

## **URBAN OUTFITTERS, INC.**

Fourth Quarter, FY'23 Conference Call  
February 28, 2023

### **Participants**

Richard A. Hayne, Chief Executive Officer  
Frank Conforti, Co-President & COO  
Margaret Hayne, Co-President & CCO  
Sheila Harrington, Global CEO, Urban Outfitters & Free People Groups  
Tricia D. Smith, Global CEO, Anthropologie Group  
Melanie Marein-Efron, CFO  
Azeez Hayne, Chief Administrative Officer and General Counsel  
Dave Hayne, Chief Technology Officer, URBN and President, Nuuly  
Barbara Rozsas, Chief Sourcing Officer  
David Ziel, Chief Development Officer  
Oona McCullough, Executive Director of Investor Relations

Good afternoon, and welcome to the URBN fourth quarter fiscal 2023 conference call. 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, 2023.

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.

On today's call you will hear from Richard Hayne, Chief Executive Officer, Frank Conforti, Co-President and COO, and Melanie Marein-Efron, Chief Financial Officer. Following that, we will be pleased to address your questions. For more detailed commentary on our quarterly performance and the text of today's conference call, please refer to our investor relations website at [www.urbn.com](http://www.urbn.com).

I will now turn the call over to Frank.

## **Frank Conforti**

Thank you, Oona, and good afternoon, everyone.

Today I will begin the call discussing our total Company fourth quarter results vs. the prior comparable quarter, followed by some more detailed notes by brand. I will then turn the call over to Melanie and then Dick who will discuss our thoughts on our future performance in fiscal 2024.

Overall, the fourth quarter performed relatively in line with our thoughts as we discussed on the third quarter call. Total Company sales grew by 4% to a fourth quarter record of \$1.4 billion, driven by a total Retail segment 'comp' increase of 3% and a Nuuly segment revenue increase of \$25 million. These increases were partially offset by a 7% decline in Wholesale segment sales and approximately 140 basis points of unfavorable foreign currency translation.

The growth in Retail segment 'comp' sales was driven by a mid-single-digit positive store 'comp' and a low single-digit digital 'comp'. Nuuly's robust increase in revenue was due to a significant increase in subscribers from the prior year. Wholesale segment sales decline was due to a decrease at Free People.

Gross profit dollars increased 1% to \$372 million while our gross profit rate decreased by 68 basis points to 26.9%. The decrease in gross profit rate was primarily driven by store impairment charges of \$5 million, or 39 basis points. As we had planned, IMU improved nicely in the quarter, primarily due to lower inbound transportation costs. We believe we could continue to see improved IMU throughout FY'24 due to these lower costs as well as several of our IMU related initiatives. Offsetting the improvement in IMU in the fourth quarter, was higher markdowns leaving merchandise margins slightly negative. The increased markdown rate was primarily due to increased markdowns at Urban Outfitters followed by Free People.

Now moving on to 'SG&A' expenses. For the quarter, 'SG&A' increased 7% versus the prior comparable quarter and deleveraged by 63 basis points. The increase in expense and deleverage was primarily related to an increase in marketing expense followed by severance costs that occurred in the quarter.

As a result of our increased 'SG&A', our operating profit declined from the previous year to \$37 million with earnings per share declining by 17% to \$0.34 cents per share.

Total inventory increased 3% versus the prior year. This represents a large reduction from the year-over-year increases from the previous few quarters. Each brand has worked hard to improve its inventory to sales alignment. Looking forward to fiscal year 2024, we believe we can speed up our inventory turn and manage inventory growth below sales growth for the year. I know Melanie will speak to this a little more in her commentary.

I will now provide more details by brand, starting with the Anthropologie Group. The Anthropologie team delivered a strong 9% Retail segment 'comp' in Q4. This increase was driven by high single-digit positive store and digital 'comps'. Both store and digital 'comps' were driven by strong regular price sales and less promotions in apparel and accessories driving healthy profit gains. By category, apparel, home and accessories delivered positive 'comps' in the quarter.

The Anthropologie customer remains optimistic and is choosing fashion newness that is versatile across multiple parts of their lifestyle, whether it's going out or returning to the office. The Anthro customer continues to respond favorably to the brand's more dressed up categories like dresses, pants, jackets, and shoes with heels. The brand successfully distorted into these trends to drive strong sales in the quarter. In January, Anthropologie intentionally brought Spring receipts in earlier than previous years and the customer responded well to those early receipts. The brand has also started to see complementary growth of more casual and versatile product perform alongside the more occasion product which has shown no signs of slowing. The home category delivered a positive 'comp' driven by strength in décor which was slightly offset by a decline in gift and entertaining.

