

URBAN OUTFITTERS, INC.

First Quarter Fiscal 2015 ended April 30th, 2014 Management Commentary

Summary Highlights

The following are highlights from our First Quarter Fiscal Year 2015 performance versus the comparable quarter last year:

- Net sales increased 6% to \$686 million.
- Comparable Retail segment net sales, which include our comparable direct-to-consumer channel, were flat.
- Comparable Retail segment net sales at Free People and Anthropologie Group increased 25% and 8%, respectively, and Urban Outfitters decreased 12%.
- Wholesale net sales increased 27% to \$46 million.
- Gross profit was flat at \$239 million, while gross profit rate declined 209 basis points to 34.8%.
- Income from operations decreased 18% to \$60 million and operating profit rate declined 254 basis points to 8.7%.
- Net income was \$37 million or \$0.26 per diluted share.

Revenue

Retail Segment – Comparable Retail Segment net sales, which include our comparable direct-to-consumer channel, were flat driven by strong direct-to-consumer growth offset by negative comparable store sales. Within the quarter, total Company comparable Retail segment net sales were strongest in April, followed by March, then February. The Company opened 5 new stores during the quarter bringing the global store count to 516. Direct-to-consumer net sales were driven by a higher average order value and an increase in website and mobile application traffic. The negative comparable store net sales resulted from a reduction in transactions and units per transaction, which were partially offset by an increase in average unit selling price.

Wholesale Segment – Wholesale segment net sales increased 27% to \$46 million in the quarter driven by double-digit sales increases at specialty accounts and department stores.

Brand Highlights for the First Quarter

Anthropologie Group – The group, which consists of the Anthropologie and Bhldn brands, opened 1 new store during the quarter bringing the global store count to 190. Square footage increased 3% over the prior year period to 1,330,413. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 8%. By region, store net sales were strongest in the Southwest. By venue, store net sales were strongest in free standing locations with all venues posting positive comparable sales. All merchandise categories delivered positive comparable net sales.

Free People – The brand opened 2 new stores during the quarter bringing the total store count to 92. Square footage increased 23% over the prior year period to 134,370. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 25%. By region, store net sales were strongest in the West with all regions having positive comparable sales. By venue, store net sales were strongest in metropolitan locations with all venues posting positive comparable sales. All merchandise categories delivered significant positive comparable net sales.

Urban Outfitters– The brand opened 2 new stores in the quarter bringing the global store count to 232. Square footage increased 8% over the prior year period to 2,064,285. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, decreased 12%.

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

In Europe, by region, store net sales were strongest in the United Kingdom. By Retail segment merchandise category, men’s apparel was the strongest and women’s accessories was the weakest.

Other – Other includes Terrain. The net sales increase for Terrain was driven by positive comparable store sales.

Gross Margin

Gross profit in the quarter was flat at \$239 million. Gross profit rate declined by 209 basis points versus the prior year’s comparable period. The decline in gross profit rate was primarily due to a deleverage in store occupancy costs driven by negative store comparable sales at the Urban Outfitters brand and pre-opening rent expense related to new stores. Lower merchandise margins at the Urban Outfitters brand resulting from poor performing product also contributed to the decline.

Selling, General & Administrative Expenses

Total selling, general and administrative expenses, expressed as percentage of net sales, increased by 45 basis points to 26.1%. The increase was primarily due to increased marketing expenses which drove higher direct-to-consumer traffic.

Other Income Statement Items

The Company's effective tax rate for the first quarter of fiscal 2015 was 37.0% compared to 35.4% in the prior year period. The increase in the rate was due to a true-up in state taxes.

Balance Sheet and Cash Flow Items

Cash, Cash Equivalents and Marketable Securities decreased from the prior year by \$121 million to \$517 million primarily due to the share repurchase activity in the quarter.

Total inventories increased \$24 million to \$349 million, a 7% 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 increased 2% at cost while decreasing 5% in units.

Total capital spending was \$39 million for the quarter and depreciation and amortization was \$34 million for the quarter.

During the third quarter of fiscal 2014, the Board of Directors authorized the repurchase of 10.0 million common shares under a share repurchase program. During the quarter, the Company repurchased and retired 9.7 million common shares for approximately \$353 million completing the share repurchase authorization.