URBAN OUTFITTERS, INC.

Fourth Quarter, FY'14 Conference Call
March 10, 2014

Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Chief Financial Officer
David McCreight, CEO, Anthropologie Group
Margaret Hayne, CCO, URBN & President, Free People Brand
Ted Marlow, CEO, Urban Outfitters Group
Wendy B. McDevitt, President, Terrain
Glen A. Bodzy, General Counsel
Barbara Rozsas, Chief Sourcing Officer
Calvin Hollinger, Chief Administrative Officer
Matt Kaness, Chief Strategy Officer
David Ziel, Chief Development Officer
Bill Cody, Chief Talent Officer
Dave Hayne, COO, Free People Brand
Oona McCullough, Director of Investor Relations

Good afternoon, and welcome to the URBN fourth quarter fiscal 2014 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, 2014.

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.

We will begin today's call with Richard Hayne, our Chief Executive Officer who will comment on our broader strategic initiatives. Frank Conforti, our Chief Financial Officer, will then provide financial highlights for the fourth quarter. Following that, we will be pleased to address your questions.

As usual, the text of today's conference call, along with detailed management commentary, will be posted to our corporate website at www.urbanoutfittersinc.com.

I'll now turn the call over to Dick.

Thank you, Oona, and good afternoon everyone.

Today, I'll talk about the quarter and year just completed and then offer some color on our performance to date in the first quarter of fiscal 2015.

URBN's fourth quarter of fiscal 2014 was characterized by many successes but also a few challenges. So let me begin with our successes.

At the top of the list is the Free People brand performance. Meg Hayne and her team produced their best fourth quarter to date registering double-digit sales gains and record operating profits. This strong performance is even more impressive since the Free People brand delivered outstanding results in the same period last year.

All channels excelled in the fourth quarter. Wholesale delivered a 24% increase in revenues that was largely driven by both domestic and international expansion of the Free People shop-in-shop concept. The direct-to-consumer channel continued to be best in class with its outstanding imagery and customer engagement. And finally, the stores channel finished the year with their most productive sales per square foot and four-wall profitability on record. The combined retail channels delivered a powerful 'comp' sales increase of 20%. In all, the Free People brand performance during the quarter was almost flawless.

The Anthropologie brand delivered an excellent quarter, as well. The brand team led by David McCreight worked hard to create compelling product and engaging experiences that complemented those products. The team significantly improved the narrative they told their customers through coordinated store windows, visual merchandising and display, and catalog and e-mail communications. The customer responded well and in the fourth quarter all product categories posted positive retail 'comps' with the apparel and accessories categories registering strong double digit, regular price 'comps'. In the midst of one of the most highly promotional Holiday seasons I can remember, the Anthropologie brand was able to drive stronger traffic while significantly reducing their dependency on promotions. For the fourth quarter, their total markdown rate decreased by over 20% from the same period last year. The Anthropologie brand actually came within a whisper of producing their best fourth quarter merchandise and operating margins. This excellent fourth quarter performance capped what was a successive and progressive quarter-by-quarter improvement throughout the year versus the same period the previous year.

Now let me discuss other successes URBN achieved during the quarter and the year. All brands made steady progress toward our strategic goal of expanding product categories.

The Free People brand continued to expand its intimate apparel category. In the fourth quarter, retail sales of that category grew two times faster than the apparel category and sales penetration of intimate apparel in the wholesale channel increased by 320 basis points over the prior year period.

The shoe category was another big expansion success for the Free People brand. Retail segment sales of shoes in the fourth quarter grew by 54% over the same period last year. At the just completed MAGIC show in Las Vegas, the Free People brand launched its wholesale shoe line which received a very enthusiastic reaction from buyers. Initial wholesale shoe bookings from that show exceeded plan by more than 100%. The Free People shoe line will make its debut in department and specialty stores this August.

The Anthropologie brand category expansion continued into the fourth quarter, as well. The Petite assortment is now offered in seven Anthropologie stores and on-line. During the quarter, Petite sales grew by 303%. The brand plans to place this assortment in a dozen additional Anthropologie stores over the course of fiscal 2015. Also, during the quarter, the BHLDN bridal concept was successfully integrated into the Anthropologie brand and BHLDN sales increased by nearly 50% in the quarter. Four additional BHLDN shop-in-shops are planned to open inside existing Anthropologie stores in fiscal 2015.

The Urban Outfitters brand succeeded in growing their on-line beauty business by 73% in the fourth quarter over the same period last year. Also during the quarter, a dedicated team within the Urban brand was putting the final touches on the launch of their new concept called Without Walls. This concept is designed to engage the young adult customer with active lifestyle products housed in a compelling environment. Without Walls launched in early March inside five existing Urban brand stores and on-line. The early customer response has been encouraging and an additional three to six Without Walls shop-in-shops are slated to open in the Urban brand stores in fiscal 2015.

