

URBAN OUTFITTERS, INC.

Third Quarter, FY'17 Conference Call
November 22, 2016

Participants

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

Good afternoon, and welcome to the URBN third quarter fiscal 2017 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and nine-month period ending October 31, 2016.

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.

We will begin today's call with Frank Conforti, our Chief Financial Officer, who will provide financial highlights for the third quarter. Sheila Harrington, President Free People Brand, will provide a brief update on the Free People Brand. Richard Hayne, our Chief Executive Officer, will then comment on our broader strategic initiatives. Following that, we will be pleased to address your questions.

As usual, the text of today's conference call will be posted to our corporate website at www.urbn.com. I'll now turn the call over to Frank.

Frank Conforti

Thank you, Oona, and good afternoon everyone.

I will begin my commentary discussing our fiscal 2017 third quarter results versus the prior comparable quarter. Then I will share some of our thoughts concerning our fourth quarter.

Total Company or URBN sales for the third quarter increased by 5% to a third quarter record of \$862 million. This sales increase included a 1% retail segment 'comp', a 30% increase in wholesale segment sales and a \$12 million increase in 'non-comp' sales, including the opening of 12 net new stores in the quarter and sales from the newly acquired Vetri Family restaurants. Please keep in mind that the third quarter last year was negatively impacted by approximately \$9 million of wholesale shipments that slipped into the fourth quarter due delays at our recently opened east coast fulfillment center. Additionally, please note that foreign currency translation negatively impacted our sales growth by approximately 120 basis points in the quarter.

Within our retail segment 'comp,' the direct-to-consumer channel continued to outperform stores, posting another double-digit sales gain, driven by an increase in sessions and conversion rate, which more than offset a decrease in average order value. Negative 'comp' store sales resulted from decreased average unit selling price and a slight decrease in transactions, both of which were partially offset by an increase in units per transaction.

By brand, our retail segment 'comp' rate increased by 5.2% at Urban Outfitters, while Free People and Anthropologie were down 1.5% and 2.7%, respectively. Our URBN Retail Segment 'comp' was strongest in September, followed by October, with August being the weakest.

Free People wholesale segment sales delivered another solid quarter, as sales rose 30% to \$77.5 million. As noted earlier, the quarter year-on-year sales growth rate benefited from approximately \$9 million of shipments moving out of last year's third quarter into last year's fourth quarter. If you were to adjust last year's number for these shipments our wholesale segment growth would have been 13% in this year's third quarter. These results were driven by increased space at select department stores to support our category expansions like shoes and FP Movement.

Now moving onto gross profit, total URBN gross profit for the quarter increased 4% to \$300 million. Gross profit rate, declined by 15 basis points to 34.8%. The reduction in gross profit rate was primarily due to increased penetration of the direct-to-consumer channel resulting in increased customer delivery and overall logistics expense rates.

Within gross profit, maintained margin for the quarter was relatively flat versus last year with initial mark-up or IMU coming in lower on year-over-year basis and markdowns coming in favorable on a year-over-year basis, essentially offsetting each other. IMU was lower due to the increased penetration of the wholesale segment sales at Free People, which carries a lower IMU versus our retail segment. IMU in our retail segment increased due to improvements at each of the brands. Markdowns were favorable due to lower mark-downs at the Urban Outfitters brand, which was partially offset by higher markdowns at the Anthropologie and Free People brands.

Despite well controlled inventory, Anthropologie was not able to hold their markdowns flat this quarter due to their challenging women's apparel performance.

Total SG&A expenses for the quarter were up 10.5% to \$230 million. Total SG&A, as a percentage of sales, deleveraged by 143 basis points to 26.6%. This SG&A deleverage was partially due to one-time legal settlements, which accounted for approximately 20% of our year-over-year growth or almost 50 basis points of deleverage.

The remaining increase in SG&A primarily related to an increase in direct store controllable expenses. A large portion of these expenses were due to the several large format Anthropologie stores recently opened or opened in the quarter. While we are extremely pleased with the topline performance of these stores, we have invested a considerable amount to ensure the hiring, training and overall execution of the stores were second to none. Many of these expenses, pre-opening and initial staffing levels, we believe we can reduce and leverage in the upcoming year through improved control and planning based on our current year's learnings.