The team's execution of the brand strategy to target a slightly younger customer, under the age of 40, continued to gain traction. New customers in the quarter in North America increased by an impressive 7%. The strength in apparel driven by a balance of interest in both occasion and casual apparel, along with new customer acquisition has us optimistic that the Anthropologie brand can continue to drive nicely positive comps in fiscal 2024 with the first quarter of FY'24 looking similar to the fourth quarter of FY'23.

Now I will call your attention to the Free People Group. Once again, the Free People team produced a strong quarter with Retail segment 'comp' achieving an impressive 15% gain vs. last year. Retail segment 'comp' was driven by double-digit growth in the digital 'comps' and high single-digit store 'comps'. During the quarter, the brand achieved double-digit growth across all major categories. The FP Movement brand delivered another outstanding quarter, achieving 38% retail segment growth on top of a very strong multi-year comparison. New and existing Movement stores continue to exceed expectations which bodes well for continued growth of the brand. Early customer reaction to the Brand's spring trends have been strong, and we believe the brand's Retail segment performance could be nicely positive in Q1.

The Free People wholesale segment sales decreased 13% during the fourth quarter as a result of weakness in department store accounts partially offset by growth in specialty and close out account partners. Additionally, segment profitability was challenged as the brand significantly increased close out sales in order to reduce inventory levels. We believe wholesale segment sales will decline in fiscal 2024 due to continued reductions within our department store partners while profitability will look relatively comparable, in the low double-digit operating profit rate range.

Now moving on to the Urban Outfitters brand. Urban recorded a negative 10% Retail segment 'comp' in Q4. UO's negative 'comp' was the result of disappointing performance in North America due to double-digit negative store and digital 'comp' sales. As noted previously, we believe the macro environment in North America is having an outsized impact on the Urban Outfitters customer. While we know the macro environment for the Urban customer is not ideal,

we also know we can execute better. Additionally, we believe the disruption in the supply chain had an outsized impact on this brand. The Urban Outfitters brand has a higher dependence on ocean as a means of transportation and during the supply chain disruptions over the past two years the brand had to significantly extend their buy and planning calendars. The good news is that the supply chain speed and reliability has recovered, and the brand is now returning to their previous buy calendars. Since our fashion model is built in part on speed, the improvement in the supply chain will give our merchants the opportunity to make fashion calls closer to consumer demand allowing more opportunity to chase into well performing items.

Entering fiscal 2024 with leaner inventories than the prior year and with the ability to react to trends in a timelier manner, the brand is better positioned to produce healthier IMU and markdown rates.

UO Europe continued to perform remarkably well, delivering a 9% Retail segment 'comp' for the quarter. Reg price and total sales comps were positive for the quarter in all major categories. With exceptionally strong store customer traffic and lean inventory levels, we believe the brand is gaining market share. While we also believe UO EU can continue to deliver positive Retail segment 'comps' in fiscal 2024, we do recognize the macro environment only seems to be getting more difficult. The team is managing the business with conservative inventory levels and monitoring their consumers behaviors closely. As we look at Q1 for the Urban Outfitters brand, we believe the Global Urban Outfitters brand could deliver results similar to Q4's results.

Finally, I will touch on the Nuuly business. Revenue and subscriber growth continues to outperform our expectations. Subscriber growth continues to be driven by not only new subscribers but also improvements in subscriber retention. In addition to strong revenue numbers, Nuuly continues to make fast and steady strides towards profitability. Healthy progress in both top and bottom line leave us excited as we begin FY'24. I know Dick will speak more to this in his prepared remarks.

I will now turn the call to Melanie Marein-Efron, our Chief Financial Officer.

### **Melanie Marein-Efron**

Thank you, Frank, and good afternoon, everyone. On today's call I will discuss our thoughts on the first quarter and full fiscal year 24.

We are pleased that overall consumer demand has remained strong to start the quarter, and we believe this strength will continue throughout the first quarter. Right now, we believe that first quarter total Company sales growth could be similar to Q4. Sales growth in Q1 could result from a doubling of Nuuly segment sales versus last year and Retail segment 'comp' sales growing low single-digit. Our growth in the retail segment and Nuuly segments is likely to be partially offset by sales decline in our Wholesale segment. Additionally, similar to the fourth quarter, we believe foreign exchange could negatively impact total sales growth by approximately 100 basis points.

