URBAN OUTFITTERS, INC.

Fourth Quarter, FY'16 Conference Call
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Participants

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

Good afternoon, and welcome to the URBN fourth quarter fiscal 2016 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and twelve month period ending January 31, 2016.

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 fourth quarter. 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.urbanoutfittersinc.com.

I'll 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 2016 fourth quarter results versus the prior comparable quarter. Then I will share some of our thoughts concerning the fiscal year 2017 first quarter and full year.

Total Company or URBN sales for the fourth quarter increased to $1 billion. This sales increase included a -2% retail segment 'comp', a $1.5 million increase in 'non-comp' sales, including the opening of 6 net new stores and a 29% jump in wholesale segment sales. Additionally, please note that our sales growth during the quarter was negatively impacted by approximately 160 basis points of foreign currency translation.

Within our retail segment 'comp', the direct-to-consumer channel continued to outperform stores, posting a double digit sales increase, driven by increases in sessions, and conversion rate which more than offset a slight decrease in average order value. Negative 'comp' store sales resulted from decreased transactions and average unit selling price, while units per transaction were flat. The negative transactions could have been affected by traffic which was down at each of our brands' 'comp' stores during the quarter.

By brand, our retail segment 'comp' rate increased by 2% at Free People, while decreasing by 3% at Urban Outfitters and 2% at the Anthropologie Group. Our URBN Retail Segment 'comp' was negative in all months during the quarter with each month coming in fairly consistent to the -2% for the quarter.

Free People wholesale segment sales delivered another strong quarter, as sales rose 29% to $75 million. These results came from double-digit growth in specialty and department store doors, domestically and internationally. Please keep in mind that the fourth quarter did benefit from approximately $9 million in carryover of orders that were delayed in shipping at the end of the third quarter. We are now completely up-to-date and do not anticipate any further fulfillment center delays.

Total URBN gross profit for the quarter is flat to the prior comparable quarter at $349 million. Gross profit rate, declined by 12 basis points to 34.5%. The decline in gross profit rate was driven by almost 100 basis points of deleverage in delivery and fulfillment center expense. Please note that approximately 25bps of this deleverage is due to the fulfillment center transition and should begin to be recaptured in future quarters. The remainder of the delivery and fulfillment center deleverage primarily relates to the increase in sales penetration of the direct-to-consumer channel, which increased in retail segment penetration by nearly 400bps in the quarter.

Store occupancy also deleveraged in the quarter by just under 100 basis points primarily due to store impairment charges, which I will discuss in a few minutes, and partially due to the negative store 'comps' at all three brands.

Almost fully offsetting these decreases was close to 200bps of improvement in markdown rate driven by significant improvements at the Urban Outfitters Brand. Both Free People and Anthropologie experienced higher markdown rates during the quarter as they worked through some slow moving apparel product.

As mentioned earlier, we incurred store impairment charges of $9 million in the quarter, with $7 million of this charge negatively affecting gross profit rate by approximately 70 basis points, which is included in the 100 basis points already noted above, and the remaining $2 million negatively affecting SG&A rate by approximately 20 basis points in the quarter. The store impairments relate to three stores in Europe, one in Canada and one in the United States, four were Urban Outfitters stores and the one Canadian store belongs to Anthropologie.

Certainly a lot of moving pieces in gross profit margin for the quarter; what we are most proud of is our improvement in maintained margin, largely driven by lower overall markdown rates. Had it not been for the impairment charges, we would have delivered an overall improvement in gross profit margin of over 50 basis points for the quarter as well as an improvement in overall operating profit dollars and rate.

Total SG&A expenses for the quarter were up 3% to $233 million. Total SG&A as a percentage of sales, deleveraged by 65 basis points to 23%. This SG&A deleverage was primarily due to an increase in marketing expense to support our customer acquisition and retention efforts and an increase in technology related expenses used to support our omni-channel initiatives.

Operating income for the quarter decreased by 6% to $116 million, with operating profit margin deleveraging by 77 basis points to 11.5%. Foreign currency translation negatively impacted our operating profit rate by approximately 50bps in the quarter, and as earlier mentioned, store impairments negatively affected our operating profit rate by approximately 90 basis points in the quarter.

Net income for the quarter was $73 million or $0.61 cents per diluted share.

