

URBAN OUTFITTERS, INC.

Fourth Quarter, FY'15 Conference Call
March 9, 2015

Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Chief Financial Officer
David McCreight, CEO, Anthropologie Group
Margaret Hayne, CCO, URBN & President, Free People Brand
Ted Marlow, CEO, Urban Outfitters Group
Trish Donnelly, President Urban Outfitters North America
Glen A. Bodzy, General Counsel
Barbara Rozsas, Chief Sourcing Officer
Calvin Hollinger, Chief Administrative Officer
David Ziel, Chief Development Officer
Dave Hayne, COO, Free People Brand
Oona McCullough, Director of Investor Relations

Good afternoon, and welcome to the URBN fourth quarter fiscal 2015 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, 2015.

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 quarter. Ted Marlow CEO, Urban Outfitters Group and Trish Donnelly, President Urban Outfitters North America, will provide a brief update on the Urban Outfitters brand. 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 begin my prepared commentary discussing our fiscal year 2015 fourth quarter sales and net income results versus the prior comparable quarter. Then, I will conclude my prepared commentary by sharing our thoughts concerning our plans for fiscal year 2016.

Total Company sales for the quarter increased by 12% to a fourth quarter record of \$1.0 billion. This was our first ever billion dollar quarter, a nice milestone to hit with all of our brands delivering positive retail segment comp sales. The total sales increase was driven by a 6% retail segment comp, a \$46 million increase in non-comparable sales, including the opening of 7 net new stores and a 21% jump in wholesale sales.

The 6% increase in retail segment comp sales was driven by strong direct-to-consumer growth which more than offset a narrowly negative sales comp at the stores. Direct-to-consumer growth resulted from increases in sessions, orders, average order value, and conversion. Negative store sales comp resulted from a reduction in transactions and units per transaction, which were partially offset by an increase in average unit selling price.

By brand, our retail segment sales 'comp' rates increased by 18% at Free People, 6% at the Anthropologie Group, and 4% at Urban Outfitters.

Free People Wholesale continued to deliver yet another strong quarter, as sales rose 21% to \$58 million. These results came from double-digit sales growth at specialty stores and department stores.

Now turning back to total company performance, URBN gross profit for the quarter increased by 5% to \$350 million, while gross profit rate declined by 207 basis points to 34.6%. The deleverage in gross profit rate occurred primarily due to lower initial merchandise markups followed by higher markdowns, which were primarily driven by the under-performance at the Urban Outfitters brand. Over invested inventory levels, and certain product category misses drove higher mark-downs while product sales mix and poor execution drove lower initial mark ups at the Urban brand.

Total selling, general and administrative expenses for the quarter increased by 11% to \$226 million. Total SG&A as a percentage of sales, leveraged by 8 basis points to 22.3%. The increase in SG&A expense was primarily due to increased expenses to support new store growth and increased spend in both web marketing and technology investments to support direct-to-consumer channel growth.

Operating income for the quarter decreased by 4% to \$124 million, with operating profit rate declining by 199 basis points to 12.3%.

The effective tax rate for the quarter was 35.0% vs. 31.7% in the prior comparable period. The tax rate variance is due to favorable one-time benefits relating to a federal rehabilitation credit received and the release of international valuation allowances in the prior comparable period.

Net income was \$80 million or \$0.60 per diluted share.

Turning to the balance sheet, inventory increased by 15% to \$358 million. The growth in inventory was primarily related to the acquisition of inventory to stock new and 'non-comp' stores and to support retail segment 'comp' sales growth. Comparable retail segment inventory increased by 7% at cost while decreasing 7% in units.

Lastly, we ended the quarter with \$363 million in cash and marketable securities. During the quarter, the Company repurchased and retired 3.8 million common shares for approximately \$126 million. We have 2.3 million shares remaining on our May 27, 2014 Board of Directors authorization to repurchase 10.0 million shares. On February 23, 2015, the Board of Directors authorized the repurchase of an additional 20 million shares.

As we look forward to fiscal year 2016, it may be helpful for you to consider the following:

We are planning to open approximately 32 new stores in the year. By brand, we are planning 4 new Urban Outfitters stores in North America, 13 new Anthropologie Group stores globally, including 1 new European store, and 15 new Free People Stores in North America.

We believe that we could achieve approximately 100 basis points of year-over-year gross margin improvement, inclusive of the one-time fulfillment center transition costs which I will discuss later in my prepared commentary. It is likely that this achievement could be driven by greater progress in the second half of the year.

