize effect on total quarterly comparisons and those results are yet to be written. In addition, the shortened time between Thanksgiving and Christmas this year could negatively impact

overall sales. Nevertheless, we are delighted with the current strength in our business and believe all three brands could deliver positive ‘comps’ in Q4.

Finally, a word about our newest brand – Nuuly. Nuuly is our subscription rental business for apparel that launched at the beginning of the third quarter. I’m pleased to report that the number of subscribers acquired by quarter’s end beat plan and puts the brand on-track to meet its subscriber goals for the year. Even more importantly, customer satisfaction and feedback have been overwhelmingly positive. Obviously, it’s early days, but we remain excited about and committed to growing this disruptive model and bringing more newness to our subscriber’s closets at lower cost and with less waste. Congratulations, to Dave and the Nuuly team on a very successful initial quarter.

In closing, I thank all brand leaders, their teams and our 24,000 associates world-wide for their hard work, dedication and creativity. I also recognize and thank our many partners around the world, and finally, I thank our shareholders for their continued support.

That concludes my prepared remarks. Thank you, and now for your questions.