Based on current sales performance and plan, we believe our gross profit margins for the first quarter could improve by approximately 100 basis points versus first quarter fiscal year 23. The increase in gross profit rate could be primarily due to lower inbound freight costs which will favorably impact initial product margins. We believe that the Wholesale segment gross profit margin could decline in the first quarter partially offsetting the IMU gains in the Retail segment. The decline in Wholesale gross profit margin could be largely driven by increased sales discounts to clear through excess merchandise.

When thinking about gross profit margins for the full year, it is important to consider that for more than a year, supply chain disruptions have caused increased product costs from higher inbound freight costs. At the same time, we have had higher markdowns as we ordered product earlier than our speed model would dictate and maintained higher levels of inventory due to the slow and unreliable supply chain. With the improved supply chain versus prior year, we believe that there is the opportunity for lower inbound product transportation costs and lower markdowns as a speedier, more reliable, transit times will allow our merchants to order closer to demand. As a result, we believe that gross profit margins in FY'24 could improve by more than 200 basis points as a result of higher initial product margins and lower markdowns versus the full year fiscal 23.

Based on our current sales performance and financial plan, we believe total growth in SG&A could outpace sales growth for the quarter and year. We believe the delta between SG&A and sales growth rates will be larger in the first half of the year than the second half of the year. The growth in SG&A primarily relates to:

- Increases in marketing expenses to support growth in customers and sales, and
- Increases in overall payroll, due to lower vacancy rates, higher payroll rates and anticipated higher incentive pay. In the prior year, the company and several brands did not achieve their planned financial performance, therefore, a lower rate of bonus dollars were paid in FY'23.

As always, if sales performance fluctuates, we maintain a certain level of variable SG&A spending that we can fluctuate up and down depending on how our business is performing.

Our annual effective tax rate is planned to be approximately 25% for the year and 33% for the first quarter.

Now moving onto inventory. As a result of an improved supply chain with faster speed and increased reliability, we have been able to reduce product lead time vs. last year and bring product in closer to demand. In the coming year, we are focused on increasing our product turns. We believe that our inventory levels could grow at a rate below sales growth as we look to target product turns closer to pre-pandemic levels in the coming year.

Capital expenditure for the fiscal year is planned at approximately \$230 million. The level of capital spending continues to be elevated due to investments in additional distribution facilities. In FY'24, we will be completing our highly automated omni fulfillment facility in Kansas City, Kansas. We will be opening this facility during the second half of FY'24. In addition, we will be investing in a new rental fulfillment facility in Missouri within the Kansas City region. We are targeting to open this facility by the end of FY'24. The new Missouri facility, along with our existing facility in Bristol, PA, will support the growth and expansion of our Nuuly rental business in North America.

Lastly, we will be opening approximately 35 new stores and closing approximately 16 stores during fiscal year 24. Our net new store growth is being driven by growth in FP Movement stores. We plan on opening 10 FP Movement stores this year.

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 turn the call over to Dick Hayne, Chief Executive Officer of URBN.

## **Dick Hayne**

Thank you, Melanie, and good afternoon, everyone.

The Anthropologie, Free People and Nuuly brands all delivered strong Q4 performances and given their current trends, I am optimistic about their prospects for this year's first half. Demand for new fashion remains robust, and we see no slowdown in consumer spending at those brands. Conversely, Q4 sales 'comps' at Urban North America were challenging and they remain negative in February. I will speak more about the Urban brand in a few moments.

On today's call, I'll discuss the opportunities we see for sales and earnings growth this year beginning with top line growth at Anthropologie. Tricia and team plan to grow Anthropologie sales by continuing to elevate the women's product assortment while acquiring more new customers, especially Millennials.

Until recently, the brand's revenue growth was led by outperformance in the home category. This was especially true during the COVID years when AnthroLiving produced powerful 'comps' and captured a greater share of the Home furnishing market. Sales growth for home product has slowed post-COVID, and we believe women's apparel and accessories are now primed to lead the next chapter in Anthropologie's growth.

The average age of the Anthro apparel customer has grown steadily over time. The team's goal is to reverse that trend and attract more new and younger customers.

To reach that young, Millennial customer, the team updated core categories like denim and dresses, introduced new concepts such as Water's Edge resort dressing, and elevated the market brands offered. The team also emphasized additional product categories that resonate especially well with younger customers, like intimate apparel, accessories, and shoes. So far in Q1, this strategy is working well; sales of women's apparel and accessories are posting strong double-digit gains.

