

Urban Outfitters, Inc.  
**FY'20 Q3 RESULTS**





# Introduction

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Urban Outfitters, Inc. “URBN” is providing fiscal 2020 third quarter commentary ahead of our earnings call scheduled for November 19th at 5:15pm.

We remind you that any forward-looking statements made in this commentary are subject to our safe harbor statement found in our SEC filings.

Our third quarter earnings release and related financial information are available on our website, [www.urbn.com](http://www.urbn.com).



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# Key Financial Highlights

	Three Months Ended	
	October 31, 2019	October 31, 2018
URBN Net Sales Change	1.4%	9.0%
Gross Profit*	32.5%	34.7%
Selling, General and Admin. Expenses*	24.9%	24.8%
Income from Operations*	7.6%	9.9%
Earnings Per Diluted Share	\$ 0.56	\$ 0.70

URBN sales for the third quarter increased by 1% to \$987 million. The increase in sales was driven by Retail segment sales comp of 3% and \$2 million of Subscription segment sales which were partially offset by a Wholesale segment sales decline of 7% and a non-comp sales decline of \$3 million. Foreign currency translation negatively impacted sales by approximately 40 basis points for the quarter.

Free People delivered the strongest Retail segment comp for the quarter, an impressive 9% sales comp, while Anthropologie Group turned their business nicely positive delivering a 4% sales comp. Urban Outfitters also improved their topline performance from the previous quarter with a flat comp.

Gross Profit dollars decreased by 5% to \$321 million for the quarter, while gross profit rate declined 217 basis points to 32.5%. The decline in gross profit rate was due to higher markdowns, deleverage in logistics and delivery expenses and lower Wholesale segment margins. The higher markdowns were largely driven by underperforming women's apparel at the Urban Outfitters brand. The deleverage in delivery expenses is primarily due to the increase in penetration of the digital channel. The deleverage in logistics expense is due in part to the increased penetration of the digital channel as well as increased labor expenses due to the competitive market for employment in the U.S. The lower Wholesale segment margins were due to increased markdowns from the department stores.

Selling General & Administrative ('SG&A') expenses increased by 2% while SG&A as a % of sales increased 11 bps to 24.9%. The deleverage in SG&A as a rate to sales was primarily related to expenses supporting our recently launched subscription business, Nuuly which had minimal expenses in the prior year.

Operating Income for the quarter decreased by 22% to \$75 million with operating profit margin declining by 228 basis points to 7.6%.

Net Income for the quarter was \$56 million or \$0.56 per diluted share.

\*expressed as a percent of net sales



# Sales by Segment

(\$ in millions)  
(unaudited)

	Three Months Ended		Variance	
	October 31, 2019	October 31, 2018	\$	%
<b>Total Sales</b>	\$ 987.5	\$ 973.5	\$ 14.0	1%
<b>Retail Segment</b>	\$ 897.2	\$ 878.8	\$ 18.4	2%
<b>URBN Comp</b>	\$ 863.7	\$ 842.5	\$ 21.2	3%
Anthropologie Group	378.1	365.2	12.9	4%
Free People	117.5	108.2	9.3	9%
Urban Outfitters	363.5	364.8	(1.3)	flat
Food & Beverage	4.6	4.3	0.3	5%
<b>Retail Segment Comp</b>				
<b>By Geography</b>				
North America	779.2	759.6	19.6	3%
Europe	84.5	82.9	1.6	2%
<b>URBN Non-Comp</b>	\$ 33.5	\$ 36.3	\$ (2.8)	-8%
<b>Wholesale Segment</b>	\$ 88.3	\$ 94.7	\$ (6.4)	-7%
Anthropologie Group	4.3	3.0	1.3	43%
Free People	82.4	91.1	(8.7)	-10%
Urban Outfitters	1.6	0.6	1.0	173%
<b>Subscription Segment</b>	\$ 2.0	-	\$ 2.0	n/a

Total Company or URBN sales for the third quarter increased by 1% to \$987 million. The sales growth was due to Retail segment comp increase of 3% and \$2 million of Subscription segment sales which were partially offset by a Wholesale segment sales decline of 7% and a non-comp sales decline of \$3 million. Foreign currency translation negatively impacted sales by approximately 40 basis points for the quarter.

