URBAN OUTFITTERS, INC.

Fourth Quarter, FY'13 Conference Call
March 11, 2013

Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Chief Financial Officer
David McCreight, CEO, Anthropologie Group
Margaret Hayne, President, Free People Brand
Ted Marlow, CEO, Urban Outfitters Group
Wendy B. McDevitt, President, Terrain
Glen A. Bodzy, General Counsel
Freeman Zausner, Chief Operating Officer
Barbara Rozsas, Chief Sourcing Officer
Calvin Hollinger, Chief Information and Logistics Officer
Matt Kaness, Chief Strategy Officer
David Ziel, Chief Development Officer
Bill Cody, Chief Talent Officer
Oona McCullough, Director of Investor Relations

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Good afternoon, and welcome to the URBN fourth quarter fiscal 2013 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three month period ending January 31, 2013.

The following discussions may include forward-looking statements. Please note that actual results may differ materially from those statements. Additional information concerning factors that could cause actual results to differ materially from projected results is contained in the Company's filings with the Securities and Exchange Commission.

We will begin today's call with Frank Conforti, our Chief Financial Officer, who will provide financial highlights for the fourth quarter. Richard Hayne, our Chief Executive Officer, will then comment on our broader strategic initiatives. Following that, we will be pleased to address your questions.

As usual, the text of today's conference call, 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.

Thank you Oona, and good afternoon everyone.

We are pleased to announce strong sales growth and significant gross margin and profit improvement for the quarter. We are very proud of these results and the progress we have made this year. We entered the year with a goal to accelerate sales growth while improving margin rates and we achieved exactly that. Each quarter this year our sales growth rate was stronger than the preceding quarter, and we improved our gross profit margin by over 200 basis points for the year.

I will discuss our fiscal 2013 fourth quarter financial results versus the prior comparable quarter and then I will pass the call on to our Chief Executive Officer Dick Hayne for his remarks. Lastly, Dick will hand the call back to me, and I will give you some details on our plans for fiscal year 2014.

Total Company sales for the quarter increased by 17% to a fourth quarter record of $857 million. This increase was driven by a robust direct-to-consumer growth rate of 44%, a $19 million increase in non-comparable store sales, which includes 10 new stores opened during the quarter and double digit wholesale growth.

Total Company comparable retail segment sales, which includes comparable sales from our stores and direct-to-consumer channel, increased by 11%. This includes increases of 37%, 11% and 7%, at Free People, Urban Outfitters, and Anthropologie, respectively. Total Company comparable store sales were flat due to a 2% increase in transactions which was offset by a 2% decrease in the average unit selling price with no change in units per transaction. I believe it is important to note that if it were not for direct-to-consumer returns at the stores which we currently charge against store sales our store sales 'comp' would have been low single digit positive.

Free People Wholesale delivered another strong quarter as sales rose 22% to $39 million. These results came from double digit sales growth at specialty stores and department stores.

Gross profit for the quarter increased by 43% to $314 million. The gross profit rate improved 650 basis points to 36.6%. The increase in gross profit rate was primarily due to a reduction in merchandise markdowns across all Brands. We also improved initial merchandise margins and leveraged store occupancy, these gains were partially offset by deleverage in delivery expense primarily related to the increased penetration of the direct-to-consumer channel.

Total selling, general and administrative expenses for the quarter increased by 17% to $182 million. Total SG&A as percentage of sales, leveraged by 7 basis points to 21.2%. The SG&A leverage was due to improvements in direct store controllable and shared service rates, driven by strong, positive retail segment sales. This leverage would have been more favorable if it were not for an equity compensation expense reversal in the prior year comparable period.

Our effective tax rate for the quarter was 37.8%. This quarterly tax rate was higher than planned due to certain nonrecurring state and foreign tax liability adjustments recorded in the quarter.

Operating income for the quarter increased by 104% to $132 million, with our operating profit margin improving to 15.4%.

Net income was $83 million or $0.56 per diluted share.

Turning to the balance sheet, inventory increased by 13% to $282 million. The growth in inventory is primarily related to the acquisition of inventory to stock new and 'non-comp' stores and to support the significant growth in the direct-to-consumer channel. Comparable retail segment inventory increased by 6%, while comparable store inventory decreased by 3%.