During the year, URBN also achieved several operating goals. As you may recall, at the beginning of the year we discussed efforts to lower our weeks of supply, shorten product lead times and reduce product delivery times to our direct-to-consumer customers. We accomplished all three goals.

We successfully lowered our average weeks of supply by one full week. We accomplished this by reducing our design and production lead times by more than 10% and by planning and allocating inventory through a single view across both retail channels.

We also succeeded in reducing fulfillment times by over 30% and shipping times by over 15%. We did so by extending the number of shifts at our fulfillment centers, by improving and extending our use of store fulfillment and by upgrading our delivery service levels. While there are incremental costs associated with these upgrades, we believe they are important and necessary in order to better serve the customer.

Although pleased with the progress we made on these operational initiatives in fiscal 2014, we are far from satisfied. This year we will continue our efforts and give another progress report next March.

As I mentioned at the outset, URBN did face several challenges during the fourth quarter.

The first challenge was weather. The weather during the month of January in the Midwest and eastern United States was so extreme that it warrants discussion. Comparing the last two Januarys, the number of store days across all brands in which stores were closed for a full or partial day jumped from 13 to 312. That is a staggering 2300% increase in January store closures due to weather. However, this doesn't account for the total store sales disruption. Even if the stores were open, customers hesitated to go outside due to extreme cold temperatures and difficulty in getting around. If we compare our store comps on the west coast with those in the Midwest and east coast and look at them compared with the prior year, we calculate a loss of approximately 450 basis points in January comp store sales this year due to weather. Now, obviously some of that business may have been captured by the direct-to-consumer channel, but we believe that a great majority of it was lost.

The second and bigger challenge for URBN in Q4 was the Urban brand's under performance. As we reported in January, total Urban brand retail 'comp' sales for the Holiday season dropped by 6%. Retail 'comp' sales deteriorated further in January due to weather and continued poor product execution.

Now let me say that I believe there are no fundamental structural changes in the young adult market other than the disruption caused by the internet and mobile technologies which we have been discussing now for many years. This market is highly competitive but I believe that theories which correlate demographic shifts, poor employment numbers, on-line tipping points or other similar factors to the difficult sales in the young adult market are off point. Sales correlate directly with fashion hits and misses, and I believe the Urban brand has had fewer hits than normal. It's that simple.

The obvious question I'm sure you want to know is - what are we doing about it? The answer is that over the past four months we have looked closely at the Urban brand structure, its people, procedures and communication and we're not satisfied by what we've found. Quite frankly, the Urban brand organization became too siloed with too little communication across functional areas. The great creativity that has been the hallmark of our success became stifled. So we are restructuring, instituting new procedures and communications, elevating all creative functions to a more central role and refocusing on our core 18 to 28 year old age group. In doing so, we believe our product needs to be elevated both from a fashion and quality perspective. Ted Marlow, the Urban Brand Chief Executive Officer and Meg Hayne, the URBN Chief Creative Officer, in partnership, are spearheading this effort. Today, that effort is well under way.

The good and bad news is that the successes and challenges I've outlined above for the fourth quarter have continued into the first quarter of fiscal 2015. The Free People and Anthropologie brands continue to perform nicely but the weather is still far from normal and the Urban brand is still underperforming. I believe that current quarter sales at the Urban brand will remain well below those achieved in the first quarter last year and margins will likely be under considerable pressure. In fiscal 2014, the Urban brand delivered solid bottom line results in Q1 so, if the current trends continue, and operating margins at the Urban brand are substantially lower in Q1 this year, total URBN earnings for the first quarter of fiscal 2015 will experience significant downward pressure.

Although, I cannot predict exactly when the Urban brand will regain its positive momentum, I am confident that we will succeed in doing so. I am encouraged by the work that is being done and the progress that has been made to date. Certainly, putting the Urban brand back 'on-track' is our number one priority for fiscal year 2015.

Now before I turn the call over to Frank Conforti, our Chief Financial Officer, I would like to recognize and thank our 22,000 associates in our home office and in stores and offices around the globe. Your dedication and hard work are a constant inspiration to me. I also want to recognize and thank our many business partners.

Finally, I thank our shareholders for your continued enthusiasm and support. I am profoundly grateful for the opportunity to lead the URBN community.

With that I'll turn the call over to Frank Conforti.

Frank

Thank you Dick and good afternoon everyone.

I will begin my prepared commentary discussing our fiscal year 2014 record fourth quarter sales and net income results versus the prior comparable quarter. Then, I will conclude my prepared commentary sharing our thoughts concerning our plans for fiscal year 2015.

