# URBAN OUTFITTERS, INC.

Fourth Quarter, FY'11 Conference Call
March 7, 2011

## Participants

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| Glen T. Senk | Chief Executive Officer |
| Eric Artz | Chief Financial Officer |
| Oona McCullough | Director of Investor Relations |
| Meg Hayne | Global President, Free People Brand |
| Steve Murray | Global President, Urban Outfitters Brand |
| Wendy McDevitt | Global Co-President, Anthropologie Brand |
| Wendy Wurtzburger | Global Co-President, Anthropologie Brand |
| Glen Bodzy | General Counsel |
| Frank Conforti | Chief Accounting Officer |
| Barbara Rozsas | Chief Sourcing Officer |
| Freeman Zausner | Chief Administrative Officer |
| Dave Ziel | Chief Development Officer |
| Calvin Hollinger | Chief Information and Logistics Officer |

## Introduction

## Glen

Good afternoon, and welcome to the URBN quarterly conference call. With me today is Eric Artz, Chief Financial Officer; Oona McCullough, Director of Investor Relations; and the majority of our executive management team.

Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and twelve month periods ending January 31, 2011. We were pleased to report record sales and operating earnings for the quarter, as well as the Company's second highest operating margin for both the fourth quarter and full year—18.0% and 18.2% respectively.

Eric will begin today's call by providing details on our performance, I will continue the prepared commentary with closing remarks, then the group and I will be pleased to answer any questions you may have.

As usual, the text of today's conference call, along with detailed management commentary, will be posted to our corporate website at www.urbanoutfittersinc.com. I'll now turn the call over to Eric.

**Eric**

Thank you Glen.

The following summarizes our Fourth Quarter Fiscal 2011 performance versus the comparable quarter last year:

- Net sales increased 14% to $668 million.
- Income from operations grew 1% to $120 million, resulting in an operating margin of 18.0%.
- Net income decreased 3% to $75 million or $0.45 per diluted share.
- Comparable Retail Segment sales, which include our Direct-to-Consumer channel, rose 4%, with increases of 1%, 28% and 5% at Anthropologie, Free People and Urban Outfitters respectively.
- Total Company comparable store net sales decreased 2%.
- Direct-to-Consumer comparable sales rose 28% with all three brands posting double-digit increases.
- Wholesale revenue increased 31% to $31 million.
- Gross profit grew 8% to $265 million, while gross profit margins decreased 208 basis points to 39.7%.
- Selling, general and administrative expense, expressed as a percentage of sales, increased 7 basis points to 21.7%.
- Comparable Retail Segment inventories, which include our Direct-to-Consumer channel, were 10% higher at quarter's end while comparable store inventories increased 4%.
- Finally, Cash, Cash Equivalents and Marketable Securities grew by $63 million on a year over year basis to $808 million.

Turning to our key business metrics, I'll begin by providing detail on sales for the quarter.

New and non-comparable store sales contributed $63 million to the consolidated net sales increase. The Company opened 17 new stores in the quarter—3 Anthropologie stores; 4 Free People stores, and 10 Urban Outfitters stores, including 3 in Europe—bringing the global store count to 372.

Within the quarter, total Company comparable store sales were strongest in November, followed by December, then January.

Within North America, sales at Anthropologie and Free People were strongest in the West and weakest in the Northeast, and sales at Urban Outfitters were strongest in the Southeast and weakest in the West and Northeast. In Europe, sales at Urban Outfitters were strongest in Continental Europe and weakest in Ireland and our non-London locations in the United Kingdom.

By store type, sales at Anthropologie and Urban Outfitters were strongest in malls and lifestyle centers and weakest in street locations, and sales at Free People were strong across all venues.

For stores, the average number of units per transaction increased 2%, while average unit selling prices and transaction counts decreased 3% and 1% respectively.

Direct-to-Consumer revenue increased 29% to $145 million. The penetration of Direct-to-Consumer net sales to total Company net sales increased 270 basis points to 21.7%, with results largely driven by a 34% increase in website traffic to over 35 million visits.

For Retail Segment sales, footwear, accessories and home were strongest at Urban Outfitters, home was strongest at Anthropologie, and while all categories were strong at Free People, accessories led the trend.

Wholesale Segment sales for the quarter increased 31% to $31 million, driven by a 32% increase at Free People and an 18% increase at Leifsdottir.

I'd now like to turn your attention to gross margin, operating expense and income.

Gross profit in the quarter grew 8% to $265 million, but the gross margin rate decreased 208 basis points to 39.7%. This decline was due to increased markdowns to clear seasonal product associated with changing women's apparel fashion trends along with higher shipping costs related to an increased penetration of international Direct-to-Consumer business.

