URBAN OUTFITTERS, INC.

First Quarter, FY'16 Conference Call
May 18, 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
Ted Marlow, CEO, Urban Outfitters Group
Trish Donnelly, President Urban Outfitters North America
Glen A. Bodzy, General Counsel
Barbara Rozsas, Chief Sourcing Officer
Calvin Hollinger, Chief Administrative 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 first quarter fiscal 2016 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three month period ending April 30, 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 quarter. David McCreight, Chief Executive Officer, Anthropologie Group will provide a brief update on the Anthropologie Group. 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, along with detailed management commentary, will be posted to our corporate website at www.urbanoutfittersinc.com.

I'll now turn the call over to Frank.

FRANK

Thank you Oona, and good afternoon everyone.

I will start my prepared commentary discussing our fiscal year 2016 first quarter results versus the prior comparable quarter. Then I will share our thoughts concerning the remainder of the year.

Total Company sales for the quarter increased by 8% to a first quarter record of $739 million. This sales increase was driven by a 4% retail segment comp, a $20 million increase in non-comparable sales, including the opening of 6 net new stores and 18% growth in wholesale sales. Please note that currency negatively impacted our sales growth rate, by approximately 140 basis points for the quarter.

Within our retail segment 'comp' the direct-to-consumer channel continued to outperform stores posting positive gains 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.

By brand, our retail segment 'comp' rate increased by 17%, 5% and 1% at Free People, Urban Outfitters and the Anthropologie Group, respectively. This marks the second quarter in a row all brands have posted positive retail segment comp sales growth.

Free People Wholesale delivered another strong quarter as sales grew 18% to $54 million. These results came from double-digit sales growth at department stores and the international business. Additionally, I want to note that due to some fulfilment center transition challenges at our Trenton, SC distribution center, we were unable to process all of our quarter end demand which pushed a little more than $2M of sales into the month of May.

Now moving back to total URBN results, gross profit for the quarter was up 3% vs. the prior comparable quarter to $246 million. Gross profit rate, declined by 141 basis points to 33.3%. The decline in gross profit rate was primarily due to lower initial merchandise margins at the Urban Outfitters Brand and higher delivery and fulfilment center expense across the entire company. The deleverage in delivery and fulfillment expenses were partially due to the increase in direct-to-consumer penetration and incremental costs associated with the beginning of the South Carolina fulfillment center transition to Gap, PA.

Total 'SG&A' expenses for the quarter increased by 8% to $193 million. Total 'SG&A' as a percentage of sales, deleveraged just slightly, by 13 basis points to 26.1%. This minor 'SG&A' deleverage, was primarily due to increased marketing expenses, which were used to drive higher direct-to-consumer traffic.

Operating income for the quarter decreased by 11% to $53 million, with operating profit margin deleveraging by 154 basis points to 7.2%.

Net income was $33 million or $0.25 per diluted share.

Turning to the balance sheet, inventory increased by 14% to $398 million. The growth in inventory was primarily related to the acquisition of inventory to support the retail segment growth as well as new and 'non-comp' stores. Comparable retail segment inventory increased by 8% at cost while decreasing 5% in units.

I wanted to take a quick moment and comment on the inventory increase in a bit more detail. By brand the Urban Retail Segment comparable inventory in North America is well controlled and actually in a negative position on a cost and unit basis. The driver of the increase in URBN retail segment comp inventory is the Anthropologie brand and it is being driven primarily by the investment in home product. Home inventory is double-digit comp positive as the brand begins to build their home inventory for their upcoming catalog drops and increased home marketing efforts. The past two home catalogs have performed well, and we sold out of many items in a few weeks, so the brand is making a larger investment in inventory to more closely align it with anticipated demand.

We ended the quarter with $357 million in cash and marketable securities. During the first quarter, the Company repurchased and retired 402,000 common shares for approximately $17 million. We have 21.9 million shares remaining on the two most recent Board of Directors authorizations to repurchase shares.

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

We are planning to open approximately 31 new stores during the year. By brand, we are planning approximately 4 new Urban Outfitters stores in North America, 13 new Anthropologie stores globally, including 1 new European store and 14 new Free People stores in North America.

