URBAN OUTFITTERS, INC.

Third Quarter, FY'16 Conference Call
November 16, 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
Trish Donnelly, President Urban Outfitters North America
Azeez Hayne, General Counsel
Barbara Rozsas, Chief Sourcing Officer
Calvin Hollinger, Chief Operating 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 third quarter fiscal 2016 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and nine month period ending October 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 third quarter. Trish Donnelly, President Urban Outfitters North America, will provide a brief update on the Urban Outfitters brand in North America. 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 third quarter results versus the prior comparable quarter. Then I will share our thoughts concerning the fourth quarter.

Total Company or URBN sales for the quarter increased by 1% to a third quarter record of $825 million. This sales increase included a 1% retail segment ‘comp’, a $9 million increase in ‘non-comp’ sales, including the opening of 10 net new stores, which more than offset a 5% decline in wholesale sales. Additionally, please note that our sales growth was negatively impacted by approximately 130 basis points of currency translation.

Our wholesale segment sales were negatively affected by transition delays at our new distribution facility in Gap, PA. These delays resulted in approximately $9 million of third quarter shipments being delayed into the fourth quarter. Had we been able to fulfill these orders during the third quarter, our wholesale sales growth would have been approximately 9%. As we enter into the fourth quarter, we continue to see strong demand in both department and specialty stores and based on several measures put into place; we do not anticipate further sales misses due to delayed shipments.

Within our retail segment ‘comp,’ the direct-to-consumer channel continued to outperform stores, posting double-digit sales increases, driven by increases in sessions, average order value, and session conversion. Negative ‘comp’ store sales resulted from decreased transactions and units per transaction, partially offset by higher average unit selling prices. The negative transactions could have been affected by traffic which was down at our ‘comp’ stores during the quarter, although we did benefit from an increase in conversion rate.

By brand, our retail segment ‘comp’ rate increased by 3% and 1% at Free People and Urban Outfitters, while the Anthropologie Group was flat for the quarter. Our URBN retail segment ‘comp’ was positive in September, flat in August, and negative in October. When thinking about the months in the quarter, please keep in mind that the Labor Day holiday weekend shifted from August last year to September this year, so if you were to look at the months combined to try and account for the holiday shift, the net result of the two months together was a positive retail segment ‘comp’ for that period.

Total URBN gross profit for the quarter was up 2% vs. the prior comparable quarter to $288 million. Gross profit rate, improved by 11 basis points to 34.9%. The improvement in gross profit rate was driven by almost 150 basis points of improvement in URBN’s maintained margin due to significant improvement in the Urban Outfitters brand markdown rate, which was partially offset by lower maintained margins at the Anthropologie and Free People retail segments. URBN’s maintained margin improvement was partially offset by approximately 100 bps of deleverage in delivery and fulfillment center expenses, primarily related to the ongoing Gap, PA, fulfillment center transition and the increased penetration of direct-to-consumer sales.

Approximately half of the deleverage in delivery and fulfillment center expenses previously noted, related to the transition of the South Carolina fulfillment center to Gap, Pennsylvania. After the direct-to-consumer transition to the new facility in the second quarter went well, this deleverage in the third quarter, which was primarily related to the wholesale segment transition, was more than we originally anticipated. We believe this deleverage will continue into the fourth quarter.

Additionally, we estimated that currency translation negatively affected our gross profit rate by just under 50 basis points in the quarter.

Total 'SG&A' expenses for the quarter were up less than one percent to $208 million. Total 'SG&A' as a percentage of sales, leveraged by 23 basis points to 25.2%. This 'SG&A' leverage was primarily due to lower incentive based and share based compensation expense as well as currency translation benefits, which were partially offset by an increase in technology related expenses used to support our direct-to-consumer channel investments.

Operating income for the quarter increased by 5% to $80 million, with operating profit margin leveraging by 34 basis points to 9.7%.

Net income for the quarter was $52 million or $0.42 cents per diluted share.

Turning to the balance sheet, inventory decreased by 5% to $442 million. The reduction in inventory is due to a 9% reduction in retail segment 'comp' inventory at cost, partially offset by increases in wholesale inventory and non-comparable store inventory. 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.

