

URBAN OUTFITTERS, INC.

Third Quarter Fiscal 2014 ended October 31st, 2013 Management Commentary

Summary Highlights

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

- Net sales increased 12% to \$774 million.
- Comparable Retail segment net sales, which include our comparable direct-to-consumer channel, increased 7%.
- By major brand, comparable Retail segment net sales at Free People and Anthropologie increased 30% and 13%, respectively, and Urban Outfitters decreased -1%.
- Wholesale net sales increased 21% to \$50 million.
- Gross profit increased 12% to \$292 million, while gross profit rate improved 11 basis points to 37.7%
- Income from operations increased 13% to \$105 million and operating profit rate improved 12 basis points to 13.6%.
- Net income was \$70 million or \$0.47 per diluted share.

Revenue

Retail Segment – Comparable Retail Segment net sales, which include our comparable direct-to-consumer channel, increased 7% 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 August, followed by October, then September. The Company opened 9 new stores during the quarter bringing the global store count to 500. The positive comparable store net sales resulted from an increase in units per transaction partially offset by a decrease in the average unit selling price, while transactions were flat. Direct-to-consumer net sales were driven by a 7% increase in website traffic to approximately 53 million visitors, a higher average order value and a 34 basis point improvement in conversion rate.

Wholesale Segment – Wholesale segment net sales increased 21% to \$50 million in the quarter driven by double-digit sales increases at specialty accounts and department stores.

Brand Highlights for the Third Quarter

Anthropologie – The brand opened 3 new stores during the quarter bringing the global store count to 185. Square footage increased 5% over the prior year period to 1,307,492. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 13%. By region, store net sales were strongest in the Southeast with all regions posting strong growth. By venue, store net sales were strongest in free standing locations with all locations posting strong growth. 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 86. Square footage increased 22% over the prior year period to 120,332. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 30%. By region, store net sales were strongest in the West with all regions posting strong growth. By venue, store net sales were strongest in traditional malls with all venues posting double-digit growth. All merchandise categories delivered significant positive comp net sales.

Urban Outfitters– The brand opened 3 new stores in the quarter bringing the global store count to 225. Square footage increased 7% over the prior year period to 1,986,971. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, decreased 1%.

In North America, by region, store net sales were strongest in California and weakest in Mid-Atlantic. By venue, store net sales were strongest in lifestyle malls and weakest in metro locations. By Retail segment merchandise category, home was the strongest while women’s accessories was the weakest.

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

Other Brands – Other brands include Terrain and BHLDN. Net sales for other brands increased by \$2 million driven by growth in the direct-to-consumer channels and new and non-comparable stores.

Gross Margin

Gross profit in the quarter increased 12% to \$292 million. Gross profit rate improved by 11 basis points versus the prior year’s comparable period. The improvement in gross profit rate was primarily due to a reduction in merchandise markdowns and improved initial merchandise margins driven by significant improvements at the Anthropologie and Free People brands. These improvements were partially offset by an increase in merchandise markdowns at the Urban Outfitters brand in North America. The increased penetration of our direct-to-consumer channel continued to drive occupancy leverage and delivery expense deleverage.

SG & A

Total selling, general and administrative expenses for the quarter, expressed as a percentage of net sales, were flat at 24.1%.

Other Income Statement Items

The Company's effective tax rate for the quarter was 33.3%. The Company expects the annual effective tax rate to be approximately 35.5% for the full year.

Balance Sheet and Cash Flow Items

Cash, Cash Equivalents and Marketable Securities increased from the prior year by \$269 million to \$726 million.

Total inventories increased \$11 million to \$407 million, a 3% 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 were flat.

Total capital spending was \$62 million for the quarter and depreciation and amortization was \$33 million for the quarter.

During the current quarter the Board of Directors authorized the repurchase of 10.0 million common shares under a share repurchase program. During the quarter, we repurchased and retired 0.3 million common shares for approximately \$11 million, leaving 9.7 million shares available for repurchase under the current authorization.