

URBAN OUTFITTERS, INC.

Second Quarter Fiscal 2015 ended July 31st, 2014 Management Commentary

Summary Highlights

The following are highlights from our Second Quarter Fiscal Year 2015 performance versus the comparable quarter last year:

- Net sales increased 7% to \$811 million.
- Comparable Retail segment net sales, which include our comparable direct-to-consumer channel, were flat.
- Comparable Retail segment net sales at Free People and Anthropologie Group increased 21% and 6%, respectively, while Urban Outfitters decreased 10%.
- Wholesale net sales increased 36% to \$59 million.
- Gross profit increased 2% to \$303 million, while gross profit rate declined 194 basis points to 37.4%.
- Income from operations decreased 12% to \$105 million and operating profit rate declined 277 basis points to 13.0%.
- Net income was \$68 million or \$0.49 per diluted share.

Revenue

Retail Segment – Comparable Retail Segment net sales, which include our comparable direct-to-consumer channel, were flat driven by strong direct-to-consumer growth offset by negative comparable store sales. Within the quarter, total Company comparable Retail segment net sales were strongest in May, while June and July were fairly comparable. The Company opened 9 new stores during the quarter bringing the global store count to 525. Direct-to-consumer net sales were driven by a higher average order value and an increase in website and mobile traffic. The negative comparable store net sales resulted from a reduction in transactions partially offset by an increase in average unit selling price, while units per transaction were flat.

Wholesale Segment – Wholesale segment net sales increased 36% to \$59 million in the quarter driven by double-digit sales increases at specialty accounts and department stores.

Brand Highlights for the Second Quarter

Anthropologie Group – The group, which consists of the Anthropologie and Bhldn brands, opened 3 new stores during the quarter bringing the global store count to 193. Square footage increased 4% over the prior year period to 1,351,165. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 6%. By region, store net sales were strongest in the Southeast and weakest in the East. By venue, store net sales were strongest in lifestyle centers and weakest in free standing locations. By Retail segment merchandise category, women’s apparel was the strongest and accessories was the weakest.

Free People – The brand opened 5 new stores during the quarter bringing the total store count to 97. Square footage increased 28% over the prior year period to 146,407. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 21%. By region, store net sales were strongest in the West with all regions having positive comparable sales. By venue, store net sales were strongest in traditional mall locations with all venues posting positive comparable sales. All merchandise categories delivered positive comparable net sales.

Urban Outfitters– The brand opened 1 new store in the quarter bringing the global store count to 233. Square footage increased 7% over the prior year period to 2,098,285. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, decreased 10%.

In North America, by region, store net sales were strongest in California and weakest in the Northeast. By venue, store net sales were strongest in lifestyle centers and weakest in traditional malls. By Retail segment merchandise category, home was the strongest while women’s apparel was the weakest.

In Europe, by region, store net sales were strongest in the United Kingdom. By Retail segment merchandise category, women’s accessories was the strongest and men’s apparel was the weakest.

Other – Other includes Terrain. The net sales increase for Terrain was driven by positive comparable store sales.

Gross Margin

Gross profit in the quarter increased 2% to \$303 million. Gross profit rate declined by 194 basis points versus the prior year’s comparable period. The decline in gross profit rate was primarily driven by underperformance at the Urban Outfitters brand resulting in lower merchandise margins related to poor performing product and store occupancy deleverage resulting from negative store comparable sales.

Selling, General & Administrative Expenses

Total selling, general and administrative expenses, expressed as percentage of net sales, increased by 83 basis points to 24.4%. The increase was primarily due to increased marketing and technology expenses which drove higher direct-to-consumer traffic.

Other Income Statement Items

The Company's effective tax rate for the second quarter of fiscal 2015 was 35.5% compared to 36.1% in the prior year's comparable period.

Balance Sheet and Cash Flow Items

Cash, Cash Equivalents and Marketable Securities decreased from the prior year by \$332 million to \$409 million primarily due to the share repurchase activity in fiscal 2015.

Total inventories increased \$15 million to \$362 million, a 4% 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. Comparable Retail segment inventories increased 1% at cost while decreasing 8% in units.

Total capital spending was \$68 million for the quarter and depreciation and amortization was \$34 million for the quarter.

During the second quarter of fiscal 2015, the Board of Directors authorized the repurchase of 10.0 million common shares under a share repurchase program. During the second quarter of fiscal 2015, the Company repurchased and retired 3.7 million common shares for approximately \$126 million, leaving 6.3 million shares available for repurchase under the current authorization.