Operating income for the quarter decreased by 12% to \$70 million, with operating profit margin declining by 158 basis points to 8.2%.

Our tax rate for the quarter was 33.5% compared to 35.3% in the prior year. The improvement in the quarterly tax rate was due to the ratio of foreign taxable losses to global taxable profits in the year.

Net income for the quarter was \$47 million or \$0.40 cents per diluted share.

Turning to the balance sheet, inventory increased by 3% to \$454 million. The increase in inventory is primarily due to an increase in 'non-comp' inventory to support our new and expanded stores. Our retail segment inventory 'comp' was up 1% at cost, with both Anthropologie and Free People well controlled and appropriately in a negative position. Urban Outfitters inventory ended just slightly higher than where we would have liked it to be.

We ended the quarter with \$265 million in cash and marketable securities. During the quarter, we repurchased and retired one million common shares for \$35 million leaving 6 million shares remaining on the most recent Board of Directors share repurchase authorization. Additionally during the quarter, we paid down the remaining \$50 million on our outstanding revolver, completing full repayment of \$150 million this fiscal year.

As we enter the fourth quarter of fiscal year 2017, it may be helpful for you to consider the following:

We are planning to open a total of approximately 23 net new stores for the year, excluding our food & beverage division. For the fourth quarter, we are planning four net new stores including one new Urban Outfitters store in North America, one new Anthropologie store in the UK, two Anthropologie closures in North America due to lease expiration and four new Free People stores and one closure due to lease expiration. The planned fourth quarter openings would result in the following store changes for the year: 3 net new Urban Outfitters Stores, including 1 in

Europe, 7 net new Anthropologie Stores, including 2 in Europe and 13 net new Free People Stores. For fiscal 2017, we also opened two new Vetri Pizzerias and one Café adjacent to an Anthropologie large format store.

Now onto gross margin, we believe our fourth quarter gross margin rate could decrease versus the prior year, primarily due to higher markdowns. These markdowns could be driven by higher markdowns at Anthropologie related to their women's apparel performance and slightly higher markdowns at Urban Outfitters related to marginally higher inventory.

Based on our current plan, we believe SG&A could grow at a mid-single digit rate for the fourth quarter. This increase would be largely driven by increased store related expenses to support our 'non-comp' store base growth.

Capital expenditures for fiscal 2017 are planned at approximately \$160 million. Total spend for fiscal 2017 is primarily driven by new, relocated and expanded stores and the completion of our new east coast fulfillment center.

Finally, we are still planning our fiscal year 2017 annual effective tax rate to be approximately 36% for the year and believe our fourth quarter tax rate will be lower than our annual planned tax rate.

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 pass the call over to Sheila Harrington, President of the Free People Brand.

Sheila Harrington

Thank you, Frank, and good afternoon. Today, I will discuss a few highlights from Free People's third quarter performance and then review the progress the brand has made on our strategic growth initiatives.

In total, the Free People Brand grew revenues by 16% this past quarter. The brand's strongest growth came from our Wholesale Business segment, which delivered a 30% increase. When normalized for last year's operational challenges in our distribution center, the growth was still a strong 13% increase. This growth was driven by strength in our core apparel collection, increased business with online partnerships, along with the growth in expanded categories including Movement, intimates, and shoes, both domestic and in Europe. A double-digit increase in forward bookings makes us feel confident in the health of our wholesale business. I would like to congratulate Krissy Meehan-Mashinsky, as well as the entire Wholesale team, in leading this brand expansion.

Free People's retail segment sales grew by 6% in the quarter through the opening of 3 new stores, partially offset by a negative 1.5% 'comp'. During the quarter, August was our weakest 'comp' reflecting a difficult seasonal transition. As we cleared through the product and began flowing newer fashion into our stores and our direct-to-consumer channel, our business showed significant improvement with both September and October delivering positive retail segment 'comps'. While the stores showed improvement as the quarter progressed, the direct-to-consumer channel led the way with double-digit regular price 'comps' fueling a positive direct-to-consumer 'comp' for the quarter. The customer clearly has reacted positively to our women's apparel fall fashion on-line, and we believe this momentum can continue into the fourth quarter. We reacted to those reads by taking appropriate markdowns and are flowing in increased levels of product freshness through the holiday season.

