

URBAN OUTFITTERS, INC.

Second Quarter, FY'13 Conference Call
August 20, 2012

Participants

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

Oona

Good afternoon, and welcome to the URBN second 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 July 31, 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 second quarter. Ted Marlow, Chief Executive Officer, Urban Brand Group, will provide a brief update on the Urban Outfitters Brand and 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.

I'll now turn the call over to Frank.

Frank

Thank you, Oona and good afternoon everyone.

I will start my prepared commentary by discussing our record second quarter 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 11% to a second quarter record of \$676 million. The increase was driven by a robust direct-to-consumer growth rate of 22% and a \$26 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 net sales from our direct-to-consumer channel, increased by 4%. This includes increases of 12% and 6% at Free People and Urban Outfitters, respectively, while Anthropologie was flat for the quarter. Total Company's comparable store net sales declined by 1% driven by a 4% decrease in the average unit selling price and a 1% decrease in units per transaction, each of which were partially offset by a 4% increase in transactions.

Direct-to-consumer net sales increased by 22% to \$138 million, with penetration to total net sales accelerating 190 basis points to 20%. These results were largely driven by a 31% increase in website traffic to over 42 million customer visits.

Wholesale net sales increased 17% to \$37 million. This increase was driven by an 18% increase in Free People Wholesale partially offset by the transition of Leifsdottir to the Anthropologie Brand.

Gross profit for the quarter increased 10% to \$255 million. Gross profit rate declined 30 basis points to 37.6%. The decrease in gross profit rate was primarily due to the deleveraging of initial merchandise costs and store occupancy costs, both of which were partially offset by a reduction in merchandise markdowns. The deleverage in store occupancy costs relates to negative comparable store net sales as well as an increased number of store openings versus the prior year comparable quarter. The deleveraging in initial merchandise cost is due in part to the mix of our assortment as well as an increase in web exclusive product sold through our direct-to-consumer channel.

Total selling, general and administrative expenses for the quarter increased by 11% to \$159 million. Total selling, general and administrative expenses for the quarter expressed as a percentage of net sales, decreased by 4 basis points to 23.4%.

Operating income for the quarter was \$96 million, with an operating profit margin of 14.2%.

Net income was \$61 million or \$0.42 per diluted share.

Turning to the balance sheet, total inventories at quarter end increased by \$20 million to \$323 million, a 7% increase versus the prior comparable quarter. The growth in total inventories is primarily related to the acquisition of inventory to stock new and non-comparable stores and the growth in our direct-to-consumer channel, partially offset by a 5% decrease in comparable store inventories.

Lastly, we ended the quarter with \$363 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:

We are planning to open approximately 51 new stores, with approximately 11 new stores expected to open in the third quarter. By Brand, we are planning approximately 18 new Urban Outfitters stores globally, 15 new Free People stores, 16 new Anthropologie stores and 1 new store each for Terrain and BHLDN.

We continue to plan for gradual year-over-year margin rate improvement. As previously discussed, we believe our margin rate improvement opportunity is greater in the fourth quarter than the third quarter based on last year's performance. In the second quarter, we capitalized on strong trends that we saw materializing in the first quarter resulting in our gross profit margin exceeding our Q2 internal expectations. We do not extrapolate our second quarter margin rate into third quarter performance as they are distinctly separate seasons. Our margin rate plans 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 business to drive long-term growth. This means increased spending, partially driven by the opening of our new west coast fulfillment center, increased marketing and customer acquisition efforts and 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 36.50%.

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 Ted.

Ted

Thank you, Frank.

When we spoke in March, I said our focus would be on addressing the opportunity of re-engaging our core customer. It was, and still is, my feeling that an opportunity exists to improve upon top line performance, margin and the operating productivity of the Urban Outfitters Brand. I believe the best approach to delivering on this opportunity is to sharpen our focus on our core customer.

At this point the past 6 months have been a bit of a blur – seeming more akin to 15 minutes vs. 6 months – however, I am pleased to report that the Urban Outfitters Brand has delivered improved top line growth over the past 2 quarters accompanied by improved operating contribution. Thus, I would like to spend a couple of minutes reviewing where we stand on the continuum of opportunity which exists for our business.

In the quarter, we delivered comp sales growth in North America and Europe. Our retail segment comp was plus 6% driven by our direct-to-consumer channel which delivered well over 20% growth in sales and our stores which posted low single digit comparable positive sales. Inventories were well managed running leaner on a comp basis and lower on a week's of supply basis than last year resulting in lower markdowns in the quarter.

In North America, all business categories delivered comp sales growth except women's accessories which was low single digit negative. Men's apparel and accessories were our strongest categories during the quarter.

In Europe, our men's apparel and accessories were our strongest categories, as well. Though the economic challenges of the European market are no doubt providing some headwind, we believe we executed well, improving our conversion on lower traffic in our European stores. Additionally, we delivered dramatic year-over-year growth in our direct-to-consumer channel fueled by strong comp performance in all merchandise categories.

When I consider our performance in the quarter, I further reflect upon my comments on the March conference call. I felt we had an opportunity in our assortment, and our brand voice, to achieve more variety in our offering and, therefore, broaden our appeal to a broader spectrum of customers. We applied time and attention to this throughout the spring season, aligning creative, design and our merchant team on the cultural touch points which are a critical part of our customer's lives. Hopefully you have noticed a change to our look and voice. I personally believe consistency in brand presentation is way overrated; particularly with our core customer. They are looking for newness and an element of surprise. Our brand should not continually look the same, but overtime it should certainly feel the same. I feel we have made progress on this opportunity; however, I am confident you will see improvement. The look, voice and experience of

our brand will further evolve bringing us the productive connection with our core constituency that drives the growth.

