

# URBAN OUTFITTERS, INC.

## Second Quarter Fiscal 2014 ended July 31<sup>st</sup>, 2013 Management Commentary

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### Summary Highlights

The following are highlights from our Second Quarter Fiscal Year 2014 performance versus the comparable quarter last year:

- Net sales increased 12% to \$759 million.
- Comparable Retail segment net sales, which include our comparable direct-to-consumer channel, increased 9%.
- By major brand, comparable Retail segment net sales at Free People, Anthropologie and Urban Outfitters increased 38%, 9% and 5%, respectively.
- Wholesale net sales increased 17% to \$44 million.
- Gross profit increased 17% to \$298 million, while gross profit rate improved 169 basis points to 39.3%
- Income from operations increased 24% to \$119 million and operating profit rate improved 154 basis points to 15.7%.
- Net income was \$76 million or \$0.51 per diluted share.

### Revenue

**Retail Segment** – Comparable Retail Segment net sales, which include our comparable direct-to-consumer channel, increased 9% driven by continued robust direct-to-consumer growth and positive comp store sales. Within the quarter, total Company comparable Retail segment net sales were strongest in July, followed by June, then May. The Company opened 10 new stores and closed 1 store during the quarter bringing the global store count to 491. The positive comparable store net sales resulted from an increase in transactions and units per transaction partially offset by a decrease in the average unit selling price. Direct-to-consumer net sales were driven by a 16% increase in website traffic to approximately 51 million visitors and a 51 basis point improvement in conversion rate.

**Wholesale Segment** – Wholesale segment net sales increased 17% to \$44 million in the quarter driven by double-digit sales increases at specialty accounts and department stores.

## **Brand Highlights for the Second Quarter**

**Anthropologie** – The brand opened 1 new store and closed 1 store during the quarter maintaining the global store count at 182. Square footage increased 4% over the prior year period to 1,288,829. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 9%. By region, store net sales were strongest in the West and weakest in Canada. By venue, store net sales were strongest in free standing locations and weakest in metro locations. By Retail segment merchandise category, women’s apparel was the strongest.

**Free People** – The brand opened 3 new stores during the quarter bringing the total store count to 83. Square footage increased 16% over the prior year period to 114,497. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 38%. By region, store net sales were strongest in the West with all regions posting double-digit growth. By venue, store net sales were strongest in lifestyle centers. All merchandise categories delivered significant positive comp net sales.

**Urban Outfitters**– The brand opened 6 new stores in the quarter bringing the global store count to 222. Square footage increased 6% over the prior year period to 1,959,556. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 5%.

In North America, by region, store net sales were strongest in the Southwest and weakest in the Mid Atlantic. By venue, store net sales were strongest in traditional malls and weakest in metro locations. By Retail segment merchandise category, home was the strongest while women’s accessories was the weakest.

In Europe, by region, store net sales were strongest in Continental Europe. By venue, store net sales were strongest in traditional malls. By Retail segment merchandise category, home and women’s accessories were the strongest.

**Other Brands** – Other brands include Terrain and BHLDN. Net sales for other brands declined slightly, driven by a decline in Terrain landscape services partially offset by growth in BHLDN.

## **Gross Margin**

Gross profit in the quarter increased 17% to \$298 million. Gross profit rate improved by 169 basis points versus the prior year’s comparable period. The improvement in gross profit rate was primarily due to a reduction in merchandise markdowns primarily driven by improvements at the Anthropologie brand. We also improved our initial merchandise margins and leveraged store occupancy expenses. These improvements were partially offset by a deleveraging of delivery expense primarily related to an increase in direct-to-consumer net sales penetration.

## **SG & A**

Total selling, general and administrative expenses for the quarter, expressed as a percentage of net sales, increased by 14 basis points to 23.6%. The deleverage was primarily due to increased marketing expenses to support our customer acquisition and retention programs.

## **Other Income Statement Items**

The Company's effective tax rate for the quarter was 36.1%. The company expects the annual effective tax rate to be approximately 36.5% for the full year.

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

Cash, Cash Equivalents and Marketable Securities increased from the prior year by \$378 million to \$741 million.

Total inventories increased \$24 million to \$347 million, an 8% 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 were flat.

Total capital spending was \$38 million for the quarter and depreciation and amortization was \$32 million for the quarter.