Now I would like to discuss our progress on our long-term strategic growth initiatives. We remain focused on improving our website and overall shopping experience. We launched a new web platform for our direct-to-consumer channel in the first quarter of this year and have seen the benefits of this initiative. The site's load time is faster, we have streamlined our checkout process and enhanced our search capabilities to name a few of the benefits, of which we believe have helped to improve our website conversion. Additionally, in September we have launched the IOS FP Shopping APP in both the UK and China. Over 15,000 users have downloaded the app in China and sales through the app already represent 45% of demand within this region. With our customers' growing affinity for our mobile devices, we believe these types of investments are critical to our future success. While technology is a considerable part of the shopping experience, Free People's delivery of creativity and inspirational imagery has always been a cornerstone to our success. The social team has continued to raise the level of engaging content, including videos, photographic imagery and collaborations. This resulted in over 3M Instagram followers, a 30% increase over last year.

Finally, and extremely important for our long-term growth, is the progress the brand has made in our new and expanded categories. The brand launched beauty and wellness online in July with a carefully curated assortment focused on natural, cruelty-free products including makeup, skincare, and supplements. Early customer reads have been positive. Movement and Beauty collectively accounted for 20% of the growth in the direct-to-consumer channel during the third quarter. Additionally, our expanded categories are featured in our larger retail store locations. We opened three larger format locations in the quarter, two of which were new locations, Honolulu and Charlotte, and one of which was a relocation and expansion of our store in King of Prussia mall. The King of Prussia store now houses all expanded categories including beauty in just over 6,000 selling square feet. This store has become a true brand-defining destination, incorporating the touch and spirit of Free People.

In closing, I am proud of the teams' ability to react quickly and create positive momentum as the quarter progressed. This is a testament to their creativity and nimbleness. I would like to thank the entire Free People team for their inspiration and dedication. Additionally, a sincere thank you to Meg Hayne for her passion, encouragement and the relentless pursuit of excellence for the brand. While the brand has grown significantly over the past several years, we believe there is more opportunity ahead. I will now turn the call over to Dick.

Dick Hayne

Thank you, and good afternoon everyone.

Sheila, congratulations to you, Meg and the Free People team on the terrific progress you've made with your apparel assortment. Your design and merchant teams did an excellent job of interpreting the fashion trends. Had it not been for a difficult seasonal transition in August, Free People 'comp' sales would have been nicely positive in Q3. I believe the improved fashion coupled with better inventory control should allow the Free People brand to enjoy a positive holiday season. Good work, Sheila and thanks for your leadership.

Now let me turn to a discussion around two of the retail topics I find most interesting – the shift in channel demand and the shift in fashion silhouette – and discuss how these changes have impacted our brands in the third quarter.

The divergence in demand by channel that we've witnessed over the past few years continued in Q3 this year. In general, the digital channel outperformed, stores lagged and wholesale delivered strong growth.

In the store channel, physical shopping visits as reported by industry groups continued to be down on a year-over-year basis; overall traffic fell by mid-single digits in Q3 for the second consecutive year. With several notable exceptions, our brands' 'comp' store sales echoed this traffic pattern and were negative in almost all regions and by all store types – mall, lifestyle centers and freestanding. Lower 'comp' store sales at the Anthropologie and Free People brands in Q3 were driven primarily by fewer transactions and lower AUR.

There were, however, a few bright spots in store channel performance – the Urban brand produced positive store 'comps' in North America and Europe, and the Anthropologie brand registered positive 'comps' in Europe and their recently-opened, larger format stores continued to exceed expectations and deliver sales per square foot greater than the Anthro average. That said, total URBN store 'comps' were negative in Q3.

