

URBAN OUTFITTERS, INC.

First Quarter, FY'20 Conference Call
May 21, 2019

Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Chief Financial Officer
Margaret Hayne, CCO, URBN & CEO, Free People Brand
Trish Donnelly, Global CEO, Urban Outfitters Group
Hillary Super, Global President, Anthropologie Group
Sheila Harrington, President, Free People Brand
Dave Hayne, Chief Digital Officer & President, Nuuly
Calvin Hollinger, Chief Operating Officer
Azeez Hayne, General Counsel
Barbara Rozsas, Chief Sourcing Officer
David Ziel, Chief Development Officer
Oona McCullough, Director of Investor Relations

Good afternoon, and welcome to the URBN first quarter fiscal 2020 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three-month period ending April 30, 2019.

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. As usual, the text of today's conference call will be posted to our corporate website at www.urbn.com. I will now turn the call over to Dick.

Dick Hayne

Thanks Oona, and good afternoon.

Today we're trying a new presentation format for the conference call. It's designed to better communicate with our investors and make our interaction with the analyst community more productive.

Under the new format, we release printed commentary on the quarter to our web portal shortly after the markets close, but prior to the call. This creates an opportunity to read and digest the information before the call. At the beginning of each call, I will give a brief business overview and then ask a brand leader, on a rotating basis, to give more color concerning results and initiatives at their brand. Following that, Frank will offer our thoughts on future results. We will then open the call to your questions. As always, we welcome feedback and suggestions for improvements.

Thank you, and now for my overview.

First, I am pleased to announce the addition of a new brand to the URBN portfolio; it's called Nuuly. Nuuly is a 'nu' way for women to interact with their wardrobe – a monthly subscription service where subscribers rent their favorite fashion items from the Nuuly offering which includes products from our own Anthropologie, Free People and Urban Outfitters brands, as well as from many other nationally recognized brands. We're very excited about this 'nu' approach to accessing fashion. Dave Hayne, the President of Nuuly, will discuss the concept in more detail in a moment. Moving on to URBN's first quarter results; I'm pleased to report the Company posted a positive 1% Retail segment 'comp'. When we last spoke to you in early March, business had been difficult and total 'comp' sales were solidly negative. But as the weather broke, sales in March recorded a strong rebound. April 'comps' were also nicely positive, although slightly less robust than planned. We expected to see a bigger build in April given the Easter shift. Total business in May to date has been challenging due to negative store traffic and some product misses at our two larger brands.

In the first quarter, Anthropologie delivered a plus 1% 'comp'; Free People, a plus 2%; and Urban was 'comp' flat. After many quarters of strong growth, business in Europe was difficult in Q1. This isn't surprising given the current political and economic uncertainty. Taking European results away, the Urban brand 'comp' for North America was a plus 1%.

As in previous quarters, 'comp' results by channel diverged substantially. The digital channel recorded double-digit 'comp' gains while store 'comps' were mid-single digit negative. Each brand experienced negative store traffic in the quarter. This has persisted into the current quarter, as well.

I believe overall consumer sentiment remains quite favorable. The job market is extremely strong, and wages are rising. Many of the potential spending inhibitors like smaller or delayed tax refunds, the government shutdown, and a steep stock market correction in Q4 are now behind us, so I believe retail spending is poised for growth.

From a fashion perspective there is strong demand for the right products. We remain in the early stages of a bottoms cycle which we identified 18 months ago. As part of that cycle, there is plenty of newness to drive positive ‘comps’. Our job as merchants is to interpret trends and deliver compelling products. The apparel merchants at our two larger brands have been less accurate at interpreting trends this year versus the same period last year. The Free People team also began Q1 with a number of product misses, but they were able to recover more quickly, and that brand is now delivering nicely positive ‘comps’.

I believe all brand teams currently have excellent clarity on what the customer is looking for and should be able to execute on that knowledge. If this assumption is correct, total Retail segment ‘comps’ should improve as the quarter progresses.

The Wholesale segment posted a solid quarter with revenues up 2%, led by sales to department stores and specialty ecommerce businesses. Ranking Wholesale sales by category, FP Movement grew at the fastest rate while Free People core apparel added the most dollars. We believe Wholesale could deliver mid-single digit gains for Q2 and the remainder of the year.

Before I pass the call to Dave, I want to thank our brand, creative and shared service leaders. I also thank our 24,000 associates worldwide for their hard work, dedication and amazing creativity. I thank our many partners around the world and finally, I thank our shareholders for their continued interest and support.

Ok Dave, now tell us about Nuuly.

Dave Hayne

Thank you, and good afternoon everyone.