URBN Retail segment comps grew by 3% driven by an increase in digital channel sales which were partially offset by negative store comps. Retail segment comps were positive in each month during the quarter.

Our Retail segment comp was positive in North America and Europe.

URBN Wholesale segment sales declined 7% driven by a 10% sales decline in Free People partially offset by increases in Urban Outfitters BDG sales and Anthropologie Home sales during the period.

(\$ in millions) (unaudited)	Three Months Ended		Variance	
	October 31, 2019	October 31, 2018	\$	%
	<b>Total Sales</b>	<b>\$ 398.7</b>	<b>\$ 385.0</b>	<b>\$ 13.7</b>
<b>Retail Segment Comp</b>	<b>\$ 378.1</b>	<b>\$ 365.2</b>	<b>\$ 12.9</b>	<b>4%</b>
Sales by Geography				
North America	364.7	351.4	13.3	4%
Europe	13.4	13.8	(0.4)	-3%
<b>Wholesale Segment</b>	<b>\$ 4.3</b>	<b>\$ 3.0</b>	<b>\$ 1.3</b>	<b>43%</b>
North America	4.0	2.8	1.2	41%
Europe and ROW	0.3	0.2	0.1	84%
<b>Retail Segment Non-Comp</b>	<b>\$ 16.3</b>	<b>\$ 16.8</b>	<b>\$ (0.5)</b>	<b>-3%</b>

Total Anthropologie Group brand sales increased by 4% to \$399 million. The growth in brand sales was driven by a 4% increase in Retail segment comp and a 43% increase in the Wholesale segment. Non-comp sales decreased by \$1 million in the quarter primarily due to foreign currency translation.

The Retail segment sales growth was driven by double-digit digital comps which were partially offset by low single-digit negative store comps. By product category Apparel, Accessories, Home, Terrain and Bhldn were all positive for the quarter while only Beauty declined.

By geography, Retail segment comp sales were positive in North America and negative in Europe.

Wholesale segment sales increased by 43% in the quarter.

# fp Revenue Metrics *free people*

(\$ in millions)  
(unaudited)

	Three Months Ended		Variance	
	October 31, 2019	October 31, 2018	\$	%
<b>Total Sales</b>	<b>\$ 205.5</b>	<b>\$ 202.2</b>	<b>\$ 3.3</b>	<b>2%</b>
<b>Retail Segment Comp</b>	<b>\$ 117.5</b>	<b>\$ 108.2</b>	<b>\$ 9.3</b>	<b>9%</b>
Sales by Geography				
North America	117.5	108.2	9.3	9%
<b>Wholesale Segment</b>	<b>\$ 82.4</b>	<b>\$ 91.1</b>	<b>\$ (8.7)</b>	<b>-10%</b>
North America	78.3	87.6	(9.3)	-11%
Europe and ROW	4.1	3.5	0.6	17%
<b>Retail Segment Non-Comp</b>	<b>\$ 5.6</b>	<b>\$ 2.9</b>	<b>\$ 2.7</b>	<b>94%</b>

Total Free People brand sales increased by 2% to \$205 million for the quarter. This increase was driven by a strong Retail segment sales comp of 9% and non-comp sales growth of \$3 million. Wholesale segment sales declined 10%.

The Retail segment comp was driven by double-digit digital growth, while stores were low single-digit negative. By product category, Apparel, Intimates, Movement and Beauty all continued their positive performance for the quarter while Women's Accessories declined.

Wholesale segment sales declined by 10% to \$82 million as a result of lower sales to North American department stores. Sales to international customers, digital only businesses and specialty stores were positive for the quarter.