The direct-to-consumer channel, on the other hand, delivered strong, double-digit sales growth in the quarter. Both traffic, measured in sessions, and total number of orders received, grew at double-digit rates and total conversion improved, as well. Within the digital world, customers continued to migrate from desktop to mobile as the preferred method of interaction. Mobile devices now account for almost two-thirds of total company digital sessions.

The strength in the digital channel more than offset the weakness in stores with total retail segment 'comp' sales increasing by 1% in the third quarter. The disparity in channel results demonstrates that the consumer's affinity for digital shopping continues to grow. Her expectations around functionality and service levels in this channel are also growing. This is why we continue to make significant investments in personnel and technology that will expand our on-line assortments, enhance and personalize the digital experience, give us more insight into customer preferences, and permit us to deliver orders faster and more reliably. Improving our capabilities in the digital channel is one of our strategic priorities.

The third channel is wholesale. In Q3, the Free People wholesale business reported a 30% spike in sales, but as Frank and Sheila explained earlier, this year's results benefitted from shipping delays last year. Adjusting for this anomaly, wholesale still produced solid gains across all customer types – specialty store, department store, and e-commerce retailers.

During the quarter we also saw the shift in fashion silhouette, that I've alluded to on prior calls, begin to strengthen. This emerging trend, which seems to have its roots in Europe, is not impacting all brands equally. Predictably, younger, more fashion-forward customers are adopting these new looks more readily, so in Q3, the Urban and Free People brands benefitted from the shift while the Anthropologie brand did not. In the fashion industry times of rapid change, like we see when silhouettes shift, offer the greatest opportunity but also pose the greatest risks.

Now let me turn your attention to the Anthropologie brand where third quarter top line results were very similar to Q2. Total retail segment 'comp' sales landed at negative 3% in the quarter with weakness in stores more than offsetting the growth in direct-to-consumer sales. The 'comp' shortfall was driven entirely by the apparel category. All other product categories and sub-brands delivered positive retail segment 'comps'. The expanded categories of home, beauty, BHLDN and Terrain performed particularly well.

We expected to see more progress in the apparel category but customer response to fall assortments was lackluster. This led to higher markdowns versus the prior year period even though inventories, which ended down 3%, were tightly controlled. While we could see modest 'comp' sales improvement in Q4 over the Q3 rate, we believe apparel sales on a year-over-year basis will likely remain difficult and weigh on total Anthropologie 'comps' and margins for the holiday season.

Transitions in fashion silhouette are never linear or easy to predict. As the customer becomes more comfortable with a different silhouette, and our merchants become comfortable presenting her with more newness, we expect better results. I believe we will begin to see improvement in customer reaction to the apparel offerings with our 2017 spring/summer deliveries.

Despite the apparel issues, we remain confident the emotional bond between the brand and our customers remains strong. She is responding enthusiastically to all of our expanded categories, especially our newly expanded home assortment. Reaction to the 200 page home journal mailed to customers in September exceeded plan significantly, so the home team is expanding the assortment further and plans to mail another home journal in spring.

Other expansion categories experienced double-digit 'comp' sales, as well. During the third quarter, BHLDN opened two new shop-in-shop locations and launched a series of omni-channel marketing initiatives, which resulted in strong store and digital sales gains. The beauty category expanded into 65 additional stores during the quarter, and the Terrain brand continued to benefit from inclusion into the Anthropologie group. During the quarter, Terrain launched several cross-marketing initiatives and opened its first shop-in-shop in the new Walnut Creek Anthropologie store. And in early November, Terrain launched ten Holiday Trim shop-in-shops in core Anthropologie stores.

In Q3, Anthropologie opened two additional larger format locations, Walnut Creek, CA, and King of Prussia, PA. To date, sales at these stores are running nicely ahead of projections, which strengthens our confidence in the brand, the strategy of opening larger stores and the strategy of expanding product categories. The larger stores have also helped to build expanded category demand in the digital channel. This past weekend, the brand opened another larger format store in the Stanford Shopping Center in Palo Alto. Besides an expanded assortment of home products, shoes, accessories and beauty products, the Palo Alto store also offers a full assortment of BHLDN wedding gowns and occasion dresses and Terrain outdoor living products and décor. The store also provides customers with a Terrain Café for casual dining. Customer reaction has been fantastic, with weekend sales coming in 33% above plan.