Our gross profit margin growth opportunity largely depends on the timing of the margin progress at the Urban Outfitters brand in North America. The majority of the improvement opportunity for the year is related to lower markdown rates from improved product execution, better inventory control and allocation, and improved initial mark-ups. As Dick and the team will discuss later on the call, the Urban brand is in a much better position versus this time last year, but while progress has been made, we are still a work in progress with much more to come. We believe the brand can begin to deliver markdown improvement in the first quarter but much, if not all, of this improvement could be offset by unfavorable IMU, which we believe will not start to show meaningful improvement until the second quarter. Based on the possible IMU deleverage at the Urban Brand and delivery expense deleverage related to our fulfillment center relocation, it is possible that our first quarter gross profit margin could deleverage at the URBN level.

As I mentioned earlier, please note that gross profit margin for URBN will be negatively affected by approximately 50 basis points in fiscal year 2016 relating to the transition of our east coast fulfillment center from Trenton, South Carolina to Gap, Pennsylvania. Our new, state of the art, one million square foot facility will begin phasing in outbound service to the customer in June, therefore the majority of this deleverage is planned to occur in the second and third quarters, while both the first and fourth quarters will be modestly affected as well.

We believe that SG&A could grow at a low double-digit rate for the year. This increase would primarily be driven by, increases related to direct and selling support expenses to support our new store growth and continued investments in both marketing and technology systems, to further customer acquisition and retention efforts.

Additionally, I wanted to comment on the potential effects of foreign currency translation on our fiscal 2016 plan. If today's rates held constant, and all else in the business held constant, such as shares outstanding and planned profit rates, we believe foreign currency translation could negatively affect our earnings per share by approximately 3%. This would be due to our exposure to Canada and the European markets.

Capital expenditures for fiscal year 2016 are planned at approximately \$150-160 million, driven primarily by new stores and the completion of our new east coast fulfillment facility. We believe our new facility will help us to better serve a larger portion of our customer base with faster fulfillment times. As mentioned earlier, this facility is planned to open during the summer of fiscal 2016.

Finally, our fiscal year 2016 annual effective tax rate is planned to be approximately 36.5%.

As a reminder, the foregoing does not constitute a forecast, but is simply a reflection of our current views. The Company disclaims any obligation to update forward looking statements.

Now, it is my pleasure to pass the call over to Ted Marlow.

Ted

Thank you Frank and good afternoon to all that are joining us on this afternoon's call.

I will begin the overview of the Urban Outfitters Brand with a high level view of the brand performance in the fourth quarter. Trish Donnelly, the President of Urban Outfitters North America, will then provide her comments on some of the positive signals which we are currently seeing in the North American Business.

Twelve months ago on this call we spoke about our plans to rejuvenate the Urban Outfitters brand through exciting product, an expanded lifestyle offering, compelling imagery, inspiring content – overall a richer brand experience for our 20-something customer. In September at our Investor Day, we advised this was a work in progress from which we were seeing positive signs. As we have traveled through fiscal '15, we have put new processes in place and reworked our organization structure with these objectives as our focus in the interest of returning the Urban Outfitters' North American business to positive sales performance. In addition, through this work we have untapped a tremendous amount of creativity in our brand which is true to our heritage.

Over this past year, our team has conceived and executed many exciting projects – some of those being Space98 in Williamsburg, Brooklyn, which has a community minded emphasis with its own local marketplace; Herald Square in Manhattan, our largest store to date, offering additional services including a hair salon and an eatery; Honolulu, our first store in Hawaii, a particularly fun opening for us as the social advocacy we developed helped us deliver the second largest opening day in our company's history, as well as some of our most engaged social posts nationally; and finally, the launch of Without Walls, our own active lifestyle brand, and a new business opportunity whose experiential marketing and unique performance products have developed a community of athletic advocates providing us with an exciting entry into this unique market.

Although each of these projects has called upon our creative strengths and business prowess, our overarching goal has been to re-establish positive sales momentum in the business. In speaking to our fourth quarter results, I believe we are beginning to see the fruits of our labor. Traveling through fiscal '15, we have realized quarter-to-quarter improvement in retail segment comp performance culminating in a positive comp performance in Q4.

Detractors could say this was a matter of our business going up against weaker comparable performance in like quarters as we progressed through fiscal '15 vs fiscal '14. While true that our comparables were easier in the back half of the year vs the front half, we have seen an improving rhythm in our sales performance over the past few months, which has continued through the month of February with our trend in direct-to-consumer being quite pronounced. As we have elevated our product offering, imagery and content, we have increased our social engagement. We are seeing strong results in sales and customer participation. We are thrilled with who he/she is, and what they are looking to us for. We are not simply a brand selling products; we are attracting an audience that wants to be part of our culture through our product offering, music, photography and other creative outlets. This positive dynamic has little to do with weak comparables in the like quarter last year.

