**URBAN OUTFITTERS, INC.**

Fourth Quarter, FY'19 Conference Call
March 5, 2019

**Participants**

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

Good afternoon, and welcome to the URBN fourth quarter fiscal 2019 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, 2019.

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 provide more detail by brand and 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 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 2019 fourth quarter results versus the prior comparable quarter. Then I will share some of our thoughts concerning the first quarter and full year fiscal 2020.

Total Company or URBN sales for the fourth quarter increased by 4%. This resulted from a 3% URBN Retail segment 'comp' increase, 3% growth in URBN Wholesale sales and $6 million in 'non-comp' sales. Foreign currency translation had a negative impact of approximately 50bps on the quarter.

Within our URBN Retail segment 'comp', the digital channel continued to lead the way, posting a double-digit sales increase. Digital growth was driven by increased sessions and conversion rate, while average order value and units per transaction were down for the quarter. The store channel recorded a negative 'comp', which was the first time this year. Negative 'comp' store sales resulted from a lower number of transactions, units per transaction and average unit selling price. Traffic was negative in North America and Europe, with Europe experiencing more significant traffic challenges.

By brand, our retail segment 'comp' grew by 4% at both Free People and Urban Outfitters and by 2% at the Anthropologie Group. This performance marks the sixth straight quarter each of our brands posted positive retail segment 'comps'. Our URBN Retail segment 'comp' was the strongest in November with December and January turning negative.

During the quarter, we opened four new locations, including: three new Free People stores and one Urban Outfitters Store. We also closed seven stores in the quarter, four Urban Outfitters, two Free People and one Anthropologie.

Our URBN Wholesale segment sales grew 3% for the quarter. This growth was driven by Anthropologie's Home wholesale business. Free People wholesale revenues were slightly positive for the quarter with sales to full price customers up mid-single digits.

Moving on to URBN gross profit for the quarter. Gross profit increased 9% to $373 million while our gross profit rate improved by 172 basis points to 33%. The rate increase was primarily driven by better maintained margins due to lower markdown rates and improved initial markups. Anthropologie delivered the most significant improvement, followed by Urban Outfitters. Store occupancy also leveraged in the quarter due, in part, to the positive retail segment 'comp'. The remaining profit rate improvement is due to a lower level of store impairments recorded in the current year. Last year we incurred $11.4 million in store impairments and this year we recorded $3.5 million in store impairments, resulting in 70bps of rate improvement in the current year.

Total ‘SG&A’ expenses for the quarter were up 3% to $258 million. Total ‘SG&A’ as a percentage of sales, leveraged by 6 basis points to 23%. The growth in SG&A expenses was primarily due to increased bonus expense as each brand achieved its bonus targets in the current year but did not in the prior year. The prior year was also impacted by a $2 million reduction in goodwill.

Operating income for the quarter increased by 26% to $114 million, with operating profit margin improving by 178 basis points to 10.1%. Excluding the impact of store impairments and reduction in goodwill in the current and prior years, operating income improved by 13% to $118 million, while operating profit margin improved by 86 basis points to 10.4%. For a reconciliation of all adjustments please refer to our fourth quarter earnings release which was posted to our URBN.com website earlier today.

Our effective tax rate for the quarter was 25.1%. The favorable rate in the current year is due to the impact of the U.S. Tax Cuts and Jobs Act enacted in the fourth quarter of the prior year.

Net income for the quarter was $86 million or $0.80 cents per diluted share. Excluding the $64 million impact of the U.S. Tax Cuts and Jobs act in the prior year, as well as the impact of store impairments and reduction in goodwill in the current and prior years, net income grew by 20% or $15 million versus the prior year.

Now turning to the balance sheet. Total URBN inventory grew by 5% percent to $371 million with retail segment ‘comp’ inventory up 3% for the quarter.

We ended the quarter with $695 million in cash and marketable securities and have zero drawn down on our asset backed line of credit facility. Capital expenditures were $25 million for the quarter and $115 million for the year. Lastly, we repurchased 2 million shares for $64 million during the quarter and 3.5 million shares for the year. This leaves 14.4 million shares remaining on our current repurchase authorization as of year-end.

As we enter the first quarter of fiscal year 2020, it may be helpful for you to consider the following:

I will start with sales. Our sales have started out the year weaker than we anticipated. Based on our first quarter performance to date, we believe our retail segment ‘comp’ sales could come in flat to low single-digit negative for Q1.

If ‘comp’ sales do come in low single-digit negative, we believe URBN’s gross margin rate for the first quarter, could decline by approximately 150 basis points. The decline in gross profit margin could be due to higher markdown rates in order to keep inventory current and allow for necessary new receipts. Store occupancy expense could delever, as well, due to negative ‘comps’, and delivery and logistics expense could delever based on a possible increase in digital penetration.

