

URBAN OUTFITTERS, INC.

Fourth Quarter, FY'18 Conference Call
March 6, 2018

Participants

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

Good afternoon, and welcome to the URBN fourth quarter fiscal 2018 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and twelve-month periods ending January 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. To find disclosures and reconciliations of non-GAAP measures that we use when discussing our financial results, please refer to our earnings release in the Investor Relations section of our website.

We will begin today's call with Frank Conforti, our Chief Financial Officer, who will provide financial highlights for the fourth quarter. Richard Hayne, our Chief Executive Officer, will then comment on our broader strategic initiatives, followed by our three brand leaders, David McCreight, Sheila Harrington, and Trish Donnelly, each of whom will provide commentary on their businesses. 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.

Frank Conforti

Thank you, Oona, and good afternoon everyone.

I will start my prepared commentary discussing our recently completed fiscal year 2018 fourth quarter results versus the prior comparable quarter. Then I will share some of our thoughts concerning the first quarter and full year fiscal 2019.

Please note, when discussing the fourth quarter of fiscal 2018 results vs. the prior comparable quarter, I will be referencing results that have been adjusted for certain unusual items consisting of store impairments in gross profit, a goodwill write-down in ‘SG&A’ and one-time tax charges associated with U.S. tax reform enacted during our fourth quarter. For a reconciliation of these adjustments, please refer to our fourth quarter earnings release which was posted to our URBN.com website earlier today.

Total Company or URBN sales for the fourth quarter of fiscal 2018 increased 6% vs. the prior year. The increase in sales resulted from a 4% URBN Retail segment ‘comp’, a 6% increase in Free People wholesale sales, and a \$16 million increase in ‘non-comp’ sales.

Within our URBN Retail segment ‘comp’, the digital channel continued to perform nicely with all brands posting double-digit digital growth. Digital growth was driven by increases in sessions and conversion rate, while average order value was flat. Store ‘comp’ sales remained negative, due to declines in transactions and units per transaction, which more than offset increases in average unit selling price. Store traffic for the quarter was up nicely in Europe and flat to down slightly in North America. I also want to note that although store ‘comps’ were negative for the quarter, URBN store ‘comps’ for January were positive, and we have seen overall store ‘comps’ improve from their performance over the previous several quarters.

By brand, our Retail segment ‘comp’ rate was positive at all three brands with increases of 8% at Free People, 5% at Anthropologie and 2% at Urban Outfitters. Our URBN Retail segment ‘comp’ was the strongest in January, followed by November and then December.

During the fourth quarter, we opened two new store locations, one Urban Outfitters location in Italy and one Anthropologie location in North America. We also exited five locations during the quarter.

Wholesale segment net sales increased by 6% for the quarter. Free People’s wholesale segment grew 6% and was driven by domestic and international growth in departments stores, specialty stores and digital businesses. Anthropologie’s wholesale segment, while still small, grew their sales in the UK building off their successful launch in the UK earlier this year. Additionally, I know David is excited to discuss an exciting new partnership in North America that will build upon the potential of this segment for the Anthropologie brand.

Now moving on to URBN adjusted gross profit for the quarter. Adjusted gross profit increased 2% versus the prior comparable quarter to \$352 million. Adjusted gross profit rate declined by 113 basis points to 32.3% from 33.5%. This decline was primarily driven by deleverage in delivery and logistics expense due to increased penetration of the digital channel, increased expedited shipments around holiday in order to hit guaranteed delivery dates and increased penetration of international and furniture shipments. Merchandise markdowns were lower in the quarter, but the improvement was partially offset by lower initial mark-ups.

Adjusted ‘SG&A’ expenses for the quarter increased 3% versus the prior comparable quarter to \$248 million. The increase in expense primarily relates to investments in digital marketing expenditures. Adjusted ‘SG&A’ as a percentage of net sales, leveraged by 62 basis points to 22.7% from 23.3%. The leverage in ‘SG&A’ rate was primarily due to savings associated with our store reorganization project.

Adjusted operating income for the quarter was flat at \$104 million, while adjusted operating profit margin declined 51bps to 9.6%

As everyone is aware, in December, U.S. Tax Reform was enacted. This new legislation required us to take a one-time charge on our foreign earnings and profits, and we are also required to write down certain deferred tax assets. These one-time charges totaled \$65 million for the quarter. Excluding these one-time charges our effective tax rate for the quarter would have been 27.5%.

