

URBAN OUTFITTERS, INC.

Third Quarter, FY'19 Conference Call
November 19, 2018

Participants

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

Good afternoon, and welcome to the URBN third quarter fiscal 2019 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and nine-month period ending October 31, 2018.

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 Frank Conforti, our Chief Financial Officer, who will provide financial highlights for the quarter. Sheila Harrington, Free People Brand President will provide you with an update on the Free People Brand. Richard Hayne, our Chief Executive Officer, will then comment on our broader strategic initiatives. Following that, we will be pleased to address your questions.

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 Frank.

Frank Conforti

Thank you, Oona and good afternoon everyone.

I will start my prepared commentary discussing our recently completed fiscal 2019 third quarter results versus the prior comparable quarter. Then I will share some of our thoughts concerning the remainder of fiscal year 2019.

Total Company or URBN sales for the third quarter increased by 9% versus the prior year. The increase in sales resulted from a strong 8% URBN Retail segment 'comp', 12% growth in URBN Wholesale sales and a \$10 million increase in 'non-comp' sales. Foreign currency translation had little impact on sales or profit for the quarter.

Within our URBN Retail segment 'comp,' both the digital & store channels delivered positive 'comps' during the quarter. Digital continued to lead the way, posting double-digit sales increases at each of our brands, driven by increases in sessions, average order value and conversion rate. For the store channel, it is now the third quarter in a row that our store 'comps' have been positive at each of our brands. Positive 'comp' store sales resulted from increased average unit selling price and increased units per transaction. Store traffic for the quarter was down approximately 1% versus the prior comparable quarter. This traffic decrease was driven by lower traffic in the EU while North America traffic was flat for the quarter.

By brand our Retail segment 'comp' grew by 12% at Free People, 8% at the Anthropologie Group and 7% at Urban Outfitters. This performance marks the fifth straight quarter each of our brands posted positive Retail segment 'comps'. Our URBN Retail segment 'comp' was positive in all months with August coming in the strongest, followed by September & October, which were comparable to each other.

During the quarter, we opened seven new locations, including: two Urban Outfitters Stores, two Anthropologie stores and three food and beverage locations. We also closed two stores in the quarter, one at Free People and one at Anthropologie.

Our URBN Wholesale segment sales grew 12% versus the prior year. This growth was largely due to an 8% sales increase at Free People. Free People's growth was driven by their domestic business in department stores and digital businesses. These increases resulted from the growth in several categories including women's apparel, intimates, and Free People Movement.

The remainder of the Wholesale segment sales growth was due to the recently launched Anthropologie Home business as well as the Urban Outfitters BDG launch. During the quarter, Urban Outfitters launched wholesale of their BDG brand with partners in the U.S. and the EU. While each of these brand initiatives are small today, we believe both provide for meaningful growth opportunities over the next several years.

Now moving on to URBN gross profit for the quarter. Gross profit increased 13% to \$338 million, while our gross margin rate improved by 134 basis points to 34.7%. The rate improvement was driven by lower markdowns at all three brands and leverage in store occupancy expense due to the strong Retail segment 'comp'.

Total 'SG&A' expenses for the quarter were up 7% to \$241 million. Total 'SG&A' as a percentage of sales, leveraged by 40 basis points to 24.8%. The growth in 'SG&A' expenses was primarily due to increased payroll to support the positive store 'comps', increased bonus and equity expenses earned as a result of the strong company performance and marketing expenses helping to fuel the strong Retail segment sales increase.

Operating income for the quarter increased by 32% to \$96 million, with operating profit margin improving by 174 basis points to 9.9% of net sales.

Our effective tax rate for the quarter was 20.4% versus 37.4% in the third quarter last year. The significant favorability in the tax rate versus the prior year is primarily due to the lower federal statutory rate resulting from tax reform enacted late last year. Additionally, please note that this quarter's effective tax rate was favorably impacted by certain discrete items.

Net income for the quarter grew by 72% to \$78 million or \$0.70 cents per diluted share.

Now turning to the balance sheet. Inventory increased by less than one percent to \$452 million with Retail segment 'comp' inventory essentially flat for the quarter.

We ended the quarter with \$602 million in cash and marketable securities and have zero drawn down on our asset backed line of credit facility. Capital expenditures were \$34 million for the quarter, and we are planning for approximately \$120 million in total capital expenditures for fiscal year 2019. The capital spend for fiscal 2019 is primarily driven by new, relocated and expanded stores followed by investments in our home office space and technology. Lastly, we repurchased 1.5 million shares for \$58 million during the quarter. This leaves 16.4 million shares remaining on our current repurchase authorization.