Further, our direct team has delivered continual updates to our DTC user experience to complement our customer's ongoing move to mobile. In Q4 we welcomed 50 million visitors to our North American website with the majority of those customers visiting us on a mobile device, 53% this year vs 42% last year. Despite this shift in shopping behavior our conversion rate and AOV were up nicely in the quarter.

I will leave it to Trish to highlight the areas of engagement which are resonating with our customer. However, we find ourselves proceeding into fiscal '16 with cautious optimism vs a high level of concern regarding the topline of the business this time last year. We are getting traction. We are making headway, but there is still much more work to do. Our Q4 margin was not where it needed to be due to shortfall in IMU and markdowns. We have mapped out our receipt IMU plans for FY'16. The first half of the year will continue to be a challenge with Q2 showing improvement from Q1. In the second half of the year, we are planning on delivering quarter-to-quarter IMU improvement.

Regarding markdowns, we are as well mapping out receipt flow for fiscal '16 with a conservative approach to sales performance, and an emphasis on tightening weeks of supply. We believe Q4 markdowns were more driven by over optimistic sales expectations and redundant style offerings than fashion failure. We feel we have an opportunity to better define our category narrative in store and thereby tighten our sku offer while we distort our investments in volume driving categories more dramatically.

I will now turn the call over to Trish to highlight our areas of momentum, and further outline the approach to our work in progress.

Trish

Thank you, Ted, and good afternoon to all on the call. It is my pleasure to speak with you today.

As Ted pointed out, one of our biggest priorities was to re-establish positive sales momentum which we started to deliver on in Q4 posting our first positive retail segment comp in several quarters. While it was not at the margin we know we are capable of, it was a step in the right direction.

From a product category standpoint, our customer is reacting positively to the businesses we've intentionally distorted into in both the retail and direct channels. Specifically, we're seeing very positive reads in home (both in the electronics and the decorate categories); in intimates; in women's accessories and in beauty. The regular price activity we're seeing here is meaningful volume. Within these categories, we are pleased with our product execution, and we still see opportunity to further capitalize on what the customer is telling us she or he wants.

Our largest category, women's apparel, was challenging from both a sales and margin standpoint throughout last year. As Ted pointed out, we started to see some momentum as we moved through Q4, and today, we are seeing that momentum continue in the women's apparel regular price topline. At this time versus last year, we have clearer reads on what is working and why; we have healthier sell throughs in many of our top styles in several categories; we are executing IMU improvement strategies which we believe will materialize in the back half of the year; we are focused on 4-wall contribution by category and we are beginning distorting ideas, attributes and classifications where appropriate. By no means are we claiming that the business is 'fixed', and we know we still have a lot of work to do but we feel we have established momentum in the right direction.

Throughout last year, and particularly Q3 into Q4, we were over assorted in style choices in the women's division, which resulted in a higher markdown rate and contributed to the softer margins for the quarter. Today, we are highly focused on style count – still very committed to offer the compelling assortment our customers expect from Urban – but we are editing the redundancy and the over assortment. As we reduce style count, become more focused, and speak to trend or items with greater conviction, this allows us to more clearly tell our product stories within stores. The output is a store experience that's less overwhelming and a new approach to visual merchandising, with a primary focus on item and category shops.

As the consumer shopping behavior has continued to evolve, especially around how she shops and interacts with each of our channels we believe these initiatives around women's productivity are very important. To build upon this effort, we have initiated a detailed review of productivity for the entire store in an effort to assign appropriate square footage within our store footprint. Our planning and allocation teams are highly focused on this, and although we're in early days of this initiative, we are seeing great learnings within the categories we're testing. This, of course, helps educate us on go forward approach – this is a very exciting 'work in progress' which we believe can help us optimize our 4-wall profitability.

Another area in which we are making solid improvement is within customer engagement. Our direct-to-consumer business continues to see strong topline sales growth. Our improved marketing and creative is clearly resonating with our core customer - evident not only in the topline direct sales numbers but also in the type of engagement we're seeing within our social channels. It is becoming more and more common to see six figure 'likes' on our Instagram posts, with followers growing significantly year-over-year on a monthly basis. On #UOonyou, we're creating a fast-growing community where our customers can share their favorite looks, spaces, music and more, and recently, we've been able to integrate customers' photos on our website product pages as visual recommendations. Within our blog, 'Dreamers and Doers' highlights emerging artists, creative entrepreneurs, and ones to watch. Whether our customers are starting a new business, creating something beautiful, or just daring to do things differently, we offer a platform that celebrates their creative spirit and exposes their artistry to the millions of customers visiting our website.

