URBAN OUTFITTERS, INC.

Fourth Quarter, FY'22 Conference Call
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Participants

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Margaret Hayne, Co-President & CCO
Sheila Harrington, Global CEO, Urban Outfitters & Free People Groups
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Good afternoon, and welcome to the URBN fourth quarter fiscal 2022 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three- and twelve-month periods ending January 31, 2022.

The following discussions may include forward-looking statements. Please note for the last three quarterly calls we have compared our results to two years ago, fiscal 2020, or what we referred to as LLY. As we transition into a new fiscal year, fiscal 2023, we will return to comparing our results to the prior year, or fiscal 2022. To avoid confusion on today's call, we will use the fiscal year designation, when referring to the comparisons rather than LY or LLY. It's important to note at this time, the global COVID-19 pandemic has had and continues to have a significant impact on URBN's business. Given the uncertainty about the duration and extent of the virus' impact to the global retail environment, content discussed on today's call could change materially at any time. Accordingly, future results could differ materially from historical practices and results or current descriptions, estimates and suggestions. 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.

On today's call you will hear from Richard Hayne, Chief Executive Officer, Frank Conforti, Co-President and COO, and Melanie Marein-Efron, Chief Financial Officer. Following that, we will be pleased to address your questions. For more detailed commentary on our quarterly performance and the text of today's conference call, please refer to our investor relations website at www.urbn.com.

I will now turn the call over to Dick.

Dick Hayne

Thank you, Oona, and good afternoon, everyone. Today I'll begin the call with some brief remarks regarding our fourth quarter results and some observations on the consumer and implications for our spring season. I will then turn the call over to Frank and Melanie who will provide more detail by brand and total Company.

URBN produced strong sales gains in the fourth quarter with total 'comp' retail segment sales jumping 14% compared to FY'20. Each brand posted positive retail segment 'comps', led once again by the Free People Group which posted mid-double-digit 'comps'. All brands on both sides of the Atlantic delivered strong regular-priced sales versus FY'20.

Favorable sales, however, came amidst a very difficult operating environment where we were forced to expedite product shipments into the U.S. to secure sufficient inventory in time for Holiday selling. In addition, both air and ocean cargo rates reached unprecedented levels. These factors resulted in higher than planned transportation expenses which hurt our merchandise margins and lowered fourth quarter profitability. We believe these costs should level off or potentially recede somewhat by summer.

In the meantime, there are a number of actions we will take to boost margins and help mitigate increased freight costs. Some, like raising retail prices, can have an immediate positive impact on margins. For instance, in Q4, price 'adjustments' offset almost a third of the total freight increases. Some other actions to bolster our initial merchandise margins can take a little longer to yield results. One example is to place orders for products the merchants have high confidence in a month earlier than normal so we can utilize ocean rather than air freight.

Given the ultra-high freight costs URBN experienced during Q4, we are conducting a complete review of our business practices with an eye to finding margin builders, including logistics efficiencies. Our goal is to improve our initial merchandise margins, or IMU, by 500 basis points over the next three years. Frank will provide greater detail on the initiatives we will be implementing to accomplish this goal.

Demand in Q4 remained strong, and we are optimistic this strength will continue through spring. In the first four weeks of Q1, total retail segment 'comp' sales jumped more than 20% above the same period in both FY'22 and FY'20. All brands in both geographies are nicely positive. We have been pleasantly surprised by the resilience of consumer spending given the headwinds of surging inflation, the remnants of COVID-related restrictions, and a stock market correction. These obstacles have pushed consumer sentiment to decade lows, but we see continued strength in our customers' spending habits. Our customers are anxious for a return to normal life, and they are shopping to support that goal. They want to be out and about with family and friends, traveling, dining-out, and going to entertainment venues. Fashion and newness are resonating more than price and driving strong, full-price sales of dresses, shoes, including heels, pants, and blouses. Although comparisons get more difficult throughout the quarter as we begin to lap some of the stronger months of last year, given customer reaction to our Spring assortments, we believe total company 'comp' sales can increase in the mid-teens for the quarter.

With that, I will now turn the call over to Frank.

Frank Conforti

Thank you, Dick, and good afternoon, everyone.