Our gross margin rate for the second quarter could deleverage versus the prior year, similar to the rate of deleverage experienced in Q1. This deleverage could be driven primarily by costs associated with the transition of our East Coast DTC fulfillment center. This deleverage could occur, despite the planned improved margin at the Urban Outfitters Brand. The planned Urban brand improvement could be offset by increased markdowns at Anthropologie while they address some product misses in a few of their women's apparel and accessories classes. Due to Anthropologie's sales slowdown at the end of April and the uptick experienced in May to date, it is not clear at this point what level of markdowns Anthropologie will incur during the second quarter.

On an annual basis, we believe there is potential for approximately 25-50 basis points of year-over-year improvement in gross profit margin. This potential improvement is inclusive of the one-time fulfillment center transition costs. Based on our current plan, we believe the DTC fulfillment center transition will negatively affect our annual gross profit margin by approximately 50 basis points. Our new state-of-the-art, one million square foot facility will begin phasing in outbound service to the customer in June, therefore, the second quarter is expected to be the most negatively affected by our transition.

Based on our current plan, we believe 'SG&A' could grow at a high single-digit rate for the year. This increase would be driven by DTC investments related to marketing and technology and selling support investments to support our new store growth.

As I noted earlier, the effects of foreign currency translation resulted in approximately 140 basis point reduction to sales and 30 basis point reduction in operating profit. If today's rates held constant, and all else in the business held constant, such as shares outstanding and planned profit rates, we believe foreign currency translation could negatively affect our earnings per share by approximately 2.5% for the full year fiscal 2016. This would be based on our current business in the Canadian and European Markets.

Capital expenditures for fiscal year 2016 are planned at approximately $150-160 million driven primarily by new stores and the completion of our new east coast fulfillment center. This facility is all but complete, and we have begun testing it in preparation of beginning our transition in June of this year.

Finally, our fiscal year 2016 annual effective tax rate is planned to be approximately 36.25%.

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 our Anthropologie Group Chief Executive Officer, David McCreight.

DAVID

Thank you Frank, and good evening to everyone. For this call, I will provide an update on the Anthropologie Group, including recent results, highlights and upcoming milestones.

The Anthropologie Group has delivered 11 consecutive quarters of positive comp revenue growth**,** and I remain confident that continued comp growth is available to our Brand when we execute well. This first quarter's 1% comp is a disappointment and a bit of a surprise as we had a stronger comp performance going into April. We have read commentary about weather and port delays impacting performance, but our Q1 results are mostly the by-product of how we pleased her with our product and creative offers. Throughout the quarter, many areas showed solid to very strong growth, however, a few merchandise categories were not as well received and impacted the result: most notably dresses and accessories.

Dress shortfalls came from missed opportunities in a few key silhouettes, fabrics, and price points, as well as insufficiently addressing our more casual customer. Certainly correctable, if not downright avoidable. In comparison to the styling misses in dresses, accessories has underperformed to the sizeable opportunity we have to participate in our customer's purchasing of accessories. We have adjusted the team and the strategy and look for improvement in the back half of the year and continued expansion of accessories in the future.

While we are not satisfied by our 1% comp, the quarter did contain many areas making nice progress. In fact, most apparel categories did well: the home initiative is right on schedule, our Anthro-file grew double-digits over last year, and our customer is demonstrating increasing comfort with our ability to please her across a variety of channels. BHLDN continues to sparkle, delighting brides and wedding parties and Terrain has made in-roads in broadening their offer and leveraging the opportunities associated with Anthropologie.

The Anthropologie group growth strategy remains as last reviewed during September's investment day. Consistent with the URBN Vision 20|20, we are investing in talent, infrastructure and processes that will allow us to fulfill the potential for our multi-billion dollar lifestyle brands.

Apparel remains a vital part of our business and growth strategy. We are constantly evaluating our capabilities and analyzing her evolving needs, ensuring our design, production, and merchandising teams are interpreting and executing on point. As a result we are looking to add talent within apparel and reduce the lead-time necessary to bring our product to market.

We are in the process of re-structuring the way that we design and merchandise and the teams work together. Based on the success of the Free People brand, and as we have already done in the Anthropologie home area, we are adopting Meg Hayne's concept of concept-to-customer approach to creating our apparel offer.

