URBAN OUTFITTERS, INC.

First Quarter, FY'10 Conference Call
May 14, 2009

Participants

Glen Senk	Chief Executive Officer
John Kyees	Chief Financial Officer
Meg Hayne	President, Free People Brand
Ted Marlow	President, Urban Outfitters Brand
Glen Bodzy	General Counsel
Wendy Brown	Chief Operating Officer, Anthropologie
Bill Cody	Chief Talent Officer
Frank Conforti	Controller
Calvin Hollinger	Chief Information Officer
Andrew McLean	Chief Operating Officer, URBN Europe
Bob Ross	Executive Director, URBN Finance
Freeman Zausner	Chief Administrative Officer
Dave Ziel	Chief Development Officer

Introduction

Good morning, and welcome to the URBN quarterly conference call. Joining me in Philadelphia today are John Kyees, our Chief Financial Officer and our senior team including the majority of our brand and shared service leads.

Earlier this morning the Company issued a press release outlining the financial and operating results for the three month period ending April 30, 2009. I will begin today's call by reading prepared commentary regarding our performance; then the group and I will be pleased to answer any questions you may have.

As usual, the text of today's conference call can be found on our corporate website at www.urbanoutfittersinc.com.

Highlights

While we are never content with negative sales or earnings growth, we believe the Company performed well in the quarter given the challenging marketplace conditions.

To summarize:

- Total Company sales decreased by 2% to $385 million.
- Comparable retail segment sales, which includes our Direct-to-consumer channel, decreased by 7.4%.
- Total Company comparable store (or 'comp') sales decreased by 9.6%; with reductions of 13%, 23% and 6% respectively at Anthropologie, Free People and Urban Outfitters.
- Direct-to-consumer sales increased 4% and were positive across all brands.
- Wholesale revenue was flat, with sales of $24 million.
- Gross margins declined by 300 basis points principally due to a higher rate of store occupancy expense driven by the decrease in comparable store sales, and merchandise markdowns to clear seasonal merchandise.
- 'Comp' store inventories decreased by 7% at quarter's end.
- Selling, general and administrative expenses, expressed as a percentage of sales, increased by 98 basis points primarily due to deleveraging of fixed direct store controllable costs.
- The Company earned $46 million of income from operations, resulting in an operating margin of 12.0%.
- Earnings were $31 million or $0.18 per diluted share.
- Finally, Cash, Cash Equivalents and Marketable Securities grew $43 million to $564 million.

I'll now go into more detail on each of our key business metrics for the quarter, starting with sales:

Retail Sales

New and non-comparable store sales contributed $27 million for the quarter, including a negative $10 million impact from foreign exchange adjustments on the Company's European sales. The Company opened 5 new stores—2 Anthropologie stores, 2 Free People stores and 1 Urban Outfitters store, and expects to open approximately 42 new stores in the current fiscal year.

The Company's 'comp' sales performance was weakest in March and strongest in April, even accounting for the Easter holiday shift. By region, sales at Anthropologie were strongest in the Northeast, sales at Urban Outfitters were strongest in the Midwest, and sales at both brands were weakest on the West Coast. By location type, sales at the Company were relatively even across all formats.

The Company's 'comp' sales performance was impacted largely by a 6% reduction in the number of transactions, with decreases of 5%, 17% and 6% at Anthropologie, Free People and Urban Outfitters respectively. Our average unit selling price increased 2% in total—down 2% and 3% at Anthropologie and Free People respectively, and up 7% at Urban Outfitters. Units per transaction decreased 6% in total—down 6%, 4% and 7% at Anthropologie, Free People and Urban Outfitters respectively.

At Anthropologie, the women's accessory business set the pace for the brand and women's apparel was most challenging. At Urban Outfitters, the women's apparel business was strongest, and the housewares category was most challenging.

Our data tells us the customer is buying less and that she's more discriminating. She's seeking fashion, and there's no evidence of price elasticity on desirable product. If it's a "love", she's buying it, plain and simple. If it's a "like", perceived as too basic, or a recycle of older fashion, she may wait for the first markdown. And if she doesn't like the product, it's not going to sell until it's on clearance.

The implication? The merchants and designers have to work harder—and smarter—to create and identify the "loves". Just like our customer, they've got to be more discriminating.

Luckily for us, we've got powerful systems that enable the teams to identify patterns in their businesses and we've got a nimble supply chain so that we can respond quickly. We've made the most progress in repositioning the inventory at Anthropologie, and we have a high level of clarity as to what we need to accomplish at Free People and Urban Outfitters as well.

Now let me turn your attention to our Direct-to-consumer business. Direct sales for the quarter increased 4% to $61 million despite a circulation increase of just 1%. The penetration of Direct-to-consumer sales to total Company sales increased by 103 basis points to 15.8%, underscoring what we have been referring to a paradigm shift in the way our consumer is shopping. These results were driven by website visits which were up 19% to 18 million visits, a gain of nearly 3 million visits from the prior year's quarter.

Our Direct-to-consumer business was positive across all brands, but especially at Free People. With just 15 out the 31 Free People stores falling into the 'comp' group, Direct-to-consumer revenue exceeded 'comp' store revenue by more than 40%.

Wholesale Sales

With the addition of Leifsdottir, the Company's total quarterly wholesale revenue was flat versus the same period last year.

