

# URBAN OUTFITTERS, INC.

## First Quarter Fiscal 2016 ended April 30, 2015 Management Commentary

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### Summary Highlights

The following are highlights from our First Quarter Fiscal Year 2016 performance versus the comparable quarter last year:

- Net sales increased 8% to \$739 million.
- Comparable Retail segment net sales, which include our comparable direct-to-consumer channel, increased 4%.
- By major brand, comparable Retail segment net sales increased 17% at Free People, 5% at Urban Outfitters and 1% at the Anthropologie Group.
- Wholesale net sales increased 18% to \$54 million.
- Gross profit increased 3% to \$246 million, while gross profit rate decreased 141 basis points to 33.3%
- Income from operations decreased 11% to \$53 million and operating profit rate declined 154 basis points to 7.2%.
- Net income was \$33 million or \$0.25 per diluted share.

### Revenue

**Retail Segment** – Comparable Retail Segment net sales, which include our comparable direct-to-consumer channel, increased 4% driven by strong direct-to-consumer growth which more than offset negative comparable store net sales. Within the quarter, total Company comparable Retail segment net sales were strongest in February, followed by March, then April. The Company opened 7 new stores and closed 1 store during the quarter bringing the global store count to 552. Direct-to-consumer growth resulted from increases in sessions, orders, average order value and conversion. Negative comparable store net sales resulted from a reduction in transactions and units per transaction, which were partially offset by an increase in average unit selling price.

**Wholesale Segment** – Wholesale segment net sales increased 18% to \$54 million in the quarter driven by double-digit sales growth at department stores and mid single-digit growth at specialty accounts.

## **Brand Highlights for the First Quarter**

**Anthropologie Group** – The group, which consists of the Anthropologie, Bhldn, and Terrain brands, opened 2 new stores during the quarter bringing the global store count to 208. Square footage increased 7% over the prior year period to 1,459,352. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 1%. Comparable store net sales were strongest in the Northwest and weakest in the Northeast. Comparable store net sales underperformed in all venues with all performing fairly consistently. By Retail segment merchandise category, home was the strongest and accessories were the weakest.

**Free People** – The brand opened 4 new stores during the quarter bringing the total count to 106. Square footage increased 24% over the prior year period to 166,043. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 17%. By region, comparable store net sales were strongest in the Southeast and weakest in the Mid-Atlantic. By venue, store net sales were positive in all venues with all performing fairly consistently. All merchandise categories delivered significant positive comparable net sales.

**Urban Outfitters**– The brand opened 1 new store and closed 1 in the quarter. The global store count remained at 238. Square footage increased 4% over the prior year period to 2,149,703. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 5%.

In North America, by region, comparable store net sales were strongest in the Northwest and weakest in the Mid-Atlantic. By venue, store net sales were strongest in shopping center locations. By Retail segment merchandise category, intimates and home were the strongest while men's apparel was the weakest.

In Europe, by region, comparable store net sales were strongest in the United Kingdom. By Retail segment merchandise category, intimates were the strongest while men's apparel was the weakest.

## **Gross Margin**

Gross profit in the quarter increased 3% to \$246 million. Gross profit rate declined by 141 basis points versus the prior year's comparable period. The decline in gross profit rate was primarily due to lower initial margins at the Urban Outfitters brand and higher delivery and fulfillment expense across the entire company. The deleverage in delivery and fulfillment expenses were partially due to the increase in direct-to-consumer penetration and the beginning of the South Carolina fulfillment center transition to Gap, Pennsylvania.

### **Selling, General & Administrative Expenses**

Total selling, general and administrative expenses, expressed as percentage of net sales, deleveraged by 13 basis points and remained at 26.1%.

### **Other Income Statement Items**

The Company's effective tax rate for the first quarter of fiscal 2016 was 35.6% compared to 37.0% in the prior year period. The tax rate variance is due to state tax adjustments in the prior year quarter.

### **Balance Sheet and Cash Flow Items**

Cash, Cash Equivalents and Marketable Securities decreased from the prior year by \$160 million to \$357 million, primarily due to share repurchase activity in fiscal 2016 and 2015.

Total inventories increased \$49 million to \$398 million, a 14% increase over the prior year period. The growth in total inventories is primarily related to an increase in comparable Retail segment inventories and the acquisition of inventory to stock new and non-comparable stores. Comparable Retail segment inventories increased 8% at cost while decreasing 5% in units.

Total capital spending was \$32 million for the quarter and depreciation and amortization was \$35 million for the quarter.

On May 27, 2014, the Board of Directors authorized the repurchase of 10.0 million common shares under a share repurchase program. During fiscal 2015, the Company repurchased and retired 7.7 million common shares for approximately \$258 million under this authorization. During the first quarter of fiscal 2016, the Company repurchased 0.4 million shares for approximately \$17 million under this authorization. On August 27, 2013, the Board of Directors authorized the repurchase of 10.0 million common shares under a share repurchase program. During the first quarter of fiscal 2015, the Company repurchased and retired 9.7 million common shares for approximately \$353 million completing the August 27, 2013 share repurchase authorization. On February 23, 2015, the Board of Directors authorized the repurchase of an additional 20.0 million shares under a share repurchase program. No shares have been repurchased under this authorization.