Turning to the balance sheet, inventory decreased by 8% to $330 million. The reduction in inventory is due to a 6% reduction in retail segment ‘comp’ inventory, at cost. The decrease in retail segment ‘comp’ inventory is due to improved inventory planning and control as the business continues to work towards managing to a lower weeks of supply. The reduction of inventory is not necessarily predictive of future sales growth, as we are currently doing a nice job of getting faster turns out of our inventory as shown over previous quarters.

We ended the quarter with $363 million in cash and marketable securities. During the quarter, the Company repurchased and retired 4.3 million common shares for approximately $100 million. We repurchased and retired a total of 15.0 million common shares in fiscal year 2016 for approximately $465 million. We have 7.3 million shares remaining on the most recent Board of Directors share repurchase authorization.

As we enter the first quarter of fiscal year 2017, it may be helpful for you to consider the following:

We are planning to open a total of approximately 26 net new stores for the year, excluding our food & beverage division. For the first quarter, we are planning 3 new Free People stores in North America and will close 1 Urban Outfitters store. For the year, we are planning on opening 4 net new Urban Outfitters Stores, including 1 in Europe, 10 net new Anthropologie Stores, including 2 in Europe, and 12 net new Free People Stores. We are excited that we are opening approximately four expanded format

Anthropologie stores this year primarily through expansions or relocations of existing stores. These expanded format stores give us a great opportunity to please the customer more with a broader assortment in categories like Home, Beauty and Intimates as well as the Bhldn wedding brand and the Terrain outdoor living brand. We are also planning on opening two to three Vetri Pizzerias, which will be stand-alone locations.

URBN's gross margin rate for the first quarter, could improve slightly versus the prior year. The improvement could come from improved maintained margin driven primarily by the Urban Outfitters brand which could be partially offset by a maintained margin decline at the Free People brand and store occupancy deleverage for all of URBN if negative store 'comps' continue.

Based on our current plan, we believe SG&A could grow at a high-single digit rate for the first quarter. This increase would be driven by direct-to-consumer channel investments related to marketing and technology, as well as store related expenses to support our square footage growth which is planned at approximately 5% for fiscal 2017. For the year, we believe SG&A could grow at a mid-single digit rate.

Capital expenditures for fiscal year 2016 came in at $135 million which was approximately $10 million dollars under our original plan. Capital expenditures for fiscal 2017 are planned at approximately $160 million with approximately $10 million moving from fiscal 2016 into fiscal 2017. The total spend for fiscal 2017 is primarily driven by new, relocated and expanded stores and the completion of our new east coast fulfillment center.

Finally, our fiscal year 2017 annual effective tax rate is planned to be approximately 37% and could be fairly consistent each quarter.

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 Dick Hayne, Chairman and Chief Executive Officer of all of URBN.

Dick Hayne

Thank you, Frank, and good afternoon everyone.

Today I'll speak to our fourth quarter results, talk about the macro business environment and then finish with how we plan to navigate in this climate.

In general, the holiday quarter performed pretty much as we expected and as we discussed on this call last November.

Urban Outfitters

Let me begin with the Urban Outfitters brand. Results at Urban North America during the quarter benefitted from steady execution of the basic merchandising strategy implemented at the beginning of the year, namely: upgrade the fashion and the quality of products offered, grow initial margins and control inventory tightly by decreasing weeks of supply so there would be fewer markdowns. This strategy worked and the Urban brand saw regular price sales and margin improvement throughout the quarter and the year.

In Q4, total comparable sales came in below where we would have liked but the negative 'comps' were caused solely by fewer markdown sales. Regular price 'comp' sales grew nicely in the quarter and when combined with higher IMU, resulted in the Urban brand achieving many hundreds of basis points improvement in merchandise margins. The strongest regular price 'comps' came from the women's apparel, intimates and home categories.

Not only were regular price comparable sales up in the quarter, but Trish and her team were able to drive those sales with less inventory. Total 'comp' ending inventory decreased by 12% in the quarter.

Looking ahead, comparisons look favorable for the brand. Excessive markdowns began to subside last year as Q1 progressed. So as the brand begins to anniversary fewer promotions, I believe Urban 'comps' could benefit from the regular price sales momentum that began in early FY16 and has continued to date.

The story at Urban Europe in Q4 was similar to that of North America except that the EU teams were not able to achieve the same initial margin improvement largely because of weak exchange rates and a higher penetration of branded product. Like its North American counterpart, I believe the EU business has upside sales opportunity in Q1 versus the prior year period.