# Revenue Metrics

## URBAN OUTFITTERS

(\$ in millions)  
(unaudited)

	Three Months Ended		Variance	
	October 31, 2019	October 31, 2018	\$	%
<b>Total Sales</b>	\$ 374.5	\$ 379.2	\$ (4.7)	-1%
<b>Retail Segment Comp</b>	\$ 363.5	\$ 364.8	\$ (1.3)	flat
Sales by Geography				
North America	292.4	295.7	(3.3)	-1%
Europe	71.1	69.1	2.0	3%
<b>Wholesale Segment</b>	\$ 1.6	\$ 0.6	\$ 1.0	173%
North America	1.1	0.4	0.7	183%
Europe and ROW	0.5	0.2	0.3	155%
<b>Retail Segment Non-Comp</b>	\$ 9.4	\$ 13.8	\$ (4.4)	-32%

Total Urban Outfitters brand sales decreased by 1% as a result of a \$4 million decline in non-comp sales, and a flat Retail segment sales comp. Wholesale segment sales of the UO BDG brand delivered \$1 million of sales growth for the quarter. Negative non-comp sales for the quarter primarily related to adjustments for foreign currency translation with the remainder resulting from store closures.

The flat Retail segment sales comp performance was a result of low single-digit digital channel positive sales comps offset by low single-digit store channel negative sales comps. By product category Home, Women's Accessories and Beauty were positive for the quarter, while Women's Apparel, Men's Apparel and Men's Accessories were negative for the quarter.

Retail segment comp sales were positive in Europe while they were negative in North America.

Wholesale segment sales of the Urban Outfitters BDG brand delivered \$2 million in sales for the quarter which came from growth in both North America and Europe.





# Gross Profit by Segment

(\$ in millions) (unaudited)	Three Months Ended		Variance	
	October 31, 2019	October 31, 2018	\$	%
<b>Gross Profit* \$</b>	<b>\$ 321.1</b>	<b>\$ 337.7</b>	<b>\$ (16.6)</b>	<b>-5%</b>
<b>Gross Profit* %</b>	<b>32.5%</b>	<b>34.7%</b>		
<b>Retail Segment</b>				
Gross Profit \$'s	\$ 304.6	\$ 309.5	\$ (4.9)	-2%
Gross Profit %	34.0%	35.2%		
<b>Wholesale Segment**</b>				
Gross Profit \$'s	\$ 18.5	\$ 28.2	\$ (9.7)	-35%
Gross Profit %	20.9%	29.8%		
<b>Subscription Segment</b>				
Gross Profit \$'s	\$ (2.0)	\$ -	\$ (2.0)	n/a

Total Company gross profit decreased 5% to \$321 million, while the gross profit rate declined by 217 basis points to 32.5%. The decline in the total Company gross profit rate was driven by lower gross profit in the Retail, Wholesale and Subscription segments.

Retail segment gross profit decreased 2% to \$305 million, while the Retail segment gross profit rate declined by 127 basis points to 34.0% for the quarter.

The decline in Retail segment gross profit rate was driven by higher markdowns and deleverage in logistics and delivery expenses. Higher markdowns were largely driven by underperforming women's apparel at the Urban Outfitters brand. The deleverage in delivery expense was primarily due to the increase in penetration of the digital channel. The deleverage in logistics expense is due in part to the increased penetration of the digital channel as well as increased labor expenses due to the competitive market for employment in the U.S.

Wholesale segment gross profit decreased by 35% to \$18 million while Wholesale segment gross profit rate decreased 889 basis points to 20.9%. The decline in gross profit dollars was due to higher markdowns in department stores in North America.

\*Cost of Sales includes initial mark-up, markdowns, store occupancy, delivery, freight and logistics expenses and merchant expenses

\*\*net of intersegment elimination



# SG&A—Total Company

(\$ in millions) (unaudited)	Three Months Ended		Variance	
	October 31, 2019	October 31, 2018	\$	%
SG&A* \$'s	\$ 245.8	\$ 241.3	\$ 4.5	2%
SG&A* %	24.9%	24.8%		

Total Company SG&A increased 2% to \$246 million. Total Company SG&A as a percentage of sales increased by 11 bps to 24.9%. The deleverage in SG&A as a rate to sales was primarily related to expenses supporting our recently launched subscription rental business, Nuuly, which had minimal expenses in the prior year.