We ended the quarter with $273 million in cash and marketable securities. During the third quarter, the Company repurchased and retired 3.6 million common shares for approximately $112 million. We have 11.6 million shares remaining on the most recent Board of Directors share repurchase authorization. Year-to-date, we have repurchased 10.7 million common shares for approximately $366 million.

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

First, I wanted to briefly comment on our current quarter-to-date sales trend. As noted above, October was the weakest sales 'comp' in the third quarter and this negative trend has worsened in the first half of November. As of quarter-to-date, this negative trend is consistent across each of our brands and most prevalent in stores.

We are planning to open approximately 8 stores during the fourth quarter, totaling 28 net new stores for the year. For the fourth quarter by brand, we are planning approximately six new Anthropologie stores globally, including one new European store and two new Free People stores in North America.

URBN's gross margin rate for the fourth quarter, could decrease versus the prior year. This decrease could be driven by deleverage related to our fulfillment center transition, store occupancy deleverage related to negative store comps, and lower maintained margins at the Anthropologie and Free People brands. This deleverage could also be driven by the current negative sales growth rate. This deleverage could occur despite year-over-year improvements in the Urban Outfitters brand maintained margin due to continued progress in regular price sales and overall lower levels of markdown sales.

Based on our current plan, we believe 'SG&A' could grow at a 'mid-single' digit range for the fourth quarter. This increase would be driven by direct-to-consumer channel investments related to marketing and technology.

Capital expenditures for fiscal year 2016 remain planned at approximately $145 million driven primarily by new stores and the completion of our new east coast fulfillment center.

Finally, our fiscal year 2016 annual effective tax rate is planned to be approximately 36%.

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, President of the Urban Outfitters Brand in North America.

Trish Donnelly

Thank you Frank, and good afternoon everyone.

We are incredibly proud of the progress the UO brand has made this past quarter. The team's focus on assortment planning and allocation; on creating compelling trend-right product; on delivering unique shopping environments that improve 4-wall productivity; and on communicating our brand messaging through creative imagery and social engagement, has given us solid quarterly results and a successful and stable foundation from which to continue to build.

Starting with assortment planning and allocation, the team's laser focus and discipline around inventory control and management has resulted in significantly improved markdown rates and historically fast inventory turns. The collaboration between planners and merchants has been exemplary. The teams worked together to edit redundant styles and offerings, while funding emerging business based on current trends. This balance in focus has resulted in positive reg price comps in both retail and direct, and the businesses into which we've intentionally distorted are seeing very exciting double-digit, full-price comp results.

We came into this year knowing we had a lot of work to do around IMU. Although it is still a work in progress - with great focus, discipline and collaborative efforts with Barbara Rozsas, our Chief Sourcing Officer and her team, we are proud to report our IMU for the quarter showed nice improvement versus the last year. Our design and merchant teams have worked closely with Barb's group on increasing our internal design penetration, which has also proven beneficial to improved IMU. In addition, the design team is executing more in-house drapes, which allow us to get samples right the first time – resulting in faster production turnaround and speed to stores.

The last time we spoke, I talked about our focus on driving 4-wall productivity and the initiation of a detailed review of all store floor plans to assign appropriate square footage by product category. We are well into this complex project, and although it is still a work in progress, we've seen some excellent results in large format stores, specifically Herald Square, as well as our mall proto store in King of Prussia. We are taking our learnings here and continue to roll out what's working to rest of stores. Most recently, successful examples of this have been in our dresses, intimates and beauty categories where the margin contribution within our 4-walls has dictated greater square footage needs, so we are distorting these areas accordingly on each stores' floor plan. As a company, we recognize the importance of this exercise and making our stores as productive as possible.

Now turning to product. Last year Meg Hayne, Chief Creative Officer for URBN, initiated a trend to concept process for the UO brand. By promoting strong creative talent already within the brand and hiring outside talent where we needed additional support and expertise, her process resulted in an effective framework which gave clearer focus to the design teams and to the actual product assortments. We are now able to cover a broad number of sensibilities and end uses that still evoke a strong UO branding statement. We have now increased our attention to the men's division, where we know we've still got tremendous opportunities to please our core customer. We will build upon successes we're seeing and expand product categories where we see growth and opportunity.

