

URBAN OUTFITTERS, INC.

Second Quarter, FY'17 Conference Call
August 16, 2016

Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Chief Financial Officer
David McCreight, President, URBN & CEO, Anthropologie Group
Margaret Hayne, CCO, URBN & CEO, Free People Brand
Trish Donnelly, Global CEO, Urban Outfitters Group
Azeez Hayne, General Counsel
Barbara Rozsas, Chief Sourcing Officer
Calvin Hollinger, Chief Operating Officer
David Ziel, Chief Development Officer
Dave Hayne, Chief Digital Officer, URBN & COO, Free People Brand
Sheila Harrington, President, Free People Brand
Oona McCullough, Director of Investor Relations

Good afternoon, and welcome to the URBN second quarter fiscal 2017 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and six-month period ending July 31, 2016.

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. Trish Donnelly, Chief Executive Officer, Urban Outfitters Group will provide a brief update on the Urban brand. Richard Hayne, our Chief Executive Officer, will then comment on our broader strategic initiatives. Following that, we will be pleased to answer your questions.

We have posted a slide deck with key financial information for the quarter and the year to our corporate website. You can find the link within the investor relations section under the presentation tab within the financial news and events section. Additionally, the text of today's conference call will be posted to our corporate website at www.urbn.com.

I'll now turn the call over to Frank.

Frank Conforti

Thank you Oona, and good afternoon everyone.

I will begin my commentary discussing our fiscal 2017 record setting second quarter results versus the prior comparable quarter. Then I will share some of our thoughts concerning our third quarter and the remainder of fiscal year 2017.

Total Company or URBN sales for the second quarter increased by 3% to a second quarter record of \$891 million. This increase included a 1% retail segment 'comp', a 4% increase in Wholesale Segment sales and a \$12 million increase in 'non-comp' sales, including the opening of 8 net new stores in the quarter and sales from the newly acquired Vetri Family restaurants.

Within our retail segment 'comp,' the direct-to-consumer channel continued to outperform stores, posting another double-digit sales gain, driven by an increase in sessions and conversion rate which more than offset a decrease in average order value. Negative 'comp' store sales resulted from decreased transactions and average unit selling price while units per transaction were flat.

By brand, our retail segment 'comp' rate increased by 5% at Urban Outfitters, was flat at Free People and was down 3% at the Anthropologie Group. Our URBN Retail Segment 'comp' was the strongest in July followed by June, with May being the weakest.

Free People wholesale segment sales delivered another solid quarter, as sales rose 4% to \$75 million. These results were driven by increased space at select department store doors to support our category expansion like FP Movement and growth in our European accounts.

Now moving onto Gross Profit, total URBN gross profit for the quarter increased 8% to \$343 million. Gross profit rate, improved by 179 basis points to 38.5%. The improvement in gross profit rate was primarily driven by improvement in the Urban Outfitters and Anthropologie Group brands' maintained margins, with both brands delivering higher initial mark-ups and lower merchandise markdowns versus the previous year. Partially offsetting these improvements was a lower gross profit rate at the Free People brand, primarily driven by lower maintained margins due to higher markdowns to clear slow moving product.

Total 'SG&A' expenses for the quarter were up 5% to \$224 million. Total 'SG&A' as a percentage of sales, deleveraged by 48 basis points to 25.2%. This 'SG&A' deleverage was primarily due to an increase in direct marketing and technology related expenses to support our strong direct-to-consumer growth. Direct store controllable expenses also increased in the quarter in order to support our square footage growth of 4% in the quarter.

Operating income for the quarter increased by 14% to \$118 million, with operating profit margin improving by 131 basis points to 13.3%.

Our tax rate for the quarter was 35.5% compared to 35.2% in the prior year.

Net income in the quarter was \$77 million or \$0.66 cents per diluted share, a new second quarter EPS record.

Turning to the balance sheet, inventory decreased by 4% to \$367 million. The reduction in inventory is due to a 4% reduction in retail segment 'comp' inventory, at cost. The reduction of inventory is not necessarily predictive of future sales growth as we are currently doing a nice job of lowering our weeks of supply and getting faster turns out of our inventory, as shown over previous quarters where our sales 'comp' has outpaced our 'comp' inventory growth. We ended the quarter with \$328 million in cash and marketable securities. During the second quarter, we paid down \$25 million of our outstanding revolver leaving \$50 million currently outstanding.