Lastly, we ended the quarter with $623 million in cash and marketable securities.

Now I will pass the call over to our Chief Executive Officer, Dick Hayne.

Thank you Frank, and good afternoon everyone.

First, my congratulations to each of our Brand teams for delivering an excellent fourth quarter. It was a great finale to a very exciting year. Our focus during the year centered on accelerating top line growth and increasing profitability. That focus paid off. Each quarter saw sequential improvement in the rate of sales growth capped by a 17% sales gain and a 104% increase in operating income in Q4.

Our quarterly sales growth acceleration came from opening new stores, maintaining and then improving the productivity of our 'comp' stores, expanding our wholesale division and, most significantly, growing our direct-to-consumer channel.

We began the year with a clear plan to invest in initiatives that would help ignite growth in the direct-to-consumer channel. Specifically, we invested in expanded product offerings, fulfillment capabilities, creative execution, technology advancements and marketing expertise. The return on those investments has been excellent.

During the fourth quarter they helped to drive a DTC sales increase of 44% versus the comparable period last year. Customer visits jumped by 26%, while the conversion rate improved by over 40 basis points. In addition, the new customer acquisition rate rose by 45% in the quarter and the reactivation rate jumped by 53%. Overall, direct-to-consumer sales penetration as a percent to total retail sales spiked to nearly 30% from 24% in last year's fourth quarter. This is our highest quarterly penetration to date.

Within the direct-to-consumer channel the fastest growth came from mobile interfaces. Mobile sessions at all Brands exceeded 25 million in the quarter. This drove a 100% increase in mobile sales transacted over smart phones & tablets.

Our fulfillment capabilities improved, as well. Due to the opening of our West Coast fulfillment center and our pick, pack and ship initiative that allows us to fill an order from any domestic inventory location including each of our stores, we have increased the number of two day ground shipments from 13% of total shipments in the fourth quarter of FY2012 to 43% this past quarter.

Our goal over the next two years is to fill over 80% of our DTC orders within two days using ground carriers.

The pick, pack and ship initiative also helped us to achieve our sales goal. Orders filled from stores that would have otherwise been cancelled due to out of stock positions in the fulfillment centers drove $12 million in incremental sales during the quarter.

In addition to accelerating sales growth, we have also made steady improvement in our gross profit margins and that, in turn, has led to higher operating margins. For the year gross margins climbed by more than 200 basis points almost all of which flowed directly to our operating income.

In the fourth quarter, margin improvement was even more pronounced. Both gross and operating margins improved by more than 650 basis points. Better product execution at each of our three larger Brands resulted in an 18% increase in regular price ‘comp’ sales while better ‘sell-thrus’ and better inventory management resulted in a significant decrease in markdown ‘comp’ sales. While we are pleased with this progress we are not satisfied. We believe there is room to further improve our IMU and decrease our markdown rate. Boosting gross margins by at least 50 basis points is one of our goals.

Turning to the current year, our Brand teams are fully engaged in achieving their number one objective. Each has identified multiple avenues to drive top line growth and do so in ways that are accretive to the bottom line.

This will require investments across all of our channels of distribution with a focus on expanding and enhancing the direct-to-consumer channel. I believe we are still in the very early stages of unlocking the potential that the internet and mobile technologies bring to the consumer industry. The extraordinary rate of change these disruptive forces create brings both significant risk and opportunity. We intend to make the investments necessary to secure our position as an innovative leader in the world of lifestyle Brand building across all channels. Our approach to Brand-building is omni-channel and global. Regardless if the channel is on-line, mobile, bricks and mortar retail or wholesale, our goal is for each Brand to have a common, seamless voice across all of these channels.

In addition to investments in DTC, we will continue to build additional stores in under-penetrated domestic markets and expand internationally using all of our channels of distribution, including wholesale. Finally, and very importantly, within our lifestyle Brands we will continue to expand product choices and categories and enter adjacent businesses. This will be accomplished through a combination of internally developed concepts and external relationships which include licensing agreements, partnerships, joint ventures and acquisitions. The recently signed agreement between Free People and World Co., Ltd., in which World will distribute Free People wholesale product in Japan, is one such relationship.

Of all of the investments we plan to make this year, talent is our highest priority. We expect to expand our headcount in three primary areas.