Anthropologie

Now, let me turn your attention to Anthropologie. The brand's fourth quarter performance in North America mirrored the prior three quarters. All product categories except apparel posted positive comparable sales. Assortments that lacked diversity, like sweaters and dresses weighed on 'comp' sales in the apparel division, and since the category mix of sales skews heavily toward apparel, the negative 'comp' in that category offset gains in the others. The result - total brand 'comp' sales dropped by 2% in the quarter. Markdowns rose but their effect on margins was partially offset by nicely higher IMU across all product categories including apparel. David and team also effectively managed 'comp' inventories which ended the quarter down 2% versus the prior year.

The Anthropologie team produced many product category successes in Q4. The home product expansion continues to exceed expectations and David's goal announced at investor day eighteen months ago of doubling home product sales by 2020 seems very achievable. The recent Home catalog has been well received so the brand expects strong home sales to continue throughout the first half of FY17.

In Q4, customers also responded eagerly to the new beauty assortment offered online and in 70 concept shops within stores. The shops were so successful that the team is planning to roll out an additional 60 shops this year. Other notable Q4 success stories include the Bhldn and Terrain concepts both of which delivered very strong double-digit comparable sales. Customer excitement around all of these expansion categories has confirmed our belief that the Anthropologie brand continues to resonate deeply with its customer and possesses significant opportunities to expand and grow.

Clearly the task at hand for the Anthropologie team is to improve the apparel assortment. To that end, David, Meg and the creative teams at Anthropologie have worked hard over the last nine months to implement new process and procedures to unlock the team's creativity and improve the in-house designed product and creative messaging. I believe positive results from this work could become visible in the first six months of FY17. An example is the dress assortment which is now flowing into stores and is available online. These dresses were featured in a dedicated catalog that went into homes last week. The new product and the marketing materials to support it have successfully boosted dress sales. Comparable weekly sales in that class have gone from negative to double-digit positive.

Free People

Anthropologie was not alone in building successful expansion categories. During the quarter and throughout the year, Free People experienced significant growth in their intimates, Movement, shoes and party dress categories across all channels.

Like with the Anthropologie brand, the recent slower growth rate of retail segment 'comps' for Free People is the result of slower apparel sales. The brand team attributes this slowdown to difficult comparisons following 13 consecutive quarters of strong growth and sub-optimized distortion of new fashion trends. For the first half of this year, I would not be surprised to see the brand produce flat to low single-digit, negative retail segment 'comps' as the brand chases reorders and distorts its buys into the emerging trends.

In Q4, the wholesale channel experienced very strong 29% sales growth on a quarter-over-quarter basis. Even after backing out the benefit of carryover shipments from the third quarter, wholesale revenue increased by an impressive 14% in the fourth quarter. This when many retailers were struggling with excess inventory. Current wholesale bookings remain strong and in late January, for the first time, the brand shipped FP Movement product to select wholesale accounts and 60 new, athletic-only accounts. Early sales reports indicate that the Movement product is performing very well.

The Macro-environment

Now, let me say a few words about the macro-environment. As all of you know, fashion retailers had a difficult 2015. The consumer's appetite for fashion seemed to be inversely related to price. It's relatively easy to list the many headwinds that might cause such a phenomenon: anemic growth; stagnant household incomes; increased spending on non-discretionary items like healthcare, education, and shelter; increased competition from newer retailers, both traditional and online; stiff deflationary pressures; and continued competition from other trending categories like electronics and dining out.

However, the results in Q4 show all of our brands produced solid, positive ‘comps’ in most of their non-apparel categories – home, intimates, accessories, shoes, and beauty. Obviously, all of these categories faced the same headwinds, so why then was apparel the outlier?

To me, the answer is simple: fashion – or more accurately, the lack thereof. The last major fashion shift was ten years ago when the skinny bottom returned to popularity. Since then we’ve had all varieties of skinny – low-rise, hi-rise, color, black, white and print; washed, sanded, sliced and destroyed; yoga and active; leggings, jeggings and stretch. Today, the customer has a closet full of various skinny bottoms and she has many, many long tops and sweaters to go over them. Without a fashion need to drive her purchases, the customer can easily defer her apparel spend. Surely a major fashion shift is the cure for the current apparel malaise. I am not predicting exactly when that change will come, but I am certain it will. Meanwhile, the good news is I see more fashion excitement this spring than I’ve seen in quite a few years.

