URBAN OUTFITTERS, INC.

First Quarter, FY'22 Conference Call
May 25, 2021

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 and General Counsel
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 first quarter fiscal 2022 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three-month period ending April 30, 2021.

The following discussions may include forward-looking statements. In today's commentary, unless otherwise noted, all comparisons will be made to the first quarter of fiscal 2020, referred to as LLY. It's important to note at this time, the global COVID-19 pandemic has had, and continues to have, a significant impact on URBN's business. Given the uncertainty about the duration and extent of the virus' impact to the global retail environment, content discussed on today's call could change materially at any time. Accordingly, future results could differ materially from historical practices and results or current descriptions, estimates and suggestions. 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 and Frank Conforti, Co-President and COO, 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. Today I'll discuss our first quarter results and then provide some thoughts on the consumer and our prospects for Q2 and beyond. I am pleased to announce that URBN produced exceptionally strong results in the first quarter – much stronger than forecasted when the quarter began. Total retail segment 'comps' advanced by 51% versus LY and 10% against LLY. Powerful consumer demand across most product categories, plus strong execution by our teams drove positive retail segment 'comps' at all brands. North American stores, although 'comp' negative, showed significant improvement as the quarter progressed, while continued strength in the already booming digital channel more than offset the 'comp' store bogey. Perhaps the biggest Company-wide accomplishment in the first quarter was the strength of full-priced selling and the corresponding decrease in mark-down sales at each brand. The historically low markdown rate generated outstanding merchandise margins that, when combined with tight expense control, led to record Q1 earnings per share.

I'll now recap Q1 results in North America by brand starting with Urban Outfitters. The Urban brand recorded sequential improvement in store 'comps' from double-digit negative in February to positive in April. Store traffic also improved but remained more negative than 'comp' sales which were buoyed by favorable conversion and improved AUR. The direct channel continued to deliver a strong double-digit sales increase which, together with the improved store 'comps', led to a low double-digit increase in retail segment 'comps'. Better topline performance came despite a 69% decrease in promotional events during the quarter. The brand in North America produced its lowest ever first quarter mark-down rate and saw full price selling jump an impressive 29% led by women's apparel and home goods. Operating profits on a rate basis reached double-digits.

Urban's retail segment 'comp' results for May-to-date have improved from Q1's print. The brand strategy of holding fewer promotional events remains in effect as full-priced selling continues to be strong. My thanks go to Sheila, Meg, and the entire Urban team for orchestrating an excellent first quarter.

Turning now to Anthropologie, I would like to begin by welcoming Tricia Smith, Global CEO of the brand, to her first URBN earnings call. Tricia, what a wonderful way to begin your career at Anthropologie – having the brand deliver strong Q1 results including a 1200 basis point improvement in retail segment 'comps' from the previous quarter, and a positive 1% 'comp' in North America. From a product perspective, Home goods continued to perform exceptionally well, but the most important news during the quarter was the rebound in full-price apparel sales led by dresses and denim. Total monthly retail segment 'comps' showed sequential improvement with April results swinging to mid-single digit positive. This sales increase came despite the brand choosing not to anniversary eight large promotional events during the quarter. Fewer promotions led to a 300-basis point improvement in the markdown rate and a corresponding increase in merchandise margins. The brand's positive momentum has continued in the second quarter with store traffic and sales both showing meaningful improvement. Anthro's retail segment 'comps' for Q2 are currently double-digit positive. Tricia, I thank you, Meg, and the Anthropologie team. These are exciting times for the brand. Everyone is enthusiastic, and I can feel the momentum building.

Now please turn your attention to the Free People brand. The Free People team produced an extraordinary quarter with retail segment ‘comps’ achieving a breathtaking 44% gain on LLY. Every product category recorded a strong ‘comp’ increase paced by the red-hot FP Movement brand of activewear which delivered an almost 300% sales increase over LLY. The total Free People brand generated powerful, almost triple-digit direct ‘comps’ which easily offset the negative store ‘comps’. Store sales showed sequential improvement in the quarter and have continued to improve in May. Free People’s markdown rate for the quarter was the lowest any URBN brand has ever recorded in any quarter. This led to almost 400 basis points in merchandise margin improvement and a mid-teens operating profit, 130% above LLY’s rate. It’s hard to see how the team could have produced a better quarter, so my thanks go to Sheila, Meg and the Free People and FP Movement teams for a terrific performance.

Compared to North America, retail segment results in Europe for all URBN brands were less positive due to tighter COVID related restrictions. Most stores remained closed or could only open under severe occupancy limitations. Of our 86 stores in Europe, 60% are in the UK, and these stores were forced to close from Holiday time through April 12. Once reopened, they rebounded nicely led by the Urban brand stores. While store sales suffered, digital sales boomed. All three brands produced triple-digit ‘comp’ gains in their direct channel sales which offset much of the store sales loss and drove a 120% increase in new digital customers.

Results in Europe, May-to-date have seen stores performing much better than expected with the digital business continuing to post triple-digit gains. Together, total European retail segment sales in May are currently showing strong double-digit positive ‘comps’.

