

Urban Outfitters, Inc.

FY'20 Q2 RESULTS





Introduction

Urban Outfitters Inc. “URBN” is providing second quarter commentary ahead of our earnings call scheduled for August 20th at 5:15pm.

We remind you that any forward-looking statements made in this commentary are subject to our safe harbor statement found in our SEC filings.

Our second quarter earnings release and related financial information are available on our website, www.urbn.com.



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Key Financial Highlights

	Three Months Ended	
	July 31, 2019	July 31, 2018
URBN Net Sales Change	-3.0%	13.7%
Gross Profit*	32.8%	35.9%
Selling, General and Admin. Expenses*	24.7%	24.1%
Income from Operations*	8.1%	11.8%
Earnings Per Diluted Share	\$ 0.61	\$ 0.84

URBN sales for the second quarter declined by 3% to \$962 million. The sales decline was due to Retail segment sales comp decline of 3% and a Wholesale segment sales decline of 8% which were partially offset by non-comp sales growth of \$2 million. Foreign currency translation negatively impacted sales by ~50 basis points for the quarter.

Free People delivered the strongest Retail segment comp for the quarter, up 6%, while Anthropologie Group was down 3%, and Urban Outfitters was down 5%. As previously discussed, each of our brands were up against a very strong Retail segment comp from the prior year.

Gross Profit dollars decreased by 11% to \$316 million for the quarter, while gross profit rate declined 304 basis points to 32.8%. The decline in gross profit rate was due to higher markdowns, deleverage in delivery and logistics expenses and store occupancy deleverage. The higher markdowns were largely driven by underperforming women's apparel at the Urban Outfitters and Anthropologie brands. The deleverage in delivery and logistics expenses is primarily due to the increase in penetration of the digital channel while the deleverage in store occupancy was due to negative store and Retail segment comps.

Selling General & Administrative ('SG&A') expenses were reduced by close to 1% while SG&A as a % of sales increased 62 bps to 24.7%. The deleverage in SG&A as a rate to sales was primarily related to increased marketing expenses to support our digital sales growth as well as the launch of our new subscription business Nuuly. Nuuly accounted for approximately \$2 million of SG&A in the quarter.

Operating Income for the quarter decreased by 33% to \$78 million with operating profit margin declining by 366 basis points to 8.1%.

Net Income for the quarter was \$60 million or \$0.61 per diluted share.

*expressed as a percent of net sales



Sales by Segment

(\$ in millions)
(unaudited)

	Three Months Ended		Variance	
	July 31, 2019	July 31, 2018	\$	%
Total Sales	\$ 962.3	\$ 992.5	\$(30.2)	-3%
Retail Segment	\$ 878.7	\$ 902.0	\$(23.3)	-3%
URBN Comp	\$ 840.1	\$ 865.8	\$(25.7)	-3%
Anthropologie Group	369.7	382.1	(12.4)	-3%
Free People	120.2	113.9	6.3	6%
Urban Outfitters	345.7	365.2	(19.5)	-5%
Food & Beverage	4.5	4.6	(0.1)	-2%
Retail Segment Comp				
By Geography				
North America	754.4	777.1	(22.7)	-3%
Europe	85.7	88.7	(3.0)	-3%
URBN Non-Comp	\$ 38.6	\$ 36.2	\$ 2.4	7%
Wholesale Segment	\$ 83.6	\$ 90.5	\$(6.9)	-8%
Anthropologie Group	1.9	0.9	1.0	122%
Free People	80.8	89.6	(8.8)	-10%
Urban Outfitters	0.9	-	0.9	n/a

URBN Retail segment comps dropped by 3% driven by negative store comps which were partially offset by an increase in digital channel sales. Retail Segment comps were negative in each month during the quarter but did improve sequentially as the quarter progressed.

Our Retail segment comp was negative in North America and Europe.

URBN Wholesale segment sales declined 8% driven by a 10% sales decline in Free People partially offset by a \$1 million increase in Urban Outfitters BDG sales and \$1 million increase in Anthropologie Home wholesale during the period.