Adjusted net income for the quarter was \$75 million and adjusted earnings per diluted share was \$0.69 cents.

Now turning to the balance sheet. URBN inventory was up 4% versus the prior year to \$351 million. Retail segment ‘comp’ inventory increased by 3% at cost.

We ended the quarter with \$506 million in cash and marketable securities and have zero drawn down on our asset backed line of credit facility. We did not repurchase any additional shares during the quarter, leaving our fiscal year 2018 buyback total at 8 million shares for \$157 million. Capital expenditures came in at \$20 million for the quarter and \$84 million for the year. The capital spend for fiscal 2018 was primarily driven by new, relocated and expanded stores followed by investments in digital related technology.

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

I will start with our current sales trend. As many of you are aware, we experienced a strong January. We are pleased to report, that February has continued along similar lines. Quarter-to-date, our Retail segment sales ‘comp’ is up very high single-digits.

Based on the current sales trends, we believe that gross margin rate for the first quarter could improve by approximately 100bps on a year-over-year basis. This improvement could be largely due to lower markdown rates, partially offset by lower initial margins. Additionally, if the current sales trends continue, store occupancy could leverage, which could more than offset deleverage in delivery and logistics expense.

Based on our current plan and quarter-to-date sales, we believe ‘SG&A’ could increase by approximately 5% for the first quarter yet leverage nicely if current sales trends continue. The increase in spend could primarily relate to increased digital marketing investments associated with the strong topline growth.

Our annual and first quarter effective tax rates are planned to be approximately 25%.

Capital expenditures for fiscal 2019 are planned at approximately \$110 million. The spend for fiscal 2019 is primarily driven by new, relocated and expanded stores followed by investments in home office space and technology.

Lastly, we are planning to open 17 new stores for the year while closing 11 stores. Anthropologie and the Food and Beverage division will each grow their store base by 3 doors while Urban Outfitters and Free People total store counts are planned to remain the same. Within the 17 total new stores planned, 6 are in Europe. For further brand level store information, please see our financial metrics sheet posted to our URBN website.

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 Dick Hayne, URBN Chief Executive Officer.

Dick Hayne

Thank you, Frank, and good afternoon everyone. Thanks for joining us today.

For the past several years we, along with most apparel retailers, have faced powerful headwinds. The economy has been sluggish and wage growth stagnant. Technology has disrupted our channel economics. And our most important product category – apparel – has remained stuck in the fashion rut of skinny jeans and yoga pants. One article published in Bloomberg news entitled ‘The Death of Clothing’, declared that fashion was over forever. Well I believe, reports of its death have been greatly exaggerated, to borrow a phrase.

Today, the winds have shifted and many of the macro-factors mentioned above are now blowing in our favor. The economy is strong (amazingly, some argue too strong), unemployment low, wages are growing, tax cuts mean consumers have more disposable income and as for fashion, well...it's fashionable again! Led by a change in the bottoms silhouette, demand for new fashion has surged. We began seeing green shoots in North America last spring and have seen a steady build ever since.

This fashion revival doesn't mean there aren't too many apparel stores in North America – there are. And, it doesn't mean that technology has stopped causing disruption – it hasn't. In fact, in the fourth quarter, digital penetration of our total Retail segment sales exceeded 40% for the first time. What the resurgence of fashion demand does mean is an opportunity to succeed in spite of these hurdles which is why we're so excited and optimistic.

During the fourth quarter, we delivered a healthy Retail segment 'comp' led by better year-over-year sales of apparel and accessories. Excluding a few weeks in December, when the Urban brand was negatively impacted by poor performance in its tech and media categories, the holiday quarter was a good one.

We were particularly pleased with how well the brands transitioned into early spring. Better fashion execution and more newness drove excellent January sales and provided the merchants with important early reads on spring demand. January momentum has continued into the first quarter, and current quarter-to-date Retail segment sales are running up in very high single-digits on a comparable basis. Importantly, store 'comps' at each brand are nicely positive for the first time in five years. Better store sales are being driven by an increase in AUR at all three brands, while store traffic in North America is essentially flat to down slightly. If 'comp' store sales maintain their current trajectory, we could leverage store occupancy expenses for the first time in many quarters.