In addition to the initiatives and progress already noted, we are still incredibly committed to delivering unique and exciting store environments for our core customer. As in the past, our Display Artists in the field continue to build compelling art layers and fixturing for the stores in which to highlight product. We saw great results with these fixture builds, which have helped define our floor sets and shop-in-shops, making it easier and more appealing for customers to shop each defined area. Successful examples of this include our back-to-school and fall shops in dresses, beauty, intimates, and music and photography. These categories saw some of our highest comp growth rates for the quarter. Even though our 4-wall focus is on efficiency and return on invested square footage, we haven't lost sight of the importance of the visual display and the creativity that is unique to each individual UO store. In celebration of our artists in the field, we've posted images on #uodisplay on Instagram, and given the thousands of instances in which the hashtag's been used and the thousands of 'likes' we're seeing when we've re-grammed via our local and national accounts, our customers have clear appreciation for the creative talents of the UO display team.

In addition to unique visual merchandising within our 4-walls, we are also highly focused on the direct channel and saw year-over-year increases in conversion across all of our experiences – desktop, tablet, mobile web, and our UO app. As the majority of our direct customers experience our brand through mobile, we activated our Beacon program in all stores this past quarter. Engagement here is growing, with 65% of customers receiving Beacon messages choosing to interact. Also in the quarter, we launched 'Scan and Shop' in the UO app, allowing customers to shop the styles in our Dress book simply by holding their phone up to the catalog page while in store. In addition, with music being so important to our core customer, we've launched UO music within the app featuring our favorite playlists and our UO Mixed Tapes. And in our Herald Square store, to enhance and add to a more experiential shopping experience, we've opened our first UO Café, which is fast becoming a popular breakfast, lunch and dinner spot.

From a brand marketing standpoint, our web imagery continues to drive and support the impressive direct-to-consumer comp increase we saw in Q3. As this imagery has resonated with customers on our website, in our app and in our digital marketing channels, we've begun using the imagery in stores to support our product initiatives, shop-in-shops and distortion categories. This 'omni-channel visual' approach, led by Sue Otto our Chief Creative Officer, helps link the on-line and off-line shopping experience and sends consistent, cross-channel messaging. Sue and her team have made it clearer for the customer to see what we're standing for and what we're excited about for the season, with a more singular, cross channel, brand marketing point of view. Given the excitement around our brand imagery, we are also exploring 'printed piece' opportunities – specifically our recent holiday dress book and our men's journal, which launched at the end of Q3. We will continue to explore this direct mail, journal, and 'zine' concept as we move into spring.

Our social media team continued to drive engagement throughout the quarter, with particularly strong increases in Instagram and Pinterest, up 76% and 52%, respectively, over last year. Our Instagram following of almost 4-million users was highly interactive this past quarter, with our posts averaging close to 100k 'likes'. Particularly exciting is that we saw engagement at this high level across all categories: women's, men's, apartment, music, electronics, beauty and intimates. Some of our newer, more successful social campaigns this past quarter included #uooncampus; our all store listening event, previewing Lana del Rey's newest album, which became the #1 trending topic in the US during the hashtag launch; our marketing campaigns around product collaborations with Calvin Klein, Fila, and Adidas; and our Dreamers and Doers events in stores, which celebrate artisans in local markets by providing a space within our stores, and marketing support, to show their work. Because our customer is highly interested and engaged in these types of social interactions, we'll continue to build on this opportunity, and we're excited about our future initiatives.

In Q3, we experienced double-digit growth in our active customer count, with increases in new customers and retained customers, and well as customers coming back. While we've made notable progress over the last year in the areas of inventory management, product offering, 4-wall productivity and brand marketing, we continue to see significant growth and efficiency opportunities within the business. We still have a lot of work to do. I'd like to sincerely thank the Urban Outfitters team for the quarterly results, and I appreciate your time on the call today.

Thank you.

Dick

Thank you Trish, and good afternoon everyone.

The Urban team has made excellent progress in re-energizing its brand over the last two years and that progress continued in this year's third quarter. As Trish explained, the team made a decision to pull back on promotional activity while improving the fashion and quality of the offering. This strategy worked.

Although topline growth in the third quarter was just 1%, the improvement in regular price selling drove healthy, double-digit increases in gross profit dollars.

The brand team also improved the creative messaging with better imagery and more robust social engagement. Many on today's call should have received a copy of the Urban Holiday Book. This is but one example of the improved marketing. I hope you agree with me that it's an extremely compelling catalog. As Trish said, similar books will be distributed next year as the team believes this will help drive digital sales and store traffic.