The first is in merchandising and design. This investment relates to the opportunities we see to better execute products in existing categories and to provide an expanded product offering in each Brand.

The second is in marketing, both soft and hard. Additional investments in image makers, stylists and marketers will allow the Brands to create more compelling Brand experiences like those in the recently launched FP Me by the Free People Brand. On the hard marketing side, augmenting the data analytics teams will enable the Brands to find and communicate with more customers and to send all the customers more personalized messages. Over the next few years we plan to further reduce our printed catalog circulation in favor of more digital and web-based communications.

The third is in technology. Additional development talent will allow the Brands to conceive and launch new web and mobile initiatives more quickly. Examples of initiatives we plan to launch this year are the Anthropologie mobile application, site re-designs for both Urban and Anthropologie and a new Urban loyalty program.

In summary, we are pleased with our performance for the quarter and the year. It reflects the steady progress we set out to deliver when I first spoke to you upon my return as CEO one year ago. But there is much more to be done and so much opportunity for growth. The Brand leaders and their teams have embraced this opportunity with enormous energy, enthusiasm and creativity. And for that I thank them. Strong Brand leadership, highly talented and motivated Brand teams and a shared service group second to none – this is why I am confident that our Brands will continue to resonate with their customers across all channels and that URBN will remain a premiere consumer lifestyle Company.

Now before I pass the call back to Frank for his closing comments, I would like to recognize and thank one of URBN's finest - Freeman Zausner, our Chief Operating Officer. Freeman has announced his plan to retire on June 30^{th} of this year. He has been an invaluable partner to me over many, many years and we, at URBN, will miss his leadership and keen analytic abilities. During his time with the Company, Freeman has held many different positions and excelled at every one. As COO, he has been instrumental in building our world class shared services organization.

Fortunately for URBN, one of Freeman's protégés, Calvin Hollinger, will be assuming many of Freeman's duties and responsibilities. Calvin is one of the top Information Technology and Logistic executives in the retail world, so his promotion to Chief Administrative Officer is both natural and well deserved.

So thank you, Freeman and congratulations to you, Calvin.

Frank, your closing comments please.

Thank you Dick.

As we look forward to fiscal year 2014, it may be helpful for you to consider the following:

We are planning to open approximately 37 new stores in the year. By Brand, we are planning approximately 15 new Urban Outfitters stores globally, including 5 new European stores, 12 new Anthropologie stores globally, including 3 new European stores and 10 new Free People stores in North America.

We are planning for continued year-over-year gross margin growth, with a goal of producing at least 50 basis points of rate improvement for the year. We believe our gross margin growth opportunities will be driven by lower markdown rates and higher IMU resulting from improved product execution and continued focus on inventory management.

As Dick discussed earlier, our primary area of investment for the upcoming year is around talent. Merchandising and design is one of the key areas we plan on increasing our strength in order to achieve the opportunities ahead of us.

We will continue to focus on effectively managing our selling, general and administrative expenses, but we remain committed to investing in our business to drive long term sales and margin growth. These investments relate to increased spend in technology systems and talent to boost web and store based initiatives. Additionally, we plan on increasing marketing and customer analytics headcount as well as marketing spend to further customer acquisition and retention efforts. We believe these investments are necessary to continue driving strong top line growth over a long period of time. Due in part to these investments, we expect total SG&A to increase in the mid-teens for fiscal 2014 with the increases being more significant in the first half of the year.

Capital expenditures for fiscal 2014 are planned at approximately $210 million driven primarily by new stores and the expansion of our home office.

Finally, our fiscal 2014 annual effective tax rate is planned to be approximately 36.5%.

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.

Before I open the call to questions I wanted to remind you that beginning with the first quarter of fiscal 2014 we will no longer report URBN comparable store or direct-to-consumer sales rates separately. We will continue to report comparable retail segment sales, which combines our comparable store and direct-to-consumer channels. This change reflects the changes we see in consumer behavior and our growing ability to present each Brand as an ‘omnichannel’ experience. As we continue to erase the boundaries between these channels in order to please our customers, the change in reporting provides our investors with a better understanding of our business. Therefore, we believe the ‘omni’ sales number is the most clear and accurate picture of our business. As always our overriding objective is to do what is best for the customer.

I will now open the call to questions, please keep in mind we are limiting each call to one question only. Thank you.