As we improve our current apparel & accessories offering and shorten lead times, we expect to take advantage of the opportunities presented digitally and realize new approaches to merchandising stores.

Since BHLDN joined the Anthropologie Group three years ago, we have been able to refocus on product and creating magical moments for our brides. With strong leadership guiding the development of our archetypes and the power of Anthropologie behind them, sales at BHLDN have skyrocketed. Our unique and inspiring gowns have resonated with thousands of brides, and in the coming year, we will turn an eye to bridal party styles, with dresses and separates for bridesmaids and mothers. While the product has found its sweet spot, the store experience has also evolved nicely through the shop-in-shop model. With six shop-in-shops, we are able to reach more customers and cultivate more brand fans than ever before. Additionally, BHLDN's location on Anthropologie's website has increased nation-wide awareness. As a result, BHLDN has seen almost triple-digit sales growth this past quarter and is driving incremental bottom line dollars to the business.

With Terrain joining the Anthropologie group, we expect to see a similar path to success…. evolving their creative brand experience across all media, strategically building out our digital offer and leveraging the resources of the Anthropologie Group. All early signs show that Terrain is a natural life-stage extension for our core customer.

When I spoke to you eight months ago, I outlined our vision for building a home company within the Anthropologie Group and the impressive scale the opportunity presents. Focusing on decorating and entertaining, leadership has made excellent progress with the home assortment. Last year over 1,500 new styles were introduced and the new product is resonating with the customer, enabling the entire category to achieve double-digit comp sales within the quarter. Since the launch of expanded offer and new design concepts, demand for our new home offer has exceeded our expectations, with the biggest wins in unique items that she can't find elsewhere. As we learn more about her taste preferences and the longer demand curves for home, it is nice to see the team also making progress building relationships with key domestic partners to expand our drop-ship offer in the furniture, rug, wallpaper, and curtain categories.

In order to fulfill the rising demand, we continue to invest in our home business – we continue to build the team, redesign our digital home presentation, create new home journals, and analyze our logistic capabilities. In fact, some of you may find our newest home journal in your mail box today. Please take a look and let me know what you think.

Alongside these major category expansions comes commensurate investment in digital and infrastructure capabilities. As the Anthropologie brand fans grow increasingly comfortable visiting our digital contact points, we are committed to providing a best-in-class experience, from look-books and inspirational content, award winning social content to reliable shipping and customer service.

The growth of home décor calls for specific digital solutions to make the online experience easier to be inspired and shop. Starting this month, we will introduce home website developments, including improved navigation, enhanced delivery service and rates and more inspirational content.

Also, the recent launch of our Registry service has attracted thousands of brides. I am very satisfied with the rapid embrace of brides creating a gift registry within Anthropologie. In addition to fulfilling our home potential, the Registry has helped proved to be a gateway to the brand, with over 40% of gift givers being first time Anthropologie shoppers.

And while the digital experience is more important than ever, that does not mean that we are resting on our previous success in stores. The largest part of consumer commerce still occurs in stores. Our customers still want to touch and feel our product, be inspired by our spaces and interact with our delightful associates. We know how important the store experience has been to shaping our brand, and we have a best-in-class experience that is compelling and very profitable. But our brand fans relationship with the store experience is changing. The Anthropologie Group is evolving, with growing product categories and new brands under our umbrella. As we observe her behavior, we are excited by the opportunities ahead for the Anthropologie Group in providing one of the richest multi-channel, multi-media brand experiences in the world of retail. In addition to investments we have made in DTC and social platforms, we believe that it is vital that our store experience remain remarkable and relevant. As we shared with you in September, we plan on rolling out this new experience next year with our first large format store scheduled to open in May; one where we can bring new experiences, expanded product offers and services. Our home expansion is on track, the beauty assortment and services are well underway; BHLDN and Terrain continue to flourish; and we have been hard at work on our multi-channel service model. Most importantly, we think our new large format initiative is in perfect alignment with the direction our customers are headed… and one which will support Anthropologie Group's growth well into the future.

At URBN we are continually challenged to listen to our customer, develop creative ways to engage her efficiently. It is unusual to be part of a Group whose brand reach exceeds that of an already sizeable business. I'd like to thank Dick and URBN shared services for their encouragement and support for investing in the Anthropologie Group.