(\$ in millions) (unaudited)	Three Months Ended		Variance	
	July 31, 2019	July 31, 2018	\$	%
Total Sales	\$ 394.3	\$ 401.3	\$ (7.0)	-2%
Retail Segment Comp	\$ 369.7	\$ 382.1	\$ (12.4)	-3%
Sales by Geography				
North America	356.0	366.4	(10.4)	-3%
Europe	13.7	15.7	(2.0)	-13%
Wholesale Segment	\$ 1.9	\$ 0.9	\$ 1.0	122%
North America	1.7	0.7	1.0	148%
Europe and ROW	0.2	0.2	-	-
Retail Segment Non-Comp	\$ 22.7	\$ 18.3	\$ 4.4	25%

Total Anthropologie Group Brand sales declined by 2% to \$394 million. The decline in brand sales were driven by a 3% drop in Retail segment comp, partially offset by non-comp sales increase of \$4 million, and \$1 million in growth in Wholesale segment sales.

The Retail segment sales decline was driven by high single digit negative store comps which were partially offset by mid-single digit digital comps. By product category, Women's Accessories and Home were positive for the quarter, while Women's Apparel, BHLDN, Terrain and Beauty were negative for the quarter.

By geography, Retail segment comp sales were negative in North America and Europe.

Wholesale segment sales more than doubled during the quarter versus last year.



Revenue Metrics

free people

(\$ in millions)
(unaudited)

	Three Months Ended		Variance	
	July 31, 2019	July 31, 2018	\$	%
Total Sales	\$ 205.9	\$ 206.4	\$ (0.5)	flat
Retail Segment Comp	\$ 120.2	\$ 113.9	\$ 6.3	6%
Sales by Geography				
North America	120.2	113.9	6.3	6%
Wholesale Segment	\$ 80.8	\$ 89.6	\$ (8.8)	-10%
North America	76.2	85.6	(9.4)	-11%
Europe and ROW	4.6	4.0	0.6	16%
Retail Segment Non-Comp	\$ 4.9	\$ 2.9	\$ 2.0	64%

Total Free People brand sales were flat at \$206 million for the quarter. Retail segment sales comp increased 6% while Wholesale segment sales declined 10%, and non-comp sales grew by \$2 million.

The Retail segment comp was driven by double digit digital growth while stores were low single-digit negative. By product category, Apparel, Intimates, Movement and Beauty were all positive for the quarter while Women's Accessories declined.

Wholesale segment sales declined by 10% to \$81 million as a result of lower sales to North American Department Stores. International sales were positive for the quarter.



Revenue Metrics

URBAN OUTFITTERS

(\$ in millions)
(unaudited)

	Three Months Ended		Variance	
	July 31, 2019	July 31, 2018	\$	%
Total Sales	\$ 355.0	\$ 379.3	\$(24.3)	-6%
Retail Segment Comp	\$ 345.7	\$ 365.2	\$ (19.5)	-5%
Sales by Geography				
North America	273.7	292.2	(18.5)	-6%
Europe	72.0	73.0	(1.0)	-1%
Wholesale Segment	\$ 0.9	\$ -	\$ 0.9	n/a
North America	0.4	-	0.4	n/a
Europe and ROW	0.5	-	0.5	n/a
Retail Segment Non-Comp	\$ 8.4	\$ 14.1	\$ (5.7)	-40%

Total Urban Outfitters brand sales decreased by 6% as a result of a Retail Segment sale comp decline of 5%, negative non-comp sales of \$6 million, while Wholesale segment sales of the UO BDG brand delivered \$1 million of sales growth for the quarter.

The Retail segment sales decline was driven by high single digit negative store comps partially offset by a low single digit digital comp. By product category Home and Beauty were positive for the quarter, while Women's Apparel, Men's Apparel and Women's & Men's Accessories were negative for the quarter.

Retail segment comp was negative in both North America and Europe.

Wholesale segment sales of the Urban Outfitters BDG brand delivered \$1 million in sales for the quarter which came from customers in both North America and Europe.

Negative non-comp sales for the quarter primarily related to adjustments for foreign currency translation with the remainder resulting from store closures.