Now moving to Q1 performance in our other divisions. First, Wholesale: total wholesale segment sales decreased by 24% versus LLY. Last year, Free People wholesale adjusted its customer mix cutting back some accounts to better align with its go-forward strategy of concentrating on full-price selling. While this depressed sales in the short term, we believe the adjustment will benefit brand equity and likely result in better operating income versus LLY in the second half of this year. Urban Wholesale launched in Fall of 2018 offering their ‘BDG’ line of sustainably produced denim jeans and separates to select retailers. In Q1, Urban Wholesale revenue exceeded $5 million, up 400% from LLY.

Next is Nuuly: as the country began reopening in early March, Nuuly, our subscription rental business, saw a positive shift in customer behavior. Many subscribers who had paused their subscription last year resumed their monthly deliveries in the first quarter. This trend has continued and combined with new subscriber growth, puts Nuuly on course to meet its goal of ending FY22 with 50,000 subscribers. In addition, the Nuuly team spent much of last year working on operational efficiencies and results of those efforts allowed the brand to deliver positive gross margins in Q1. My thanks to Dave and the Nuuly team for the excellent progress they’ve made since launch.

Looking to the future, we believe URBN's prospects for the remainder of Q2 and FY'22 shine brightly. The strong headwinds we faced during COVID are quickly shifting and the gale winds now blow from behind. Now that vaccines have been widely administered in North America and the UK, consumers are returning to a more normal way of life. They're feeling optimistic, have money to spend, and they want a new wardrobe and improvements to their living environment. The resulting surge in demand is powerful and seems likely to remain robust on both sides of the Atlantic for some time. Each brand is currently outpacing its respective first quarter performance with all three double-digit 'comp' positive and Free People's 'comps' continuing to defy gravity. This could propel URBN to another record result in Q2 and favorably impact the back half of the year.

With that, I'll now pass the call over to Frank.

Frank Conforti

Thank you, Dick, and good afternoon everyone.

On today's call, I will discuss our thoughts on our second quarter and full fiscal year 2022 financial performance. As Dick noted, similar to the first quarter, we remain optimistic about the opportunity ahead of us this year. The virus is waning in many of our markets which is driving strong consumer demand, and we believe we have brands capable of capturing more than our share of that demand growth.

Of course, there are always problems to overcome and the impact of COVID is still driving numerous challenges and costs pressures in many areas of the business. The areas most significantly impacted are sourcing and production, logistics, fulfillment, and the overall labor market. We have several strategies in place to mitigate the impact of these pressures and will keep you posted on how we think they will play out over the course of the year.

Now, I will speak to the second quarter in more detail and a bit about full year FY'22.

We believe the second quarter could continue to show steady sales improvement vs. FY'20. We believe our retail segment 'comp' sales growth could land in the mid-teens range driving total company sales in the low double-digit range. Our retail segment 'comp' is likely to be partially offset by negative Wholesale segment sales due in part to the realignment of the Free People brand customer base to focus more on regular price selling.

Based on the current sales performance and forecast, we believe our gross profit margins for the second quarter could show over one hundred basis points of improvement to FY'20. Much like the first quarter, this improvement could be largely driven by lower markdown rates as a result of improving consumer demand, strong product performance and disciplined inventory control. We believe favorable markdowns could offset lower initial mark-ups that are being pressured by commodity and freight price increases, as well as deleverage in delivery and logistics expense driven primarily by the increased penetration of the digital channel.

Now moving on to SG&A. Based on our current sales performance and plan, we believe SG&A for the second quarter could grow at rate just below our sales growth rate. Our planned growth in SG&A is primarily due to greater marketing and creative spend to support our robust digital channel growth. Additionally, our SG&A growth is a result of planned incentive-based compensation which was largely not achieved in FY'20. The growth in these expenses could be partially offset by lower direct store controllable costs due to improved labor management. As we have done in past quarters, our teams will manage SG&A relative to actual sales.

We are currently planning our effective tax rate to be approximately 26% for the second quarter and full year FY'22.

Capital expenditures for the fiscal year are planned at approximately $250 million. The spend is primarily related to providing increased distribution and fulfillment capacity to support our growing digital business and secondarily, to opening new stores. Our new highly automated distribution facility in Kansas City, Kansas, should be completed and open for operations by the Spring of 2023. Our new distribution facility in the UK is planned to go live in Q2 of this year.

Lastly, we are planning on opening approximately 54 new stores and closing 18 stores this year. Our new store opening number does not include franchise partner locations in international markets. Our new store number is larger than in previous years because we are adding approximately 16 new FP Movement stores this year, as well as the availability of favorable lease terms that makes the store economics more attractive to us.

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 back to Dick.

Dick Hayne

Thanks, Frank. As always, it's the extraordinary creativity, dedication and hard work of our teams that produce our success. In addition to our Brand teams who I've already thanked for delivering record Q1 performance, I also want to recognize our Shared Service teams, including Barbara and her Sourcing group, and Omar and his Logistics and Fulfillment teams for the amazing work they did under very difficult conditions. I also recognize and thank our 19,000 associates worldwide and our many partners around the world. Finally, I thank our shareholders for their continued support.

That concludes our prepared remarks. I now turn the call over for your questions. As a reminder, please limit your questions to one per caller.