We have a beautiful customer, beloved brand, and a very profitable business model. We are proud of our recent successes, excited by the early results of our new initiatives, and eager to see the new categories develop as we head towards our goal of doubling the size of our brand business. All of this is made possible by the passion and talents of our people (both at the home office and the 5,000+ associates in the field) that make the Anthropologie Group story so compelling and unique.

Thank you for your time, and I will now turn the call over to Dick.

DICK

Thank you, David. While I was also disappointed with the Anthropologie results for Q1, I think it's important to remember that the brand remains one of the strongest in the world with extremely loyal customers, plus it produces operating margins that are the envy of most other retailers.

It's also important to realize that the Q1 shortfall in planned sales happened almost entirely in the last two weeks of April. This is when the Easter shift and the change in the catalog drop date combined to negatively impact sales more than anticipated. Newly received product and the catalog drop in early May have improved Anthropologie sales so far this month.

Finally, I'm very pleased to see the additional investments made last year in expanding the home category and the BHLDN brand are already bearing fruit. Sales in both categories are strong, and I look forward to watching both reach their full potential.

David, thank you and thanks to the entire Anthropologie team for delivering a very good and a very profitable quarter.

Let me now provide an update on the first quarter results at the Company's other two brands. First, Urban Outfitters. I am happy to report that the Urban brand in North America continued to make solid progress during the quarter. Positive 'comps' were driven by regular price sales throughout the quarter.

Six of Urban's eight major product categories delivered positive, regular price 'comps' including the all-important women's apparel division. Only the men's categories were down.

Mark-downs, on a year-over-year basis, decreased by more than 200 basis points and the number of mark-down units owned at the end of the period versus the same date last year, dropped in half. However, on a year-over-year basis, lower initial margins in the first quarter nearly offset the positive impact of fewer mark-downs, so total maintained merchandise margins showed only slight improvement.

The IMU issue, as we discussed last quarter, resulted from merchants ordering more products from the market combined with a change in customer demand in favor of lower margin categories. Ted, Trish and Meg pushed the Urban merchants to focus on improving their IMU, and I'm pleased to report that total April receipts showed slight year-over-year IMU improvement. We believe this will positively impact Urban's merchandise margins in Q2. In addition, the products on-order to be delivered in the second quarter carry an even higher IMU which leads us to believe that the back half of the year could continue to show IMU improvement.

Ending inventory at Urban, on a 'weeks-of-supply' basis, was the leanest it has been in three years, so we believe there is opportunity for further markdown improvement in the second quarter, as well.

Across both channels, the Urban customer reacted positively to the product categories the merchants chose to distort. While the merchants reduced the overall style count by more than 20% on a year-over-year basis, they increased the number of styles and the depth of buy in selected classes. These two factors – a decrease in total style count and an increase in distortion – have allowed the merchants to own less total inventory and still generate more sales.

Store initiatives, such as reducing redundant styles, establishing category shops and elevating customer service levels, have improved the overall shopping experience. The Urban stores are now less cluttered and easier to shop than last year at this time. The team will continue to refine these initiatives on a go forward basis as part of an effort to better please the customer and improve four-wall profitability.

In the direct-to-consumer channel, better product and many initiatives drove strong increases in DTC sessions and customer demand. These factors also produced double-digit increases across all customer groups – new, retained and reactivated. The amazing 40% year-over-year growth in reactivated customers is especially important as it verifies our antidotal evidence that Urban's core customer has returned to the brand.

In summary, the Urban brand has made significant progress over the past twelve months; major improvements have been achieved in the following areas:

- the process by which inventory is planned, allocated and controlled
- the process by which products are designed, selected, ranked and purchased
- the product quality and the range of price-points offered,
- the store experience, and
- the digital experience, especially thru better imagery and content.

Above all, teamwork and communication across the various home office functional areas have improved significantly. While there is still much work to be done to return the Urban brand to the level of profitability we believe it's capable of producing, I believe many of the people and processes necessary to accomplish this work are now in place.

Congratulations to Ted, Trish, Meg and their teams for orchestrating these improvements and reinvigorating the brand.