Gross Profit by Segment

(\$ in millions) (unaudited)	Three Months Ended		Variance	
	July 31, 2019	July 31, 2018	\$	%
Gross Profit* \$	\$ 315.9	\$ 355.8	\$(39.9)	-11%
Gross Profit* %	32.8%	35.9%		
Retail Segment				
Gross Profit \$'s	\$ 294.4	\$ 328.4	\$(34.0)	-10%
Gross Profit %	33.5%	36.4%		
Wholesale Segment**				
Gross Profit \$'s	\$ 23.0	\$ 27.4	\$ (4.4)	-16%
Gross Profit %	27.5%	30.3%		
Subscription Segment				
Gross Profit \$'s	\$ (1.5)	\$ -	\$ (1.5)	n/a

Total company gross profit decreased 11% to \$316 million, while the gross profit rate declined by 304 basis points to 32.8%. The decline in the total company gross profit rate was driven by lower gross profit in the Retail segment and Wholesale segment.

Retail segment gross profit decreased 10% to \$294 million while the Retail segment gross profit rate declined by 291 basis points to 33.5% for the quarter.

The decline in Retail segment gross profit rate was driven by higher markdowns, de-leverage in delivery and logistics expenses and store occupancy de-leverage. Higher markdowns were largely driven by underperforming women's apparel at the Urban Outfitters and Anthropologie brands. The de-leverage in delivery and logistics expenses was primarily due to the increase in penetration of the digital channel. The de-leverage in store occupancy was due to negative store and retail segment comps.

Wholesale segment gross profit decreased by 16% to \$23 million while Wholesale segment gross profit rate decreased 285 basis points to 27.5%.

*Cost of Sales includes initial mark-up, markdowns, store occupancy, delivery, freight and logistics expenses and merchant expenses

**net of intersegment elimination



SG&A—Total Company

(\$ in millions) (unaudited)	Three Months Ended		Variance	
	July 31, 2019	July 31, 2018	\$	%
SG&A* \$'s	\$ 237.8	\$ 238.9	\$ (1.1)	-1%
SG&A* %	24.7%	24.1%		

Total company 'SG&A' decreased close to 1% to \$238 million. Total company 'SG&A' as a percentage of sales increased by 62 bps to 24.7%. The deleverage in SG&A as a rate to sales was primarily related to increased marketing expenses to support our digital sales growth as well as the launch of our new subscription business, Nuuly. Nuuly accounted for approximately \$2 million of SG&A in the quarter. The reduction in SG&A versus our original plan is largely due to lower incentive-based compensation expense and lower variable store payroll dollars as a result of lower sales results.

*SG&A includes direct store controllable, creative and marketing, corporate overhead and credit and banking expenses



Operating Income by Segment

(\$ in millions) (unaudited)	Three Months Ended		Variance	
	July 31, 2019	July 31, 2018	\$	%
Operating Profit \$	\$ 78.1	\$ 116.9	\$(38.8)	-33%
Operating Profit %	8.1%	11.8%		
Retail Segment				
Operating Profit \$'s	\$ 79.0	\$ 106.5	\$(27.5)	-26%
Operating Profit %	9.0%	11.8%		
Wholesale Segment*				
Operating Profit \$'s	\$ 15.7	\$ 19.9	\$ (4.2)	-21%
Operating Profit %	18.7%	22.0%		
Subscription Segment	\$ (3.5)	\$ (0.6)	\$ (2.9)	543%
General Corporate Expenses \$'s	\$ 13.1	\$ 8.9	\$ 4.2	47%

Operating income decreased by 33% to \$78 million, while operating profit margin deleveraged by 366 basis points to 8.1%. The decline in operating profit margin was driven by both the Retail and Wholesale segments this quarter.

Retail segment operating profit declined by 26% to \$79 million, while Retail segment operating profit margin declined by 281 basis points to 9.0%. The decline in Retail segment operating profit rate was largely due to lower gross profit margin.

Wholesale segment operating profit declined by 21% to \$16 million, while Wholesale segment operating profit margin declined by 323 basis points to 18.7%.

Subscription segment operating loss was \$3.5 million for the quarter, largely driven by SG&A expenses related to the launch of the new concept at the end of the second quarter.

General corporate expenses increased by \$4 million primarily due to timing of legal and tax settlements versus last year and strategic initiative investment expenses.

