

# URBAN OUTFITTERS, INC.

First Quarter, FY'13 Conference Call  
May 21, 2012

## Participants

Dick Hayne, Chief Executive Officer  
David McCreight, CEO, Anthropologie Group  
Margaret Hayne, President, Free People Brand  
Ted Marlow, CEO, Urban Outfitters Group  
Wendy B. McDevitt, President, Terrain  
Frank Conforti, Chief Financial Officer  
Glen A. Bodzy, General Counsel  
Freeman Zausner, Chief Operating Officer  
Barbara Rozsas, Chief Sourcing Officer  
Calvin Hollinger, Chief Information and Logistics Officer  
Matt Kaness, Executive Director of Business Development and Strategy  
David Ziel, Chief Development Officer  
Oona McCullough, Director of Investor Relations

## **Oona**

Good afternoon, and welcome to the URBN first quarter fiscal 2013 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three month period ending April 30, 2012.

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 first quarter. Freeman Zausner, Chief Operating Officer, will provide a brief update on our shared services initiatives. As discussed on the previous conference call, each quarter you will hear from one of our brand leaders discussing their businesses and related initiatives or our Chief Operating Officer. 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, along with detailed management commentary, will be posted to our corporate website at [www.urbanoutfittersinc.com](http://www.urbanoutfittersinc.com).

I'll now turn the call over to Frank.

## **Frank**

Thank you, Oona.

Good afternoon everyone. First, I wanted to say it has been a pleasure to work for this incredible company over the past five years, and I am honored to have received this opportunity to further help the URBN leadership team execute on its goals.

I will start my prepared commentary discussing our first quarter fiscal 2013 performance versus the prior year comparable quarter. Then I will share our thoughts concerning the remainder of the year.

Total Company net sales for the quarter increased by 9% to a first quarter record of \$569 million. This increase was driven by a \$34 million increase in non-comparable net store sales, which includes 14 new stores opened during the quarter.

Total Company comparable retail segment net sales, which includes sales from our direct-to-consumer channel, increased by 2%. This includes increases of 2% and 6% at Free People and Urban Outfitters, respectively, and a decrease of 2% at Anthropologie. Total Company comparable store net sales declined by 1% driven by a 1% decrease in transactions and a 2% decrease in the average number of units per transaction, partially offset by a 2% increase in the average unit selling price.

Direct-to-consumer comparable net sales increased by 15% to \$115 million, with the penetration to total net sales accelerating 110 basis points to 21%. These results were largely driven by a 35% increase in website traffic to over 42 million customer visits.

Wholesale net sales increased 2% to \$31 million. This increase was driven by a 19% increase in Free People wholesale offset by the transition of Leifsdottir to the Anthropologie brand.

Gross profit for the quarter increased 5% to \$202 million. Gross profit rate declined 131 basis points to 35.6%. The decrease in gross profit rate was primarily due to store occupancy deleverage related to an increased number of store openings versus the prior year's comparable quarter, as well as an increased number of new and non-comparable European stores. Also contributing to the rate decline were slightly higher merchandise markdowns on a few women's apparel categories across all brands.

Total selling, general and administrative expenses for the quarter increased by 11% to \$150 million. Total selling, general and administrative expenses for the quarter expressed as a percentage of net sales, increased by 62 basis points to 26.3%. The increase in rate was primarily due to deleveraging of direct store controllable expenses driven by negative comparable store net sales.

Operating income for the quarter was \$52.9 million, with an operating profit margin of 9.3%.

Net income was \$34.0 million or \$0.23 per diluted share.

Turning to the balance sheet, total inventories at quarter end increased by \$36 million to \$300 million, a 13% increase versus the prior comparable quarter. The growth in total inventories is primarily due to an increase in comparable retail segment inventories of 11% at cost and 5% in units, with comparable store inventories increasing 8% at cost. The remainder of our inventory increase is related to the acquisition of inventory to stock new and non-comparable stores and the growth in our wholesale business. Lastly, we ended the quarter with \$339 million in cash and marketable securities.

As we look forward to the remainder of Fiscal 2013, it may be helpful for you to consider the following:

Sales during the quarter exceeded our conservative plans but we believe we benefited from the favorable weather conditions in the Eastern half of the United States during March. We believe the early, unusually warm weather in the first quarter may steal some sales from the second quarter; therefore, we have not changed our plans for the overall year.

We are still planning to open 55-60 new stores, with approximately 14 new stores expected to open in the second quarter. By brand we are planning approximately, 21 new Urban Outfitters stores globally, 16 new Free People stores, 16 new Anthropologie stores and 1 new store each for Terrain and BHLDN.

We anticipate second quarter gross profit margin rate will be similar to what we produced in the first quarter. We are planning margin rate improvement in the second half of the year as comparisons become easier versus the prior year. Our margin rate plans will depend upon the improvement in our product content and ultimately lower markdown rates.

We continue to focus on effectively managing our selling, general and administrative expenses, but remain committed to investing in our direct-to-consumer channel to drive long term growth. This means additional spending in fiscal year 2013 to open a new west coast fulfillment center, to ramp up our marketing and customer acquisition efforts and to make further investments in technology systems and people. In total, we are planning to increase selling, general and administrative expenses in the high teens for the remainder of the year.