After two years of re-building, the brand is now positioned for growth. We believe there's considerable opportunity to enter new markets, expand the direct-to-consumer channel and build more projects like Space 24 Twenty in Austin, TX. I'll talk more about that exciting project in a few minutes.

I congratulate and thank Trish, Meg and the entire Urban brand team for a job well done.

Before I turn your attention to our other brands, let me say a few words about the macro-climate in which we currently operate. The fall season has been disappointing from a traffic and sales perspective. Combined North American store traffic for the quarter versus the same period last year, was down 6%, while conversion was up 12 bpts. Meanwhile, combined North American direct traffic, or sessions, grew by 4% and conversion was up 20 bpts. However, even though direct sessions were up on a quarter-over-quarter basis, the rate of increase dropped from Q2.

The effect of this drop in traffic has been uneven across the categories we offer. In general, sales of apparel and accessories have been slower while home, intimates, shoes and beauty have been more robust. I believe our customer's current lack of enthusiasm for the apparel and accessory categories is primarily due to a lack of fashion newness.

We currently have a number of new fashion 'bright spots' in our apparel offering, but whether or not these trends become more mainstream is uncertain. Having been in this situation before, my experience tells me that the best course of action is to keep inventories lean, continue to experiment and know that new trends will soon emerge.

Now I'll address the other brands, beginning with Anthropologie. For Anthro Q3 was very similar to Q2. A number of important classes, like sweaters and dresses, offered assortments less compelling than the prior year period and those classes depressed overall sales gains. The team continues to make adjustments in the assortment and offering additional promotions where necessary to move slower selling inventory. Effective inventory management helped to mitigate the markdown pressure and, as of October 31, apparel inventory this year stood 4% below last year on a comparable basis.

Even though some assortments were 'off-the-mark', the Anthropologie group also produced a number of successes. Categories and businesses such as home, beauty, shoes, Bhldn and Terrain, all delivered very strong quarter-over-quarter sales gains.

For example, on-line sales of home product in the quarter were exceptionally strong. They were driven by expanded and compelling product along with the mailing of home-only journals.

The Anthro customer also responded positively to the new beauty offering. After strong results from testing this product on-line and in several stores, the brand recently completed a roll-out of beauty shops within 70 existing stores. Early results are very encouraging and speak to a much larger potential for beauty in the brand.

These and other product expansion categories helped to drive double-digit increases in Anthropologie's direct-to-consumer sales in the quarter. The growth of on-line sessions and increased traffic coming to the site via natural search suggest that Anthropologie's customer engagement remains very powerful. The success of expansion categories on-line has also increased our excitement about launching larger format stores that can offer more expanded product. Four larger stores are scheduled to open in FY17.

Anthropologie was not alone with the success it achieved by offering expanded categories, Free People benefitted, as well. Recently, Free People opened two new, larger format stores, one each in Denver and Dallas. Each was a relocation of an existing store within the same mall and each more than doubled the selling space previously available.

The additional space enabled the brand to offer wider selections from the Free People expansion categories, including large branded footwear and intimates shops in both locations. Denver featured an area devoted to the newly-launched FP Movement active wear, and Dallas greeted customers at the door with a Holiday party dress assortment. All of this newer product complimented the established ready-to-wear and accessories offerings.

I'm pleased to report that both stores registered sales significantly greater than their opening day plan and the Denver store easily set a new Free People opening day sales record despite stiff competition from its sister store in Dallas. Both stores have continued to produce strong sales, so the customer clearly likes the larger offering, and thus, the brand will continue to open more stores of this size going forward.

Three months ago on our investor call I suggested it would be difficult to maintain, let alone improve, the extremely high level of sales productivity the Free People brand achieved in their existing retail stores. My concerns proved to be correct. 'Comp' store productivity declined in Q3 versus the prior year period. Important seasonal classes like sweaters, jackets and cold-weather accessories failed to beat their comparable sales. We have now re-aligned our expectations for future 'comp' store sales growth and believe that future store sales increases at the Free People brand will come mostly from square footage growth.