Based on our current sales performance and financial plan, we believe ‘SG&A’ could grow by approximately 3% for the quarter. The growth in ‘SG&A’ could primarily relate to digital marketing investments to support our digital channel sales growth.

Our annual effective tax rate is planned to be approximately 25% for the first quarter and 25.5% for the full fiscal year 2020. These rates are planned higher than the previous year primarily due to the favorable impact of equity activity incurred in the prior year.

We are planning to open 24 new stores for the year while closing 13 stores. For further detail on store changes by brand please see our investor metrics sheet posted to URBN.com

Capital expenditures for the fiscal year are planned at approximately $260M. The spend and increase to the prior year is primarily related to planned investments in additional and expanded distribution facilities, the opening of new stores and expanded European Home office space.

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.

Lastly, I had one quick administrative note for the group. As the industry has removed its practice of distributing monthly 'comp' sales and with input from our shareholders, we have decided to no longer provide a quarter-to-date sales update in our SEC 10Q and 10K filings going forward. We believe updates on short periods of times can lead to misinterpretations of business performance due to timing shifts from holidays, promotions and other variables.

Now it is my pleasure to pass the call over to Dick Hayne our URBN Chief Executive Officer.

## Dick Hayne

Thanks Frank, and good afternoon everyone.

Today, I'll speak to our fourth quarter results, talk about the macro environment and then finish with some commentary regarding current business trends. Let me begin with a review of our fourth quarter.

Overall, URBN delivered a very good quarter. Total Company comparable retail segment sales increased by 3%, and all three brands posted record sales. The digital channel drove much of this increase with digital penetration of total retail segment sales running well above 40% for the quarter.

Sales gains were driven with less reliance on promotions. We delivered record low mark down rates by using our speed-to-market capabilities combined with tight inventory control. We also leveraged expenses. Putting these together, we produced outstanding operating margin expansion which contributed to record earnings per share.

All three brands entered the quarter confidently. Inventories were clean and well controlled, 'comp' sales in November were up nicely – similar to the trends established in the first nine months of FY19. All brands produced record sales on both Black Friday and Cyber Monday. In North America, retail segment demand moderated in December, and then dropped again in January as store traffic turned negative, so what began as a strong quarter of an exceedingly strong year, ended on a weak note.

I’ll now provide some color on fourth quarter results for each brand starting with Urban Outfitters.

The Urban Outfitters brand delivered a positive 4% retail segment ‘comp’ for the fourth quarter. Geographic trends diverged with North America delivering nicely positive ‘comps’ while Europe experienced a Brexit-induced slowdown in store traffic and slightly negative ‘comps’. Both geographies produced double-digit growth in online sales offset by weaker trends in stores.

In North America, all but one product category created positive ‘comps’ with outsized strength in women’s apparel, men’s and women’s accessories, shoes, home and beauty. The strong bottoms cycle continued to drive women’s apparel sales. Meanwhile, in Europe, positive sales in women’s accessories and shoes couldn’t offset a dip in apparel sales. Total EU ‘comps’ were negative for the first time in 12 quarters. The total brand saw a double-digit decrease in sales by customers using international credit cards. We attribute this decline to economic and political uncertainty in many parts of the world. Of course, this had the greatest sales impact on stores with heavy tourism in major metro areas like New York, San Francisco, London and Paris.

Looking at performance by channel, the Urban brand recorded double-digit growth in its digital channel, driven by increases in sessions, conversion and average order value. UO continues to see exceptional growth in China on the TMall Global platform and this summer the brand will launch on the larger and more heavily trafficked, TMall Classic platform, as well.

The Urban brand delivered slightly improved merchandise margins in the quarter. The increase in North America was partially offset by higher markdowns in Europe. Until the uncertainty surrounding Brexit abates, we expect demand and merchandise margins in Europe to be under pressure.

The Urban brand marketing teams continued their outstanding work in Q4. At the end of the quarter, the brand enjoyed 8.3 million followers on Instagram and its popular loyalty program, UO Rewards, now boasts nearly 10 million members worldwide. These members accounted for more than 70% of total brand sales during the quarter.

Congratulations to Trish, Meg and their teams on both sides of the Atlantic for a very good quarter and an extraordinary year. Because of your collective efforts the Urban brand is enjoying strong global recognition.

Please turn your attention now to Anthropologie. The Anthropologie Group reported a 2% retail segment ‘comp’ increase. Both North America and Europe posted positive retail segment ‘comps’ fueled by growth in women’s apparel and accessories that more than offset weakness in the gift category. Gift sales suffered from inventory flow disruption due to port congestion during the quarter. This product is finally flowing again, and we are seeing more positive customer response.

Anthro Q4 retail segment ‘comps’ were driven by a double-digit increase in digital channel sales partially offset by negative store ‘comps’. Better digital ‘comps’ came from increases in sessions and conversion.