\*SG&A includes direct store controllable, creative and marketing, corporate overhead and credit and banking expenses



# Operating Income by Segment

(\$ in millions) (unaudited)	Three Months Ended		Variance	
	October 31, 2019	October 31, 2018	\$	%
<b>Operating Profit \$</b>	\$ 75.3	\$ 96.4	\$ (21.1)	-22%
<b>Operating Profit %</b>	7.6%	9.9%		
<b>Retail Segment</b>				
Operating Profit \$'s	\$ 83.7	\$ 88.7	\$ (5.0)	-6%
Operating Profit %	9.3%	10.1%		
<b>Wholesale Segment*</b>				
Operating Profit \$'s	\$ 10.5	\$ 19.4	\$ (8.9)	-46%
Operating Profit %	11.9%	20.5%		
<b>Subscription Segment</b>	\$ (6.3)	\$ (1.5)	\$ (4.8)	n/a
<b>General Corporate Expenses \$'s</b>	\$ 12.6	\$ 10.2	\$ 2.4	24%

Operating income decreased by 22% to \$75 million, while operating profit margin deleveraged by 228 basis points to 7.6%. The decline in operating profit margin was driven by the Wholesale, Retail and Subscription segments this quarter.

Retail segment operating profit declined by 6% to \$84 million, while Retail segment operating profit margin declined by 75 basis points to 9.3%. The decline in Retail segment operating profit rate was largely due to lower gross profit margin.

Wholesale segment operating profit declined by 46% to \$11 million, while Wholesale segment operating profit margin declined by 856 basis points to 11.9%.

Subscription segment operating loss was \$6 million for the current quarter, compared to \$2 million in the prior comparable quarter.

General corporate expenses increased by \$2 million primarily due to timing of legal and professional fees versus last year and strategic initiative investment expenses.

\*net of intersegment elimination



# Income Statement Summary

(\$ in millions)  
(unaudited)

	Three Months Ended	
	October 31, 2019	October 31, 2018
Net Sales	\$ 987.5	\$ 973.5
Cost of Sales	<u>666.4</u>	<u>635.8</u>
Gross Profit	321.1	337.7
Selling, General and Admin. Expenses	<u>245.8</u>	<u>241.3</u>
Income from Operations	75.3	96.4
Other Income, Net	<u>0.5</u>	<u>1.2</u>
Income Before Income Taxes	75.8	97.6
Income Tax Expense	<u>20.1</u>	<u>20.1</u>
Net Income	<u>\$ 55.7</u>	<u>\$ 77.5</u>
Diluted Share Count	98.6	110.3
EPS (Diluted)	\$ 0.56	\$ 0.70

The effective tax rate for the third quarter was 26.6%. The increase from the prior year is primarily due to the ratio of foreign taxable profits to global taxable profits and the prior year favorable impact of equity activity.

Net income was \$56 million or \$0.56 cents per diluted share for the third quarter.



# Balance Sheet Summary

(\$ in millions)  
(unaudited)

	October 31, 2019	October 31, 2018
<b>Assets</b>		
Cash and Cash Equivalents	\$ 167	\$ 329
Marketable Securities	171	237
Accounts Receivable, Net	100	91
Inventory	532	452
Other Current Assets	143	140
<b>Total Current Assets</b>	<b>1,113</b>	<b>1,249</b>
Property and Equipment, Net	891	809
Operating Lease ROU Assets	1,119	-
Marketable Securities	83	36
Other Assets	115	103
<b>Total Assets</b>	<b>\$ 3,321</b>	<b>\$ 2,197</b>
<b>Liabilities and Shareholders' Equity</b>		
Accounts Payable	\$ 233	\$ 192
Current Operating Lease Liabilities	214	-
Other Current Liabilities	264	263
<b>Total Current Liabilities</b>	<b>711</b>	<b>455</b>
Non-Current Operating Lease Liabilities	1,119	-
Deferred Rent and Other Liabilities	61	281
<b>Total Liabilities</b>	<b>1,891</b>	<b>736</b>
<b>Total Shareholders' Equity</b>	<b>1,430</b>	<b>1,461</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,321</b>	<b>\$ 2,197</b>

Inventory increased 18% to \$532 million, driven by a 9% increase in Retail segment comp inventory and a 63% increase in Wholesale segment inventory. The increase in Retail segment comp inventory in each of our brands is due in part to early receipts related to the ongoing tariff uncertainty as well as positive comp plans for the fourth quarter. The Urban Outfitters Retail segment comp inventory and URBN Wholesale segment inventory are higher than where we would like them to be and this will put pressure on fourth quarter margins.

