URBAN OUTFITTERS, INC.

Fourth Quarter, FY'09 Conference Call
March 5, 2009

Participants

Dick Hayne	Chairman and President
Glen Senk	Chief Executive Officer
John Kyees	Chief Financial Officer
Ted Marlow	President, Urban Outfitters Brand
Glen Bodzy	General Counsel
Wendy Brown	Chief Operating Officer, Anthropologie
Bill Cody	Chief Talent Officer
Frank Conforti	Controller
Calvin Hollinger	Chief Information Officer
Andrew McLean	Chief Operating Officer, URBN Europe
Freeman Zausner	Chief Administrative Officer
Dave Ziel	Chief Development Officer

Introduction

Good morning, and welcome to the URBN quarterly conference call. Joining me in Philadelphia today is Dick Hayne, our Chairman; John Kyees, our Chief Financial Officer; and our senior team including the majority of our brand and shared service leads.

Earlier this morning the Company issued a press release outlining the financial and operating results for the three and twelve month periods ending January 31, 2009. I will begin today's call by reading prepared commentary regarding our performance; then the group and I will be pleased to answer any questions you may have.

As usual, the text of today's conference call can be found on our corporate website at www.urbanoutfittersinc.com.

Highlights

I'll begin today by reviewing the quarter:

- We believe the Company performed very well given the extreme marketplace conditions, and while we didn't report a new record of profitability, we're pleased with our earnings.
- Total Company sales increased by 9% to $508 million—the largest quarterly revenue performance in our history.
- Comparable retail segment sales, which includes our Direct-to-consumer channel, increased by 3%.
- Total Company comparable store ('comp') sales decreased by 1%: 'comp' sales at Urban Outfitters increased 3%, while 'comp' sales at Anthropologie and Free People decreased 6% and 13% respectively.
- Direct-to-consumer sales jumped an impressive 20% and were strong across all brands.
- Free People's wholesale revenue declined by 3%.
- Gross margins declined by 555 basis points principally due to the application of clearance and anticipated markdowns to move seasonal merchandise and optimize inventory, and a greater proportion of wholesales sales to Closeout customers.
- Comparable store inventories decreased by 13% at quarter's end.
- The organization managed expenses with exceptional discipline—especially in the important category of store-related expenses—resulting in SG & A improvements of 73 basis points.
- The Company earned $63 million of income from operations, resulting in an operating margin of 12.4%.
- Finally, earnings were $41 million or$0.24 per diluted share.

I'll now go into more detail on each of our key business metrics for the quarter, starting with sales:

Retail Sales

New and non-comparable store sales contributed $43 million for the quarter. The Company opened 8 new stores—3 Anthropologie stores, 3 Free People stores and 2 Urban Outfitters stores—bringing the total new stores opened for the year to 49.

The Company's 'comp' sales performance was relatively even throughout the quarter. By region, sales at Anthropologie were strongest in the West and sales at Urban Outfitters were strongest in the South. By location type, sales at Anthropologie were strongest in metro locations and sales at Urban Outfitters were strongest in the malls.

The Company's 'comp' sales performance was driven largely by a 2% increase in the number of transactions, with gains of 4% and 2% at Anthropologie and Urban Outfitters respectively and a decrease of 8% at Free People. Our average unit selling price decreased 1% in total—down 11% and 9% at Anthropologie and Free People respectively and up 6% at Urban Outfitters. Units per transaction decreased by 2% in total—up 2% and 3% at Anthropologie and Free People respectively and down 5% at Urban Outfitters.

Once again, the women's accessories business set the pace for the Company, and while the women's apparel business was modestly negative, there were meaningful trends across all three brands. Our best apparel items generated as much, if not more business than they generated a year ago, while the middle of the assortment was less productive—the consumer is buying what she loves, and is shopping her closet for the rest of her wardrobe. I believe we positioned our inventory well for the beginning of the spring selling season; we have good content, and we are appropriately liquid.

Now let me turn your attention to our Direct-to-consumer business. Direct sales for the quarter increased 20% to $88 million despite a circulation increase of just 7%. The penetration of Direct-to-consumer sales to total Company sales increased by 160 basis points to 17.3% from 15.7% during the comparable quarter last year. These results were driven by website visits which were up 31% to 21 million, a gain of 5 million visits over the prior year's comparable quarter.