Total Company sales for the quarter increased by 6% to a fourth quarter record of $906 million. This increase was driven by a $31 million increase in non-comparable sales, including the opening of 11 net new stores, a 24% jump in wholesale sales and a 1% increase in our retail segment comp.

The 1% increase in retail segment comp sales was driven by strong direct-to-consumer growth which more than offset negative store sales comp. Direct-to-consumer growth resulted from higher average order value and an increase in visitors. Negative comp store sales resulted from a reduction in transactions, which were partially offset by increases in units per transaction and average unit selling price.

By brand, our retail segment comp rates increased 20% at Free People, 10% at Anthropologie and decreased 9% at Urban Outfitters.

Free People Wholesale delivered another strong quarter as sales rose 24% to $48 million. These results came from double-digit sales growth at specialty stores and department stores.

Gross profit for the quarter increased by 6% to $332 million, while gross profit rate improved by 4 basis points to 36.7%. The improvement in gross profit rate was primarily due to improved merchandise margins, mostly driven by significant improvement in the Anthropologie brand markdown rate. This improvement was partially offset by increased markdowns at the Urban Outfitters brand. Store occupancy deleveraged during the quarter due to negative store comps and a large amount of pre-opening occupancy expense, related to three large New York City Urban Outfitters brand stores, scheduled to open in the first half of fiscal 2015.

Total selling, general and administrative expenses for the quarter increased by 12% to $203 million. Total SG&A as percentage of sales, deleveraged by 119 basis points to 22.4%. The increase in SG&A expense was primarily due to increased variable expenses to support new store growth, and increased spend in web marketing and technology investments to support direct-to-consumer channel growth. The deleverage in SG&A as a rate to sales was primarily due to deleverage in direct, and selling support store related expenses resulting from the negative store comp.

Operating income for the quarter decreased by 2% to $129 million, with operating profit rate declining by 115 basis points to 14.3%.

The effective tax rate for the quarter was 31.7% vs. 37.8% in the prior comparable period. The lower quarterly tax rate is primarily due to a federal rehabilitation credit received in the current quarter, related to the expansion of our home office and the release of international valuation allowances.

Net income was a record $89 million or $0.59 per diluted share.

Turning to the balance sheet, inventory increased by 10% to $311 million. The growth in inventory was primarily related to the acquisition of inventory to stock new and 'non-comp' stores. Comparable retail segment inventory increased by 3%.

Lastly, we ended the quarter with $890 million in cash and marketable securities.

As we look forward to fiscal year 2015, it may be helpful for you to consider the following:

We are planning to open approximately 38 net new stores in the year. By brand, we are planning 13 new Urban Outfitters store globally, including 3 new European stores, 13 new Anthropologie stores globally, including 3 new European stores, and 12 new Free People Stores in North America.

We believe we have opportunity for year-over-year gross margin growth, but this opportunity will largely depend on the timing of the sales and margin improvement at the Urban Outfitters brand in North America. The majority of the improvement opportunity for this year is related to our achievement of lower markdown rates at the Urban Outfitters brand.

As Dick discussed earlier on the call, if the current trends continue, our gross margin for the first quarter will deleverage versus the prior year due to increased merchandise markdowns at the Urban Outfitters brand, despite the continued momentum at the Anthropologie and Free People brands. Additionally, I want to point out, that in Q1 we will continue to be burdened by significant pre-opening occupancy expense related to our three new, New York City Urban Outfitters brand locations which will open in the first half of fiscal 2015.

We believe that SG&A could grow at a low double-digit rate for the year. This increase would primarily be driven by, increases related to direct and selling support expenses to support our new store growth and continued investments in technology systems and marketing expenditures, to further customer acquisition and retention efforts. Some of the systems investments include:

- Expanding our mobile offerings by adding additional web and in-store customer applications and capabilities;
- Adding additional 'omni-channel' functionalities such as pick-up in store, same day delivery and ship through store, which we plan on testing in the second half of fiscal 2015;
- Enhancing our International direct-to-consumer experience through adding more languages and more local payment options.

Capital expenditures for fiscal year 2015 are planned at approximately $215-$235 million, driven primarily by a new east coast fulfillment facility, home office expansion and new stores. We believe a new east coast fulfillment facility will help us to better serve a large portion of our customer base with faster fulfillment times. This facility is not planned to be open until fiscal 2016.

Finally, our fiscal year 2015 annual effective tax rate is planned to be approximately 35%. This planned 2015 effective rate includes a planned, favorable rate adjustment for a federal rehabilitation credit related to our home office expansion.

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 I will now open the call to questions, please keep in mind we are limiting each call to one question only. Thank you.