As of October 31, 2019, cash and marketable securities totaled \$421 million with zero drawn down on the asset backed line of credit facility.

We adopted an accounting standards update on February 1, 2019, related to lease accounting that resulted in the recognition of lease liabilities and right-of-use assets on the balance sheet. Right-of-use assets were reduced by the previously recognized deferred rent balances at adoption.

# URBN Inventory Data

(\$ in millions)  
(unaudited)

	October 31, 2019	October 31, 2018	Variance	
			\$	%
<b>URBN Inventory</b>	<b>\$ 531.6</b>	<b>\$ 451.7</b>	<b>\$79.9</b>	<b>18%</b>
<b>Retail Segment Comparable Inventory at Cost</b>	<b>\$ 405.4</b>	<b>\$ 372.0</b>	<b>\$33.4</b>	<b>9%</b>
Anthropologie Group	197.1	179.9	17.2	10%
Free People	50.5	45.4	5.1	11%
Urban Outfitters	157.8	146.7	11.1	8%
<b>Wholesale Segment by Brand</b>	<b>\$ 62.8</b>	<b>\$ 38.6</b>	<b>\$24.2</b>	<b>63%</b>
Anthropologie Group	5.5	0.6	4.9	n/a
Free People	55.6	37.7	17.9	48%
Urban Outfitters	1.7	0.3	1.4	n/a
<b>Subscription Segment Rental Product, Net*</b>	<b>\$ 10.9</b>	<b>\$ –</b>	<b>\$ 10.9</b>	<b>n/a</b>

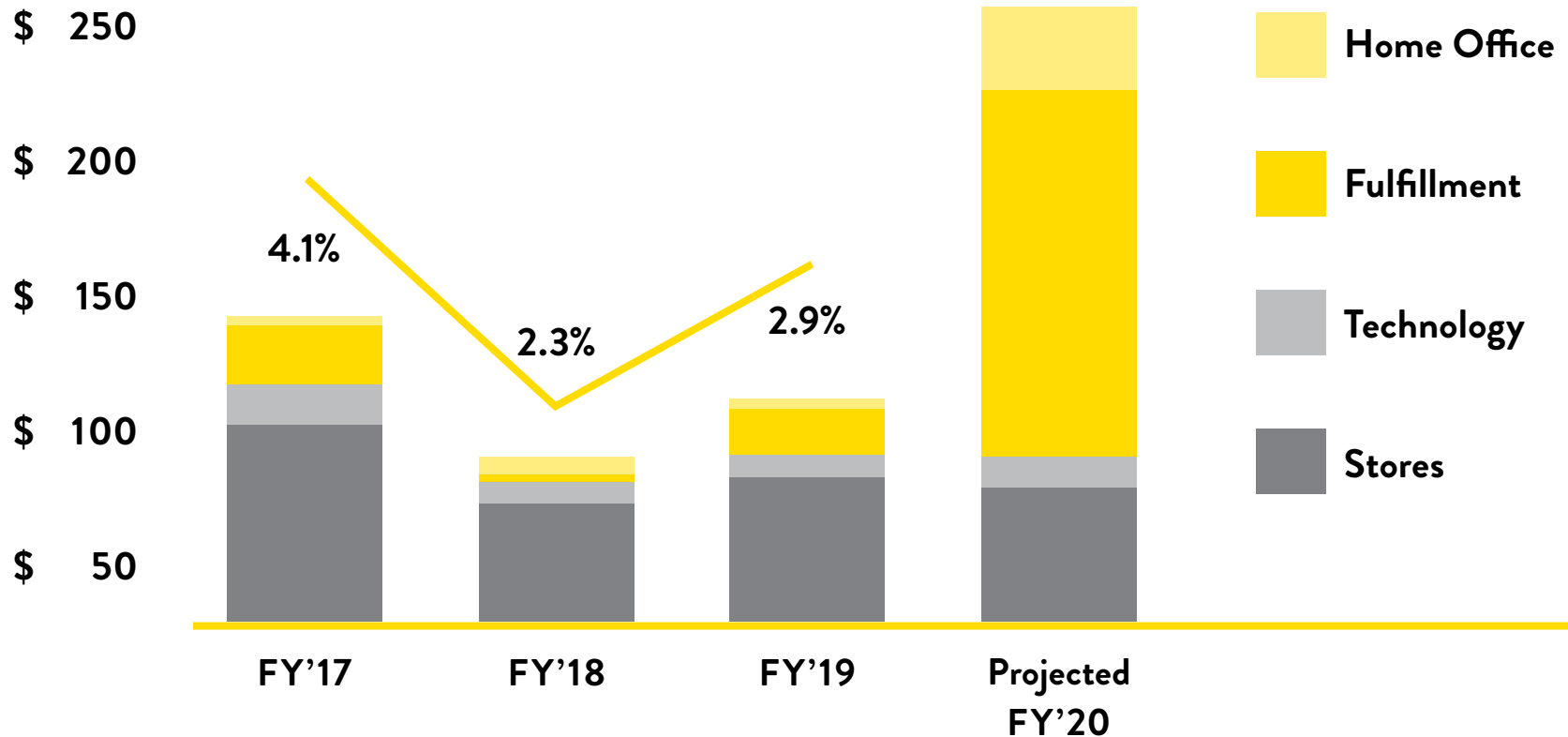
\*Rental Product, net of amortization, is included in Other Assets