As with Anthropologie, Free People's success with expansion categories, most of which aren't available in the smaller format stores, did continue to drive double-digit sales increases on-line. This was achieved despite softness in international web sales during the quarter due to the strength of the US dollar. The brand did manage to record better on-line sales from UK and China because of more aggressive marketing.

Before I, however, discuss the wholesale channel performance, I want to comment on our new Gap fulfillment center issues that Frank referred to in his earlier commentary. After a relatively painless transition to the Gap facility for our DTC channel in late summer, the wholesale inventory was moved into the Gap center in September.

This turned out to be a bigger job than expected and resulted in a delay in filling wholesale orders in late September and early October. Consequently, wholesale order fulfillment in October, one of the peak wholesale shipping months, was more back-end loaded than normal.

The compressed order flow was more than the new center could handle. Processing volume combined with system problems and insufficient staff training, resulted in some October wholesale orders being shipped in the first few days of November. Today, we believe the software and hardware 'bugs' have been largely fixed; we have hired additional staff and have implemented a more rigorous training program. Virtually all direct orders are now being shipped within 24 to 48 hours from our fulfillment centers on both the east and west coasts, and wholesale shipments are up-to-date and flowing from both our Trenton and Gap facilities. Based on the corrective measures we have taken over the past month, I believe we are positioned to fulfill all of our orders on a timely basis in the fourth quarter.

As for the performance of the Wholesale channel in Q3, had it not been for the transition issues, I believe that division would likely have posted double-digit sales increases. Furthermore, based on orders in-house, I believe it will return to a double-digit sales increase in Q4.

Now let me discuss this morning's announcement.

For several years we have been talking about expanding categories in order to please our customer more and capture more of her spending. We have consistently repeated that new categories can be products or services as long as they fit within the lifestyle of the customer. In recent years, casual dining has been one of the fastest growth categories and our involvement in the food service business through our successful cafes in two Terrain locations and in the Urban Outfitters location on Herald Square has taught us the potential synergies that can exist between retail and food operations.

This morning we announced an agreement to acquire substantially all of The Vetri Family group of restaurants which includes its award winning Pizzeria Vetri. Most recently Food and Wine Magazine named Pizzeria Vetri the best Pizza restaurant in America. With casual dining growing rapidly and pizza one of the most popular foods in the country, we believe there is tremendous opportunity to expand the Pizzeria Vetri concept.

We feel fortunate to have Marc Vetri, a James Beard award-winning chef, his business partner Jeff Benjamin and their talented teams, working in partnership with the URBN development and shared service teams to realize this growth opportunity.

Currently the Vetri Group operates 2 pizza restaurants in Philadelphia and is scheduled to open 3 more in the next 12 months. We believe future units can be stand-alone restaurants or part of a larger retail complex. A big attraction of this concept is the enormous breadth of its appeal. Very young to very old – everyone loves great pizza.

Last week the Urban brand launched its new Space 24 Twenty project in Austin, across from the University of Texas campus. This project includes an expanded Urban Outfitters store and several food and beverage concepts including Pizzeria Vetri and Michael Symon's Burger Joint. The store and the restaurants are clustered around an open air courtyard that offers restaurant seating and a stage for special events and concerts. So, in addition to a large Urban store, we've assembled award-winning pizza and burgers, serving beer and other beverages and offering live music, and this is all directly across the street from 50,000+ UT students. We believe the project has a high probability of success.

The Vetri pizza concept is not limited, however, to pairing only with the Urban brand. In early 2017, we plan to open a project in Devon, Pennsylvania, which is a high-end suburb of Philadelphia. This project will include a larger format Anthropologie store, a Terrain garden center and outdoor store, a glasshouse café, a Pizzeria Vetri and one of the Vetri group's higher end restaurants.

We're excited to add food service to our brand portfolio and believe the Vetri Family group of restaurants complements our brands nicely. Having known Marc for many years and having worked with him on numerous charitable projects, I know our organizations and cultures fit together easily. Marc and Jeff will partner with Dave Ziel our Chief Development Officer, who currently runs our URBN Food & Beverage Division, in leading this exciting opportunity for our Company.

Finally, a special thanks to all the home office folks who volunteered to help work in the new fulfillment center at the end of October and, of course, I thank all of our 23,000 associates world-wide for their inspiring dedication, drive and creativity. I recognize and thank our many partners around the world, and also our shareholders for their continued support.

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