*net of intersegment elimination



Income Statement Summary

(\$ in millions)
(unaudited)

	Three Months Ended	
	July 31, 2019	July 31, 2018
Net Sales	\$ 962.3	\$ 992.5
Cost of Sales	<u>646.4</u>	<u>636.7</u>
Gross Profit	315.9	355.8
Selling, General and Admin. Expenses	<u>237.8</u>	<u>238.9</u>
Income from Operations	78.1	116.9
Other Income, Net	<u>3.5</u>	<u>1.7</u>
Income Before Income Taxes	81.6	118.6
Income Tax Expense	<u>21.3</u>	<u>25.8</u>
Net Income	<u>\$ 60.3</u>	<u>\$ 92.8</u>
Diluted Share Count	99.6	110.4
EPS (Diluted)	\$ 0.61	\$ 0.84

The effective tax rate for the second quarter was 26.0%. The increase from the prior year is primarily due to the ratio of foreign taxable profits to global taxable profits and the prior year favorable impact of equity activity.

Net income was \$60 million or \$0.61 cents per diluted share for the second quarter.



Balance Sheet Summary

(\$ in millions)
(unaudited)

	July 31, 2019	July 31, 2018
Assets		
Cash and Cash Equivalents	\$ 162	\$ 406
Marketable Securities	171	198
Accounts Receivable, Net	95	91
Inventory	440	376
Other Current Assets	132	131
Total Current Assets	1,000	1,202
Property and Equipment, Net	867	807
Operating Lease ROU Assets	1,086	-
Marketable Securities	79	46
Other Assets	106	104
Total Assets	\$ 3,138	\$ 2,159
Liabilities and Shareholders' Equity		
Accounts Payable	\$ 182	\$ 150
Current Operating Lease Liabilities	209	-
Other Current Liabilities	235	280
Total Current Liabilities	626	430
Non-Current Operating Lease Liabilities	1,091	-
Deferred Rent and Other Liabilities	60	285
Total Liabilities	1,777	715
Total Shareholders' Equity	1,361	1,444
Total Liabilities and Shareholders' Equity	\$ 3,138	\$ 2,159

Inventory increased 17% to \$440 million, driven by a 5% increase in Retail Segment comp inventory and an increase in inventory in transit.

As of July 31, 2019, cash and marketable securities totaled \$412 million with zero drawn down on the asset backed line of credit facility.

We adopted an accounting standards update on February 1, 2019 related to lease accounting that resulted in the recognition of lease liabilities and right-of-use assets on the balance sheet. Right-of-use assets were reduced by the previously recognized deferred rent balances at adoption.

URBN Inventory Data

(\$ in millions)
(unaudited)

	July 31, 2019	July 31, 2018	Variance	
			\$	%
URBN Inventory	\$ 440.1	\$ 375.7	\$64.4	17%
Retail Segment Comparable Inventory at Cost	\$ 297.6	\$ 283.5	\$ 14.1	5%
Anthropologie Group	143.7	134.4	9.3	7%
Free People	37.7	31.8	5.9	18%
Urban Outfitters	116.2	117.3	(1.1)	-1%
Wholesale Segment by Brand	\$ 64.0	\$ 47.1	\$ 16.9	36%
Anthropologie Group	5.7	0.7	5.0	679%
Free People	56.2	46.3	9.9	21%
Urban Outfitters	2.1	0.1	2.0	n/a
Subscription Segment Rental Product*	\$ 2.9	\$ -	\$ 2.9	n/a