Please remember we are only one-third of the way into the quarter and trends can change. Nevertheless, customers across all three brands are responding exceptionally well to our spring apparel assortments and the overall environment is much more benign. Given this, and the quarter to date results, the teams are very confident and optimistic about first half results.

Before I turn the call over to the brand leaders to discuss their respective results, I want to discuss the impact of the new tax laws on the Company. We believe that if we perform to our FY19 plan, we could experience a reduced tax burden greater than \$30 million. Given this reduction, the resurgence of fashion and the state of the economy, we believe larger investments in future growth projects are warranted. During the year, our plan reflects incremental investments to support our fast-growing digital business, including upgrades to our capabilities around mobile, personalization, loyalty, marketing, search, ease of checkout and load speeds. This will require hiring additional engineers and project managers and contracting with more service providers.

Also, given the continuing success we're experiencing in Europe, we plan to accelerate our international expansion. Our brand leaders will discuss these plans in more detail, shortly. In addition, we expect to raise the starting pay rates for many of our workers, including store associates and logistics personnel. Finally, we are in the planning stage of making additional capital investments to our distribution and fulfillment capabilities and will announce them once we have finished that process.

Now I will turn the call over to the brand leaders who will provide you with an update on their fourth quarter results and important future initiatives. I'll start with David McCreight, CEO of the Anthropologie Group.

David McCreight

Thank you, Dick, and good evening everyone.

I am very pleased to speak with you about our Q4 results, the expectations for spring, and plans for the upcoming year at the Anthropologie Group.

The positive 5% Retail segment ‘comp’ Frank mentioned marks the fourth consecutive quarter of ‘comp’ sales trend improvement for the Anthropologie Group. From a channel perspective, digital delivered another strong quarter, concluding our fifth year of double-digit ‘comp’ sales. For holiday, the merchants expanded the digital offer successfully; creative teams elevated our digital imagery; and our marketers tested new ways of reaching customers. However, the most encouraging channel performance of the season came from the Anthropologie store base. As we mentioned on previous calls, store traffic patterns had been improving, but we had yet to experience commensurate improvement in sales. We are happy to report Anthropologie stores delivered a positive Q4 sales ‘comp’, notably while our digital business continued its double-digit expansion. For the first time in a while, product growth was fueled not only by emerging the businesses of (Home, Accessories, Beauty, BHLDN, and Terrain), but also supported this past quarter by our apparel category which posted a positive ‘comp’. Interestingly, as we moved beyond the holiday season into January, both the Anthropologie apparel and accessories divisions experienced a marked acceleration in demand for spring transition goods. Dick’s early call hailing the imminent arrival of a bottoms-led fashion cycle is looking prescient. Indeed, bottoms are our fastest growing category, but the improvement in apparel trend has been broad-based across most apparel categories. I attribute much of the recent trajectory to the merchant, design and creative teams’ better alignment with our customers’ tastes, under Hillary’s leadership the teams have delivered clearer product messaging in both channels and sharp execution of the season’s transition strategy. The earlier deliveries of transition product not only drove strong sales but provided us with insight into our customers’ appetite for new silhouettes, colors, and fabric which could help increase product accuracy for the remaining spring and upcoming summer season. In the current quarter, similar to the fourth, we expect higher market brand penetration in apparel. As the year progresses, we expect market brand penetration to normalize with the mix of own brand product increasing, which will provide an opportunity for margin rate expansion. Based on the customers broad-based appetite for the brands spring transitional apparel product in January and February, we believe we could deliver robust year-on-year sales gains through the first half of the year.

I’d now like to highlight some of the initiatives we will be working on this year.

- Offer a broader range of product by aesthetic and end use
- Shorten product lead times
- Increase conversion by improving the shopping experience in stores and online
- Acquire new customers by continuing international expansion; to that end, we are opening our first Anthropologie store in Germany.
- Additionally, to broaden our domestic reach, we are excited to announce the brand will launch an Anthropologie Home Collection with Nordstrom. The first delivery will be in limited stores starting in March and should build throughout the year to include a larger

assortment and more doors. Thank you to Krissy, Andrew, and their teams for their fruitful efforts in forging this new relationship.

