



URBAN OUTFITTERS INC.

Second Quarter Fiscal 2012 ended July 31st 2011
Management Commentary

August 15, 2011

Summary Highlights

The following are highlights from our Second Quarter Fiscal Year 2012 performance versus the comparable quarter last year:

- Net sales increased 10% to \$609 million.
- Comparable Retail Segment net sales, which include our Direct-to-consumer channel, increased 1%, including a 2% decrease in comparable store net sales and a 15% increase in comparable Direct-to-consumer net sales.
- By major brand, retail segment comparable net sales increased at Free People and Urban Outfitters 18% and 1%, respectively, while comparable retail segment net sales were flat at Anthropologie.
- Wholesale net sales increased 7% to \$32 million.
- Gross profit decreased 2% to \$231 million, while gross profit margins decreased 459 basis points to 37.9%
- Income from operations decreased 18% to \$88 million, or an operating margin of 14.4%.
- Net income was \$57 million or \$0.35 per diluted share.

Revenue

Retail Stores - The Company opened 10 new stores for the quarter bringing the global store count to 392. New and non-comparable stores contributed \$54 million in net sales during the quarter.

Within the quarter, total Company comparable store net sales were strongest in June, followed by July, then May. For stores, total transactions and average number of units per transaction decreased 3.1% and 0.7%, respectively; these decreases were partially offset by a 1.6% increase in average unit selling prices.

Direct-to-consumer – Direct-to-consumer revenues increased 17% to \$113 million. The penetration of direct-to-consumer net sales to total company net sales increased 100 basis points to 19%. These results were largely driven by a 31% increase in website traffic to more than 32 million visitors.

Wholesale Segment– Wholesale segment revenues increased 7% to \$32 million in the quarter, driven by a 16% increase at Free People, offset by the reduction in Leifsdottir sales as a result of the decision to exit the channel in May of this year.

Brand Highlights for the second quarter

Anthropologie – The brand opened 3 new North American stores in the quarter and 1 new European store bringing the global store count to 160. Square footage increased 9% to 1,165,254. Comparable retail segment net sales, which include the direct-to-consumer channel were flat. By region sales were strongest in the South and weakest in the Northeast. By venue sales were strongest in free standing and lifestyle centers and weakest in mall locations. By merchandise category, intimates and women’s accessories were the strongest and women’s apparel was weakest.

Free People – The brand opened 4 new stores in the quarter bringing the global store count to 51. Square footage increased 40% to 70,400. Comparable retail segment net sales, which include the direct-to-consumer channel, increased 18%. By region sales were strongest in the West and weakest in the Northeast. By venue sales were strongest in lifestyle centers. By merchandise category intimates were the strongest.

Urban Outfitters– The brand opened 2 new stores in North America bringing the global store count to 180. Square footage increased 12% to 1,661,135. Comparable retail segment net sales, which include the direct-to-consumer channel, increased 1%. Domestically, by region, sales were strongest in the South and weakest in Canada. In Europe, sales were strongest in Continental Europe and weakest in Ireland. Domestically, by venue sales were strongest in malls and lifestyle centers and weakest at street locations. By merchandise category men’s and men’s accessories were the strongest and women’s apparel was the weakest.

Other Brands – Other brands include Terrain and BHLDN. Revenues for other brands increased 78% driven by the addition of BHLDN.

Gross Margin

Gross profit in the quarter decreased 2% to \$231 million, and the gross margin rate decreased 459 basis points to 37.9%. This decline was primarily due to increased markdowns to clear slow moving women’s apparel inventory at Anthropologie and Urban Outfitters, as well as occupancy deleverage caused by negative comparable store sales.

SG & A

Total selling, general and administrative expenses for the quarter, expressed as a percentage of sales, increased by 32 basis points to 23.5% due primarily to ecommerce and related catalog investments. Investments in new technology and our new distribution and fulfillment centers in Europe also contributed to the deleverage for the quarter.

Other Income Statement Items

The Company's effective tax rate was 36.2% for the quarter versus 33.3% for the prior comparable period. The prior comparable period tax rate was favorably affected by certain non-recurring items. The company continues to forecast an annual effective tax rate improved of 36.5%.

Balance Sheet and Cash flow Items

Cash, Cash Equivalents and Marketable Securities decreased year to year by \$140 million to \$609 million at the end of the quarter. During the quarter the company repurchased and retired 2.3 million common shares for \$67 million, leaving 3.3 million shares remaining on the current authorization to purchase up to 10 million shares.

Total inventories increased \$60 million to \$303 million, or a 25% increase over the prior year period. Approximately half of the dollar increase was due to non comparable receipts versus the prior year, specifically; \$15 million of early receipts in the final week of July, \$9 million more in transit and \$6 million of fabric and Bhdn inventories. Overall, we are comfortable with the level of our current inventory.

Total capital spending was \$42 million for the quarter and depreciation and amortization was \$27 million for the quarter.

During the quarter the company repurchased and retired 2.3 million common shares for \$67 million, leaving 3.3 million shares remaining on the current authorization to purchase up to 10 million shares.