URBN Future Growth

Given the headwinds and assuming new fashion emerges, what is URBN’s growth strategy? How do we operate three strong, omni-channel, lifestyle brands, adapt to the environment and continue to grow? While there are differences by brand, the essential strategy hasn’t changed. We plan to invest in category growth, channel growth and geographic expansion.

I’ll begin with category expansion. All brands have experienced strong growth in their expansion categories and this will remain a primary area of focus. Developing categories that fit the customer’s lifestyle and also complement the core product is a way to leverage the equity of our brands without the enormous cost of launching a completely separate business. We believe that all brands have the opportunity to show significant sales growth, especially in the Direct channel, by doing nothing more than fully developing the following categories:

Home: We have already seen success at the Anthropologie and Urban brands with Home category expansion. As I said earlier, David believes Anthro Home could easily become a half-billion dollar business within the next five years. That alone could drive mid-single digit growth for Anthropologie.

Intimates: All brands are currently producing double-digit sales growth in intimates. This category is trending strongly and has enormous opportunity. We expect continued double-digit growth across all of our channels, including wholesale.

Beauty: This category worked very well for the Anthropologie and Urban brands this past Holiday season. We know it’s an important business but it’s too early to know how big the business can be for our brands.

Shoes: Each brand now has its own internal development team producing shoes. The products they’re creating are differentiated and selling very well, including the Free People wholesale shoe offering which continues to show solid growth in both sales dollars and number of doors sold.

Active: Free People has championed this category with their FP Movement line of feminine active wear. The first wholesale shipment left the last week of January to 132 accounts and 200 doors, including 30 Nordstrom doors. Obviously, the potential for this category is huge judging by the size of the main players in the space.

And finally, Bhldn and Terrain: Both of these Anthropologie sub-brands continue to produce excellent year-over-year sales gains and, we believe, both have the potential to be, at least, 100 million dollar brands.

Proper category development requires significant upfront investment. Since our goal is to develop each category with proprietary product, we must invest in talent and infrastructure to create, produce and market products that can compete favorably alongside national brands. Much of our growth in expenses over the past few years has been aimed at creating the capabilities to help drive category growth. As these categories mature and sales increase, we should begin to leverage these investments.

Channel growth is the next strategic element. Our goal here is to expand each channel of distribution – retail, wholesale and hybrids, like concessions. Omni-channel retail can be further sub-divided into stores and direct. Let me briefly discuss our position on stores because there has been much discussion about their future. To paraphrase Mark Twain, "the death of the retail store has been greatly exaggerated". Granted, North America is over-stored and many retailer's underperforming units will have to close, and it certainly is true that the role of the store in the digital age is changing, but I envision the brick and mortar store as an equal partner with the virtual store in this new omni-channel world. There's no better proof of this than the current rush by most 'pure-play' retailers to open their own stores.

Staying on the subject of stores, as we've discussed many times, both the Urban and Anthropologie brands are approaching what we believe to be our maximum unit potential in North America. Long before the internet was a selling vehicle, we calculated full penetration for both brands at 200 to 250 units. The store fleet in North America now numbers 209 and 197 for Anthropologie and Urban, respectively.

Going forward, therefore, you will see minimal unit growth in North America for both brands although Anthropologie will continue to increase square footage as they plan to open four expanded format stores in FY17. All of these larger Anthropologie stores will house bigger assortments of their expanded categories. After proof of concept, the brand expects to expand additional stores by relocating or enlarging existing locations.

Unlike its larger siblings, the Free People brand currently operates a smaller fleet of stores in North America. The brand will continue to selectively open more domestic stores and expand some existing, smaller units. Given how the customers have embraced the brand's newly expanded stores in Dallas and Denver, future stores, both new and expanded, will cluster around 4,000 to 6,000 square feet where the brand can offer a wider, more representative, range of Free People products.

Turning to Direct, in order to drive additional Direct and Omni-channel sales we will continue to make investments in technology, marketing and new infrastructure. Consumers' expectations continue to rise with regards to functionality and experience in the direct and omni-channel worlds. She wants to shop any time, any place and on any device and have an equally compelling and seamless experience. She wants product information, including what is available and where it is, in the size she needs. Once her purchase is made, she expects her shipments fast and free, delivered where and when it's most convenient for her.

