

URBAN OUTFITTERS, INC.

Second Quarter, FY'18 Conference Call
August 15, 2017

Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Chief Financial Officer
David McCreight, President, URBN & CEO, Anthropologie Group
Margaret Hayne, CCO, URBN & CEO, Free People Brand
Trish Donnelly, Global CEO, Urban Outfitters Group
Azeez Hayne, General Counsel
Barbara Rozsas, Chief Sourcing Officer
Calvin Hollinger, Chief Operating Officer
David Ziel, Chief Development Officer
Dave Hayne, Chief Digital Officer
Sheila Harrington, President, Free People Brand
Oona McCullough, Director of Investor Relations

Good afternoon, and welcome to the URBN second quarter fiscal 2018 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and six-month period ending July 31, 2017.

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. Trish Donnelly, Global CEO, Urban Outfitters Group and David McCreight, President of URBN and CEO of the Anthropologie Group, will both provide an update on their respective brands. 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 will be posted to our corporate website at www.urbn.com. I will now turn the call over to Frank.

Frank Conforti

Thank you Oona, and good afternoon everyone.

I will start my prepared commentary discussing our recently completed fiscal year 2018 second quarter results versus the prior comparable quarter. Then I will share some of our thoughts concerning the remainder of fiscal year 2018.

Total Company or URBN sales for the second quarter of fiscal 2018 decreased 2% vs. the prior year. The decline in sales resulted from a 5% decline in URBN retail segment 'comp' which was partially offset by a strong 10% increase in Free People wholesale sales, and a \$13 million increase in 'non-comp' sales, including the opening of 3 net new stores in the quarter.

The Free People wholesale segment sales increase of 10% for the quarter was driven by domestic and international growth, in departments stores, specialty stores and direct-to-consumer. These increases resulted from growth in several categories including women's apparel, intimates and Movement. We believe Free People wholesale has the opportunity to continue to grow domestically through category expansion and internationally within all categories. We are still planning for double-digit Free People wholesale sales growth for fiscal 2018.

Within our URBN retail segment 'comp,' the direct-to-consumer channel continued to outperform our store channel, driven by increases in sessions, and conversion rate, which more than offset a decrease in average order value. Negative 'comp' store sales resulted from declines in average unit selling price, transactions and units per transaction. Store traffic for the quarter was flat, with declines in North America offsetting growth in Europe.

By brand, our retail segment 'comp' rate increased by 3% at Free People while Anthropologie declined 4% and Urban Outfitters declined 8%. Our URBN retail segment 'comp' while negative in each month during the quarter, did slightly improve from month-to-month throughout the quarter.

During the second quarter, we opened three new European locations for the Urban Outfitters brand and two new Free People locations in North America. We also closed two Free People locations in North America.

Now moving on to URBN gross profit for the quarter, gross profit decreased 13% to \$297 million versus the prior comparable quarter. Gross profit rate declined by 440 basis points to 34.1%. The decline in gross profit rate was driven by: first, higher markdowns due to underperforming women's apparel and accessories product at Anthropologie and Urban Outfitters; second, deleverage in delivery and logistics expense primarily due to the penetration of the direct-to-consumer channel; and lastly, deleverage in initial mark-ups due to a change in product mix at the Anthropologie and Urban Outfitters brands.

Total 'SG&A' expenses for the quarter were down 1% to \$222 million versus the prior comparable quarter. Total 'SG&A' as a percentage of sales, deleveraged by 26 basis points to 25.5%. The deleverage in 'SG&A' rate was primarily related to the negative retail segment 'comp' and increased spending in digital marketing which more than offset the net savings associated with our store organization project.

Operating income for the quarter decreased by 36% to \$75 million, with operating profit margin deleveraging by 466 basis points to 8.6%.

Our effective tax rate for the quarter came in at 35.1% vs. 35.5% in Q2 last year.