Capital expenditures for fiscal 2013 are planned at \$190-\$210 million driven primarily by new stores, the expansion of our home office, and the completion of our new fulfillment center.

Finally, our fiscal 2013 annual effective tax rate is planned to be approximately 36.5%.

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.

I will now turn the call over to Freeman.

## **Freeman**

Thank you, Frank.

I appreciate the opportunity to speak to you about a few of our important initiatives currently being worked on by our Shared Services Teams.

First, I will touch on technology. Right now we have a special focus on supporting the brands' e-commerce and international growth initiatives.

Last year we rolled out mobile point-of-sale devices to all of our stores to improve our customers' in-store experience. We have continued to expand the number of devices used by the stores as well as our mobile point-of-sale functionality. These devices currently allow us to seamlessly fulfill store out-of-stock directly from our direct-to-consumer distribution center. This year the capability will be expanded to include the ability to fulfill store or online out-of-stock from any store within the country based on careful business rules. This will provide the customer a stronger multi-channel experience as well as provide us with greater order fulfillment flexibility. Later this year we will launch an iPad point-of-sale device and advanced wireless connectivity for our customers.

Next, I would like to touch on fulfillment. We expect our west coast fulfillment center to be opened for business during the third quarter of fiscal year 2013. This facility will substantially reduce delivery times to our west coast customers and will help us reach our goal of servicing all of our North American customers in two days or less. We recently shortened our shipping times in Europe with the opening of our European distribution centers last year.

Lastly, I will briefly touch on talent. Our talent efforts are dedicated to providing the brands with customer facing creative talent and fueling the ecommerce talent pipeline. We continue to improve the scope of our digital recruiting, to develop better merchant development programs and to enhance our capabilities and focus on organizational design.

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

## **Dick**

Thank you Freeman and good afternoon everyone.

As Frank pointed out, our first quarter sales came in above plan and set a Company record. Now, we had some help from Mother Nature but unusually warm weather was not the only factor driving sales. Our brands successfully capitalized on new fashion trends that have emerged. These trends contributed to increased demand in many of our product categories, and I believe our merchants have a very good read on these new trends. Overall, we are pleased with the progress the Brand teams made in the quarter.

They produced the following highlights:

- The Urban brand delivered positive 'comps' across all product categories.
- Anthropologie showed positive 'regular price' comparable sales in women's apparel and the Anthropologie catalog showed significant aesthetic improvement throughout the quarter.
- All Brands posted healthy direct-to-consumer sales with total direct-to-consumer sales up by 15%.
- Free People wholesale sales jumped by almost 20%. This includes a 30% increase in sales to specialty store accounts.
- Free People successfully opened their largest store to date, the Rockefeller Center store. This store dedicates one full floor to the brands' intimate apparel business called 'Intimately Free'. Plans are to extend the Intimately Free product line to more Free People stores and to several wholesale accounts this fall.
- On the international front, all of the UK stores experienced a challenging environment but the Urban stores in Germany that opened over the past year continue to track above their sales plan. Additionally, the Urban and Anthropologie direct-to-consumer businesses in Europe are producing sales gains in excess of 30%.
- Finally the Terrain brand, our garden center concept, had an excellent spring season thanks, in large part, to the milder weather. In addition, two weeks ago the Brand successfully opened its second store on Post Road in Westport CT.

Let me turn to our strategic vision.

My goals for the business when I returned to the position of CEO four months ago were threefold.

The first was to fill all top management positions with the right talent. Second was to develop a clear and concise strategy to re-ignite our top line growth, and third, was to ensure the Brand leaders had the tools, the talent and the capital to execute that strategy.

My first goal was met quickly – we currently have a solid team of experienced merchants leading the Brands and a talented corporate team to provide the necessary services to them. Our teams then addressed the second goal. Together, we fashioned a strategy that emphasizes revenue growth. This strategy consists of four initiatives:

- The first is to increase productivity in existing channels. This will be accomplished by creating more compelling product through expanded in-house design capabilities, by employing more effective marketing techniques and by using new technologies.
- The second is to acquire more customers by expanding our distribution channels. This means continuing to open additional stores, expanding both e-commerce and mobile commerce and opening additional wholesale accounts. One way to accomplish this goal is by enlarging the geographic reach of each brand beyond North America to include a more robust presence in Europe and Asia where the brands are significantly under-penetrated.
- The third is to expand our product offerings. This can be accomplished by adding sizes and colors to existing products, adding new categories such as Free People intimates, as well as offering additional products like web exclusive items.
- The fourth, and final initiative, is to launch or acquire new concepts that complement our current portfolio of brands, and while we have no current acquisition plans, we continue to investigate opportunities as they arise.

All brand leaders and their teams and all of the shared service teams are fully engaged with our growth initiatives. They are energized by the push for faster top line growth and given the positive momentum created in the first quarter, I am confident they will succeed. I thank all of our employees for their dedication and hard work and our shareholders for their continued support.

At this time I open the call to your questions.