As we enter the final quarter of fiscal year 2019, it may be helpful for you to consider the following:

I will start with sales. Given our current sales trend, at this point in time, we believe our Retail segment sales 'comp' could follow along our two-year 'comp' stack consistent with how our business has performed for the first three quarters this year.

Now moving on to gross margin. We believe URBN's gross margin rate for the fourth quarter, could improve by a rate similar to the improvement achieved in the third quarter. This improvement could be driven by higher initial mark-ups, lower merchandise markdowns and leverage in store occupancy expense as a result of a strong sales 'comp' and prior year impairment charges. Please note we are speaking to improvement versus our reported numbers for last year, not our adjusted numbers to exclude impairment charges.

Based on our current plan and sales performance, we believe ‘SG&A’ could grow at approximately 5% for the quarter. The growth in ‘SG&A’ could primarily relate to increased incentive-based compensation as a result of URBN’s strong current year performance, digital marketing investments and increased store payroll to drive and support our sales growth.

Our annual effective tax rate is planned to be approximately 25% for the fourth quarter and 23% for the full fiscal year 2019.

We are planning to open four new stores for the quarter while closing eight stores. For further detail on store changes by brand please see our investor metrics sheet posted to www.urbn.com.

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.

Now it is my pleasure to pass the call over to Sheila Harrington, our Free People brand President.

Sheila Harrington

Thank you, Frank, and good afternoon. I am proud to report the Free People brand delivered a record third quarter with total sales growth of 12%.

Both the Retail and Wholesale segments experienced strong growth. Retail wholesale revenues grew by 8% driven by strength in department stores. Retail segment sales increased by 15% in total and 12% on a comparable basis. The brand delivered double-digit ‘comp’ increases in the digital and store channels. Comparable store growth was driven by increases in traffic, conversion and units per transactions in both the digital and store channel. This marks the eighth consecutive quarter of positive Retail segment growth.

While sales were strong across all categories and channels, our bottoms division had a particularly strong performance driving over 50% of the total apparel growth for the brand. The design and merchant teams executed a compelling assortment, which was well received by our customers. Within the bottoms category the brand launched, Curvy, a new fit to better serve a greater range of the Free People customers. The Curvy Fit was introduced in our denim collection through our digital channel. The customer response has been amazing. Since the Curvy launch, 60% of new denim customers have purchased this fit. These results have exceeded our expectations and confirmed the opportunity to better serve both our loyal and future Free People customers. We will continue to grow this fit in the spring by expanding color and style count in the digital channel, as well as expand distribution into select wholesale accounts and retail locations.

During the quarter, we continued to focus on the growth of Free People Movement and our more recently launched Wellness and Beauty Categories. Within these categories, the Free People brand has a unique opportunity to create product specific to the customers lifestyle and we believe offers a strong growth opportunity for the brand. These three categories represented almost 20% of total brand growth for third quarter.

Let me start with Wellness and Beauty, I am pleased to announce the brand launched our first own brand all-natural fragrance collection. The product speaks to the brand values of clean beauty, an under-serviced space in the market. Our customer's response was stronger than anticipated, and we look forward to continuing to develop and provide additional unique products for our customers within this category.

Now moving to our Movement category. Movement produced exceptional growth across all three channels in the quarter. We have expanded our wholesale distribution through eight new Movement shop-in-shops within Nordstrom, as well as expanding specialty accounts including boutique fitness studios. Within the digital channel, Movement nearly doubled its revenue versus the prior year. We now offer a Movement assortment in 35 Free People doors. Throughout the year and the quarter, our store teams have been hosting local events with community-based studios and instructors to help create an experience that goes beyond just the purchase transaction. These events, one of which was hosted by Cleo Wade, helped to create over 11M social impressions and our 82% increase in Movement customers versus the prior year.

Free People Movement, Wellness and Beauty categories will continue to be a priority focus for the brand. We are excited about the momentum and the future opportunity these categories have and are making talent investments to ensure this potential is realized.

Turning to our international business which continues to be a strategic focus for the brand. Just last week we opened our first retail location in Europe, with a store located in the Nine Little Streets of Amsterdam. Although still very early, we are excited about how well the store and the brand has been received. We will open our second European location in London late in the fourth quarter. Additionally, we are excited to enter Israel in early 2019 with Free Peoples first franchise location in Tel Aviv. We are pleased with our international success to date and enthusiastic about the significant opportunity to grow each of our channels in the years to come. I am extremely proud of the team for the results they produced in the first three quarters of the year and am excited about where the Free People Brand is going. I would like to thank Meg, Krissy and the entire Free People team for an outstanding quarter.

Thank you. I now turn the call over to Dick.