Total Company inventories increased 23% due in part to a record 17 new stores opened in the quarter and robust growth in our Direct-to-Consumer channel. Comparable Retail Segment inventories, which include our Direct-to-Consumer channel, were 10% higher at quarter's end, while comparable store inventories increased 4%. Inventories at Anthropologie and Free People were well controlled throughout the quarter but at Urban Outfitters, slower-than-expected January sales and early spring receipts contributed to a higher-than-planned quarter's end inventory level. It is worth noting, however, that on a two year basis, comparable total Company Retail Segment inventories increased 10% versus a Retail Segment sales increase of 12%.

Total selling, general and administrative expenses for the quarter, as a percentage of sales, increased by just 7 basis points despite the Company falling short of its revenue plan for the period. Disciplined expense control helped offset deleverage resulting from investments in systems, international expansion and start-up expenses for the BHLDN launch which occurred on February 14th.

The Company's effective tax rate was 38.0% for the quarter versus 34.9% for the prior comparable period. The increase in the effective tax rate was due to a change in the final composition of our domestic and international earnings as well as unfavorable revisions to state tax estimates resulting from tax returns filings during the quarter. Our final (annual) effective tax rate improved to 34.6% from 36.2% last year.

The Company generated an impressive 18.0% operating margin, earning a fourth quarter record of $120 million in income from operations.

I'd like to move on with a quick summary of our full year results.

- Total Company revenue increased 17% to a record $2.3 billion, driven by a 12% increase in square footage and a 9% increase in comparable Retail Segment net sales.
- The Direct-to-Consumer channel grew 34%, with the sales penetration increasing 240 basis points to 19.1% on a full year basis.
- Operating income increased 22% to a record $414 million, delivering the Company's long-term objective of growing profits faster than sales.
- The Company repurchased and retired 6.3 million shares, spending a total of $205 million, and announced in November a new authorization to repurchase an additional 10 million shares.

As we look forward to fiscal 2012 I ask that you keep the following in mind:

- We plan to open 50-to-55 new stores, resulting in low double-digit square footage growth.
- As has been our historical practice, we have planned for low single digit Comparable store sales on a full year basis, and have continued to plan for robust growth in our Direct-to-Consumer channel.
- We may experience a continued increase in markdown levels until we successfully navigate the fashion shift; and with the challenging comparisons we face from a superb first half performance last year, the margin pressure could be higher than what we experienced in the fourth quarter.
- For the first half of the year, the transition costs associated with our new distribution centers in Europe, as well as ongoing investments in technology, international expansion and new concepts, puts our estimated leverage point for selling, general and administrative expense at an approximate 4% comparable store sales increase.
- We intend to accelerate investment into our Direct-to-Consumer channel, including adding a second domestic fulfillment center and expanding our home office in the Navy Yard. These projects are expected to be completed in fiscal 2013, but will require capital expenditure in fiscal 2012, thus we anticipate our FY 2012 capital expenditures to fall in the $175 to $195 million range.
- Finally, we are planning our annual effective tax rate at 36.5%. The planned increase over fiscal 2011 is due primarily to credits that do not anniversary as well as anticipated increases in certain state income taxes.

With that as a financial backdrop, I'll turn the call back over to Glen who will proceed with his closing commentary.

**Glen**

Thank you Eric.

Once again, I take great pride in the organization's performance. We reported record sales, record operating profits, a record number of quarterly store openings, continued strength in our Direct-to-Consumer channel and our second highest operating margin in a fourth quarter.

I want to assure you though, that the organization and I are focused on the opportunities within the quarter as well, so I'd like to take a moment to review the key learnings.

First, given the fashion shift we've been discussing for the last several quarters, we believe the Company would have benefited from a greater distortion into non-apparel categories. Since we know that customers often pull back on apparel spending during a period of fashion transition, in retrospect, we could have been more aggressive in leveraging URBN's flexible assortment architecture to maximize the business in up-trending classifications such as footwear, jewelry, loungewear, foundations and several home categories including beauty.

Second, I believe Anthropologie and Urban Outfitters could have positioned their women's apparel content more effectively. Both brands are clear as to where to take the product based on insights from our Direct-to-Consumer business, along with information garnered from the strength of the offering at Free People. The challenge is that there are a myriad of moving parts, including fabric, silhouette, print, color, the relationship of tops to bottoms and apparel to accessories—and the coordination of these elements is complex.

Of course, I'd like better, faster results. But it's important for me to remember, and to share with you, that this is a highly iterative process, and despite the information at hand and the nimbleness of our supply chain it's appropriate for the merchants to manage the process in a pragmatic, methodical manner.

You've asked—and I know you'll continue to ask—for me to share my views on when the apparel business will gain positive momentum. It could take another three months, six months, or perhaps even longer. What I know with certainty is that fashion cycles are good for our business, and that our merchants are best-of-class, with a proven ability to recognize and mine change before the market-at-large—and that they are managing through the transition with precision and financial discipline.

