

URBAN OUTFITTERS, INC.

Fourth Quarter Fiscal 2014 ended January 31st, 2014 Management Commentary

Summary Highlights

The following are highlights from our Fourth Quarter Fiscal Year 2014 performance versus the comparable quarter last year:

- Net sales increased 6% to \$906 million.
- Comparable Retail segment net sales, which include our comparable direct-to-consumer channel, increased 1%.
- By major brand, comparable Retail segment net sales at Free People and Anthropologie increased 20% and 10%, respectively, and Urban Outfitters decreased 9%.
- Wholesale net sales increased 24% to \$48 million.
- Gross profit increased 6% to \$332 million, while gross profit rate improved 4 basis points to 36.7%
- Income from operations decreased 2% to \$129 million and operating profit rate declined 115 basis points to 14.3%.
- Net income was \$89 million or \$0.59 per diluted share.

Revenue

Retail Segment – Comparable Retail Segment net sales, which include our comparable direct-to-consumer channel, increased 1% driven by strong direct-to-consumer growth which more than offset negative comparable store sales. Within the quarter, total Company comparable Retail segment net sales were strongest in December, followed by November, then January. The Company opened 12 new stores and closed 1 store during the quarter, bringing the global store count to 511. Direct-to-consumer net sales were driven by an increase in website and mobile application traffic and a higher average order value. The negative comparable store net sales resulted from a reduction in transactions, which were partially offset by increases in units per transaction and average unit selling price.

Wholesale Segment – Wholesale segment net sales increased 24% to \$48 million in the quarter driven by double-digit sales increases at specialty accounts and department stores.

Brand Highlights for the Fourth Quarter

Anthropologie – The brand opened 3 new stores and closed 1 store due to lease expiration during the quarter bringing the global store count to 187. Square footage increased 3% over the prior year period to 1,317,622. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 10%. By region, store net sales were strongest in the Southeast and Southwest with all regions posting positive comparable sales. By venue, store net sales were strongest in free standing locations with all venues posting positive comparable sales. By Retail segment merchandise category, women’s apparel was the strongest.

Free People – The brand opened 4 new stores during the quarter bringing the total store count to 90. Square footage increased 24% over the prior year period to 130,805. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 20%. By region, store net sales were strongest in the West with all regions posting positive comparable sales. By venue, store net sales were strongest in lifestyle centers with all venues posting positive comparable sales. All merchandise categories delivered significant positive comparable net sales.

Urban Outfitters – The brand opened 5 new stores in the quarter bringing the global store count to 230. Square footage increased 6% over the prior year period to 2,030,694. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, decreased 9%.

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

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

Other Brands – Other brands include Terrain and Bhldn. Net sales for other brands increased by \$2 million, driven by growth in the direct-to-consumer channels.

Gross Margin

Gross profit in the quarter increased 6% to \$332 million. Gross profit rate improved by 4 basis points versus the prior year’s comparable period. The improvement in gross profit rate was primarily due to improved merchandise margins primarily from significant improvement in the Anthropologie brand markdown rate. This improvement was mostly offset by increased markdowns at the Urban Outfitters brand. Store occupancy also deleveraged during the quarter due to negative store comps and pre-opening occupancy expense related to three large New York City Urban Outfitters Brand stores scheduled to open in the first half of fiscal 2015.

Selling, General & Administrative Expenses

Total selling, general and administrative expenses, expressed as percentage of net sales, deleveraged by 119 basis points to 22.4%. The increase was primarily due to the deleverage in direct and selling support store related expenses resulting from negative store comparable net sales.

Other Income Statement Items

The Company's effective tax rate for the quarter was 31.7% compared to 37.8% in the prior year period. The lower quarterly tax rate is primarily due to a federal rehabilitation credit received in the current quarter related to the expansion of our home office and the release of international valuation allowances.

Balance Sheet and Cash Flow Items

Cash, Cash Equivalents and Marketable Securities increased from the prior year by \$267 million to \$890 million.

Total inventories increased \$29 million to \$311 million, a 10% 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 3%.

Total capital spending was \$58 million for the quarter and depreciation and amortization was \$35 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 fourth quarter, the Company did not repurchase any common shares, leaving 9.7 million shares available for repurchase under the current authorization.