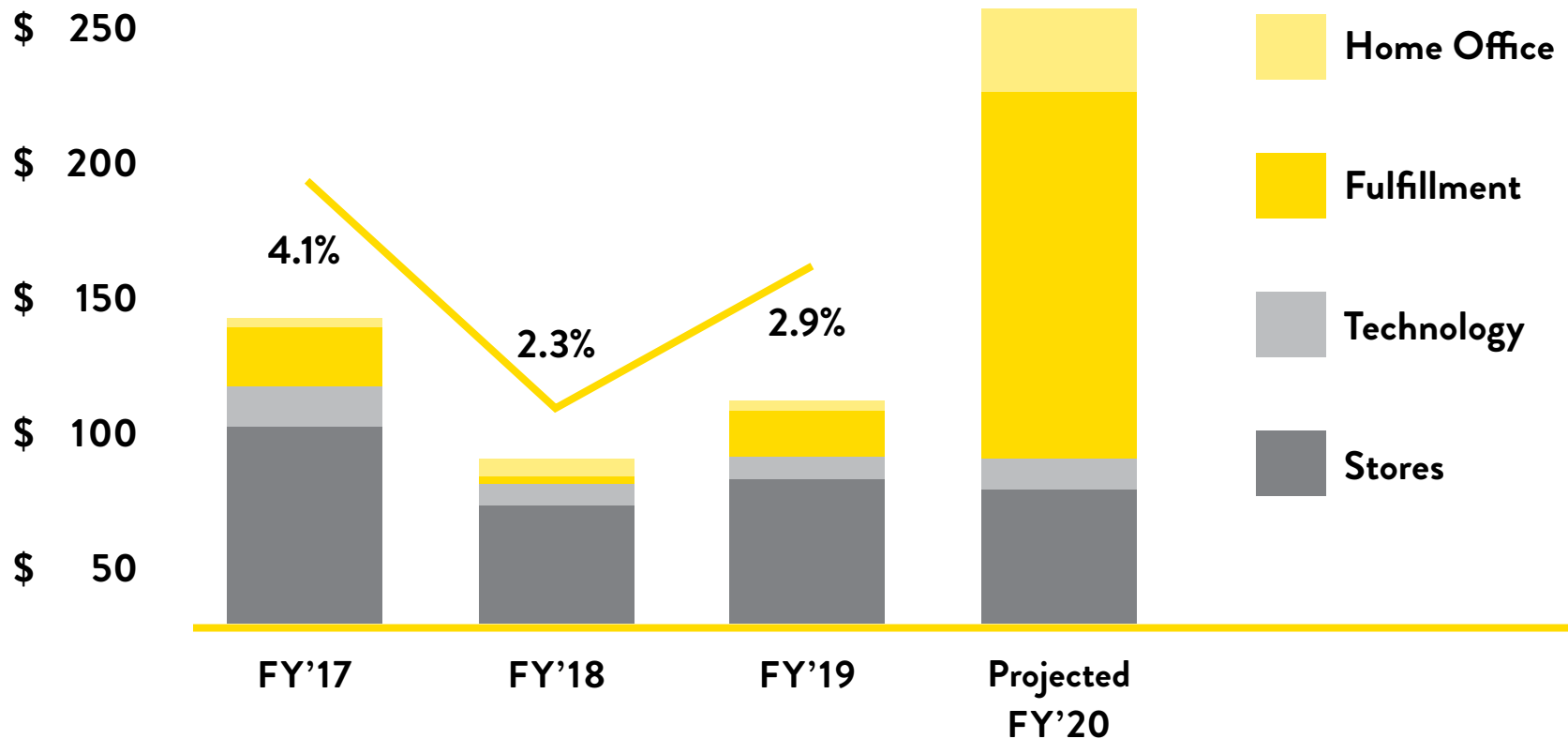
*Rental Product is included in Other Assets



Capital Spending

(\$ in millions)
(unaudited)

Net Capex % of Net Sales



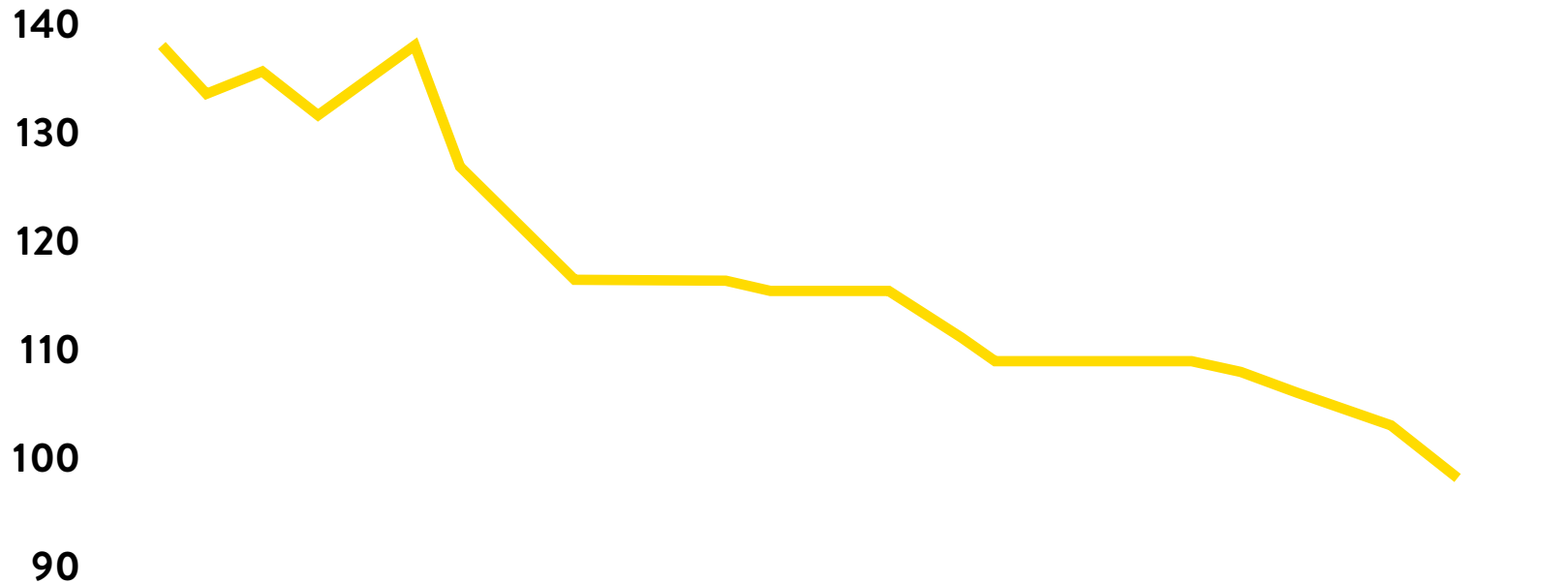
During the second quarter, capital expenditures were \$79 million while depreciation & amortization was \$28 million. Capital Expenditures are \$116 million year to date.