Dick Hayne

Thanks, Sheila. Excellent 'comp' sales. You also ended Q3 with clean inventories and one of the lowest mark-down rates in URBN history – congratulations on a superb quarter! My thanks to you, Meg, Krissy and the entire Free People team for a job extremely well done.

Let me now turn to an analysis of total Company third quarter results. In the last few conference calls I have spoken about factors which have created powerful tailwinds for our business, namely, a vigorous US economy, record consumer confidence, ultra-low unemployment and a changing fashion silhouette. These factors have helped us generate record results. I'm pleased to report the tailwinds continued to blow, and in Q3 we produced yet another record quarter. URBN brand teams delivered an 8% Retail segment 'comp' on a plus 1% last year, and earnings jumped 72%

over the prior year period. Sales, earnings and earnings per share all set new URBN third quarter records.

As was true in the first half, strong demand for apparel and accessories drove much of these record-setting results. Both Retail segment channels registered positive ‘comps’ in both North America and Europe, and digital ‘comps’ continued to grow at a double-digit pace at all three brands.

For the quarter, store traffic came in flat in North America and down single digits in Europe, and conversion was essentially flat. However, higher AUR and a slight increase in UPT offset traffic issues and generated positive store ‘comps’. Retail segment inventories at all brands were well controlled and total ‘comp’ inventory at cost, was flat to last year at quarter’s end. Tighter inventories and faster turns helped to improve markdown rates at all brands and boost merchandise margins.

Now Sheila spoke to the Free People performance in some detail, so I will now address third quarter results at the other two brands, starting with Anthropologie.

Anthro achieved an 8% increase in Retail segment ‘comp’ sales on top of a 2% gain last year, and all product categories produced positive ‘comps’. This ‘comp’ improvement was powered by a strong double-digit increase in the digital channel combined with a positive store ‘comp’. The store success came from increases in UPT’s and AUR, which combined to drive better average order value. The digital channel benefitted from improvement in all metrics.

On our call last quarter, we told you that the performance of Anthro’s internally-designed apparel had improved throughout the first half of the year. As a result, the merchants increased the penetration of internal product, so in the third quarter, the apparel assortment was more equally balanced between internal and market product. More internal product lifted IMU which, we believe, should continue to positively impact Q4, as well. The Q3 apparel assortment also performed better than last year, so the need to take mark-downs was reduced, and together with better IMU, produced solid gains in merchandise margins. This, along with tight expense control, enabled the brand to deliver much improved operating margins.

The brand has now produced better year-over-year operating margins in each of the first three quarters of FY19, but we believe Anthropologie has opportunity for additional margin recapture going forward by continuing to improve IMU with a higher penetration of internal product and achieving better markdown rates.

Turning to Anthro’s international business, ‘comps’ in Europe outpaced those in North America in both channels. Higher conversion and better traffic produced nice single-digit ‘comp’ store gains. In the digital channel, the European group generated powerful double-digit ‘comps’ by increasing sessions, AOV, UPTs and conversion. All product categories participated in this success. Beyond Europe, Anthropologie entered two new digital markets during the quarter, China on the TMall Global platform and Israel, through Terminal X, our partner’s online platform. Early reads in both markets are positive and give us confidence to pursue further expansion in Fiscal 2020.

Anthropologie's wholesale business also enjoyed continued growth in Q3, primarily by expanding distribution at Nordstrom. In addition to the Anthro Home product carried on nordstrom.com, the brand now has 19 dedicated home category shop-in-shops in Nordstrom locations and a select home assortment in an additional 60 doors. In Europe, Anthro Home wholesale is currently distributed through John Lewis, but going forward, the brand plans to expand distribution points by forming strategic partnerships with additional European retailers and expanding the number of doors with each partner.

In all channels, all geographies and all categories, the Anthropologie team orchestrated an excellent quarter. My congratulations to Hillary, Andrew, Meg and the entire Anthropologie team on a job well done. I look forward to your continued success in Q4 and beyond.

Now, please turn your attention to the Urban Outfitters brand, where total Retail segment 'comps' in the third quarter grew by 7% on top of flat 'comps' last year. Like the other two brands, apparel and accessories led the increase but all categories produced positive 'comps', including the Home category. Home sales had been soft for almost a year but turned nicely positive in Q3. Furniture and decorative accessories fared especially well, as did the Fun and Games assortment which features novelties and gifts. For the Urban brand, this latter product group sells particularly well at holiday time, so third quarter success bodes well for Holiday sales.

The brand delivered positive 'comps' in both the digital and store channels in both North America and Europe. Flat store traffic in North America and soft traffic in Europe were both offset by higher AUR which was helped by less need to take mark-downs. The brand opened two new stores during the quarter – one in North America and one in Europe – and helped to open its third franchise store in Israel.

