URBAN OUTFITTERS, INC.

Third Quarter, FY'11 Conference Call
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Participants

Glen T. Senk	Chief Executive Officer
Eric Artz	Chief Financial Officer
Oona McCullough	Director of Investor Relations
Meg Hayne	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 nine month periods ending October 31, 2010; and we were pleased to report 13% revenue and 17% earnings growth for the quarter.

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 Third Quarter Fiscal 2011 performance versus the comparable quarter last year:

- Net sales increased 13% to $574 million.
- Income from operations grew 9% to $105 million, resulting in an operating margin of 18.3%.
- Net income increased 17% to $73 million or $0.43 per diluted share.
- Comparable Retail Segment sales, which include our Direct-to-consumer channel, rose 6%, with increases of 5%, 29% and 5% at Anthropologie, Free People and Urban Outfitters respectively.
- Total Company comparable store sales increased 1%.
- Direct-to-Consumer comparable sales rose 31% with all three brands posting double-digit increases.
- Wholesale revenue increased 13% to $34 million.
- Gross profit margins decreased 39 basis points largely due to higher shipping expenses associated with an increase in international shipments in our Direct-to-consumer channel, along with higher occupancy costs due to the timing of increased year-over-year store openings.
- Selling, general and administrative expense, expressed as a percentage of sales, increased by 27 basis points to 22.9%.
- Comparable Retail Segment inventories, which include our Direct-to-Consumer channel, were 8% higher at quarter's end while Comparable Retail Store inventories increased 1%.
- Finally, Cash, Cash Equivalents and Marketable Securities grew by $38 million on a year over year basis to $690 million.

I'll now provide more detail on each of our key business metrics for the quarter, starting with sales.

New and non-comparable store sales contributed $46 million. The Company opened 13 new stores in the quarter—5 Anthropologie stores, including one accessory and footwear-only store; 2 Free People stores, and 6 Urban Outfitters stores, including one in Europe—bringing the global store count to 355.

Within the quarter, total Company comparable store sales were strongest in August, followed by October. On a two year basis, total Company comparable store and retail segment sales improved throughout the quarter with October being the strongest month.

By region, sales at Anthropologie and Free People were strongest in the West, and sales at Urban Outfitters were strongest in Continental Europe, followed by the Mid-Atlantic in North America.

By store venue, sales at both Anthropologie and Urban Outfitters were strongest in lifestyle centers, and sales at Free People were strongest in street locations.

For stores, average unit selling prices decreased 2% while units per transaction and transaction counts each increased 1%.

Direct-to-Consumer revenue increased 32% to $105 million. The penetration of Direct-to-consumer sales to net sales as a whole increased more than two percentage points to 18.4%, with results largely driven by a 32% increase in website traffic to nearly 30 million visits.

For Retail Segment sales, footwear and accessories were strongest at Urban Outfitters and Free People, while women's apparel was strongest at Anthropologie.

Wholesale Segment sales for the quarter increased 13% to $34 million, driven by a 17% increase at Free People.

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

Gross margins for the quarter decreased 39 basis points to 41.1%. The decrease in gross margins was due largely to higher shipping costs associated with an increased penetration of international Direct-to-consumer business, as well as the impact of pre-opening occupancy costs from an additional 11 store openings in the second half of the current year versus the same period last year. Merchandise margins were flat as the company controlled inventory well throughout the quarter and product cost headwinds were judiciously managed.

Total selling, general and administrative expenses for the quarter, as a percentage of sales, increased by 27 basis points primarily due to investments in systems and our international infrastructure, including pre-opening costs for our new distribution and fulfillment center in Europe.

The Company's effective tax rate was 30.8% for the quarter versus 36.1% for the prior comparable quarter. This decrease was due to the favorable impact of earnings in certain foreign jurisdictions, the current year federal rehabilitation credit and favorable revisions to state tax estimates resulting from tax return filings.

The Company generated an impressive 18.3% operating margin, earning a third quarter record of $105 million in income from operations, an increase of 9% versus the same quarter last year. The Company also achieved its highest-ever net income for a third quarter—$73 million, an increase of 17% from the prior year, with earnings per diluted share of $.43, a 19% increase over the comparable period last year.

Cash, Cash Equivalents and Marketable Securities grew year to year by $38 million to $690 million at quarter's end. The Company repurchased and retired 4.3 million common shares for $133 million during the quarter, leaving 491,533 shares remaining on the current authorization to buy up to a total of 8 million shares.