Turning to Free People – once again the team produced record first-quarter results, delivering double-digit sales gains and record operating profits. The brand continues to amaze by registering stellar growth against multi-year difficult comparisons. This was accomplished by offering highly compelling product in wildly engaging shopping experiences, both in stores and online. The combined retail segment delivered a powerful comp sales increase of 17% during the quarter. This is on top of a 25% increase in the same quarter last year, and a 44% comp in the year before that.

The brand recorded strong growth across all three distribution channels. As with our other brands, the standout channel was direct-to-consumer. Customer demand continues to grow from retained, new and reactivated customers as the brand continues to enhance its marketing programs. Within the direct channel, mobile devices now account for over 50% of total traffic and nearly 30% of sales. The brand continues to explore new ways to further engage the customer and create a stronger digital community.

We eagerly await the completion of the Free People, Rockefeller Center store expansion. When completed in June, this store will become the largest in brand's portfolio, exceeding 6,000 selling square feet and will allow the brand to offer a full product assortment including the more recently launched categories such as: intimate apparel, shoes, special occasion dresses and, for the first time in a store, FP Movement, which is the brand's activewear category.

The Wholesale channel continued its double-digit positive sales trend delivering revenue growth of 18% despite some distribution delays at the end of the quarter. Those delays stemmed from the transition of our fulfillment center in South Carolina to our new, larger facility in Gap, PA, and resulted in slightly more than $2 million in wholesale shipments moving from Q1 into Q2.

New and expanded product categories drove domestic wholesale growth, while more 'doors' in Europe, Canada and Asia fueled the international expansion. During the quarter, the brand opened six new international shop-in-shops: two in France and four in China.

In all, the brand delivered another in a string of amazing quarterly performances. My thanks go to Meg, Sheila, Dave and the entire Free People team.

Now, let me say a few words about our customers' shopping behavior and what it means to URBN. For many years we have repeated that the direct to consumer channel is growing and capturing a larger share of our customers' wallet.

Three years ago I predicted that in five years, the direct-to-consumer channel would account for half of URBN retail sales. That prediction was met with some skepticism. What we now see is that the trend toward greater DTC penetration is not just continuing but is actually accelerating. If my prediction is wrong, it's only off by a year or two.

Since 2001 when URBN launched its digital selling channel, DTC penetration has increased every year and the rate of growth of penetration has grown almost every year. Q1 this year was no exception. It showed our second largest DTC penetration gain ever. While stores continue to be a very important part of our business, there is no mistaking the fact that the customer's shopping preference – measured by both traffic and sales – continues to move to a virtual experience.

As a result, we believe it is critically important for URBN to accelerate its investments in new and enhanced capabilities to support this rapidly growing and changing channel. These initiatives are focused in the areas of product, technology, marketing, logistics, localization and personalization. At the same time, we are accelerating our investments in virtual capabilities, we are slowing the number of new retail stores we open in the North American market. We have said consistently, that from a store location perspective, we believe both of our larger brands will be fully penetrated in the North American market when they each have 200 to 250 stores.

Today, Anthropologie and Urban Outfitters operate 199 and 195 stores in North America, respectively. To be clear, we will still open some traditional stores, and we plan to open a number of larger format stores, but many of these larger stores will be replacements of, or additions to, existing, smaller ones.

Finally, before I turn the call over for your questions, I would like to announce that Ted Marlow has informed me that he wishes to retire at the end of August. When Ted began his Urban career in 2001, the brand operated 43 stores in North America and two in Europe. Total brand sales that year were just north of $150 million.

Fifteen years later, under Ted's stewardship, the brand operates 195 stores in North America, 43 in Europe, 7 international concessions and runs multiple, international direct-to-consumer businesses. This year, the Urban brand is on pace to exceed last year's $1.4 billion in sales. That's incredible growth. Ted's loyalty to the brand and the customer is unwavering, and I am forever grateful to him for his service and his friendship.

When Ted returned to the business in the spring of 2012, he told me he only wanted to work for a few additional years. There is no way any of us could have anticipated how tumultuous those three years would be for the brand, but in true Ted Marlow style, he hunkered down, fought through the adversity and came out on top. So Ted, on behalf of the Board, your entire Urban Outfitters team and all URBN employees, I thank you and wish you and Sara the very best in the future.

That concludes my prepared remarks. I extend my thanks to all URBN associates and shareholders around the world and now turn the call over for your questions.