Free People's wholesale sales decreased by 8% for the quarter, with sales to department stores decreasing by 2% and sales to specialty stores decreasing by 27%, principally due to credit holds and other credit-related issues. The brand's regular price average unit selling price increased by 8%, but regular price unit sales declined by 18%. I believe Free People outperformed most brands on the contemporary floor. Equally important, we ended the quarter at our desired inventory plan with all of our major partners. It is likely the current trend will continue in the near future since bookings for our summer deliveries are modestly below last year.

Leifsdottir, the Company's new wholesale line, generated impressive wholesale revenue of just under $2.0 million in the quarter. The selling at our retail partners has far exceeded expectation, so we are encouraged by the brand's potential.

Gross Margin, SGA and Income

I'd like to now turn your attention to gross margin, operating expense and income.

Gross Margin

Total Company gross margin decreased by 300 basis points for the quarter to 37.2%.

The largest component of the gross margin decline came from a higher rate of store occupancy expense driven by the decrease in comparable store sales, followed by an increase in markdowns to clear seasonal product.

SG & A

The organization continued to react aggressively to expenses. Total selling, general and administrative costs for the quarter rose by just 1.5%, driven by fixed direct store controllable expenses. Despite the 9.6% decline in 'comp' store sales, the Company deleveraged its operating expenses by just 98 basis points to 25.3% for the quarter.

Income

The Company generated a 12.0% operating margin, earning $46 million of income from operations, a decrease of 27% versus the same quarter last year. The Company earned $31 million in net income for the quarter, with earnings per diluted share of $0.18, a decrease of 28% from the prior year. The Company's annual effective tax rate closed at 36.1% versus 35.7% during the prior year.

Closing Comments

For a Company that's achieved an average of 26% annual revenue growth and 8% annual 'comp' growth since 2001, negative sales and earnings results are not in our corporate DNA. I'm feeling more optimistic than I have since October 2008, and perhaps even more optimistic than ever though, so I'd like to explain why.

I don't believe we'll be returning to 2007 spending levels for several years, but I believe the environment is considerably more stable than it was in the fourth quarter. As a CEO and as a merchant, I can tell you that it's extremely difficult to navigate through uncertainty and abrupt change. Once there's stability, however—once we can read the patterns in the business—our team has proven over time that they can usually figure out a way to drive growth and achieve the Company's short term sales and profit objectives despite challenging fundamentals.

I won't predict the timing or magnitude of a turnaround in performance, but I believe it will happen, and I believe we have the visibility and tools to ensure our success.

More importantly, however, I believe the environment has created profound changes in the consumer psyche, and I believe these changes will play to our Company's strengths for years to come. As we move into the "new normal", I believe the customer will be more discriminating, I believe she'll be looking for true authenticity, I believe she'll modulate the way she shops for commodity product versus special product, and I believe she'll shop brands whose values she shares.

The URBN portfolio of brands have always appealed to a discriminating customer, we've always been personal and authentic, we've always been about selling what's unique and the Company has always been defined by a powerful set of values that resonate with employees and customers alike.

As well, so many of the Company's initiatives from the last several years will become increasingly important as we navigate through 2009 and the future:

1. Our concept-to-market strategy has given the planning, merchant and design teams an unprecedented level of flexibility to get the right product at the right price in the right place at the right time.
2. Our emphasis on driving four wall productivity—through refined site selection, store design, construction and store operations—has resulted in a highly-productive and diversified portfolio of stores that have significant continued upside potential.
3. Our investment in the web has enabled us to have the highest penetration of Direct-to-Consumer to total Company sales of any legacy brick and mortar retailer in the industry. Even more importantly, it has positioned us to disaggregate ecommerce from the web, so that we can begin to use the web to drive total Company sales by mining our database across all channels and by monetizing the exponential growth in the web's social community.

4. Our increased investment in international distribution and our strategy of “thinking globally but acting locally” will allow us to mine the very sizable business opportunities in Europe and the Far East, and will provide an appropriate level diversification into Non-US markets.
5. Our early stage proof-of-concept tests on Terrain and Leifsdottir are encouraging. Acting on the belief that scarcity creates value, the Company will continue to explore brand extensions and new brands so that we grow the URBN top and bottom line while protecting our brands’ goodwill.

I couldn’t be more proud of how our team has reacted over the last several months. They’re responded to the changes in the environment at breakneck speed, and they’ve proven that they’re as good at inventory and expense discipline as they are at creating compelling brands. URBN’s culture has always emphasized a balance of creativity and control, and at no time in our Company’s history has the need for creativity and control been greater. In fact, there’s probably not a part of our business—margin or expense—that hasn’t been thoroughly reviewed in the last six months, and I expect this heightened level of discipline will reap benefits for years to come.

The changes facing our industry are profound and rapid. The future belongs to those of us who are disciplined, nimble and unafraid to challenge the prevailing dogma. The URBN family is committed to doing all of that and more. We will compete the way we always do—by remaining wholly customer-focused and working hard to “wow” the customer on a daily basis; by taking managed risks so that we excite the customer with newness and innovation; and by making our stores, catalogs and websites unexpected, fun and wholly compelling—all while mining the opportunity to transform our business for the next generation of consumers.

The Company’s overarching goal has been constant and simple: to grow revenue by at least 20%, to grow profit at a faster rate than sales, and to reach a minimum of 20% operating margin. We have achieved our growth goals consistently over time and we remain confident in our prospects going forward. As always, the leadership team and I look forward to continuing to inspire our customers and reward our shareholders and employees alike.

Q & A

I will now open the call to questions. As is our custom, I ask each of you to limit yourselves to one question. I apologize in advance—if you ask more than one question, we will respectfully respond only to your first query. Thank you.