As we've elevated and 'amped up' the creativity in our imagery, we are enthusiastic about the talent that is reaching out to be part of the UO brand. In addition, we are promoting talent from within the organization which allows us to tell our narrative in a fresh and innovative way. New hires and internal development are pivotal to our future, and we have made significant headway in the past few months.

In terms of our 'core customer' and progress here, I'm happy to report we are seeing solid growth in our reactivated customer base. Additionally, it was also nice to be recognized externally as we ranked in the top 10 L2 Digital IQ Index out of 82 specialty brands reviewed.

In closing, we are seeing positive signals in the business as we improve our product offer, focus on 4-wall productivity within our stores, and continue to elevate our creative and brand marketing experience. We are happy to see positive customer growth and witness our core customers returning to the brand. We will continue to work on our retail and direct experience in all areas of the business – apparel, accessories, home and music. These are early days and we are still, very much, a work in progress, with much more needed to come on improving IMU, markdowns and store productivity.

Thank you for your time today, and I will now turn the call over to Dick Hayne.

Dick

Good afternoon everyone. Ted, Trish, thanks to both of you, to Meg and to the entire Urban Outfitters team for the significant progress you've made in the past twelve months. I know you are all disappointed in the brand's financial results last year and obviously, I am as well. But it's been a year of hard work and rebuilding, and without doubt, your collective efforts are beginning to pay off. In our Q4 conference call last year, I said the Urban team would work toward the following: elevate all creative functions to a more central role within the brand, refocus on the core 18 to 28-year old age group, and elevate the product assortment both from a fashion and quality perspective. I believe the brand team has made excellent progress on realizing these goals.

After a complete reorganization and the addition of some new talent, the concept, design and merchant groups are much stronger today and are working more collaboratively. The result has been better, more elevated product that is less duplicative and more appropriate for the target customer. The styling is fresher, the fabrics and materials are better and there is more 'make' in the products. The AUR, is up double-digits as of this past January 31 versus the same date last year. Most importantly, the customers are responding to the product upgrades with total 'comp' retail sales at the Urban brand running positive for the past three months.

Nowhere within the Urban brand have the creative changes been more apparent and more impactful than in the digital marketing group. With a new team leading the way, what had been mostly juvenile 'pop' graphics and sale messaging gave way to compelling photographic imagery and content designed to engage the customer and drive full price selling. This change, coupled with improved product, has delivered double-digit sales gains in web and mobile full-price selling.

So on the creative side of the business, there is quarter-over-quarter improvement in the product, how we sell it and how we communicate it to our customers. I look forward to additional improvements in fiscal 2016. However, as Ted and Trish both pointed out earlier, the brand also has several operating issues to address before it can return to acceptable profitability. The brand must more effectively plan, control, and allocate inventory in order to avoid the excessive markdowns experienced over the past several quarters. In addition, because customer demand by product category has shifted somewhat over the past year, and in some cases, has moved from higher to lower margin categories, the merchant teams must focus on strategies to improve the overall IMU. A number of initiatives are currently underway to address these very issues and I believe we will see improvement in these areas this year, especially in the second half. So overall, I am convinced that the Urban brand is back in-sync with its core customer and headed in the right direction.

Let me now turn your attention to fourth quarter results at the Company's other brands – first, Free People. Meg Hayne and her team once again produced record fourth quarter results, registering double-digit sales gains and record operating profits. This strong performance is even more impressive given the difficult comparisons the brand faced. Fiscal year 2015 marks the third consecutive year the Free People brand has reported record-setting fourth quarter results.

During the quarter all three distribution channels excelled. Wholesale continued its double-digit positive sales trend delivering revenue growth of 21%. Product expansion, international growth, and stronger relationships with domestic partners drove the increase.

New and expanded categories accounted for more than 40% of the wholesale sales increase. Intimate apparel sales jumped by 51% on a quarter-over-quarter basis and the newest wholesale category, footwear, gained significant traction. After successfully launching in Nordstrom's last year, Free People footwear is now in 80 Nordstrom doors and other department store accounts, including Bloomingdales, Galleries Lafayette, Isetan in Japan, I.T. in China and The Bay in Canada.