I will begin reviewing our total Company Q4 results vs. FY'20, followed by additional notes by brand.

Total Company sales grew by 14% to a fourth quarter record of $1.3 billion, driven by a total retail segment 'comp' sales increase of 14%. All brands posted positive retail segment 'comps' fueled by strength in full price selling. Consumer demand began the fourth quarter extremely strong as many customers were concerned about limited inventory due to the endless news of supply chain disruptions. As the calendar moved closer to the Christmas holiday, demand slowed a bit and then picked back up again in January, as the consumer shifted their focus to warmer weather ahead.

During the fourth quarter, demand was strong across almost all categories with women's apparel and home leading the way. Strong full price selling in these categories led to lower merchandise markdowns rates for URBN and at each of our brands.

These lower markdown rates were more than offset by significantly higher inbound transportation costs. These expenses were a result of extraordinary supply chain challenges and costs resulting in over 350 bps of initial product margin deleverage for the quarter.

Inflationary pressures from inbound freight, delivery expense, raw materials and wages weighed on overall profit for the quarter producing fourth quarter earnings of $41 million and diluted earnings per share of $0.41.

We know that a myriad of supply chain problems throughout the quarter held back our results. We prioritized inventory deliveries during the all-important holiday season which resulted in much higher than anticipated inbound transportation costs. Although supply chain costs will remain elevated throughout the first half of FY'23, we believe there is opportunity for us to improve our initial product margins vs. FY'22 as the year progresses.

We are working on many different initiatives to improve our IMU, not just in FY'23, but over the next several years. As Dick mentioned earlier, we are setting a company-wide target to increase our retail segment IMU by 500bps over the next three years. We believe with improved product distortion, SKU rationalization, fabric positioning, further utilization of 3D product design technology, the execution of several inbound transportation strategies and, of course, some gentle price increases, this goal is achievable. All brands and shared service support functions are aligned and aggressively working towards this goal.

Now moving on to detail by segment, starting with the retail segment. Retail segment sales increased by 15%. This growth was driven by the continued strength in the digital channel. The digital channel continued its rapid growth registering mid-double-digit sales gains in North America and even larger gains in Europe. Overall, the strong digital performance was driven by increased sessions, improved conversion and higher AUR's. Digital customer growth also remained strong with total customers up 30% to FY'20 for URBN with each brand and geography delivering growth.

While digital sales remained in the mid-double-digit range, 'comp' store sales declined in the low-double-digit range vs. FY'20. All brands' stores started the holiday season with encouraging results but as the Omicron variant accelerated, store traffic significantly declined in the weeks leading up to Christmas. We are optimistic as the variant retreats and the weather improves, that customers will return to stores in a more meaningful manner.

Shifting to the wholesale segment. Total wholesale sales decreased by 22% versus FY'20. Lower sales at Free People were partially offset by an increase in Urban Outfitters sales. As we have discussed previously, Free People has adjusted its wholesale customer mix, cutting back some accounts to better align with its go-forward strategy of concentrating on full-price selling. While this strategy reduced sales in the short term, we believe it will benefit the overall brand in the long term. Elevated inbound transportation costs weighed more heavily on the wholesale segment as historically we have brought a healthy percentage of our wholesale product into the country on a boat. To ensure on time delivery during the holiday season, we shifted virtually all this product to air. This impacted overall wholesale margins by over 1,000bps for the fourth quarter. This pressure will persist in early FY'23 but as we move into the second half of the year, we believe we will see margins improve. We believe under normal supply chain circumstances the Free People brand would have delivered high teens operating profit margins for the quarter, and we believe those margins are achievable again as we navigate through these logistics challenges.

I will now provide more details by brand, starting with the Urban Outfitters brand. The Urban brand delivered a 3% retail segment 'comp' vs. FY'20. UO North America delivered a slightly negative 'comp' and Europe delivered a strong double-digit 'comp'. Both regions' 'comps' were driven by double-digit direct sales which offset negative store 'comps'. The brand drove increased sales despite a significant decrease in promotional activity during the quarter. UO continues to focus on highlighting everyday accessible opening price points in key categories with fewer dollar and percentage-off promotions. This strategy resulted in double-digit full price 'comps', lower merchandise markdowns and double-digit AUR gains in both the store and digital channels. In the first quarter, the brand will continue to anniversary a difficult promotional calendar versus last year, and we would expect their business to look similar to the fourth quarter.