During the quarter, Anthropologie was the second of our brands to migrate to our new digital platform. This platform allows for improved response times, a better cart and checkout experience and vastly improved user visibility across all screen sizes. After being installed for one month, the brand is seeing a 40% improvement in user load time and a double-digit increase in conversion. The Urban brand plans to migrate to this platform early next year. I want to congratulate David, Meg and the Anthropologie, BHLDN and Terrain teams for their successes in growing the expanded categories, in launching the larger format stores, and in producing strong digital channel growth. These important achievements continue to strengthen an already powerful brand.

Turning now to Urban Outfitters results in Q3, the brand delivered a terrific quarter. Total retail segment ‘comp’ sales grew by over 5%, driven by a double-digit increase in direct-to-consumer sales and positive store ‘comps’ in both North America and Europe. Impressively, all product categories delivered strong, regular price ‘comps’ in the period. A year ago I referred to the stable foundation the brand had rebuilt from which they could grow. I’m pleased to report they are now delivering this growth, doing so by creating compelling, trend-right product through internal designs and third-party collaborations, by producing differentiated and engaging shopping environments both in stores and online, by elevating creative imagery and social engagement and by executing exceptional marketing campaigns.

Looking at results by category, women's apparel and accessories were both strong, the expanded categories – intimates, beauty, home décor and tech – all continue to excel, and for the first time in eight quarters, men’s apparel delivered a positive ‘comp’, as well. Furthermore, the brand grew its male customer base by 17% on a year-over-year basis.

The Urban brand also realized improved IMU and lower markdowns versus the prior year, which drove 200 basis points of improvement in merchandise margins on top of impressive increases last year. In the last two quarters, the UO brand has delivered an historical low markdown rate. While we may see a slight up-tick in the fourth quarter, we believe markdown rates could improve even more as we execute initiatives to increase inventory turns and decrease weeks of supply.

This year the Urban store teams have further refined the shop-in-shop concepts first introduced in August 2015. These concept shops allow for larger assortments of expanded category products and more accurately align product demand by category with space allocation. The

stores look and feel dramatically different and now provide a clear, engaging shopping experience. The customer has responded to these changes. During the quarter, in spite of negative store traffic on a macro-level, the brand experienced higher store traffic counts and positive 'comps' across all regions for the first time in 13 quarters.

Meanwhile, third quarter metrics in the direct-to-consumer channel remain strongly positive with sessions, sales and number of orders all showing double-digit increases and customer frequency up, as well. Our customer file continues to grow with double-digit increases in new, retained and reactivated customers. Across both channels, the teams created compelling, brand marketing messages. Our social media team continued to drive significant engagement with particularly strong year-over-year increases in Instagram and Pinterest, which were up 60% and 44%, respectively. The brand now enjoys more than 6 million Instagram followers and many are highly interactive.

The marketing team worked on many notable social campaigns in the quarter, with the Justin Bieber launch registering as our brand's largest social reach to date. UO launched an exclusive product collaboration with Bieber for his Purpose Tour in August. This was a timed launch in stores and online, first in London, then NYC and then LA. Long lines formed at Urban stores globally to purchase Purpose Tour paraphernalia. Customers were highly engaged on social and registered 237 million twitter impressions for this event and the exclusive product collaboration received impressive coverage from influencers, digital and print outlets.

In summary, the Urban brand is enjoying considerable success. The brand is once again the destination for their core customer. In stores, online and via social media the customer is engaged with the brand like never before. Congratulations to Trish, Meg, and their teams on both sides of the Atlantic for orchestrating this remarkable achievement.

Before I turn the call over for your questions, I want to recognize and thank our 26,000 associates worldwide, including our teams in North America and Europe. I thank our wholesale partners, domestic and international, and our many vendors and suppliers. Lastly, I extend my thanks to our many shareholders for their continued support. I'm grateful for the opportunity to lead the URBN community. Thank you.

I will now turn the call over to your questions.