I'd like to now turn your attention to the fourth quarter. We believe we are well positioned as we head into the holiday season, and while we will not provide specific guidance, it may be helpful for you to consider the following:

- We began the fourth quarter with an appropriate level of inventory liquidity, providing us the continuing ability to respond to shifting consumer and fashion trends.
- We are planning for our fourth quarter comparable store sales performance to be consistent with third quarter results, coupled with continued strong direct growth.
- We project to open 16 new stores in the fourth quarter.
- We anticipate a sequential improvement in operating margin from the third quarter to the fourth quarter similar to last year. However, that result will occur only if we experience positive comparable store sales to leverage occupancy and fixed expenses as well as continued success in controlling product input costs.
- We expect our tax rate to be approximately 34% for the fourth quarter.

As we look forward to fiscal year 2012, we are planning for low single-digit comparable store sales growth, continued strength in our Direct-to-consumer channel, and a slight acceleration of our new store opening schedule, with a targeted range of 50-to-55 new locations. Finally, we expect to make continued investments in people, technology and our international expansion, but will do so within the confines of our continued goal to grow profits faster than sales.

I'll now turn the call back over to Glen.

Glen

Thank you Eric.

This quarter, as in quarters previous, we have been adapting to a customer who is herself adjusting to the new economy. Today, she expects not just fashion, but compelling design; she expects not just value, but quality; and she expects not just customer service; but a warm, exciting in-store environment and a seamless online experience. On these fronts: assortment, value, operational excellence, customer experience, and of course brand authenticity, I believe we have continued to outperform.

There's been a considerable amount of discussion around the current fashion shift, which I first referenced during our previous call. Rather than dissect the fashion itself—which I will not do because of competitive factors—let me discuss how we intend to respond to this change or, better put, this opportunity.

Fashion cycles are good for our business. We are early-adopter merchants, selling to early-adopter customers. In fact, the ability to recognize change before the market-at-large has been one of our Company's defining competencies, playing a key role in how we've grown our customer-base, become a trusted source for fashion, and remained relevant throughout our 40 year history.

And while it's true that customers may pull back on spending during a period of fashion transition until they're confident with new trends, we have more tools, and I believe a more rigorous approach, to managing these cycles than in years past.

What's different? We have our Direct-to-consumer business, which helps us to assess, test and size trends with a quantitative, fact-based approach. We have planning and allocation systems and methodologies which allow us to control and accurately balance our inventory and on-order against trends in the business. And we have our nimble supply chain, where a significantly compressed calendar enables us to adapt to change with ever-increasing flexibility and speed. It's these tools that support our goal of navigating through fashion cycles while delivering a relatively consistent financial performance and simultaneously gaining market share.

Let me turn your attention to another topic of much discussion: sourcing. As I stated on our last call, our team, led by a long-tenured group of professionals both here and abroad, anticipated much of the change that is occurring. The team made, and will continue to make, appropriate adjustments to our sourcing and logistical strategies, working to optimize every lever in our supply chain. Margin improvement won't be easy or automatic, especially in the short-term, but we believe, given the nature of our product, supply chain, partners and process, that we have continued long-term opportunity for improvement.

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 provide some highlights today:

- We're on track with our key systems implementations including Tradestone, our supply chain management tool; Sterling, the software that will ultimately enable us to have a single inventory across all channels; and Merkle, our consumer-insight database.
- We're driving continued gains in ecommerce penetration through the successful execution of a myriad of product, site, fulfillment, social media and mobile strategies.
- Based on our success in Europe, we're laying the groundwork for a more aggressive expansion through investment in talent, systems and logistics, including our first fulfillment and distribution centers which will open in summer 2011.
- We're beginning to plan our entry into the Japanese market, which will likely serve as a gateway to other Asia Pacific markets.

- And finally, we're continuing to invest in and shape our new brands Terrain, Leifsdottir, and our wedding concept, Bhldn.

In closing, I'd like to express my gratitude to the URBN team for an excellent quarter. Our results, always, are a reflection of the team's dedication, discipline, creativity, and skill. No matter the external circumstances, our people adroitly manage that which they can control, and as a result, they are consistent in their deliverance of superior results. Once again, today's record sales and earnings are a testament to that capacity.

We believe that URBN remains one of the true growth stories in retail, with an opportunity to more than 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.