The strength in our Direct-to-consumer business ran across all brands, but especially at Free People. With just 13 out the 30 Free People stores falling into the 'comp' group, Direct-to-consumer revenue exceeded 'comp' store revenue by a significant amount.

Wholesale Sales

With the addition of Leifsdottir, the Company's total quarterly wholesale sales increased by 1% versus the same period last year to $24 million.

Free People's wholesale sales decreased by 3% for the quarter, with department stores increasing by 8% but specialty stores decreasing by 22% principally due to credit holds and other credit-related issues. The brand's regular price average unit selling price increased 5%, but regular price unit sales declined by 6%. I believe Free People outperformed most brands on the contemporary floor, and equally important, we ended the quarter at our desired inventory plan with all of our major partners. Bookings for spring deliveries are modestly below last year, and we remain optimistic regarding the potential of our new sub-brands, We the Free and Intimately Free People.

Leifsdottir, the Company's new wholesale line, generated wholesale revenue of approximately $1.0 million in the quarter. The reaction from our retail partners has far exceeded expectations, so we continue to be encouraged by the brand's potential.

Gross Margin, SGA and Income

I'd like to now turn your attention to gross margin, operating expense and income.

Gross Margin

Total Company gross margin decreased by 555 basis points for the quarter to 34.0%. Since this metric is a standout, I'd like to take a minute to fully explain the result.

Through the first three quarters of the year, the Company was running nicely and consistently ahead of sales plan. At the end of October, however, the trend shifted abruptly, and we lost eleven points in run rate, or approximately $58 million in our anticipated fourth quarter sales revenue.

As most of you know, the Company manages its inventory to a fluid weeks-of-supply as opposed to a set target. Given the precipitous decline in our sales trend, the merchant and production teams—and our factory base—maneuvered the "on order" as well as possible. With the third quarter 'comp' inventory up 2%, however, we also took strategic, aggressive promotional action to ensure that we ended the year with an appropriate level and composition of inventory.

The largest component of the gross margin decline for the quarter came from markdowns and anticipated markdowns, followed by a greater proportion of wholesale closeout sales, and all three brands impacted the gross margin decline relatively equally.

None of us are pleased with the Company's gross margin result for the quarter, but we responded quickly to the change in environment and are pleased with the Company's comparable inventory position: down 13% at quarter's end. Frankly, I'm not sure the merchant teams or our supplier base could have reacted any better to the abrupt change in business—they "turned on a dime", and repositioned the inventory in less than three months.

SG & A

The organization also reacted aggressively to expenses. Despite the 1% decline in 'comp' store sales, the Company reduced its operating expense by 73 basis points to 21.6% for the quarter. The store teams in particular demonstrated exceptional control, leveraging direct store expenses and other corporate expenses which more than offset investments in our start-up businesses, Terrain and Leifsdottir.

Income

The Company generated a 12.4% operating margin, earning $63 million of income from operations, a decrease of 21% versus the same quarter last year. The Company earned $41 million in net income for the quarter, with earnings per diluted share of $0.24, a decrease of 23% from the prior year. The Company's annual effective tax rate closed at 35.6% versus 31.6% during the prior year. Last year's unusually low annual effective tax rate was largely impacted by the receipt of one-time federal tax incentives for work performed on the development of our new home offices.

For the year:

Since it's our year-end, I'd like to take a moment to reflect on our annual performance and acknowledge several milestones:

- Total Company sales increased by 22% to a record $1.8 billion.
- Comparable retail segment sales, which includes our Direct-to-consumer channels, increased by 12%.
- Total Company comparable stores sales increased by 8%: 'comp' sales increased 3%, 4% and 12% at Anthropologie, Free People and Urban Outfitters respectively.
- Transactions increased by 7%.
- We opened 49 stores—20 Urban Outfitters including five European locations, 13 Anthropologie stores, 15 Free People stores and our first Terrain garden center.
- Direct-to-consumer sales jumped by 32% to $272 million despite a circulation increase of just 2%.
- Website visits were up by 35% to 69 million, an increase of 18 million unique visits.
- Free People wholesale revenue increased by 13% to $107 million.
- The Company launched Terrain in mid-March which generated nearly $6 million in revenue in its first ten months of operation.
- We debuted Leifsdottir at Bergdorf Goodman, select Bloomingdale's, Nordstrom's and better specialty accounts, generating $3 million of revenue in the first season.
- Our gross profit margins increased by over 60 basis points to 38.9%.
- We improved our SG & A expense leverage by over 75 basis points.
- Income from operations increased by 33% to a record $299 million, or an operating margin of 16.3%.
- Earnings increased by 24% to a record $199 million or $1.17 per diluted share.
- The Company provided cash from operations of $252 million with free cash flow of $139 million, resulting in a year-end balance of $521 million of cash, cash equivalents and marketable securities.

Five Year Compounded Annual Growth Performance

Before I conclude, I'd also like to take a moment to review four of our longer-term key metrics:

1. First, total Company sales have increased at an average compounded rate of 27% over the last five years.
2. Second, our 'comp' store sales have increased by an average of 9% over the last five years.
3. Third, our earnings have increased at an average compounded rate of 33% over the last five years.
4. And finally, our cash, cash equivalents and marketable securities have increased at an average compounded rate of 30% over the last five years.

Closing Comments

I think we all—retailers, analysts, portfolio managers and shareholders alike—agree that the current economic environment is unprecedented in our lifetime and extraordinarily challenging. At URBN, we're acknowledging and responding to those challenges, but we're also focused on mining what we believe to be abundant opportunity—opportunity to reduce product and occupancy costs and increase margins, opportunity to strengthen our bond with the customer, opportunity to gain market share, and most importantly, opportunity to transform our business for the next generation of consumers.

URBN's culture has always been dominated by two key traits: control and creativity, and at no time in our Company's history has the need for control and creativity been greater.

With regard to control, I am extremely proud of the organization's immediate and disciplined response to the late-October downturn in business. The team repositioned the inventory within a few short months and they managed the fourth quarter expenses so that we leveraged S, G & A expense despite the 1% decline in 'comp' store sales. This was no small feat, and I'd like to thank each and every member of the organization for their extraordinary commitment.

I'd also like to acknowledge the team for the budget they developed for our fiscal 2010 year. The team planned the year extremely conservatively, and I'm proud of the ingenuity, discipline and fastidiousness with which we managed the process. We will continue to appropriately invest in our growth initiatives which include driving 'comp' store productivity, growing our Direct-to-consumer business, opening new stores, developing new concepts and continuing with the shared service programs that support these goals including the establishment of our Far East buying office. We have always managed cash carefully and conservatively, but given the current economic environment, we intend to employ even more rigor to the analysis and requirements.

While our Company is unerringly focused on control, we're equally focused on creativity. We believe the environment is driving meaningful changes in fashion and our customers' values. The retail landscape will not stand still during the recession—to the contrary, we believe the pace of change will hasten, and that only those retailers who are most attentive, nimble and adaptive will thrive.

Right now our job is to connect with our customers and provide a respite from the unwavering barrage of bad news. The URBN family will compete the way we always do—by remaining wholly customer-focused and working hard to "wow" the customer on a daily basis; by taking managed risks so that we excite the customer with newness and innovation; and by making our stores, catalogs and websites unexpected, fun and wholly compelling.

Our team—and our business partners—are motivated, positive and determined. Our goal is to run an outstanding business in good times and bad, and our 12,000-plus employees share this vision and commitment.

The Company's overarching goal has been constant and simple: to grow revenue by at least 20%, to grow profit at a faster rate than sales, and to reach a minimum of 20% operating margin. We have achieved our growth goals consistently over time and we remain confident in our prospects going forward. As always, the leadership team and I look forward to continuing to inspire our customers and reward our shareholders and employees alike.

Q & A

I will now open the call to questions. As is our custom, I ask each of you to limit yourselves to one question. I apologize in advance—if you ask more than one question, we will respectfully respond only to your first query. Thank you.