As we enter the third quarter of fiscal year 2017, it may be helpful for you to consider the following:

We are planning to open a total of approximately 23 net new stores for the year, excluding our food & beverage division. For the third quarter, we are planning 6 new Anthropologie stores including 1 new Anthropologie Store in Europe, 2 new Urban Outfitters stores and 3 new Free People stores. For the year, we are planning on opening, 3 net new Urban Outfitters Stores, including 1 in Europe, 7 net new Anthropologie Stores, including 2 in Europe and 13 net new Free People Stores. For the full year fiscal 2017, we are also planning on opening 2 new Vetri Pizzerias and one café adjacent to an Anthropologie large format store.

Now onto gross margin, we believe our third quarter gross margin rate could improve versus the prior year, with that improvement in rate being slightly lower than the 142 basis points we achieved in the first half of the year. Our third quarter gross margin improvement could be largely driven by higher maintained margins at the Anthropologie Group and Urban Outfitters brands which could be partially offset by a decline in gross profit rate at the Free People brand.

Based on our current plan, we believe 'SG&A' could grow at a low, double-digit rate for the third quarter. Please note, that we recorded lower incentive based and share based compensation in the third quarter of the prior year which is contributing to the increase in our SG&A growth rate for the third quarter of this year.

For the year, we believe SG&A could grow at a high single-digit rate. We believe the growth will be driven by increased investments in marketing and technology expenses, hopefully helping to continue driving our double-digit, direct-to-consumer channel sales gains. Store related expenses are also expected to increase in order to support our square footage growth, which is planned at approximately 5% for fiscal 2017.

Capital expenditures for fiscal 2017 are planned at approximately \$170 million. Total spend for fiscal 2017 is primarily driven by new, relocated and expanded stores and the completion of our new east coast fulfillment center.

Finally, we are still planning our fiscal year 2017 annual effective tax rate to be approximately 37% for the year and believe our fourth quarter tax rate will be lower than the annual planned tax rate.

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, Global CEO of the Urban Outfitters brand.

Trish Donnelly

Thank you Frank, and good afternoon.

The Urban Outfitters global brand had a very exciting second quarter. We delivered record sales volume and drove a 5% retail segment ‘comp’, on top of the 4% ‘comp’ increase from the previous year. Both the North American and European businesses contributed to this success, with Europe delivering a solid ‘comp’ despite the political backdrop in the UK. Strong sales, partnered with improvements in merchandise margins, and the teams’ focus on expense management, allowed us to deliver significant improvements in overall operating margins.

During the quarter, the Urban Outfitters brand was able to achieve near-record merchandise margins through tight inventory management and IMU focus – not to mention compelling, trend-right product, creative and easy-to-shop visual presentations in stores, and exceptional imagery with an easy-to-navigate user experience in our direct-to-consumer channel. The brand’s strong partnership with our internal production team, led by Chief Sourcing Officer Barbara Rozsas, resulted in higher initial margins compared to prior years. Our attention to driving and developing a meaningful regular price business helped improve the global margin significantly.

Now let me discuss in further detail the various initiatives contributing to the strong top line growth. The record volume in the quarter was driven by increases in regular price businesses across categories, geographies, and channels. One of our biggest shifts in strategy, across all merchandise categories, has been our focus on exclusive product and offering our customer product he or she can't get anywhere but Urban Outfitters. In addition to our own-brand product, which is 100% proprietary and a majority of the total assortment, we worked with key brand partners such as Adidas, Wrangler and Fila on special make-ups, exclusive styles, and UO collaborations. The ability to work creatively and collaboratively with brands we admire, who ‘get’ Urban Outfitters and ‘get’ our customer has been really rewarding, and the response by our customers has been tremendous.