# Capital Spending

(\$ in millions)  
(unaudited)

## Net Capex % of Net Sales



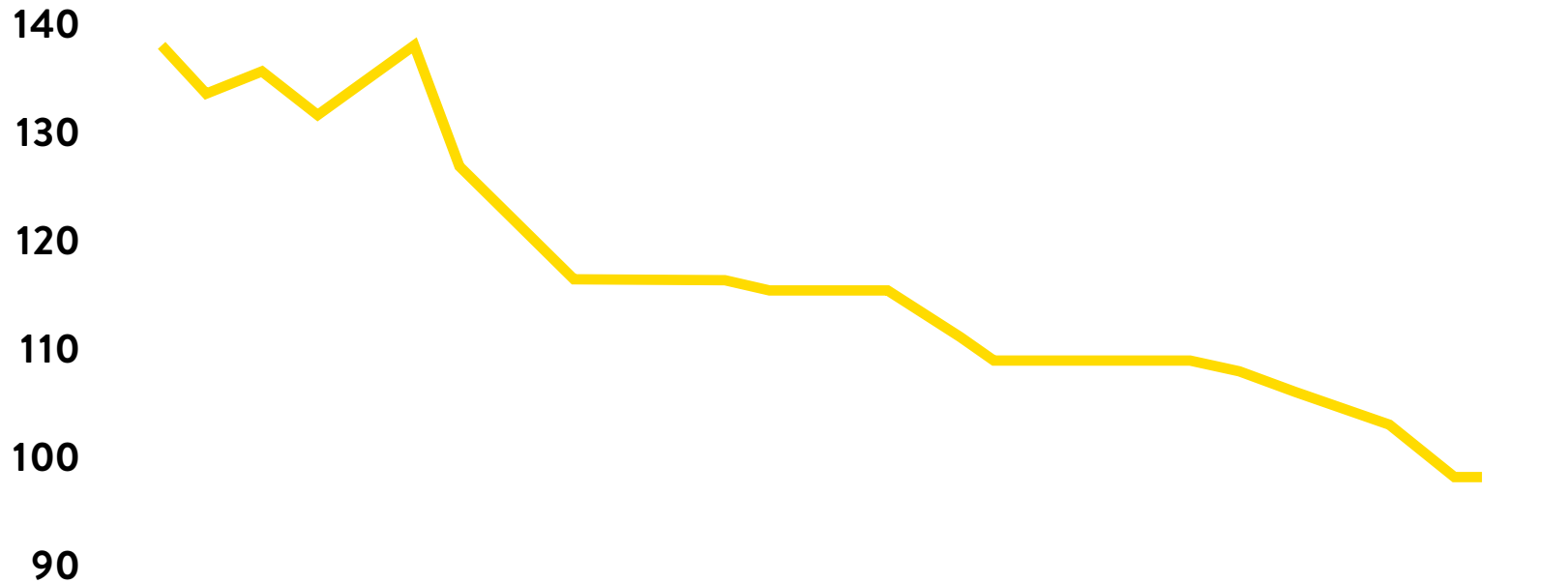
During the third quarter, capital expenditures were \$55 million, while depreciation & amortization was \$28 million. Capital Expenditures are \$171 million year-to-date.



