URBAN OUTFITTERS, INC.

First Quarter, FY'11 Conference Call
May 13, 2010

Participants

Glen T. Senk	Chief Executive Officer
Eric Artz	Chief Financial Officer
John Kyees	Chief Investor Relations Officer
Meg Hayne	President, Free People Brand
Steve Murray	Global President, Urban Outfitters Brand
Wendy McDevitt	Co-President, Anthropologie Brand
Wendy Wurtzburger	Co-President, Anthropologie Brand
Glen Bodzy	General Counsel
Bill Cody	Chief Talent Officer
Frank Conforti	Controller
Calvin Hollinger	Chief Information Officer
Ted Marlow	Executive Director of Business Development
Barbara Rozsas	Chief Sourcing Officer
Freeman Zausner	Chief Administrative Officer
Dave Ziel	Chief Development Officer

Introduction

Good morning, and welcome to the URBN quarterly conference call. Joining me today is Eric Artz, Chief Financial Officer; John Kyees, Chief Investor Relations Officer; and the majority of our brand and shared service leaders.

Earlier this morning the Company issued a press release outlining the financial and operating results for the three month period ending April 30th, 2010. 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, you will be able access the text of today's conference call on our corporate website at www.urbanoutfittersinc.com.

Highlights

We are delighted to begin the new fiscal year with a series of record-breaking results for the quarter. The following summarizes our First Quarter Fiscal 2011 performance versus the comparable quarter last year:

- Net sales increased 25% to $480 million.
- Income from operations grew 78% to $82 million, resulting in an operating margin of 17%.
- Net income increased 72% to $53 million or $0.31 per diluted share.
- Comparable Retail Segment sales, which include our Direct-to-consumer channel, rose 16%, with increases of 22%, 25%, 22% and 9% at Anthropologie, Free People, Terrain and Urban Outfitters respectively.
- Total Company comparable store sales increased 11%.
- Direct-to-consumer sales rose 42% with all three brands posting double-digit increases.
- Wholesale revenue increased 4% to $25 million.
- Gross profit margins increased 459 basis points, aided by significant gains in initial margins, reductions in merchandise markdowns to clear seasonal product and a lower rate of occupancy expense driven by the strong store comparable net sales growth.
- Selling, general and administrative expenses, expressed as a percentage of sales, declined 55 basis points to 24.7%.
- Comparable Retail Segment inventories, which include our Direct-to-consumer channel, were 3% higher at quarter's end.
- Finally, Cash, Cash Equivalents and Marketable Securities grew year to year by $213 million to $773 million, increasing $28 million to the January 31, 2010 balance.

I'll begin today by providing more detail on each our key business metrics for the quarter, starting with sales:

Retail Segment Sales

New and non-comparable store sales contributed $34 million including a gain of $3 million in currency translation adjustments for foreign-based sales.

The Company opened 9 new stores in the quarter—5 Anthropologie stores including a second location in London, 2 Free People stores and 2 Urban Outfitters stores.

Within the quarter, comparable store sales were positive each month but strongest in March; although on a two year basis, they were strongest in April.

By region, sales at Anthropologie were positive in all locations but strongest in the West and sales at Urban Outfitters were positive in all locations but strongest in the South.

By store venue, sales at Anthropologie were strongest in lifestyle centers, and sales at Urban Outfitters were strongest in malls.

For stores, transaction counts were up 10%, average unit selling prices declined by 1%, and units per transaction increased by 2%.

Direct-to-consumer sales rose 42% to $86 million. The penetration of Direct-to-consumer sales to net sales as a whole increased more than 2 percentage points to 18%, highlighting a continuing secular shift in the way our customer is shopping and the efficacy of our ecommerce strategies. These results were driven by more than 24 million website visits, a gain of 30% or nearly 6 million visits.

By merchandise category, women's apparel and accessories were strongest at Anthropologie, and women's apparel and accessories and men's apparel were strongest at Urban Outfitters.

Each brand's merchant team—including planning, design, production and buying—transitioned from winter to spring to summer exceptionally well. As we entered the second quarter, the inventory content was fresh, compelling and appropriately balanced.

Wholesale Sales

I'd like to now turn your attention to our Wholesale Segment for the quarter.

With the addition of Leifsdottir, revenue increased 4% to $25 million.

While Free People's wholesale revenue increased just 1% to $23 million, the composition of the business was favorable, with sales to specialty stores increasing 31%, sales to department stores flat, and sales to clearance outlets decreasing significantly.

Leifsdottir's wholesale revenue increased 37% to $2.5 million, and we are continually encouraged by the brand's long term potential.

Gross Margin, SGA and Income

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

Gross Margin

Gross margins for the quarter increased 459 basis points to 41.8%, driven by gains in initial margins, a reduction in merchandise markdowns to clear seasonal product, and a lower rate of occupancy expense. I'd like to reiterate that over the long term, we believe we have continued opportunity to increase initial margins and reduce markdown levels.

SG & A

The organization continued to exhibit exceptional discipline in managing expenses while making strategic investments in talent, design, supply chain, technology, our Direct-to-consumer businesses and our European infrastructure.

Total selling, general and administrative expenses for the quarter, as a percentage of sales, declined 55 basis point to 24.7%. This improvement was driven by the control and leveraging of direct store fixed and controllable expenses, which more than offset an increased accrual of incentive-based compensation expense based on our current year performance.