We saw impressive growth in our all-important Women’s Apparel and Accessories businesses across a variety of categories. At the end of the quarter, over 90% of our Women's Apparel assortment was available ONLY at Urban Outfitters. Today, more than ever, product differentiation is critical – not just as a traffic driver to both direct-to-consumer and stores but, more importantly, it's an obligation we have to our core customer. Our customer looks to us for

unique product and first-to-trend and exclusive product offerings ensure her she won't be wearing something offered anywhere else.

Globally, the brand also saw impressive growth in what we've previously referred to as 'emerging' categories, specifically Intimates, Home and Beauty. Within Intimates, we've had great response to our bras and our undies programs, as well as our exclusive bodies and colors in Calvin Klein. We are also seeing really nice traction in our Lounge and Dorm offerings, and we will continue to build upon the successes we've seen.

In addition to Intimates, we are seeing sizable growth and upside in our Home division. This is an important category in the lives of our 18 to 28-year-old core customer, whether they are moving into their dorm room or their first apartment. The 'Small Space' and 'On Campus' Home marketing campaigns and social posts were some of our most engaged in the quarter, averaging six figure customer 'likes' on Instagram. Also during the quarter, we launched a Home Showroom in Space15 Twenty in LA, one of our large format stores. The showroom shopping experience is truly 'omni-channel', and we'll continue to refine and support this initiative. With the majority of our direct-to-consumer traffic coming through mobile devices, the direct and retail experiences need to be seamless, and URBN is committed to supporting this with the necessary team and resources.

Our third 'emerging' category, Beauty, continues to see compounded 'comp' growth and increase in penetration to the total business. Here, too, we recognize the importance of exclusivity and first-to-market, and the beauty team has done a tremendous job curating a brand-right assortment with partners and brands around the world. The unique and different, even in Beauty, resonates with our customers, and we'll continue to build out this special offering.

This brings us to a new 'emerging' category, Music, which has always been part of Urban Outfitters' DNA and product mix. Today, we continue to offer vinyl, turntables, cassettes, and cassette players, as well as wireless speakers and headphones with collaborators like Bang and Olufsen. In addition to the product side of the Music category, we are also committed to delivering the experience. Digitally, we've been building out our music video series, UO Live. With tens of thousands of subscribers and views, it gives us another platform on which to connect with our customer, while supporting our favorite artists and bands. Our Urban Outfitters Music Instagram is growing quickly, with mixtape previews and vinyl giveaways – our most engaged customer interactions.

And finally, our Men's business. Although still not where we want it to be, the progress around the regular price business, particularly in the direct-to-consumer channel, is seeing great traction. We see a path to positive growth for the back half of the year, with strong and relevant product assortments – including own brand, branded, collaborations, and exclusives; relevant and creative marketing strategies; and easier-to-shop in store visual merchandising set-ups. We have said from the beginning that the men's 'comp' will follow women's, which is how it's actualizing. The leadership in men's design, merchandising, planning, store visual and brand marketing has been laser-focused on our customer, on the assortment, and on compelling pricing. We are excited about where the business is headed.

In addition to our product and experience initiatives, we are in the process of globalizing our teams. This change allows us to communicate a seamless global message and a consistent retail and direct-to-consumer experience, while leveraging talent and creative assets across the globe. We are committed to pursuing long-term international growth, and this past quarter, we opened a new Urban Outfitters store in Utrecht, Netherlands bringing our total store count in Europe and the UK to 44. In addition, we opened an Urban Outfitters concession within the Selfridges flagship on Oxford Street late in the quarter, and we're looking forward to seeing success here.

On a global basis, I'm proud to say our brand saw improvements across all channels in all customer groups this quarter, with new, retained, and reactivated customer counts increasing year-over-year. Another area, where we've seen tremendous customer growth and audience engagement is in social media. Our Instagram followers exceeded the 5 million mark during the quarter, increasing 65% over the prior year, and we are now capturing over 200,000 new followers a month. In addition to our national Instagram accounts, our stores manage their local accounts which accrued almost 700,000 followers and over 19 million 'likes' in the quarter. Snapchat is important in our consumers' lives, and we are also seeing fast growth here with viewership increasing 25% month-over-month. Urban Outfitters was called out in L2's July Digital IQ index for Specialty Retail as "the most prolific brand on the Snapchat platform...posting 6x the Index average...with 83% featuring video content." This channel has given us yet another relevant way to connect with our customers and engage in two-way conversations. A great example of this occurred during LGBTQ Pride Month in June, where our Snapchat stories garnered close to 130,000 views.