To live up to these expectations, we are in the process of improving our functionality around check out, payments, search, inventory visibility and speed on all of our brands' web platforms. Additional site functionality that is scheduled to be rolled-out later this year includes, in-store pick-up, ship through store, and enhanced mobile application capabilities.

Other technology investments this year include new software to mine our current data and provide our brand teams with more predictive analytics to improve demand forecasting for purchasing and allocation, and new programs that will allow for better customer segmentation and personalization.

The final element of our growth strategy is geographic expansion. If our store count is approaching full penetration in North America, certainly the same cannot be said for other areas of the world. International expansion provides an exciting and fertile opportunity for all three brands. Almost 90% of our sales still comes from North America and yet only 30% of overall sales in the developed world comes from our region. This implies we could triple sales if we could match global penetration to that which we enjoy in North America.

There are many robust markets in Asia and the Mideast where our brands have almost no distribution and still many in Europe that are untapped or under penetrated. We already sell and ship to over 130 different countries through the internet. In order to increase our international penetration and help augment the DTC business, we will begin to utilize our other channels of distribution. Different countries, however, will have different approaches, ranging from, self-owned and operated stores, to concessions and traditional wholesale arrangements, to licensing and partnership relationships. Developing the global expansion strategy – which countries to enter first and what structure to use – will be a top priority for David in his newly announced role. He will discuss his vision for that role shortly.

Conclusion and personnel announcements

In conclusion, despite many macro-headwinds and a lull in new fashion trends, our brands have done well and remain highly desirable and competitive. We have successfully developed many new and expanded product categories that complement our core apparel businesses. Customers have responded positively to these categories across all of our brands and channels. We believe each brand has significant growth opportunities to more fully develop these categories and reach many new customers in areas beyond North America.

Now before turning the call over to questions, I would like to make two personnel announcements. First it is my pleasure to announce that Trish Donnelly has been promoted to the role of CEO of the Urban Outfitters Group. In this role she will be responsible for overseeing the brand across all channels and geographies. Trish joined the Urban Outfitters brand as North American President two years ago and has done a terrific job in moving the brand forward and navigating the brand through some very choppy waters.

Additionally, as previously announced, David McCreight has been promoted and will assume the role of President of URBN. In addition to his current responsibilities as CEO of the Anthropologie Group, David will now also oversee strategic international development and global direct-to-consumer initiatives for URBN.

David, perhaps you could discuss your vision for this new role.

David McCreight

Thank you Dick.

I'd like to thank you, Meg and the leadership team for their support becoming President of URBN. I believe our portfolio of global lifestyle brands contains some of the strongest, most differentiated brands in the industry. And while, continuing the Anthropologie Group's growth will remain my main priority, I am excited by the opportunities to help shape URBN's strategy for DTC and international expansion.

We are in an environment where the pace of soft and hardware innovation has engendered more and evolving ways to shape brands. And with the point of influence and transactions shifting, it makes sense that we align our resources across brands to insure that our investments are strategic and coordinated. Of course, the brands will remain the customer and creative experts, but well-executed; this approach will help the brands and URBN perform at an even higher level, with greater resources than if each brand were researching and investing on their own.

Regarding our geographic distribution, we plan to more aggressively expand all channels and brands into underdeveloped markets globally, explore launching new digital platforms, opening stores, creating partnerships or entering into licensing agreements for our brands and products in regions and countries where we have little or no presence currently. While the plan is still being developed, and similar to the DTC initiative, I will be hiring a leader to help us coordinate activities in a new and more impactful way across all brands.

I look forward to updating you on our progress on these important initiatives over the coming seasons.

Thank you.

Dick Hayne

Thank you, David. I am confident your involvement in these new areas will allow each URBN brand to succeed in reaching and pleasing many new customers.

I hope you will join me in congratulating both Trish and David on their well-earned promotions.

Finally, in closing, I thank our brand leaders and their teams, Meg and her creative teams, and our shared service teams for building and maintaining the infrastructure that allows the brands to succeed. I thank our 23,000 associates world-wide for their inspiring dedication, drive and creativity. I also recognize and thank our many partners around the world, and finally, I thank our shareholders for their continued support.

That concludes my prepared remarks. I now turn the call over for your questions.