URBAN OUTFITTERS, INC.

Second Quarter, FY'12 Conference Call
August 15, 2011

Participants

Glen T. Senk	Chief Executive Officer
Eric Artz	Chief Financial Officer
Oona McCullough	Director of Investor Relations
Meg Hayne	Global President, Free People Brand
Wendy McDevitt	Global Co-President, Anthropologie Brand
Wendy Wurtzburger	Global Co-President, Anthropologie Brand
Glen Bodzy	General Counsel
Frank Conforti	Chief Accounting Officer
Barbara Rozsas	Chief Sourcing Officer
Freeman Zausner	Chief Operating Officer
Dave Ziel	Chief Development Officer
Calvin Hollinger	Chief Information and Logistics Officer

Introduction

Glen

Good afternoon, and welcome to the URBN quarterly conference call. With me today is Eric Artz, Chief Financial Officer; Oona McCullough, Director of Investor Relations; and the majority of our executive management team.

Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three month period ending July 31, 2011.

Eric will begin today's call by providing details on our performance, I will continue the prepared commentary with closing remarks, then the group and I will be pleased to answer any questions you may have.

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 Eric.

Eric

Thank you Glen.

The following summarizes our Second Quarter Fiscal 2012 performance versus the comparable quarter last year:

- Net sales increased 10% to a second quarter record of $609 million.
- Income from operations decreased 18% to $88 million, or an operating margin of 14.4%.
- Net income was $57 million or $0.35 per diluted share.
- Comparable Retail Segment sales, which include our Direct-to-Consumer channel, increased 1%, with increases of 18% and 1% at Free People and Urban Outfitters respectively, while Anthropologie was flat in the quarter.
- Total Company comparable store net sales decreased 2%.
- Direct-to-Consumer comparable net sales rose 15% with direct penetration increasing to 19%.
- Wholesale net sales increased 7% to $32 million.
- Gross profit decreased 2% to $231 million, while gross profit margins decreased 459 basis points to 37.9%.
- Selling, general and administrative expense, expressed as a percentage of net sales, increased 32 basis points to 23.5%.
- Comparable Retail Segment inventories at cost, which include our Direct-to-Consumer channel, were 12% higher at quarter's end, while comparable store inventories increased 9%.
- Finally, during the quarter the company repurchased and retired 2.3 million common shares for $67 million, leaving 3.3 million shares remaining on the current authorization to purchase up to 10 million shares.

Turning to our key business metrics, I'll begin by providing detail on sales for the quarter.

New and non-comparable store sales contributed $54 million to the consolidated net sales increase. The Company opened 10 new stores in the quarter—4 Anthropologie stores; 4 Free People stores, and 2 Urban Outfitters stores.

Within the quarter, total Company comparable store sales were strongest in June, followed by July, then May.

Within North America, sales at Anthropologie and Urban Outfitters were strongest in the South and weakest in the Northeast for Anthropologie and weakest in Canada for Urban Outfitters, while sales at Free People were strongest in the West and weakest in the Northeast. In Europe, sales at Urban Outfitters were strongest in Continental Europe and weakest in Ireland.

By store type, sales at Anthropologie were strongest in free standing and lifestyle centers, while Urban Outfitters was strongest in malls and lifestyle centers and weakest in street locations. Sales at Free People were strongest in lifestyle centers, and weakest in malls.

The comparable store net sales decline was driven by decreases in total transactions and average number of units per transaction of 3.1% and 0.7%, respectively; these decreases being partially offset by a 1.6% increase in average unit selling prices.

Direct-to-Consumer revenue increased 17% to $113 million, including a 15% increase in comparable sales. The penetration of Direct-to-Consumer net sales to total Company net sales increased 100 basis points to 19%, with results largely driven by a 31% increase in website traffic to over 32 million visits.

For Retail Segment sales, intimates and women's accessories were strongest at Anthropologie, men's and men's accessories were strongest at Urban Outfitters, and intimates were strongest at Free People.

Wholesale Segment sales for the quarter increased 7% to $32 million, driven by a 16% increase at Free People, offset by the reduction in Leifsdottir sales as a result of the decision to exit the channel in May of this year.

I'd now like to turn your attention to gross margin, operating expense and income.

Gross profit in the quarter decreased 2% to $231 million, and the gross margin rate decreased 459 basis points to 37.9%. This decline was primarily due to increased markdowns to clear slow moving women's apparel inventory at Anthropologie and Urban Outfitters, as well as occupancy deleverage caused by negative comparable store sales.

Total selling, general and administrative expenses for the quarter, as a percentage of sales, increased by 32 basis points to 23.5% due primarily to ecommerce and related catalog investments. Additional items contributing to the deleverage in the quarter were investments in new technology and our new distribution and fulfillment centers in Europe.