Now turning to the Anthropologie group. The group delivered a 14% retail segment 'comp' in Q4 vs. FY'20. Like the Urban brand, Europe's 'comp' sales exceeded North America but both regions had solid double-digit retail segment 'comps' driven by exceptionally strong full price 'comps', which jumped by more than 50%. This led to nearly 200bps improvement in the markdown rate. As discussed on the third quarter call, the brand intentionally brought home inventory in earlier than usual and while almost all categories were 'comp' positive, the home category produced the strongest 'comps' in Q4.

Anthropologie has experienced strong momentum in the business coming off holiday and their impressive sales continue to be driven by exceptional full price product. As a result of a strong trend in holiday, Anthro intentionally pulled forward new spring transitional receipts into January and February. The brand anticipated that the customer would be ready to shop for events again and launched the fully integrated dress campaign called "A Dress For Every…" on February 7th, one month earlier than dress capsules in previous years. They pushed the boundaries on newness and style in this campaign and are proud of the incredible imagery our creative team brought to life. In February, dresses are the fastest growing category for the brand. She is also buying heels and dressy sandals again both online and in store. In terms of occasion dressing, most notably

BHLDN has seen a significant turnaround in business as weddings are being planned again. The brand launched a collection of BHLDN designed wedding gowns in January, and the customer is positively responding. We believe the Anthropologie group, including BHLDN and Terrain, could drive a high teens ‘comp’ in Q1.

Now I will call your attention to the Free People brand. Once again, the Free People team produced an extraordinary quarter with retail segment ‘comps’ achieving a staggering 49% gain vs. FY’20. Every product category recorded at least a strong double-digit full price ‘comp’, while the total Free People brand generated almost triple-digit direct ‘comps’ which easily offset the double-digit negative store ‘comps’. Free People’s extremely low markdown rate for the quarter led to almost 200 basis points improvement in merchandise markdown rate. The FP Movement brand also delivered an outstanding quarter. Retail segment sales grew by over 200% versus FY’20 and they opened 5 additional stand-alone Movement stores, bringing the total number to 20 at quarter’s end. We remain excited about our FP Movement store performance which continues to exceed our expectations. The FP Movement stores also drive increased levels of engagement in the community through various events the brand sponsors. In the fourth quarter, FP Movement customer counts increased triple digits versus FY’20 and over 74% versus the prior year. In January the brand launched a new site-in-site experience for FP Movement. This will give Movement the ability to expand the conversation and shopping experience with their customer.

Spring is off to a strong start at both Free People and FP Movement, so we believe both brands could produce stellar results again in Q1.

Lastly, I will speak to Nuuly. As we have previously noted, Nuuly is our brand that is most sensitive to our customers willingness to go out. In December as Omicron accelerated, the Nuuly brand experienced a minor increase in customers pausing their subscriptions. As Omicron has waned, and Nuuly’s inventory levels have improved, subscriber count growth has recently accelerated. As of today, the brand has over 57,000 active paying subscribers, surpassing our FY’22 goal of 50,000. We are still in the early innings of these rental and resale businesses, and we are looking forward to continuing to grow the Nuuly customer base and our learnings over the coming year.

I will now turn the call to Melanie, our CFO.

Melanie Marein-Efron

Thank you, Frank, and good afternoon, everyone.

On today’s call I will discuss our thoughts on our first quarter and full fiscal year 23.

As we begin the first quarter of FY’23 it may be helpful for you to consider the following: as Dick noted, we are pleased that consumer demand has remained strong to start the quarter, and we believe this strength will continue throughout the first quarter. Our URBN first quarter-to-date ‘comp’ sales rate is ahead of our fourth quarter rate and right now, we believe first quarter total company sales could come in up mid-teens vs. fiscal year 22. We believe that the retail segment sales could land in the mid-to-high teens, while the wholesale segment sales could be approximately flat. It is important to note that in the first quarter last year, many of our stores were closed or operating with government restrictions as a result of the COVID-19 outbreak. This year many fewer stores are currently restricted. Last year, restrictions were eased as the quarter progressed. As a result, the consumer went out more frequently and we saw sequential monthly improvement in our business. This year's comparisons become more difficult as we move through the quarter.