# Shares Outstanding

(share count in millions)  
(\$ in millions)  
(unaudited)

## Ending Shares Outstanding



	FY'15	FY'16	FY'17	FY'18	FY'19	FY'20
<b>Shares Repurchased</b>						
Number of Shares	17.4	15.0	1.3	8.1	3.5	8.1
Total Cost	\$ 611	\$ 465	\$ 46	\$ 157	\$ 121	\$ 217

The Company did not repurchase any shares during the quarter. Year-to-date the Company has repurchased 8.1 million shares for \$217 million. The Company has authorization to repurchase approximately 26 million additional shares remaining granted by the Board of Directors resolutions on August 22, 2017, and June 4, 2019. Our weighted average diluted share count for the quarter was 98.6 million shares.





# Global Retail Stores Summary

	Q1–Q3 FY'20				Projected Q4 FY'20		
	Open as of January 31, 2019	Openings	Closings	Open as of October 31, 2019	Projected Openings	Projected Closings	Projected Open as of January 31, 2020
Anthropologie Group NA	216	–	2	214	–	5	209
Anthropologie Group EU	11	6	–	17	5	–	22
<b>Total Anthropologie Group</b>	<b>227</b>	<b>6</b>	<b>2</b>	<b>231</b>	<b>5</b>	<b>5</b>	<b>231</b>
Free People NA	133	8	1	140	–	–	140
Free People EU	2	1	–	3	1	–	4
<b>Total Free People</b>	<b>135</b>	<b>9</b>	<b>1</b>	<b>143</b>	<b>1</b>	<b>–</b>	<b>144</b>
Urban Outfitters NA	195	1	–	196	2	4	194
Urban Outfitters EU	50	3	–	53	1	–	54
<b>Total Urban Outfitters</b>	<b>245</b>	<b>4</b>	<b>–</b>	<b>249</b>	<b>3</b>	<b>4</b>	<b>248</b>
Food & Beverage	13	–	2	11	–	–	11
<b>Total Company-Owned Stores</b>	<b>620</b>	<b>19</b>	<b>5</b>	<b>634</b>	<b>9</b>	<b>9</b>	<b>634</b>
Franchisee-Owned Stores	5	2	–	7	–	–	7
<b>Total URBN</b>	<b>625</b>	<b>21</b>	<b>5</b>	<b>641</b>	<b>9</b>	<b>9</b>	<b>641</b>



# Global Store Count & Square Footage

(All data is as of the respective period ended)  
(Selling SF in thousands)

		AN	FP	UO	F&B	URBN*	
FY'19	Q1	Store Count	226	134	246	10	616
		Selling SF	1,733	291	2,208	n/a	4,232
	Q2	Store Count	227	135	246	10	618
		Selling SF	1,750	298	2,208	n/a	4,256
	Q3	Store Count	228	134	248	13	623
		Selling SF	1,794	297	2,222	n/a	4,313
	Q4	Store Count	227	135	245	13	620
		Selling SF	1,789	300	2,196	n/a	4,285

		AN	FP	UO	F&B	URBN*	
FY'20	Q1	Store Count	228	136	245	12	621
		Selling SF	1,782	304	2,196	n/a	4,282
	Q2	Store Count	228	137	246	11	622
		Selling SF	1,782	306	2,203	n/a	4,291
	Q3	Store Count	231	143	249	11	634
		Selling SF	1,790	322	2,223	n/a	4,335

\*excludes franchisee-owned stores