Today, we are excited to introduce our latest concept: Nuuly. Nuuly is a new way to experience clothing – a monthly, subscription service with a robust offering of our own URBN brands, third-party brands and designer labels, and one-of-a-kind vintage pieces for rent via a custom-built, digital platform.

Nuuly subscribers will select their styles each month, wear them as often as they like, then swap into new styles next month, infusing freshness and variety into their wardrobes. If subscribers fall in love with something while renting it, they can purchase it. Subscriptions will cost \$88 per month for one, 6-item box per month, offering subscribers on average over \$800 worth of initial retail value per box, for a tenth of the price.

Our mission at URBN is to give customers the creative, compelling shopping experiences they desire. As our customer’s preferences have shifted over the years towards e-commerce, omni-channel, and mobile, our job has been to support these shifts. More recently, we have observed a growing interest in sharing-economy and recurring subscription models across many industries. And in our industry – specialty apparel – millennial customers, in particular, are seeking options that provide novelty, variety and breadth, while also supporting sustainability. Nuuly seeks to

further these shifting behaviors by giving subscribers access to a wide assortment of current fashion at a substantially lower cost-per-wear than retail, solving the paradox of a millennial's quest for constant fashion newness alongside the desire for a more sustainable lifestyle.

At launch, Nuuly will offer over 1,000 styles for rent from over 100 nationally recognized designer labels and brands including Anthropologie, Free People and Urban Outfitters, as well as a curated assortment of hundreds of one-of-a-kind vintage pieces. We plan to flow over 100 new styles per week and triple the style count by year's end. The assortment will span lifestyle categories, offering everything from premium denim and everyday dresses to seasonal outerwear, with options in sizes 00-26, including substantial selections of petite and plus-size apparel.

URBN is committed to Nuuly's success and has made many investments to bring it to life. A dedicated, cross-functional group of over 60 people has been organized with the mission of launching and growing the business. We have invested in a dedicated team of engineers, product managers and data scientists who are developing the complex technology needed to power all aspects of the user experience, with a focus on data driving the business. We have built a dedicated warehouse and fulfillment center outside Philadelphia which houses state-of-the-art laundry equipment operated by veteran laundry technicians. Additionally, dedicated marketing, merchandising and creative teams are focused on curating the aspirational lifestyle experience for which our brands have become known.

We believe there is a large opportunity to re-shape the \$120B women's apparel market in the US. Nuuly anticipates approximately 50k subscribers within 12 months of operation, which would exceed a revenue run-rate of \$50M at the period's close. We are prepared to react to stronger subscriber interest and believe several hundred thousand subscribers in our first few years is possible. However, as with all new businesses, forecasts are speculative until operations are underway.

Nuuly enters the subscription rental landscape with many strategic advantages. We bring our distinctive URBN brands and their proprietary assortments, millions of existing customer relationships with rich preference histories, long-standing brand partnerships, a broad point-of-sale distribution network, as well as deep, operational know-how and investable capital. When paired with our proven ability to develop creative lifestyle brands, we believe Nuuly is uniquely positioned to deliver the dynamic subscription rental experience the modern customer desires.

As I am sure you can tell, we are very excited to launch the Nuuly platform to begin learning from customers. Starting today, interested customers can join a waitlist at Nuuly.com, to be notified for Summer 2019 launch, less than two months from today.

Thank you very much, I'll now turn the call over to our Chief Financial Officer, Frank Conforti.

Frank Conforti

Thank you, Dave, and good afternoon everyone.

As we enter the second quarter of fiscal year 2020, it may be helpful for you to consider the following:

Our sales have started out the quarter below our first quarter trend and internal expectations. Based on our quarter-to-date performance, we believe our URBN Retail segment 'comp' sales could come in a low single-digit negative range for the quarter.

If 'comp' sales do come in low single-digit negative, we believe URBN's gross margin rate for the second quarter could deleverage by more than 300 basis points. The decrease in gross profit margin could be due to higher markdown rates to clear underperforming products, as well as, deleverage in delivery, logistics and store occupancy expenses resulting from higher penetration of digital sales and negative store 'comps'.

Based on our current sales performance and financial plan, we believe SG&A could grow by approximately 2% for the quarter. The growth in SG&A could primarily relate to digital marketing investments to support our digital channel sales growth. Additionally, SG&A will include approximately \$3 million of expenses associated with the launch of Nuuly, our new subscription rental business.

Our annual effective tax rate is planned to be approximately 25.5% for the second quarter and for the full 2020 fiscal year.

Capital expenditures for the fiscal year are planned at approximately \$260 million. The spend and increase to the prior year is primarily related to planned investments in additional and expanded distribution facilities, the opening of new stores and our new European home office.

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.

That concludes our prepared remarks. Thank you, and now for your questions.