Net income for the quarter was \$50 million or \$0.44 cents per diluted share.

Now turning to the balance sheet. URBN inventory was down 1% versus the prior year to \$365 million. Retail segment 'comp' inventory decreased by 5% at cost. We believe inventory is well controlled in total and at each of our brands heading into the fall season. Each of our brands' inventory agings are more current than the previous year as we continue to work towards faster inventory turns.

We ended the quarter with \$413 million in cash and marketable securities and have zero drawn down on our asset backed line of credit facility. During the quarter, the Company repurchased and retired 5 million common shares for \$91 million. We have just under one million shares remaining on the most recent Board of Directors share repurchase authorization. Capital expenditures came in at \$19 million for the quarter, \$43 million year-to-date, and we are planning for approximately \$90 million in total 'capex' for fiscal year 2018. The capital spend for fiscal 2018 is primarily driven by new, relocated and expanded stores followed by investments in direct-to-consumer related technology.

As we enter the third quarter of fiscal year 2018, it may be helpful for you to consider the following:

We are planning on opening 18 new stores during the current year, 1 new Urban Outfitters store in North America, 3 new Urban Outfitters stores in Europe, 4 new Anthropologie stores in North America, 9 new Free People stores in North America and 1 new food and beverage location. We are planning on 9 store closures during the current fiscal year, all of which are to occur in North America. The current year closures are broken out by brand as follows: 2 Urban Outfitters stores, 2 Anthropologie stores, 4 Free People stores and 1 food and beverage location.

Now moving on to gross profit, we believe URBN's gross margin rate for the third quarter, could decline at a lesser rate than the year-over-year decline in the first half of fiscal 18. This decline could be due to deleverage in delivery and logistics expense related to the increased penetration of the direct-to-consumer channel and deleverage in store occupancy expense related to negative store 'comps'.

Based on our current plan, we believe 'SG&A' could decline at approximately 1% for the third quarter and be flat for fiscal year 2018.

Our planned 'SG&A' investments primarily relate to marketing and direct-to-consumer technology investments to continue to support our direct-to-consumer sales growth.

Finally, our fiscal year 2018 annual effective tax rate is planned to be approximately 36.5%. We believe our third quarter rate could be higher than our current year-to-date rate, with our fourth quarter rate being the lowest rate of the year. The variance in quarterly rates is primarily due to the ratio of certain foreign profits and losses to global tax profits in those periods.

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.

Now it is my pleasure to pass the call over to Trish Donnelly, Global CEO of the Urban Outfitters brand.

Trish Donnelly

Thank you Frank, and good afternoon everyone.

This was a difficult quarter for the Urban Outfitters brand. It would be very easy to blame outside factors or disrupters, but frankly we made some mistakes, and we own the results. I'll spend the next few minutes talking through where we went wrong, what we learned, and how we're applying these learnings, very quickly, to get back to growth. And despite the negative eight global 'comp', we did have some notable successes, particularly in our international business, that I will highlight at the end of my commentary.

First, what went wrong. At the end of last year, the North America business started to see a slowdown in trend in our all-important dresses category, which had previously been driving double-digit comparable sales at high average unit retails and historically fast turns. Given the sudden softness in this category, we over-corrected in spring, planning the dress offering and the quantification down too dramatically. We focused too heavily on the separates trend, at the expense of dresses, and our sales in separates didn't make up for our loss in dresses. In addition, within separates, our product focus was too one-dimensional; it skewed too tomboy in sensibility; and carried lower average unit retails. Although tomboy was definitely a trend in spring, we distorted its importance too much and the customer started to miss the well-balanced and broader assortments we had been so successful at curating. In addition, our women's apparel brand marketing and styling started to veer off-brand, and we saw softer customer response.