Based on current sales performance and plan, we believe our gross profit margins for the first quarter could be down more than one hundred basis points to fiscal year 22. The decrease in gross profit rate could be primarily due to the ongoing supply chain challenges which are increasing inbound product transportation costs. As Frank mentioned, we believe supply chain costs will remain elevated for some time, but due to several initiatives we have put in place, we believe URBN will be able to mitigate some of those additional costs, thus improving initial margin trends as each quarter progresses this year. In addition, we believe that the markdown rate in the first quarter will increase versus fiscal year 22 when inventory levels were sub-optimal and the markdown rate was at historically low levels. We believe that the Q1 markdown rate could compare favorably versus fiscal year 20. We believe favorable Q1 occupancy rates could partially offset lower merchandise margins compared to the first quarter fiscal year 22 when store sales were severely impacted by closures in Europe and Canada as well as capacity restrictions in parts of the United States.

Based on our current sales performance and financial plan, we believe total growth in SG&A could outpace sales growth for the quarter and year.

Growth in SG&A during the year and first quarter primarily relates to:

- Increased store labor costs vs. the prior year. In fiscal year 22, many of our stores were closed or operating with government restrictions due to the COVID-19 outbreak and our open stores were staffed at minimum levels as a result of challenging store traffic and capacity restrictions. While we have adjusted our store staffing based on our COVID learnings, we expect increased costs versus prior year to support higher levels of store traffic as well as higher wage rates for store associates.

- Increased marketing expense to support growth in sessions at the digital businesses.

We believe that the SG&A growth rate in the first quarter will be more significant than the remaining quarters of the year. This is due to the prior year being very low as a result of store closures during the first quarter last year which reduced store labor as well as tightly managed operating expenses.

As always, if sales performance fluctuates, we maintain a certain level of variable SG&A spending that we can fluctuate up and down depending on how our business is performing.

Our annual effective tax rate is planned to be approximately 25% for the year and 27% for the quarter.

Now moving onto inventory. As a result of the much talked about supply chain delays and increased costs, we have extended our lead times and continue to bring product in earlier than normal. It is also important to remember at this time last year our inventory was significantly constrained and likely holding back sales. As a result of the earlier receipts, increased costs and constrained prior year inventory levels, our inventory variance currently exceeds our sales growth. We believe that our inventory levels will remain somewhat elevated this year vs. our sales growth.

Based on constrained inventory levels in the prior year, we believe that comparison to fiscal year 20 when the supply chain delays were not present are a better point of comparison. As a result, in the coming year we will provide comparisons of our 'comp' inventory levels versus fiscal year 20, in addition to last year.

Capital expenditures for the fiscal year are planned at approximately $225 million. While lower than fiscal year 22, the level of spend is still elevated due to installation of our automation equipment in our new distribution facility in North America. Our new North American facility just outside of Kansas City, Kansas, which broke ground last year will take approximately two years to complete phase one. This facility will support the growth and expansion of our retail segment business in North America by providing more efficient and faster logistics.

Lastly, we will be opening approximately 46 new stores and closing approximately 14 stores during fiscal year 23. Similar to FY'22, our new store number is larger than in previous years due to the addition of FP Movement store growth. We plan on opening 16 FP Movement stores this year with our ambition to build the FP Movement brand to one billion in sales.

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 turn the call over to Dick Hayne, Chief Executive Officer.

Dick Hayne

Thank you, Melanie, and thank you, Frank. That concludes our prepared remarks. I want to thank our brand, creative and shared service leaders. I also want to thank our 23,000 associates worldwide for their hard work, their dedication, and amazing creativity. I thank our many partners around the world for their extra efforts in helping us overcome numerous supply chain disruptions, and finally, I thank our shareholders for their continued interest and support. I will now turn the call over for your questions. As a reminder, please limit your questions to one per caller.