

# URBAN OUTFITTERS, INC.

## First Quarter Fiscal 2014 ended April 30<sup>th</sup>, 2013 Management Commentary

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### Summary Highlights

The following are highlights from our First Quarter Fiscal Year 2014 performance versus the comparable quarter last year:

- Net sales increased 14% to \$648 million.
- Comparable Retail Segment net sales, which include our comparable direct-to-consumer channel, increased 9%.
- By major brand, comparable retail segment net sales at Free People, Anthropologie and Urban Outfitters increased 44%, 8% and 6%, respectively.
- Wholesale net sales increased 16% to \$36 million.
- Gross profit increased 18% to \$239 million, while gross profit rate improved 125 basis points to 36.8%
- Income from operations increased 38% to \$73 million and operating profit margin improved 196 basis points to 11.3%.
- Net income was \$47 million or \$0.32 per diluted share.

### Revenue

**Retail Segment** – Comparable Retail Segment net sales, which include our comparable direct-to-consumer channel, increased 9% driven by continued robust direct-to-consumer growth and positive comp store sales. Within the quarter, total Company comparable retail segment net sales were strongest in March and April, followed by February. The Company opened 7 new stores and closed 1 store during the quarter bringing the global store count to 482. The change in comparable store net sales resulted from an increase in transactions, a decrease in the average unit selling price and no change in units per transaction for the quarter. Direct-to-consumer net sales were driven by a 17% increase in website traffic to approximately 52 million visitors and a 56 basis points improvement in conversion rate.

**Wholesale Segment** – Wholesale segment net sales increased 16% to \$36 million in the quarter driven double-digit sales increases at specialty accounts and department stores.

## **Brand Highlights for the first quarter**

**Anthropologie** – The brand opened 2 new stores during the quarter bringing the global store count to 182. Square footage increased 5% over the prior year period to 1,290,645. Comparable retail segment net sales, which include the comparable direct-to-consumer channel, increased 8%. By region store net sales were strongest in the West and weakest in the East. By venue store net sales were strongest in free standing locations and weakest in metro locations. By Retail segment merchandise category, women’s apparel was the strongest.

**Free People** – The brand opened 3 new stores during the quarter bringing the total store count to 80. Square footage increased 14% over the prior year period to 109,406. Comparable retail segment net sales, which include the comparable direct-to-consumer channel, increased 44%. By region store net sales were strongest in the West and weakest in the Northeast. By venue store net sales were strongest in lifestyle centers. All merchandise categories delivered significant positive comp net sales.

**Urban Outfitters**– The brand opened 2 new stores and closed 1 in the quarter bringing the global store count to 216. Square footage increased 6% over the prior year period to 1,917,291. Comparable retail segment net sales, which include the comparable direct-to-consumer channel, increased 6%.

In North America, by region, store net sales were strongest in the West and weakest in the Midwest. By venue, store net sales were strongest in traditional malls and weakest in college locations. All merchandise categories delivered positive comp net sales.

In Europe, by region, store net sales were strongest in Continental Europe and weakest in London. By venue, store net sales were strongest in traditional malls and weakest in street locations. By Retail segment merchandise category, home and women’s apparel and accessories were the strongest.

**Other Brands** – Other brands include Terrain and BHLDN. Net sales for other brands increased by \$1 million, driven by new and non-comparable stores and growth in the direct-to-consumer channels.

## **Gross Margin**

Gross profit in the quarter increased 18% to \$239 million. Gross profit rate improved by 125 basis points versus the prior year’s comparable period. The improvement in gross profit rate was primarily due to a reduction in merchandise markdowns primarily driven by improvements at the Anthropologie brand. We also improved our initial merchandise margins and leveraged store occupancy expenses. These improvements were partially offset by a deleveraging of delivery expense primarily related to an increase in direct-to-consumer net sales penetration.

## **SG & A**

Total selling, general and administrative expenses for the quarter, expressed as a percentage of net sales, decreased by 70 basis points to 25.5%. The leverage was primarily due to improvements in direct store controllable and selling support expenses driven by the strong positive retail segment net sales.

## **Other Income Statement Items**

The Company's effective tax rate for the quarter was 35.4%. The company expects the annual effective tax rate to be approximately 36.5% for the full year.

## **Balance Sheet and Cash Flow Items**

Cash, Cash Equivalents and Marketable Securities increased from the prior year by \$299 million to \$638 million.

Total inventories increased \$26 million to \$325 million, a 9% increase over the prior year period. The growth in total inventories is primarily related to the acquisition of inventory to stock new and non-comparable stores. Comparable retail segment inventories increased 1% driven primarily by additional inventory to fuel our strong direct-to-consumer sales growth.

Total capital spending was \$27 million for the quarter and depreciation and amortization was \$31 million for the quarter.