Our focus on executing these strategic initiatives, combined with our customers' exciting early response to our spring apparel and accessories offer could enable us to deliver strong growth for the Anthropologie group in the first half of the year.

I would like to take this moment to thank the thousands of associates in stores and home office that work every day to make the Anthropologie Group an attractive brand experience and wonderful place to work.

I would now like to pass the call to Sheila.

Sheila Harrington

Thank you, David, and good afternoon everyone.

I am pleased to report the Free People brand delivered a record fourth quarter with total sales growth of 8%. Higher revenues coupled with expanded margins led to strong operating income improvement for the brand, as well.

Both the retail and wholesale segments experienced strong growth driven primarily by better apparel sales. Wholesale sales grew by 6% including robust increases at specialty stores and international accounts. Retail segment sales increased by 10% in total and 8% on a comparable basis. A double-digit increase in digital sales combined with an improved 'comp' trend at stores drove better Retail segment 'comps'. The ongoing disparity in channel performance reflects the continuing migration of our consumers to digital with over 50% of our Retail segment revenue now coming from that channel. Following a successful re-platform of our website, the brand was able to offer the customer better functionality, including: in-store pick-up capabilities, improved delivery options, a more responsive site and faster load times. This improved functionality helped to drive the fourth quarter digital gains, and we believe it will help us generate future gains as well.

During the quarter, the teams continued to work on new ways to communicate with our customer. One example was our "Dream" video which generated over 17 million brand impressions, our most viewed marketing piece ever. The video, which had consistent messaging on all marketing vehicles, including YouTube and Instagram, celebrated our FP Girl and combined aspirational product, imagery and styling for the season. We continue to find new and creative ways to speak to and inspire our existing customers while attracting new ones. Total customer count increased by 13% in the quarter.

Two previously discussed long-term initiatives successfully helped drive sales growth in the quarter. First was FP Movement, the brand's activewear offering which was launched five years ago and is now growing rapidly. In the quarter, FP Movement delivered sales growth in excess of 50% and represented a meaningful portion of total brand's growth in the fourth quarter. FP Movement product is now sold through 19 shop-in-shops within existing Free People stores, 2

free-standing pop-up shops, and almost 500 independent Wholesale accounts, including local and regional exercise studios and activewear-focused digital accounts.

We continue to invest in FP Movement marketing events to build a strong connection with our customer community. This January, we hosted “Let’s Move” events which provide existing and potential customers the opportunity to connect with the brand, other customers and influential exercise instructors. These events were held at Free People stores in major cities, and in pop-up locations. The events and associated marketing campaigns drove sales and customer acquisition. We believe FP Movement holds significant revenue opportunity for the brand, and we intend to make further investments in this category in FY19.

Turning now to the second long-term initiative, international expansion has become one of the brand’s primary growth vehicles. In the fourth quarter, Free People’s international revenue grew by 30%, driven by wholesale and digital. International wholesale growth came primarily from existing European accounts and new European department store accounts in Italy and Spain. International digital growth was driven primarily by gains in the UK and China. In the UK, successful marketing campaigns drove increased brand awareness, yielding a 67% increase in customers. In China, significant growth was driven by our ongoing FP China site and the newly launched Free People shop on Tmall.

During the quarter and the year, we made significant progress in increasing the brand’s awareness for the FP Movement brand in North America and the Free People brand overseas. We believe both have the opportunity to grow substantially in the future and plan to invest accordingly.

Finally, products are the heart and soul of what we do, and our design and merchant teams continue to have great success by creating and offering enormously compelling products. I’m extremely proud of them and the entire team for the results they have produced in the fourth quarter. As we transitioned into spring that success has continued to date, and we believe we have an opportunity to deliver strong results in the first quarter. I would like to thank Meg, Krissy, and the entire Free People team for a great quarter.

Thank you. I will now turn the call over to Trish Donnelly.

Trish Donnelly

Thank you, Sheila, and good afternoon everyone.

I am pleased to report the Urban Outfitters brand delivered a positive 2% Retail segment ‘comp’ for the fourth quarter. Both North America and Europe produced positive ‘comps’ with outsized channel growth in the digital channel.