Moving on to the Free People brand where FP Movement, Free People's sub-brand that specializes in activewear continues to lead the brand's growth opportunity. Last year, FP Movement achieved year-over-year sales growth of 38% and has continued to deliver strong double-digit sales growth in February. Movement is focused on efforts to increase customer acquisition and broaden its reach through greater brand awareness. To accomplish this, the brand continues to invest in social media, influencers, print campaigns, experiences, and product partnerships like those with strong footwear brands launched this past year.

Stores are another part of Movement's growth strategy. Last year, the team opened 11 new stand-alone stores bringing the total to 31. These stores are performing above plan with average sales per square foot similar to Free People Collection stores. In addition, we've found that a new Movement store lifts the brand's digital sales in surrounding ZIP Codes. Movement product is also available in 55 shop-in-shops within Free People Collection stores. This year the team plans to open an additional 10 stand-alone Movement stores and expects these newer stores to be approximately 20% larger than the current fleet average.

The Wholesale channel offers an opportunity to quickly build greater name recognition. Movement's partnership with activity-based specialty accounts like Dick's Sporting Goods build awareness. These accounts give Movement additional credibility within the activewear space by being adjacent to more established athletic brands.

We expect Movement's share of the activewear market to continue to expand as customer awareness and engagement grow across all three channels of distribution.

Free People Collection plans to deliver strong growth, as well. This year, the team will execute a growth strategy centered on attracting additional digital customers thru more robust marketing efforts, and expanding the product offering in areas like footwear, accessories and effortless attire that the brand refers to as 'Free-est'.

I now turn your attention to Nuuly, URBN's apparel rental business. Nuuly delivered an exceptionally strong Q4 and fiscal year, well out pacing expectations for both top and bottom-line performance. Strong subscriber growth continued in February with current active 'subs' now topping 140,000. We believe active 'subs' could approach or possibly exceed 200,000 by year's end. In addition to top line momentum, Nuuly made significant progress toward profitability in FY'23 and expects to record its first profitable quarter later this year. Faster than planned 'sub' growth, has accelerated the brand's need to invest in additional fulfillment capacity. As Melanie just reported, we recently announced a \$75M capital investment to open a second fulfillment and wash center in the fourth quarter of this year. The new facility is located in Kansas City, MO, and will include more automation, will triple our network capacity, and will help us reach a larger portion of our customer base faster and at less cost. We believe there remains much untapped

consumer interest in the rental concept, and this added capacity will help us support our next phase of subscriber growth.

Moving on to the Urban Outfitters brand. As stated earlier, the North American brand had a difficult Holiday season, and ‘comp’ sales have continued to be challenging so far in Q1. We know the Urban customer is facing economic headwinds that have negatively impacted their spending, but we believe much of the top-line problem is self-inflicted. Our execution miss was due in part to several key vacancies within the North American brand team, as well as the lingering impact of supply chain challenges that caused elevated inventory levels throughout FY’23. We have recently filled several key positions and are now actively searching for a brand leader.

As the year progresses, ‘comps’ get easier, thus we believe the brand could return to revenue growth in the back half of the year. The team’s top priority is to return the brand to profitability. Improving profitability is a focus for all our brands, not just Urban Outfitters. We believe this opportunity is directly tied to gross margin recapture. As some of you may remember, on our earnings call last March, we spoke of a three-year plan to recapture 500 basis points of initial mark-up from the base established in Q4 of FY’22. We suggested improvements would come from:

- Taking advantage of lower overall inbound freight rates,
- Utilizing a higher penetration of ocean vs. air for inbound freight,
- Increasing the penetration of our internally generated brands,
- Increasing the depth of product buys to obtain more favorable pricing, and
- Leveraging earlier and deeper fabric positioning across more styles.

I am pleased to report we have started to make real progress implementing these initiatives. We saw a 160-basis points improvement in IMU this past Q4 versus the prior year period, and we believe we will see more benefit as we move through fiscal 2024. Our budget reflects a plan to realize nearly two-thirds of our 500-bps goal by Q4 this year. Additionally, we have entered this year with cleaner ‘comp’ inventory levels which could enable us to lower our markdown rates. Improved IMU and lower markdown rates together could produce a very meaningful gross margin recapture this year and lead to higher profitability.

In sum, sales growth remains strong at all our brands except Urban, North America, and we believe that may improve in the back half of the year. Besides sales, we believe our brands can increase profitability by raising IMU and recapturing gross margins.

That concludes our prepared remarks. I want to thank our brand, creative and shared service leaders. I also want to thank our 26,000 associates worldwide for their hard work, dedication, and amazing creativity. I thank our many partners around the world, and finally, I thank our shareholders for their continued interest and support. I will now turn the call over for your questions. As a reminder, please limit your questions to one per caller.