Income

The Company generated an impressive 17% operating margin, earning a first quarter record of $82 million in income from operations, an increase of 78% versus the same quarter last year. We also achieved our highest-ever net income for a first quarter—$53 million, an increase of 72% from the prior year, with earnings per diluted share of $0.31.

The Company's annual effective tax rate was 35.9% versus 36.1% for the same quarter last year, and the Company anticipates further improvement from the current quarter annual effective tax rate for the remainder of the year, related to an increase in income generated from foreign operations.

Closing Comments

It's satisfying to begin the new fiscal year with record sales and earnings, but to do so within the greater context of our long term goals is even more gratifying. As I think of the four key growth initiatives we laid out a year ago, our organization executed admirably.

Our first key initiative was to drive productivity in our core brick and mortar businesses through employing a variety of strategies in four areas: product, site selection and store design, store operations and marketing. The team has made numerous process and systemic improvements across all four functions. In fact, I'd say that our first quarter 11% comparable store performance, our first quarter positive year on year performance, and our ten-year comparable store average of 6% isn't just about fashion—it's about strategy and execution.

The way we manage the supply chain has changed dramatically—beginning with assortment architecture and design, flowing through to production, buying and logistics, and finishing with allocation. We're a different, more controlled, more nimble Company, and the exciting thing is that we still have a lot of opportunity ahead.

The improvements we've made in site selection and store design are also beginning to pay off—our class of 2009 was one of our best performing groups of new stores ever—in fact, for the Company as a whole, in the first quarter, our new stores had slightly higher sales per square foot averages than our comparable stores.

We're on track with the implementation of our cross-channel database—we plan to be fully operational by the end of the third quarter, and we expect to see modest benefits in the fourth quarter. Just imagine the potential—once we know who's shopping, what motivates them to shop, how and when they want us to communicate, how they want us to personalize their shopping experience—we expect to mine this information to better serve our customers and ultimately drive productivity for years to come.

Our second key initiative was to increase the penetration of Direct-to-consumer sales to total Company sales by focusing on five strategic areas: our online merchandise assortment, the websites themselves, mobile commerce, fulfillment operations and social media. I have said before that we are channel-agnostic as to how our customer reaches us, and that we are unwilling to set an upwards limit to the level of penetration. Our mind shift is that we see our online experience as a robust expression of who we are as a brand, unbound by brick and mortar constraints. We believe, however, that for our customers, and for the lifestyle, experience and types of product we sell, that we are in a position of strength as a multi-channel retailer.

We believe our 42% gain in Direct-to-consumer sales indicates that our strategies are working, and I'd like to offer my congratulations and thanks to the myriad of people on the URBN team who have worked so hard to make this happen.

The third key initiative we discussed was international expansion, currently with an emphasis in Europe, but eventually moving to the Far East and other parts of the world. The mind shift here is that we no longer view ourselves as a North American retailer—instead we view ourselves as a global retailer, and we are in the process of creating a strategy, structure and approach to support that goal. In the meantime, our European business is becoming increasingly important to the Company. The Urban brand continues to narrow the performance gap between North America and Europe, and during this past first quarter, Anthropologie successfully opened its second London location and launched Anthropologie.eu.

Our final growth initiative was adding brands to the URBN portfolio, so that the Company is comprised of a minimum of six significant brands over the next ten years. During the first quarter, we continued to make important progress with Terrain and Leifsdottir, and we also announced the formation of our new wedding concept, which will launch during the first quarter of calendar 2011.

Before I finish with my prepared comments this morning, I'd like to formally recognize and thank John Kyees and Ted Marlow for their exceptional contributions to our Company.

John has been an invaluable partner to me and the executive leadership team during his nearly seven-year tenure with the Company. During John's reign, our Company revenue grew from $548 million to just under $2 billion; our yearly profit grew from $48 million to $220 million; and our market cap grew from $404 million to $5.3 billion. We will miss John's stewardship, and we will also miss his kindness and decency.

Ted has been an inestimable member of the URBN leadership team as well. Under Ted's nine-year watch, the Urban Outfitters brand revenue nearly sextupled to more than $900 million; he opened more than 100 new stores; he launched the Direct-to-consumer business; and the European business thrived. Ted is a powerful leader, leaving behind a strong global team and creative vision and foundation that will carry the brand for years to come.

Personally, and on behalf of the board and all URBN employees, we thank John and Ted for their extraordinary commitment and wish them all the best in retirement.

We welcomed Eric Artz to the Company on our last call, so it's now time to welcome Steve Murray. As most of you have read, Steve joined our Company from the VF Corporation where he served as President of the VF Action Sports Coalition overseeing the Vans and Reef brands. Steve is a marketer and merchant at heart, and brings a vast global experience and brilliant track record in growing lifestyle brands and retail concepts. We are thrilled to have Steve join our executive team, and we are confident that he will continue to build the Urban Outfitters legacy and business.

As we have often repeated, our overarching goal is 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 income. With a ten-year revenue CAGR of 21%, and a ten-year income from operations CAGR of 25%, we are on course. Furthermore, I believe we are a better company than ever, with sound strategies, a world-class organization and an unerring focus on superior execution. 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, and as is our custom, I ask each of you to limit yourselves to one question.

Thank you.