Positive ‘comps’ were driven by strong growth from men’s and women’s apparel in North America and Europe driven by excellent performance in own-brand tops and bottoms and noteworthy successes in some of our third-party brands. We see these strong category trends continuing in the first quarter. Beauty and intimates also delivered a solid performance in the

fourth quarter and although women's accessories were softer than expected, we are starting to see trend improvement in the current quarter.

Turning to performance by channel. In digital we saw strong session and conversion growth across all devices during the fourth quarter. New customer growth outpaced total customer growth, and our total UO Rewards members now sit at close to seven million. We were proud to see in the SEMrush report on holiday site traffic, Urban Outfitters ranked in the top 10 most visited global fashion apparel e-commerce sites during the fourth quarter.

In stores we have begun to see a stabilization in North America due to increases in AUR. So far in the first quarter, traffic remains slightly negative but higher AUR's due to better performing apparel drove positive store 'comps' in the month of February. Our European stores continued to post exceptional results during the fourth quarter delivering high, single-digit store 'comp' growth. In the fourth quarter, all regions in the United Kingdom and Europe posted positive 'comp' sales numbers driven by increases in average dollar transactions. Over the past two years, brand awareness has continued to build throughout Europe. Earlier this year we opened a store in Vienna, our first store in Austria. Opening day sales set a new record in Europe. Then in December, we entered the Italian market opening a store in Milan which set another new brand record. In February, we entered the French market with a store in Paris and set yet another record for opening day sales. Given this performance, we look forward to capitalizing on this success by opening additional stores in Europe. Beyond Europe, we entered into a franchise partnership with Fox Group and will be opening two Urban Outfitters stores in Israel this Spring, with plans for additional stores in the region.

Our marketing and PR teams continued their outstanding work in terms of engaging our customers in new and innovative ways through social channels, brand partnerships and influential press outlets. Within social, our largest channel Instagram grew over 25% versus the prior year. We now have close to 8 million followers who viewed our posts and stories almost 50 million times during the quarter. We launched Shopable Instagram during the quarter and although early results are small, this functionality is promising, and we see sales increases every week. Our brand partnerships continued to drive customer engagement and meaningful volume both online and in stores. Some highlights for the fourth quarter include AdiColor, an Adidas x UO influencer campaign and our Calvin Klein partnership which generated our most-liked photo of all time on Instagram.

In closing, the team was pleased with the 'comp' sales improvement during the fourth quarter and even more excited to see the strong January results continue into the spring season. The strength of our apparel offer across all geographies drove this growth, and Meg and I would like to recognize the apparel merchants and designers on a job well done. Our speed-to-customer initiative is certainly enabling us to get trend-right, relevant, compelling assortments to our core 18 to 28-year-old customer, but it's the creativity of the design and marketing teams and the ability to distort into trend by the merchants and planners all working together that gave us the success we saw last quarter. We are optimistic for similar apparel success in the first quarter and continue to focus on improving the non-apparel categories. I would like to thank the global Urban Outfitters leadership team, home office, and field teams for their passion and

commitment. In addition, we appreciate the continued support from our shared services partners. Thank you.

I will now turn the call over to Dick for his closing comments.

Dick Hayne

Thank you, Trish, my congratulations to you, David, Sheila, Meg and your teams for delivering a strong holiday season and an outstanding start to the current fiscal year. In the short term, we're excited about the potential created by the confluence of strong fashion trends, better merchant execution, and a robust economy. But we are equally excited and motivated by our amazing longer-term growth opportunities. We plan to continue growing all our brands across all channels of distribution while expanding our geographic reach through a combination of owner-operated, joint venture, franchise and wholesale operations. We believe our brands are powerful and possess a strong emotional connection to the customer. Certainly, recent successes, both domestic and international, in places like Milan, Paris and China, reinforce that assumption.

Our success, as always, is based on the extraordinary creativity and hard work of our teams. So, I thank the brand and shared service leaders, their teams and our 23,000 associates worldwide. I also recognize and thank our many partners around the world, and finally, I thank our shareholders for their continued support. That concludes my prepared remarks. I now turn the call over for your questions.