

# URBAN OUTFITTERS, INC.

## First Quarter Fiscal 2013 ended April 30th, 2012 Management Commentary

### Summary Highlights

The following are highlights from our First Quarter Fiscal Year 2013 performance versus the comparable quarter last year:

- Net sales increased 9% to \$569 million.
- Comparable Retail Segment net sales, which include our Direct-to-Consumer channel, increased 2%, including a 1% decrease in comparable store net sales and a 15% increase in comparable Direct-to-Consumer net sales.
- By major brand, comparable retail segment net sales at Free People and Urban Outfitters increased 2% and 6%, respectively, while Anthropologie decreased 2%.
- Wholesale net sales increased 2% to \$31 million.
- Gross profit increased 5% to \$203 million, while gross profit rate decreased 131 basis points to 35.6%
- Income from operations decreased 10% to \$52.9 million, or an operating margin of 9.3%.
- Net income was \$34 million or \$0.23 per diluted share.

### Revenue

**Retail Stores** - The Company opened 14 new stores during the quarter bringing the global store count to 443. New and non-comparable stores contributed \$61 million in net sales during the quarter.

Within the quarter, total Company comparable store net sales were strongest in March, followed by February, then April. The comparable store net sales decline was driven by a 1.0% decrease in total transactions and a 1.9% decrease in average number of units per transaction, partially offset by a 1.9% increase in average unit selling prices.

**Direct-to-Consumer** – Direct-to-Consumer comparable net sales increased 15% to \$115 million, with the penetration of Direct-to-Consumer to total company net sales increasing 110 basis points to 21%. These results were largely driven by a 35% increase in website traffic to more than 42 million visitors.

**Wholesale Segment** – Wholesale segment revenues increased 2% to \$31 million in the quarter, driven by a 19% increase at Free People, offset by the reduction in Leifsdottir sales resulting from the transition of Leifsdottir to the Anthropologie brand. Free People net sales growth was driven by increased units to specialty and department stores.

## **Brand Highlights for the first quarter**

**Anthropologie** – The brand opened 2 new stores during the quarter bringing the global store count to 170. Square footage increased 8% to 1,230,802. Comparable retail segment net sales, which include the Direct-to-Consumer channel, decreased 2%. By region sales were strongest in the East and weakest in Canada. By venue sales were strongest in free standing locations and weakest in lifestyle centers. By merchandise category, accessories and home were the strongest.

**Free People** – The brand opened 7 new stores during the quarter bringing the total store count to 69. Square footage increased 47% to 95,620. Comparable retail segment net sales, which include the Direct-to-Consumer channel, increased 2%. By region sales were weakest in California. By venue sales were strongest in traditional malls and weakest in lifestyle centers. By merchandise category intimates were the strongest.

**Urban Outfitters** – The brand opened 4 new stores in the quarter bringing the global store count to 201. Square footage increased 11% to 1,812,146. Comparable retail segment net sales, which include the Direct-to-Consumer channel, increased 6%. Domestically, by region, sales were strongest in the South and Northeast and weakest in Canada and the Northwest. In Europe, sales were strongest in Continental Europe and weakest in London. Domestically, by venue sales were strongest in malls. By merchandise category men's and accessories were the strongest.

**Other Brands** – Other brands include Terrain and BHLDN in the current year and Terrain, BHLDN and Leifsdottir in the prior year. BHLDN opened 1 new store during the quarter. Revenues for other brands decreased 32%, excluding Leifsdottir from the prior year revenue increased 60% driven by the growth of BHLDN.

## **Gross Margin**

Gross profit in the quarter increased 5% to \$203 million. Gross profit rate declined by 131 basis points versus the prior year's comparable period. The decline in the rate was primarily due to occupancy deleverage related to an increased number of store openings versus the prior comparable quarter, as well as, an increased number of new and non-comparable European stores. Also contributing to the rate decline, were slightly higher markdowns on a few women's apparel categories across all brands.

## **SG & A**

Total selling, general and administrative expenses for the quarter, expressed as a percentage of sales increased by 62 basis points to 26.3%. This increase was primarily due to the deleveraging of direct store controllable expenses driven by the negative comparable store net sales.

### **Other Income Statement Items**

The Company's effective tax rate was 36.2% versus 35.8%. This increase in rate was primarily due to certain non-recurring items affecting the same quarter last year. The company expects the annual effective tax rate to be approximately 36.5% for the full year.

### **Balance Sheet and Cash flow Items**

Cash, Cash Equivalents and Marketable Securities decreased from the prior year by \$308 million to \$339 million. This decrease primarily relates to share repurchases that occurred during the prior fiscal year.

Total inventories increased \$36 million to \$300 million, a 13% increase over the prior year period. The growth in total inventories is primarily due to an increase in total comparable retail segment inventories of 11% at cost and 5% in units, while total comparable store inventories increased 8% at cost. The remainder of the increase was related to the acquisition of inventory to stock new and non-comparable stores and the growth in the wholesale business.

Total capital spending was \$54 million for the quarter and depreciation and amortization was \$28 million for the quarter.