While we were course-correcting our mistakes, it became very apparent that our product lead times were significantly inhibiting our ability to make changes as quickly as we wanted, particularly in the Women's categories. Although URBN has never been known as a 'long lead-time' business, customers want and expect even more newness. Therefore, the North America business has spent this past quarter re-architecting and re-calendarizing our product lifecycle-to-customer process for women's apparel. Instead of buying the majority of our assortment earlier and chasing a smaller percent late in the season, the team worked on flipping the architecture, buying the smaller percent up front and then chasing the majority on an historically fast turn-around basis. From concept and

design, to planning and merchandising – as well as brand marketing, logistics, and store operations – every divisional leader at UO re-thought and re-worked their process to fit into our new speed-to-customer model. Some of the softness in sales this quarter undoubtedly stemmed from this entirely new business model, however, the brand leaders are acutely aware that we could have done better from a women’s product selection assortment and marketing standpoint.

As we look forward, we believe this new business architecture sets us up with a more sustainable, competitive and relevant business method of getting right product in the right place at the right time. And, although it’s very early days, and we’re just getting results from short-lead receipts, we are seeing a notable change in the women’s apparel trend. Women’s regular price sales for Q3 to date are very encouraging at both channels. While the introduction and adoption of a new business methodology is never perfect, and this new way of working is still a work in progress, our adoption of a process for making product-related decisions closer to delivery date is a very meaningful step, and we believe it will set us up for future success.

Turning to some of the positives in the quarter in the North America business, I am happy to report that men’s apparel, once again, delivered a strong performance, posting positive, regular price ‘comp’ sales. Strength in both the tops and the bottoms categories drove the increase, with own-brand BDG denim showing impressive results. The men’s team delivered a well-balanced, relevant, trend-right product assortment, which not only resonated with our current customers, but also drove a 44% increase in new men’s customers for the quarter. Product exclusives continued to drive engagement and topline sales. This past quarter, the men’s merchants collaborated on ‘only at UO’ product with well-known brands such as Champion, Adidas and Fila, as well as a number of emerging independent brands. To capture some of the late 80’s/early 90’s trends, the merchants worked the archives at select brands and launched exclusive, ‘only at UO’ capsules. And, knowing how important music is to our customers, the team collaborated with Lady Gaga, Logic, and Amine on tour merch – available only at Urban Outfitters.

In addition to the men’s business in North America, women’s loungewear, beauty, home furnishings, and Urban Renewal all saw meaningful comparable sales successes. We continue to see nice results in these businesses in the current quarter, as well.

Social Engagement was another highlight this past quarter, with all social media platforms showing increases in both followers and engagement over last year. UO’s Instagram account grew 31% and now has over 7.2M followers. Our “UO Rewards” loyalty program, which we launched globally this quarter, saw over 700,000 new customer sign-ups and omni-channel engagement continues to grow.

Finally, one of the most exciting quarterly highlights was the results produced by our European group. They registered an impressive increase in comparable sales on top of a strong prior year ‘comp’. The DTC business in Europe delivered remarkable demand comps in the quarter, showing increased sessions and higher conversion. New customers increased almost 30% over last year and all international social channels saw year-over-year growth in followers and in engagement. On the retail front, we opened three new stores in July: Stockholm, Düsseldorf and Vienna, with Vienna seeing record sales on its opening day.

In terms of product, women's apparel had the strongest gains across multiple categories and drove the topline business in both channels and all geographies. Emma and her team in Europe already operate on the speed-to-customer model I referenced earlier. This very disciplined and nimble approach to buying and planning has enabled the team in Europe to make product decisions as quickly as four weeks before the in-store delivery, and has helped to drive women's own brand product successes and strong comparable sales.

I'd like to thank Emma and the EU Leadership, home office, and field teams for all of the tremendous work this quarter. We are very proud of what you've accomplished.