The Company's effective tax rate was 36.2% for the quarter versus 33.3% for the prior comparable period. The prior comparable period tax rate was favorably affected by certain non-recurring items.

Total inventories increased $60 million to $303 million, or a 25% increase over the prior year period. Approximately half of the dollar increase was due to non comparable receipts versus the prior year, specifically; $15 million of early fall receipts in the final week of July, $9 million more in transit and $6 million of fabric and BHLDN inventories. The balance of the increase is driven by the acquisition of inventory to stock new retail stores and to support Direct-to-Consumer growth. Overall, we are comfortable with the level of our current inventory.

As we look forward to the balance of the year, while we will not provide specific guidance, it may be helpful to consider the following:

- We plan to open 55-to-57 new stores this year, with the increase over our first quarter remarks coming from Free People and Urban Outfitters in Europe.
- Given the current environment, we believe it is prudent to anticipate third quarter gross margins to be somewhat similar to what we experienced in the second quarter.
- While we are focused on managing our selling, general and administrative expenses, we are also committed to investing in our long term growth initiatives. Our estimated leverage point for expenses in the second half is an approximate 2% comparable store sales increase.
- We remain on track with our long term capital projects, including the addition of a West Coast fulfillment center and expansion of our home offices; we continue to plan for fiscal 2012 capital expenditures of $175-$195 million.
- Finally, at this time we are planning our annual effective tax rate at approximately 36.5%.

Finally, the forgoing does not constitute a forecast, but is simply a reflection of our current views. With that as a financial backdrop, I'll turn the call back over to Glen who will proceed with his closing commentary.

<u>Glen</u>

Thank you Eric.

The quarter materialized much as we expected. We reported record second quarter sales, Free People delivered another record sales and profit performance, and we are on track with our plans to improve the all-important women's apparel categories at both Anthropologie and Urban Outfitters. While our overall second quarter performance was not up to our normal standards, a 14.4% operating margin serves as a testament to our strong business model, especially in uncertain and volatile times.

Of course our number one priority continues to be product—differentiated and compelling product. On the first quarter call, I spoke about organizational changes within our merchant ranks, and I am happy to report on the progress we made this past quarter:

- We have greater alignment and clarity with our assortment architecture including an enhanced vision for top-of-pyramid product, the objective and strategy for market branded goods, and the all-important role of our own proprietary brands.
- We continue to expand product offerings into categories where we see meaningful opportunity.
- We are improving distortion strategies into products and attributes we wish to drive.

- We have begun to enhance our merchant organization by splitting the creative and operational functions thereby unencumbering creativity.
- And finally, we are executing our overarching strategy to treat the web assortment as the “alpha”, presenting the fullest and most complete expression of our brands on the web.

In fact, Direct-to-Consumer remains a focal point for the entire organization based upon what we believe is a paradigm shift towards online shopping. We’re beginning to see results from our consumer insights initiative which we have translated into deliberate strategies for increasing customer acquisition, targeted communication, and further expansion of our Web assortments. We have continued to push investment in the sites themselves, social media, video, mobile technology, and personalization. We’re focused on fulfillment as well. We broke ground on our new West Coast fulfillment center in the quarter; when the facility is operational in the third quarter of next year, we’ll be able to reach 80% of the US with 2-day ground shipping service versus just 40% today.

Our international direct business continues to out-perform, with the penetration of global direct sales increasing by 500 basis points in the first half of the year. We expect this increased penetration to continue, supported in part by the successful opening of our UK fulfillment center during the quarter

The execution of our store teams, both in the head office and in the field, has been outstanding. We believe our stores look better today than they did a year ago, and we opened more stores during the last 12 months than at any other point in our company history, with new store productivity equaling the existing fleet. Mobile POS is now in 107 stores, with plans to be in all stores by the beginning of holiday. We have also completed the implementation of our new order management system so that domestic brands now operate with a single sku across all channels.

As we look to the second half of the year, I am reminded of a comment I made this time last year—that I believed we were facing a slow and lengthy recovery punctuated by periods of uncertainty and inconsistency. As Eric mentioned, June and the first half of July were the strongest part of the second quarter, but we believe the recent political and macroeconomic events have influenced our customer, especially at Anthropologie where the trend has slowed compared to the other brands. So while we are confident in our strategies and believe we have made great executional progress, we remain cautious for the second half, anticipating gradual improvements in our comparable sales and financial performance over the balance of the year and into spring 2012.

We have a clear long term vision for our company and our prospects for growth. We are a multi-brand, multi channel, multi-national retailer with tremendous opportunity within our core brands in North America and abroad, with future seeds for additional growth in our new concepts, including BHLDN, which has exceeded our expectations and is opening its first store this week in Houston.

Before opening the call to questions I would like to thank the entire URBN organization for their hard work and dedication and our shareholders for their continued support. At this time I will invite questions, limiting each caller to one question.

Thank you.