As I consider growth at Urban Outfitters, I am quite excited about the opportunities which we have spelled out in the latest update of our strategic plan. We will be reviewing these with our Board next week. As a result, I will not venture into the specifics. However, I feel safe in sharing that our plan provides that we will continue to bring the uniqueness of the Urban Outfitters brick & mortar retail experience to markets in North America and internationally. We will continue to leverage the upside growth opportunity of direct-to-consumer with robust initiatives and investment. We will identify new product and brand development opportunities to add to our experiential retail offering. We will seek to develop new retail formats to deliver on the opportunity of customer centricity and richness of experience.

Before I turn the call over, I wish to thank and acknowledge the strength of our team at Urban Outfitters. As we came through this spring and summer, our team has really come together and aligned on the forward strategies of the business. Additionally, we have added to the asset base of our team with recent key leadership hires in North America and Europe. I am confident that as we head into the back half of fiscal 2013 and set our sights on the growth opportunities ahead, we have the nucleus of success from a talent standpoint in place.

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

Dick

Thank you, Ted and good afternoon everyone.

As Frank reported, the Company posted record sales and profits for the second quarter. Our Brands built on some of the early product successes delivered in the first quarter like colored denim, other bottoms and dresses and invested in these categories with excellent results.

From a channel perspective, newly opened stores, strong direct-to-consumer demand and a robust wholesale business drove the year-over-year sales increases. At the same time, our Brand teams managed inventories tightly leading to lower markdowns as a percent of total sales and to higher profits.

Overall, we are pleased with our performance and believe it reflects the steady progress we set out to deliver.

Highlights of the quarter include:

- Direct-to-Consumer 'comp' sales accelerated from Q1 with all Brands registering solid double-digit, year-over-year gains. This resulted in the direct-to-consumer penetration increasing by 190 bps to 20%.

- The Urban Brand delivered positive retail ‘comps’ in all product categories except women’s accessories.
- The Anthropologie Brand produced positive ‘regular price’ comparable sales.
- The Free People Brand drove comparable sales gains in the retail and wholesale channels.
- Total comparable store inventories decreased by 5%, and
- As Ted mentioned, the performance of the European operations softened somewhat in the second quarter. This was primarily due to weakness in our London stores. We are not, however, ‘Euro-skeptics’. We will continue to invest in our European businesses and are particularly excited about the opportunities we see to expand our direct-to-consumer channel across Europe.

Now, let me discuss some exciting developments in our North American direct-to-consumer business. As I mentioned above, sales during the quarter in this business accelerated significantly. The growth was largely driven by a 31% year-over-year increase in traffic to our ‘web’ and ‘mobile’ sites, a 75% year-over-year increase in ‘web-exclusive’ product available on those sites, and the launch of a number of technology improvements geared to support the web channel. I’ll go over three major initiatives:

- First, we successfully launched our ‘pick, pack and ship’ capability. This gives us the ability to fulfill an on-line or in-store order from any store or fulfillment location in the United States based on inventory availability, proximity or a number of other factors. This functionality has a number of very important benefits, including:
 - Enabling the Brands to sell web-exclusive items that have been returned to the stores without first returning them to the fulfillment center.
 - It also allows us to ship orders that are out-of-stock in the fulfillment center but in-stock in a store, and
 - Finally, it allows the Brands to better manage the disposal of their in-store mark-downs.

We have successfully tested this function toward the end of the second quarter and have slowly included more stores and more product categories. Based on analysis of our early results, we estimate that this initiative should account for many millions of dollars in additional sales across all Brands in the second half of this year.

- The second initiative helping to accelerate the direct-to-consumer growth is our company-wide effort to focus on customer acquisition. This includes increasing the marketing spend at each Brand. Historically, we have managed our marketing and related customer acquisition costs based on the conversion rate

and the immediate revenue generated. We are now able to utilize our internal consumer database to calculate an approximate 'lifetime value' of new customers and thus, we can more accurately adjust the costs to the benefits of acquisition. Using these new tools we increased total web-based marketing expenditures by 21% in the second quarter, and we plan to accelerate the rate of increase in the second half of the year. Some of this increase in web-based marketing is offset by a decrease in our catalog marketing expenses.

- Finally, during the second quarter we successfully continued to expand our 'web-exclusive' product offering. As an example, last year during the second quarter we offered approximately 750 dress styles, on-line, across all of our Brands. This year, we increased that offering by approximately 50% and saw an excellent return. We believe we can continue to enlarge the assortment in dresses and many other categories, as well.

These are three examples of the many initiatives we have to increase sales at our direct-to-consumer channel, but we have not forgotten about other areas of growth. As I mentioned earlier, we continue to invest in new stores, both domestically and internationally. In total, we plan to open approximately 51 new stores this year. In addition, we are currently engaged in a process of re-thinking the bricks and mortar experience with a goal of making it more exciting and enticing. We are also planning to expand our distribution of the Free People Wholesale product around the globe – concentrating first on the UK later this year and then in Japan in fiscal year 2014.

In summary, we are excited about the progress made during the second quarter. Our entire organization is focused on continued, steady, year-over-year improvement throughout the remainder of the year. Our longer-term goal is to grow annual revenues significantly faster than the industry average and more commensurate with our historic rate. We are mindful of the challenges we face – an extremely competitive retail environment and a fragile world economy – but I believe we have the elements for success. Our Brands are compelling, our strategy is clear and we have strong merchants in place. I thank our Senior Team and all of our 18,000 co-workers world-wide for their hard work, their dedication and their inspiration. I also thank our shareholders for their continued support.

At this time we will open the call to questions. Please remember, in order to give everyone a chance to speak and get all of you off this call on a timely basis, limit your question to one per caller.