In closing, despite some of the notable successes in the quarter, the global Urban Outfitters brand delivered disappointing overall results. Our biggest issue came in the women's categories in North America, but Meg and I are feeling much better about the current women's apparel assortment. We believe in the talent, and we are proud of the team's ability to very quickly course-correct. We'll continue to drive the new speed-to-customer process across the UO organization in North America by leveraging best practices from the UK team and adapting them accordingly, with the help and support of URBN's shared services organization. As stated earlier, we believe this structural reset provides the foundation for a more relevant and critical business model which positions us more efficiently for future growth. Given some of the early sales results we've seen with the short-lead product in women's apparel quarter-to-date, we are excited and are optimistic as we head into the back half of the year.

Thank you. I'll now turn the call over to David.

David McCreight

Thank you Trish, and good evening everyone. I am pleased to provide you with an update on the Anthropologie Group since we last spoke. As you may remember from our last call, the majority of our revenue and margin decline in the first quarter was due to our execution of women's apparel. Historically, successful Anthropologie apparel assortments were well-balanced between our different customer aesthetic preferences and covered a variety of end-uses. This past spring, our offer was not distinctly Anthropologie – lacking pattern, color, and skewing too casual – we were missing some of our core aesthetic elements. Over the past few months, we have worked to correct these missteps and while our current apparel assortment still has significant room for improvement, I am pleased to report we are seeing signs of progress.

During the second quarter, regular price apparel 'comps' improved sequentially with June and July materially better than May. The apparel 'comp' trend improved in both the store and direct-to-consumer channels. From a product category perspective, tops currently show the greatest trend improvement across several fabrications and bottoms continue posting solid, regular price 'comps' as they have all season. We are happy to see our customer has begun to adopt different silhouettes and fabrications during this bottoms led fashion cycle. I believe we enter fall with the merchant, design, and creative teams more aligned around our apparel customer and the breadth of aesthetic offer needed to engage Her. We have clean apparel inventory levels and are better prepared in most categories to respond to in-season trends. If the current trajectory of apparel were to continue

throughout the third quarter, we would expect to see regular price ‘comps’ improve, but be offset, in part, by a reduction in markdown ‘comps’. The potential reduction in markdown sales could suppress total apparel ‘comps’ but allow for expansion of apparel margins.

Beyond the apparel offer and consistent with the past three years, our emerging categories and businesses (including Europe) excelled this past quarter achieving better year-over-year sales, margin, and operating income results. A few of the standouts were the continued strong growth of our home, beauty, BHLDN, and Terrain businesses, as well as positive momentum in the UK apparel business. Buoyed by continued success in home, we are investing in broadening the offer and easing the shopping path. Look for the new home social and journal campaign which will launch our largest home offer ever with over 2,000 own-brand products; a strategic collaboration with Liberty of London; and advances in our digital shopping path that allow Her to easily customize some 90,000 options. Our beauty team has developed a partnership with Estee Lauder which should bring our customers some of their most coveted boutique brands; the BHLDN team continues to grow into their new markets delighting potential brides and wedding party guests; and we are looking to bring our remarkable Terrain brand experience to more communities soon.

Examining the quarter from a channel perspective, DTC continued to grow for the brand. In the quarter, we launched a free shipping path for our Anthro loyalty program members. Early reads from this initiative show promising results with double-digit increases in new Anthro memberships with both average order value and units per basket expanding. Traffic in the Anthro stores seems to have stabilized, still not positive, but less negative and somewhat less volatile than the previous 9-12 months. Our field team is focused this season on building on their already strong conversion rates by increasing the average transaction value. Another healthy marker for the brand in the quarter was the continued growth of the Anthro customer file. We were encouraged to see reactivated customers had the highest rate of year-over-year growth, possibly signaling recognition from recently lapsed apparel customers that our offer is improving.

With better reception to our apparel offer, continued success in our emerging businesses, a stabilization in store traffic trends, and growth initiatives across all categories and brands for the direct-to-consumer channel, the Anthropologie teams are encouraged as we head into fall. Thank you for your time, and I will now pass the call over to Dick Hayne.