I know there's another topic that will be of interest to you—the fourth quarter intra-period trend. January appears to have been an outlier—our February sales results improved over January, and are more similar to the fourth quarter results, with the exception of Europe, where the majority of our revenue currently comes from the UK, and the consumer appears to be responding negatively to the newly-implemented VAT increase and other austerity measures.

Eric's already covered several metrics for fiscal year 2011, but I'd like a moment to reflect on some additional highlights:

- The Company's 10 year CAGRs are amongst the best-in-class: 23% for sales and 37% for operating profit. And while our three year CAGRs have moderated to 15% for sales and 23% for profit, given the context of the economy, they are still amongst the best-in-class.
- Total Company comparable store net sales increased 4% for the year, have averaged 7% for the last ten years; and impressively, stores open three years or more had a comparable store performance equal to the average of the chain.
- Urban Outfitters and Anthropologie each, for the first time, surpassed $1 billion in revenue for the year.
- The Company opened 46 stores in the year, including 5 in Europe, with the "class of 2010" amongst our best-ever groups, underscoring the positive impact of our strategies around site selection, store design and development.
- Our growth in the Direct-to-Consumer channel continues to outpace every other channel in the Company, currently trending to double in size in less than three years.
- The shared service teams—including IT, logistics, finance, development, production and talent—executed superbly throughout the year.
- We implemented a variety of key enterprise systems including a supply chain management tool; a new order management system that will ultimately enable us to have a single inventory across all channels; a consumer-insight database, and a robust assortment management tool. We also continued to support the Direct-to-Consumer teams with a myriad of site enhancements, analytic tools and our first German and French language sites.
- Finally, the Company had a banner year with talent. Remarkably, we had more than 100,000 people apply to work in our home office; we interviewed some 15,000 people and hired roughly 500 of some of the most talented, dynamic people I've ever met. Ultimately, our Company is our people, and we have been relentless to ensure that we hire, develop and retain the best talent in the industry.

Before I finish with our prepared remarks, I'd like to remind you of our four key growth initiatives: driving brick and mortar productivity, increasing our ecommerce penetration, accelerating international expansion and adding new brands to the URBN portfolio. Since we've spent a considerable amount of time talking about the detail behind each initiative, I'll just review key areas of focus for 2011:

- As always, our first priority is product. Compelling, differentiated product is what drives our business—the product needs to stop the customer in her tracks, it needs to elicit an emotional reaction, she needs to love it. Every part of our business is important, but the product offering is most important, so that's our key focus.
- Whether it's online or in-store, localization is an increasingly important component to success, so we'll be implementing a new allocation system that will enhance our ability to "micro-allocate" to each of our locations.

- We've begun to test mobile technology in our stores. We know that our best customers shop across channels and that there's tremendous synergy between the stores, catalog and websites. Our goal is to provide an outstanding, seamless, multi-channel experience wherever, whenever our customer wants to shop. For example, we believe it'll be just a few short years before customers walk into the store, scan a product to learn about it or locate a size or color, perhaps share the product with a friend or read a review, then walk out of the store with the product in hand, automatically charged to the account that's linked with their mobile device.
- Since the mid-year completion of our consumer-insight database, we've collected information on nearly seven-and-a-half million customers across the Direct-to-Consumer and brick-and-mortar channels, with the number growing every day. Our priority is to add capability around analytics, segmentation, and ultimately, personalization—which is where we believe we'll see truly meaningful benefits.
- Given the pace of growth in our Direct-to-Consumer channel, we'll continue to invest in assortment, site functionality, marketing—including the database, social media, mobile and fulfillment capability. Our goal is to stay ahead of the consumer—ahead of what we believe is a paradigm shift in the way people are shopping.
- We'll continue to invest aggressively in our international expansion, including opening more European stores than ever before, shipping more internationally through our Direct-to-Consumer channel than ever before, and opening our own fulfillment and distribution centers in the UK. Additionally, our first Asia Pacific employee began with the Company a few months ago and is busily at work preparing for the Company's planned 2013 brick-and-mortar launch into the region.
- Finally, we will continue to invest in and shape our new brands—and to that end, the Company launched BHLDN this past Valentine's Day. We'll provide detail on the next earnings call, but let me say that BHLDN has been the Company's most successful launch in history and has exceeded our most optimistic expectations. The brand will expand its Web offering and site content over the next several months, and will open its first store in Houston in early fall, and second store in Chicago just after the holiday season.

In closing, we believe that URBN remains one of the true growth stories in retail, with an opportunity to double the North American store count with our existing brands; a best-of-class, rapidly-expanding Direct-to-Consumer business; a significant opportunity for international growth; a growing portfolio of new concepts to fuel future expansion; and a highly strategic, systematic and controlled approach which we believe will enable us to continue to grow profits faster than sales.

As always, I'd like to offer my heartfelt thanks to the URBN team for their outstanding commitment and to our shareholders for their continued support. I will now open the call to questions, and as is our custom, we will limit the queries to one per caller.