

URBAN OUTFITTERS, INC.

Second Quarter, FY'20 Conference Call
August 20, 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 second quarter fiscal 2020 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and six-month periods ending July 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 Trish Donnelly, Global CEO, Urban Outfitters 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 Trish.

Trish Donnelly

Thank you, Oona. And good afternoon everyone.

I will spend the next few minutes discussing the second quarter, what we are seeing in the business currently, and then give updates to some of our longer-term growth initiatives.

First off, results for the second quarter were disappointing. The Urban Outfitters brand delivered a negative 5% retail segment sales 'comp' driven by underperformance in women's apparel. Although we faced best-ever prior year comparisons, we did have product and execution misses. As discussed on our last call, we knew our women's assortment was not well-balanced, and we were over assorted with too much of 'the same' idea. The Urban Outfitters brand is at its best, globally, when we cater to a variety of sensibilities and customer types within our women's offering and our execution was not where we wanted it to be.

Despite the miss, we did have product and category successes which give us optimism for the back half of the year. Where we had nice balance in the assortment and offered compelling product supported by strong marketing messages, our customers responded enthusiastically. Within women's, we had strong response to our tops and bottoms businesses globally, and we see this continuing into the current quarter. Within men's, tops drove particularly strong global sales, which also continued into the current quarter. And, finally, we are very excited by the growth we are seeing in Home Decorate, Tech and Media and the Beauty categories. These particular categories become more important from a volume standpoint in the back half of the year, and we are well-positioned from a product, inventory and marketing standpoint to see their continued success.

Now moving onto current business. August to date, we are seeing improvement in our women's business in North America and particular strength in Europe. New fashion ideas and new silhouettes are being well-received by our customers. As previously mentioned, we've seen very strong business in our Home Decorate category. We recently launched our back-to-school assortment featuring the popular #UOonCampus across our social channels, and we partnered with Afterpay on our UO Rewards platform to 'win a dorm room makeover', receiving over 100,000 entries. In our UO Rewards program, membership increased 11% in the quarter, and we now have 11.5 million members globally. These members are our best customers – so in order to give them a better rewards experience, we are re-platforming and re-launching the program this quarter. This will allow us to further personalize the program by implementing spending tiers and it will better support contests and giveaways.

Digital initiatives started in the second quarter included the launch of Urban Outfitters websites in South Korea, Singapore and Hong Kong in local language and currency. We are seeing session improvements and increases in new customer acquisition in these geographies and expect to launch additional local sites in the future.

Moving to stores. In Europe, we opened an Urban Outfitters store in Leipzig during the quarter which was one of our most successful store openings in Germany. This quarter, we'll open three additional Urban Outfitters stores in Europe. In September, we will open our first store with franchise partner Azadea group in the Dubai Mall. In North America, our focus is on the store experience and driving traffic through localized and curated store events. Our Urban Outfitters retail stores hosted over 90 experiential events last quarter, giving our customers unique, brand-centric, in-store experiences, which drove traffic and engagement.

In closing, although a difficult quarter, we feel we have made the necessary structural and personnel changes and have begun to see traction in the business. We are committed to giving our customers compelling, brand-appropriate and specially curated product in an environment he and she like. Given early back-to-school reads, we believe the second half of the year could 'comp' positive. While making necessary improvements to the core business, we are still focused on growth initiatives within digital, stores and wholesale, across all geographies. I would like to thank Meg, the UO Leadership Team and our home office and field teams for quickly course-correcting last quarter's issues and focusing on moving forward to once again please our customers.

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

Frank Conforti

Thank you, Trish.

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

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

Now moving on to gross profit margin. We believe URBN's gross margin rate for the third quarter could deleverage by approximately 200 basis points. The decrease in gross profit rate could be due to three factors. First, we believe markdown rates for Q3 could exceed last year's historically low rates and end up more similar to the average third quarter rates over the last five years. While women's apparel assortments at both Anthropologie and Urban Outfitters are much improved from the first half offerings, the customer is reacting strongly to promotional offers this year, plus we have more carryover inventory from Q2 than last year. Second, we could continue to see deleverage in delivery and logistics expense due to the increase in digital penetration to total retail segment and deleverage in store occupancy as store traffic and store 'comps' remain negative. Lastly, we believe there could be deleverage in gross profit rate related to the launch of Nuuly, our new subscription rental business and the transition to managing our furniture and non-sortable distribution from a third-party logistics provider to an internal operation.

Now for an update on 'SG&A'. Based on our current sales performance and financial plan, we believe 'SG&A' could grow by approximately 5% for the quarter. The growth in 'SG&A' could primarily relate to digital marketing investments to support our digital channel sales growth. Additionally, 'SG&A' will include approximately \$5 million of expense associated with the launch Nuuly.

Our annual effective tax rate is planned to be approximately 26% for the third quarter and for the full 2020 fiscal year.

Capital expenditures for the fiscal year are planned at approximately \$250 million. The spend and increase to the prior year is primarily related to planned 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 second quarter results and provide some commentary on current business trends before turning the call over to your questions.

This year's second quarter will certainly not be remembered as one of URBN's finest. The Anthropologie and Urban brands produced sales and margins below our expectations. Customer acceptance of their women's apparel assortments was softer than planned. This resulted in higher year-over-year markdowns and lower merchandise margins. Additionally, lower store traffic accentuated negative 'comp' store performance and weighed on overall results.

Despite these second quarter issues, there are currently many bright spots in the business. Recent sales results have improved measurably and give us confidence in the future performance at all three brands. The promising reaction to early fall deliveries that Trish referenced in her Urban brand commentary is also true for the Anthropologie brand. Meanwhile, Free People which delivered an amazing second quarter driven by strong apparel sales, continues its exceptional rate of multi-year 'comp' sales increases. August to date, total Company sales are 'comp' positive, and we are planning for 'comps' to remain so throughout the third quarter.

From a fashion perspective, we see plenty of newness in apparel and accessories to propel 'comps', while home sales continue to post nicely positive 'comps' at both larger brands. Based on what we're seeing, especially at the Free People brand, the consumer is in good shape, sentiment is favorable, and she is eager to spend when products are right. She is particularly interested when given a compelling 'call-to-action' offer.

More often than not, that compelling offer comes as a promotion and promotional activity along with the on-going shift in customer preference to shop on-line and visit stores less result in pressure on gross margins. For these reasons, we expect Q3 gross margins to back off from the same period last year, in spite of what we believe will be positive 'comp' sales.

Turning your attention to Nuuly, I'm especially pleased to report the launch of this new brand during the quarter. Nuuly is our rental subscription service that officially shipped its first subscription boxes to the public on July 30th. The launch was met with high praise from media and influencers. More than 40 articles and posts were written in publications on and off-line. In this early period, the brand has tightly managed the number of subscribers off of our waitlist to ensure a positive customer experience. Fortunately, the internally built systems, processes and all warehouse and laundry equipment have worked flawlessly, and subscriber feedback has been highly positive about the overall experience. As it grows, we're confident Nuuly will become a vital part of the URBN brand portfolio. Congratulations to the entire Nuuly team on a terrific launch.

In closing, although Q2 was a difficult quarter for URBN, if the first three weeks of August are an indication, Q3 should bring improved 'comps' driven by improved assortments in the apparel category. I want to thank the brand teams for their hard work and dedication to our success and our 24,000 associates world-wide for their inspiring dedication, drive 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.