Q4 international wholesale sales grew in all key markets and by year's end, consisted of over 350 points of distribution across 36 countries. Opening shops with international partners has been a key ingredient in Free People's global growth and the brand expects more shops to open this year, including additional ones in China, Japan, the UK, France, Germany and Spain.

The Free People direct-to-consumer business continues to set the standard for excellence with its outstanding imagery and customer engagement. Its highly successful FP Me app drove significant quarter-over-quarter increases in customer engagement, with a 33% increase in 'pic' uploads and a 200% increase in 'hearts' registered by community members. Mobile devices are now the preferred portal to the Free People site as mobile penetration during the quarter exceeded 50% for the first time and accounted for over 25% of sales.

The Free People stores finished the year with their highest margins and four-wall profitability on record. The combined retail segment channel delivered a powerful 'comp' sales increase of 18% during the quarter on top of a 20% increase in the same quarter last year.

The Free People execution in Q4 was simply outstanding and I extend my congratulations to Meg, Sheila Harrington, Dave Hayne and their teams on delivering another exceptional year.

The Anthropologie brand had an excellent quarter, as well, posting both record sales and profits. Sales were driven by new stores and strong direct-to-consumer demand. During the quarter the brand successfully opened four new stores, including one in the UK. This brought the total number of new stores opened last year to 14. The stores did well in Q4 and were highly profitable, but the DTC channel was the standout. On a quarter-over-quarter basis, Anthropologie direct orders grew by more than 23%, traffic by 17%, and AOV by 400 basis points. Like the other brands, Anthropologie saw a significant shift to mobile devices which accounted for over 40% of its DTC traffic.

During the quarter, the Anthropologie team also made progress in developing their strategy of category expansion with several new categories registering outstanding results. BHLDN, Anthropologie's bridal concept, had a 'breakout' quarter and year in each of its distribution channels. Freestanding stores, the five shop-in-shops inside existing Anthropologie stores and the web all posted double-digit sales gains. An additional BHLDN shop-in-shop will be added this spring inside an Anthropologie store in Atlanta and the brand has opened a pop-up shop on Kings Road in London.

Terrain, the outdoor living and garden concept, has also started to benefit from its recent association with the Anthropologie brand. Terrain has seen a strong uptick in brand awareness and direct-to-consumer traffic from their inclusion in the Anthropologie group. Given their cross-marketing initiatives and improved product, it's not surprising that Terrain recorded double-digit sales growth in the fourth quarter.

The success of BHLDN and Terrain are clear examples of the power of the Anthropologie brand and also a testament to the multi-category strategy.

As we have stated previously, the Anthropologie brand has embarked on expanding its home product category. During the third quarter, the brand dropped an expanded assortment, home-only catalog and received very positive customer reaction. A number of items sold through in the first few weeks and home product sales continued to grow in the fourth quarter. Given the positive response, the brand dropped another home journal last week and will send out one or two additional home books the remainder of this year.

Late last year, the brand also launched its Registry app, and to date, 11,000 registries have been created with an average of 15 items per registrant. Over time, demand from Registry should help support the home product expansion initiative and vice versa. One additional benefit of Registry – 40% of the registry purchasers are first time Anthropologie customers, so this site should become an excellent entry point to the brand.

Overall, David McCreight and the Anthropologie team delivered a great quarter and another excellent year. Thank you to all, and well done.

Now let me say a few words about our current, quarter-to-date results. All brands have realized a strong start to fiscal 2016 with the total company retail 'comp' up mid-single digits. The direct-to-consumer channel continues to significantly outperform and within that channel, mobile continues to gain share. The wholesale team just completed most of its trade shows for fall '16 deliveries and, to date, show orders are tracking well ahead of the previous year.

On a macro level, today, with relatively inexpensive energy prices, little to no inflation, and a strong US dollar, we see a positive environment in the United States for consumer spending. In addition, we see numerous fashion trends across many of the product categories we offer. We believe the URBN brands are well positioned to take advantage of the opportunities this environment creates.

In closing, I recognize and thank our 24,000 associates around the globe. Their collective hard work, dedication and creativity build the emotional bonds that make and keep our brands strong and allow us to compete effectively.

I also want to recognize and thank our many domestic and international business partners, and finally, I thank our shareholders for their continued enthusiasm and support. I am grateful for the opportunity to lead this outstanding community called URBN.

At this time I invite your questions. Given our time restriction, I thank you in advance for limiting your questions to one per caller.