In the quarter, better IMU coupled with a lower markdown rate produced impressive gains in merchandise margins. This, along with excellent expense control, led to an almost 300 basis points improvement in operating margins.

Anthropologie Home wholesale is one of the brand's new growth initiatives and, during the quarter, this business generated 2 million dollars in wholesale sales from our two main partners – Nordstrom in North America and John Lewis in Europe. Consumer response has been positive, so both partners have committed to increasing future buys and the team expects to begin shipping additional customers this year.

Also, during the quarter, Anthropologie offered a select assortment of Free People Movement product on the Anthropologie web site and in three stores. The test proved successful so by May, the brand plans to expand the assortment and increase the number of stores to 11. If successful, 65 stores will receive Movement product for fall.

In another product introduction, the brand is launching A Plus by Anthropologie. A Plus is an apparel line that offers the same fashion messages, prints, fabrics and details as the brand's standard assortment, but in extended plus sizes. The line is featured in the March catalog and will be available online and in 10 Anthropologie stores on March 15th. Most of the assortment will be own brand design, complimented with external product from current market partners who already produce plus sizes.

Hillary, my congratulations to you for developing this exciting initiative, and congratulations to you, Andrew, Meg and the entire Anthropologie team for delivering a very good quarter and a truly excellent year.

I'll now turn to an analysis of Free People's fourth quarter where total brand revenue increased by 4%. All channels and segments recorded gains. The retail segment 'comp' grew by 4%, driven by increases in both direct and store sales. Free People was our only brand to register positive store traffic in each month of the quarter.

The wholesale segment posted slightly positive sales for the period, but this is somewhat misleading as sales to full-price wholesale customers registered healthy, mid-single digit increases. These full price gains were almost entirely offset by a planned decrease in sales to off-price outlets. In the first half of the current year, the brand plans to continue to decrease off-price sales which, while stunting growth temporarily, should help maintain brand integrity over time.

Within both the retail and wholesale segments, positive sales performance was driven by continued strength in all bottom related apparel categories, plus jackets, intimates and Movement. In the quarter, improved IMU more than offset a slightly higher retail segment markdown rate and drove better merchandise margins.

One of Free People's strategic initiatives is to grow international sales. To that end, the brand accomplished several milestones in the quarter. In late November, the brand opened its first store in continental Europe in Amsterdam. This was followed in late January by a store opening in the Covent Garden area of London. A second London store is scheduled to open this spring.

Additionally, Free People helped to open its first franchise location in Tel Aviv, in January. All non-North American stores are performing nicely, and the brand is excited to continue its international store expansion. As European stores open, the brand is also experiencing a lift in its European digital business.

My congratulations go to Sheila, Krissy and Meg for delivering yet another excellent quarter and an outstanding year.

Let me say a few words about the macro-environment and the current quarter.

Over the past year, I have talked about strong tailwinds and a change in fashion silhouette as forces favorably impacting our business. Today, I believe those winds would be more accurately characterized as gentle breezes – still positive, but certainly less impactful. For example, consumer sentiment remains considerably above its 40-year average but below last spring/summer's super highs, and store traffic in February versus the prior year was down high-single digits, led by double-digit declines in chilly, wet California. The new fashion silhouette, a look focused on bottoms, remains solidly in place and continues to drive demand, but the exuberance with which the customer embraced fashion last spring has moderated somewhat.

That said, we know all brands made some costly mistakes in their spring transition assortments, but we also made many good choices, and we are concentrating our efforts on taking the learnings from January and early February and applying them to our go-forward assortments. Fortunately, over the past few years, we've worked hard to increase our speed-to-customer. We've compressed the design calendar, switched to factories that can expedite production, and in many cases, held extra piece-goods and trims so there's no delay in cutting. The result – faster turnaround time so we can now adjust our assortments in season.

In closing, I am quite proud of what our teams have accomplished over the past few years. Each brand has a stronger connection to its customer, is better able to create compelling products and can source and deliver them faster and more efficiently. Each has better digital functionality and can offer customers a true omni-channel experience. Each has stronger marketing capabilities including best-in-class websites and imagery. Each has successfully introduced new product categories and concepts, and each is growing internationally. And all of this has been accomplished while increasing both sales and profits. Those are amazing accomplishments in an environment where the industry is struggling, and many retailers are downsizing or closing. I want to thank my colleagues who have engineered and led our success – the brand leaders, Hillary, Andrew, Trish, Sheila and their respective teams; Meg and her creative teams; and our shared service leaders and their teams. You all produced a truly outstanding performance in fiscal 2019, and I know you, like me, believe we have even greater years ahead. I thank our 24,000 associates world-wide for their inspiring dedication, drive and creativity. 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. Thank you, and now for your questions.