Dick Hayne

Thank you Trish, thank you David, and good afternoon everyone.

Let me say at the outset that URBN’s overall second quarter performance fell far short of our expectations. A very slow start to the quarter led to disappointing results at Anthropologie and Urban Outfitters in North America. At the same time, we saw excellent ‘comp’ sales gains at both larger brands in Europe with the women’s apparel category particularly strong. In North America, however, the underperformance was driven primarily by the women’s product. In addition, decreases in total ‘comp’ store sales more than offset the positive sales delivered by the wholesale segment and the direct-to-consumer channel.

It's obvious that the environment surrounding apparel retailing in North America over the past year has been quite challenging. However, as we noted on our investor call in May, and I continue to believe, the topline short fall at our two larger brands in North America came mostly from poor execution rather than macro headwinds. I'm quite confident there was, and still is, sufficient newness in women's fashion to drive positive 'comp' sales.

The good news is that both of our larger brands made considerable progress during the second quarter in repositioning their women's assortments. As both Trish and David noted, their brands have recently registered an improved trend in regular price selling within women's apparel. Both brands are currently delivering nicely positive women's regular price 'comps' in their respective direct channel, and I believe both have opportunity to show further improvement as the back half of the year progresses.

My optimism about sufficient fashion stems from Free People's stellar performance during the second quarter. A 3% retail segment 'comp' in today's environment is a noteworthy accomplishment, but 3% understates the real strength of the Free People business since the brand did not anniversary some of the markdowns and promotions taken in the same period last year. Those markdowns were needed last year to clear excess inventory. This year's retail segment 'comp' inventory is both leaner and fresher, down almost 14% at cost. Free People's positive 'comp' in Q2 was driven almost entirely by strong, regular-priced women's apparel sales. The reduction in markdowns combined with improvements in IMU led to better maintained margins, as well. The Free People customer was clearly most interested in new fashion. She reacted positively to almost all apparel categories, tops and bottoms, with the denim and FP Movement categories being particularly strong on a 'comp' basis.

Better fashion in its core apparel offering also drove robust Free People wholesale growth, with Q2 sales advancing by 10% over the same period last year. Wholesale performance also benefitted from better sales in Europe where the brand produced solid, double-digit gains. Advance wholesale bookings for Q3 remain strong in all markets and across all distribution types – a department, specialty and direct-to-consumer channels. I believe the brand has significant additional opportunity in select markets across Europe, Asia and the Mideast. To that end, during the quarter, Free People launched a site on T Mall in China. Early results have exceeded our expectations and have us excited about future possibilities in Asia.

Expanding Wholesale and growing internationally are opportunities we believe exist not just at Free People, but across all URBN brands. During the quarter, the Anthropologie brand signed its first wholesale distribution agreement for Anthro home product and will begin shipping to John Lewis in the UK during the third quarter. We believe there are additional domestic and international wholesale opportunities for both the Anthropologie and Urban brands.

International retail is also a growth vehicle. As Trish mentioned, the Urban brand opened three new stores in Europe during the quarter, including the brand's first store in Vienna which produced the highest opening day sales of any Urban store in Europe. Additionally, the Company plans to sign several international franchise and joint venture agreements over the next year or two. Finally, all three brands exited the second quarter in good inventory position including appropriate amounts of new Fall transitional merchandise. Customer reaction to our transitional apparel

products at all brands on both sides of the Atlantic has been encouraging and, once again, is being paced by the Free People brand. It's important to point out that it's still very early in the season so identifying trends reliably is difficult. Nevertheless, should this reaction continue, it could bode well for third quarter results. We certainly have a large opportunity to improve upon our second quarter performance, and I believe we will.

Before taking questions, I would like to thank our 24,000 associates worldwide for their hard work, their dedication and their creativity. I also thank our many partners around the world and our shareholders for their continuing support.

With that, I now open the call to your questions.