

FOURTH QUARTER AND YEAR ENDED JANUARY 31, 2011 MANAGEMENT COMMENTARY

March 7, 2011

Summary Highlights

The following are highlights from our Fourth Quarter 2011 performance versus the comparable quarter last year:

- Net sales increased 14% to \$668 million.
- Comparable Retail Segment net sales, which include our Direct-to-Consumer channel, rose 4%, including a 2% decrease in comparable store net sales and a 28% increase in comparable Direct-to-Consumer net sales.
- By major brand, retail segment comparable net sales increased 1% at Anthropologie, 28% at Free People and 5% at Urban Outfitters.
- Wholesale net sales increased 31% to \$31 million.
- Income from operations grew 1% to \$120 million, resulting in an operating profit margin of 18.0%.
- Net income decreased 3% to \$75 million or \$0.45 per diluted share.

The following are highlights from our Fiscal Year Ended 2011 performance versus the prior year:

- Net sales increased 17% to \$2,274 million.
- Comparable Retail Segment net sales, which include our Direct-to-Consumer channel, rose 9%, including a 4% increase in comparable store net sales and a 33% increase in comparable Direct-to-Consumer net sales.
- By major brand, retail segment comparable net sales increased 10% at Anthropologie, 27% at Free People and 7% at Urban Outfitters.
- Wholesale net sales increased 16% to \$120 million.
- Income from operations grew 22% to \$414 million, resulting in an operating profit margin of 18.2%.
- Net income increased 24% to \$273 million or \$1.60 per diluted share.

Revenue

Retail Stores - The Company opened 17 new stores for the quarter bringing the global store count to 372. New and non-comparable stores contributed \$63 million in net sales during the quarter.

Within the quarter, total Company comparable store net sales were strongest in November, followed by December, then January. For stores, average number of units per transaction increased 2%, while average unit selling prices and transaction counts decreased 3% and 1% respectively.

Direct-to-Consumer – Direct-to-Consumer revenues increased 29% to \$145 million. The penetration of Direct-to-Consumer net sales to net sales as a whole increased 270 basis points to 21.7%. These results were largely driven by a 34% increase in website traffic to over 35 million visitors.

Wholesale Segment– Wholesale segment revenues increased 31% to \$31 million in the quarter, driven by a 32% increase at Free People and an 18% increase at Leifsdottir. Both specialty and department stores contributed to the revenue increase.

Brand Highlights for the fourth quarter

Anthropologie – The brand opened 3 new North American stores in the quarter bringing the global store count to 153. Square footage increased 10% to 1,123,548. Comparable retail segment net sales, which include the Direct-to-Consumer channel, increased 1%. By region sales were strongest in the West and weakest in the Northeast. By venue sales were strongest in malls and lifestyle centers and weakest in street locations. By merchandise category, home was the strongest and women’s apparel was weakest.

Free People – The brand opened 4 new stores in the quarter bringing the global store count to 42. Square footage increased 26% to 58,427. Comparable retail segment net sales, which include the Direct-to-Consumer channel, increased 28%. Sales were positive and rather consistent across all channels, venues and categories during the quarter.

Urban Outfitters– The brand opened 7 new stores in North America and 3 new stores in Europe in the quarter bringing the global store count to 176. Square footage increased 12% to 1,620,715. Comparable retail segment net sales, which include the Direct-to-Consumer channel, increased 5%. Domestically by region, sales were strongest in the Southeast and weakest in the West and Northeast. Domestically by venue, sales were strongest in malls and lifestyle centers and weakest at street locations. By merchandise category footwear, accessories and home were the strongest and women’s apparel was weakest. In Europe, sales were strongest in Continental Europe and weakest in Ireland and our non-London locations in the United Kingdom.

Other Brands – Other brands include Terrain, Leifsdottir, and our new Wedding Brand concept, BHLDN. Revenues for other brands increased 34%. Wedding successfully launched this past Valentine’s Day.

Gross Margin

Gross profit in the quarter grew 8% to \$265 million, but the gross margin rate decreased 208 basis points to 39.7%. The margin rate decrease was primarily due to increased markdown volume to clear seasonal merchandise associated with changing women’s apparel fashion trends, along with higher shipping costs related to an increased penetration of international Direct-to-Consumer business.

For the year gross profit margin improved by 62 basis points versus the prior comparable year. This increase was primarily due to improved merchandise margins and leveraging of store occupancy expense driven by positive comparable store sales.

SG & A

Selling, general and administrative expenses for the quarter, expressed as a percentage of net sales, increased by just 7 basis points to 21.7% despite the Company falling short of its revenue plan for the period. Disciplined expense control helped to offset deleverage resulting from our investments in systems, international expansion and start-up expenses for the BHLDN launch.

Selling, general and administrative expenses for the year, expressed as a percentage of net sales, decreased by 11 basis points versus the prior year. This decrease was primarily due to the leveraging of direct store and controllable costs helped by the positive comparable retail segment sales during the year.

Other Income Statement Items

The Company's effective tax rate for the quarter was 38.0% versus 34.9% in the prior comparable quarter. This increase was due to a change in the final composition of our domestic and international earnings, as well as unfavorable revisions to state tax estimates resulting from tax filings during the quarter. Our annual effective rate improved to 34.6% from 36.2% last year.

Income

The Company generated its second highest operating profit margin for both the quarter and full year, 18.0% operating profit margin or \$121 million during the fourth quarter and 18.2% or \$414 million for the year.

Balance Sheet and Cash flow Items

Cash, Cash Equivalents and Marketable Securities grew year to year by \$63 million to \$808 million at year end. The Company did not repurchase any shares during the quarter but did repurchase and retire 6.3 million common shares for \$205 million during the year. In November the company announced a new authorization to repurchase an additional 10 million shares.

Total Company inventories increased 23% due in part to a record 17 new stores opened in the quarter and robust growth in our Direct-to-Consumer channel. Comparable Retail Segment inventories, which include our Direct-to-Consumer channel, were 10% higher at quarter's end, while comparable store inventories increased 4%. Inventories at Anthropologie and Free People were well controlled throughout the quarter but at Urban Outfitters, slower-than-expected January sales and early spring receipts contributed to a higher-than-planned quarter's end inventory level. It is worth noting, however, that on a two year basis, comparable Retail Segment inventories increased 10% versus a Retail Segment sales increase of 12%.

Total capital spending was \$37 million for the quarter and \$144 million for the year.

Depreciation and amortization was \$26 million for the quarter and \$101 million for the year.