Shares Outstanding

(share count in millions)
(\$ in millions)
(unaudited)

Ending Shares Outstanding



	FY'15	FY'16	FY'17	FY'18	FY'19	FY'20
Shares Repurchased						
Number of Shares	17.4	15.0	1.3	8.1	3.5	8.1
Total Cost	\$ 611	\$ 465	\$ 46	\$ 157	\$ 121	\$ 217

During the second quarter, the Company repurchased 5.6 million shares for \$146 million at an average share price of \$25.93. Year to date the Company has repurchased 8.1 million shares for \$217 million. The Company has authorization to repurchase approximately 26 million additional shares remaining granted by the Board of Directors resolutions on August 22, 2017 and June 4, 2019. Our weighted average diluted share count for the quarter was 99.6 million shares.



Global Retail Stores Summary

	Q1–Q2 FY'20				Projected Q3–Q4 FY'20		
	Open as of January 31, 2019	Openings	Closings	Open as of July 31, 2019	Projected Openings	Projected Closings	Projected Open as of January 31, 2020
Anthropologie Group NA	216	–	2	214	–	5	209
Anthropologie Group EU	11	3	–	14	5	–	19
Total Anthropologie Group	227	3	2	228	5	5	228
Free People NA	133	2	1	134	6	–	140
Free People EU	2	1	–	3	1	–	4
Total Free People	135	3	1	137	7	–	144
Urban Outfitters NA	195	–	–	195	4	4	195
Urban Outfitters EU	50	1	–	51	3	–	54
Total Urban Outfitters	245	1	–	246	7	4	249
Food & Beverage	13	–	2	11	–	–	11
Total Company-Owned Stores	620	7	5	622	19	9	632
Franchisee-Owned Stores	5	1	–	6	1	–	7
Total URBN	625	8	5	628	20	9	639



Global Store Count & Square Footage

(All data is as of the respective period ended)
(Selling SF in thousands)

		AN	FP	UO	F&B	URBN*	
FY'19	Q1	Store Count	226	134	246	10	616
		Selling SF	1,733	291	2,208	n/a	4,232
	Q2	Store Count	227	135	246	10	618
		Selling SF	1,750	298	2,208	n/a	4,256
	Q3	Store Count	228	134	248	13	623
		Selling SF	1,794	297	2,222	n/a	4,313
	Q4	Store Count	227	135	245	13	620
		Selling SF	1,789	300	2,196	n/a	4,285

		AN	FP	UO	F&B	URBN*	
FY'20	Q1	Store Count	228	136	245	12	621
		Selling SF	1,782	304	2,196	n/a	4,282
	Q2	Store Count	228	137	246	11	622
		Selling SF	1,782	306	2,203	n/a	4,291

*excludes franchisee-owned stores