Urban's global digital business saw double-digit growth driven by increases in sessions and average order value. One recent example of this success is the brand's results from Singles Day on TMall Global. Singles Day is the biggest one-day sales event in world, and this year the Urban brand achieved the #1 apparel brand on TMall Global. As you may know, Global is TMall's smaller platform for brands that don't carry inventory in-country. We're told TMall Classic, their larger platform, generates approximately 10 times greater customer demand than Global, thus, we plan to launch all three brands on TMall Classic next year. The Urban brand is enjoying strong worldwide brand recognition and acceptance, be it in Europe, Israel or China. During the third quarter, the number of global Urban brand customers increased at a double-digit rate and the UO Rewards loyalty program now tops 9M members.

In Q3, the Urban brand launched its BDG wholesale collection through nordstrom.com domestically and Zalando in Europe. The collection offers core denim and woven bottoms rounded out with a tight assortment of knit tops and jackets. Partner sell-throughs from both geographies have been very encouraging and the brand expects to significantly expand distribution next year.

While total brand IMU was fractionally lower than the previous year period, merchandise margins meaningfully improved due to a much higher mix of regular price sales. In fact, the Urban brand delivered its lowest quarterly mark-down rate in its history and total brand expenses leveraged

nicely, as well. Better merchandise margins and a lower expense rate allowed much of the third quarter sales gain to flow to the bottom line and created double-digit improvement in the brand's operating margins. My congratulations and thanks to Trish, Meg, and the Urban teams on both sides of the Atlantic for producing an outstanding quarter.

In conclusion, each brand delivered an excellent quarter and impressive nine-month results. Our teams have much to be proud of. Besides driving excellent sales growth, they kept their inventories clean and lean, managed mark-downs well and controlled expenses. As a result, profitability is up sharply. But is it sustainable? With this question in mind, allow me to revisit our commentary on this subject eighteen months ago and reiterate why we see amazing opportunity in front of us.

As we discussed then, there are four major areas that can drive top line growth:

- The digital channel remains our largest opportunity. Over the past decade URBN digital has delivered consistent double-digit growth. Much of the gain resulted from increasing our offering, expanding our geographic reach, improving convenience, enhancing the experience, and elevating our marketing efforts. We still have many improvements and additions to make in each of these levers. Our digital penetration is now approximately 40% of Retail segment sales. If the digital channel continues to grow at even a low double-digit rate, and stores produce a slightly negative to slightly positive 'comp', then our total Retail segment 'comp' would be in the mid-single digit range. We believe this is a likely scenario for 'comp' sales growth going forward.
- We also have massive international growth opportunity. URBN's international sales penetration remains in the teens. Given the power of our brands and their recent performance in Europe and other markets, like China and Israel, we intend to accelerate our rate of growth.
 - In Europe, we plan to open 10 to 20 new stores across all brands in each of the next two years. With a current base of 61 stores, we plan for our European store count to exceed 100 in 3 years. As we open stores, we expect the European digital business to achieve strong growth as well.
 - Our entrance into the APAC market has been through China. The Urban and Free People brands have been experimenting with this market for the past several years by having a presence on the TMall Global digital platform and fulfilling orders from the U.S. Given the success I discussed earlier, we plan to establish a larger presence by mid-next year. To do this we will switch to the much larger TMall Classic platform, hold inventory in-country and fulfill orders through a third-party service provider in China. In addition, we plan to sign leases for several stores to open in calendar year 2020.
 - In the Mideast, based on our current success in Israel where our franchisee now operates three Urban stores, we have recently signed an additional franchise agreement to open stores in other Middle Eastern markets. We expect to have more than 10 stores in total across all brands in operation by the end of 2020.

- Another growth driver has been our Wholesale business. Over the past five years, Wholesale has consistently grown revenues at a double-digit rate. This was achieved by offering great product and adding categories like intimates, shoes, and more recently Movement and denim. This year both the Anthropologie and Urban brands began offering segments of their assortments to selected retailers and e-tailers. We believe the Wholesale channel can continue its double-digit growth by expanding the core Free People offering geographically and building the account structure for Movement, Anthro Home, and the Urban brand's BDG Collection.
- Finally, we have two smaller concepts – Terrain and BHLDN. We believe both could exceed \$150M in sales and grow faster than our core brands.

In closing, I believe all brands in the URBN portfolio are resonating powerfully with their chosen customer. The macro-environment is favorable, we have numerous growth vehicles to drive our top line and our teams are executing masterfully. I believe URBN's future has never been brighter. I thank our brand and shared service leaders, the merchant, creative and operating teams and our 24,000 associates worldwide for their hard work, dedication and creativity. You produced a truly excellent quarter. I also recognize and thank our many partners around the world. Finally, I thank our shareholders for their continued support.

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