

Fourth Quarter Fiscal 2013 ended January 31st, 2013

Management Commentary

Summary Highlights

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

- Net sales increased 17% to \$857 million.
- Comparable Retail Segment net sales, which include our direct-to-consumer channel, increased 11%, including flat comparable store net sales and a 44% increase in direct-to-consumer net sales. Direct-to-consumer returns at stores are charged against store sales. Excluding these returns comparable store net sales would have been low single-digit positive.
- By major brand, comparable retail segment net sales at Free People, Urban Outfitters and Anthropologie increased 37%, 11% and 7%, respectively.
- Wholesale net sales increased 22% to \$39 million.
- Gross profit increased 43% to \$314 million, while gross profit rate improved 650 basis points to 36.6%
- Income from operations increased 104% to \$132 million and operating profit margin improved 657 basis points to 15.4%.
- Net income was \$83 million or \$0.56 per diluted share.

Revenue

Retail Stores - The Company opened 10 new stores and closed 1 store during the quarter bringing the global store count to 476. Comparable store net sales were flat resulting from a 2% increase in transactions, 2% decrease in the average unit selling price and no change in units per transaction for the quarter.

Direct-to-Consumer – Direct-to-consumer net sales increased 44% to \$241 million, and the penetration of total direct-to-consumer to total Company net sales increased 522 basis points to 28%. These results were largely driven by a 26% increase in website traffic to more than 60 million visitors and a 41 basis points improvement in conversion rate.

Retail Segment – Comparable Retail Segment net sales, which include our direct-to-consumer channel, increased 11%. Within the quarter, total Company comparable retail segment net sales were strongest in January, followed by November, then December.

Wholesale Segment – Wholesale segment net sales increased 22% to \$39 million in the quarter driven double-digit sales increases at specialty accounts and department stores.

Brand Highlights for the fourth quarter

Anthropologie – The brand opened 4 new stores during the quarter and closed 1 bringing the global store count to 180. Square footage increased 5% over the prior year period to 1,277,722. Comparable retail segment net sales, which include the direct-to-consumer channel, increased 7%. By region net sales were strongest in the Southeast and weakest in the West. By venue net sales were strongest in free standing locations and weakest in metro locations. By merchandise category women’s accessories were the strongest with all categories delivering positive comp sales.

Free People – The brand did not open any new stores during the quarter. Total store count remained at 77. Square footage increased 24% over the prior year period to 105,470. Comparable retail segment net sales, which include the direct-to-consumer channel, increased 37%. By region sales were strongest in the East and weakest in the Southwest. By venue sales were strongest in traditional malls and weakest in metro locations.

Urban Outfitters– The brand opened 6 new stores in the quarter bringing the global store count to 215. Square footage increased 8% over the prior year period to 1,909,615. Comparable retail segment net sales, which include the direct-to-consumer channel, increased 11%. Domestically, by region, sales were strongest in the Northeast and weakest in the Midwest. In Europe, sales were strongest in Continental Europe and weakest in London. Domestically, by venue sales were strongest in traditional malls. By merchandise category women’s apparel was the strongest with all categories delivering positive comp sales.

Other Brands – Other brands include Terrain and BHLDN. Net sales for other brands increased by \$4 million, driven by new and non-comparable stores and growth in the direct-to-consumer channels.

Gross Margin

Gross profit in the quarter increased 43% to \$314 million. Gross profit rate improved by 650 basis points versus the prior year’s comparable period. The increase in gross profit rate was primarily due to a reduction in merchandise markdowns across all brands. The Company also improved initial merchandise margins and store occupancy leverage, partially offset by deleverage in delivery expense primarily related to the increased penetration of the direct-to-consumer channel.

SG & A

Total selling, general and administrative expenses for the quarter, expressed as a percentage of net sales, decreased by 7 basis points to 21.2%. The leveraging of direct store controllable and shared services expenses was driven by the positive retail segment comparable net sales. This leverage was partially offset by higher equity compensation expense as a result of an equity compensation expense reversal in the prior year comparable period due to the departure of an executive officer.

Other Income Statement Items

The Company's effective tax rate for the year increased to 36.8% as compared to 35.9% in the prior year. The increase in the fiscal 2013 effective tax rate is partially due to certain nonrecurring state and foreign tax adjustments.

Balance Sheet and Cash flow Items

Cash, Cash Equivalents and Marketable Securities increased from the prior year by \$261 million to \$623 million.

Total inventories increased \$32 million to \$282 million, a 13% increase over the prior year period. The growth in total inventories is primarily related to the acquisition of inventory to stock new and non-comparable stores and to support the significant growth in the direct-to-consumer channel. Comparable retail segment inventories increased 6% and comparable store inventories decreased 3% as of January 31, 2013.

Total capital spending was \$38 million for the quarter and depreciation and amortization was \$31 million for the quarter.