In the 24 months I've been with Urban Outfitters, I'm proud to say we've made progress, and although there is still a lot to accomplish, there have been a number of positives. The results this past quarter could not have occurred without the exceptional leadership of the Urban Outfitters executive team, and I would like to thank each team member for their hard work, dedication and passion for the brand. Their focus on our customer and the collaborative culture they've created for their teams and colleagues have allowed the quarter's successes to materialize. And finally, a very special thank you to Meg, whose partnership is invaluable. Her love of Urban Outfitters and for our customer inspires the teams daily and her contributions to this quarter's success were critical. Thank you.

I will now pass to call to Dick.

Dick Hayne

Thanks Trish, and good afternoon everyone.

URBN produced record sales and earnings per share in the second quarter with comparable demand accelerating sequentially. May is typically our biggest month of the quarter, but as we suggested on our May conference call, unseasonably cold weather in the eastern half of North America, depressed and delayed apparel purchases. As a result, total retail segment, comparable sales in May were negative. Fortunately, the weather shifted in June and sales rebounded strongly. July sales jumped even higher generating the best 'comps' of the quarter. Given the weak start to Q2 we're very pleased our final sales numbers show a positive retail segment 'comp', and we're delighted to report record second quarter earnings per share. The monthly sales curve was similar across all brands, but overall results varied, so let me say a few words about each brand's performance.

First, the Urban brand. As Trish just reported, Urban produced a terrific quarter. All major product categories posted positive 'comp' sales except Men's, and a number of categories delivered double-digit 'comps'. Urban's European business also experienced strong 'comp' gains with seemingly little impact on the business from the Brexit vote.

Not only did the total Urban brand produce its best 'comps' in 12 quarters, it also continued to deliver strong 'regular price' sales, managed its leanest quarterly mark-down rate as far back as brand records go, improved initial margins, administered tight inventory and expense controls, and created a flurry of outstanding marketing events and campaigns. All of these factors combined to create record second quarter sales and one of the most profitable second quarters in the brand's history.

Brand momentum at the end of Q2 was powerful. Therefore, the team believes they will continue to please and excite customers with new fashion and new marketing campaigns in the second half.

My congratulations go to Trish, Meg and the entire Urban Outfitters team on both sides of the Atlantic for planning and delivering an exceptional quarter. I'm so proud of what the team has accomplished over the past two years. Urban has now regained its position as the fashion leader for young adults, and I couldn't be more excited for the brand's future.

Turning your attention to Free People, in Q2 the brand posted flat retail segment 'comps' and a mid-single digit increase in wholesale sales. The brand opened 5 new stores during the quarter and achieved total retail segment revenue growth of 8%. Almost all product categories in the retail segment delivered positive 'comp' sales in the quarter with most of the gains driven by higher promotional activity.

As we discussed on last quarter's call, Free People entered the second quarter with excess retail segment inventory. The brand aggressively cleared this stock during the quarter by taking additional markdowns, which lifted sales but depressed margins. I'm pleased to report that comparable retail segment inventory at quarter's end fell by 8% on a year-over-year basis.

Inventory is now more current, and weeks of supply more in-line with sales. As such, we believe the brand is positioned to deliver lower markdown rates in the second half than those experienced in Q2. Although the brand team has made significant progress in terms of inventory management, their goal is to further reduce the average weeks of supply.

Looking forward, the brand is encouraged by some excellent early fall selling of its newest fashion offerings, especially in its direct channel. Regular price sales in that channel are running nicely positive but haven't been strong enough to overcome lower mark-down sales and negative store sales, so total retail segment sales are negative. The brand will continue to make adjustments to their assortments based on these early reads, but the team believes that retail segment results, which are up against multi-year positive comparisons, could remain difficult in the back half.

Meanwhile, the Free People wholesale team continued to produce excellent quarterly results in spite of a difficult environment. The headwinds to growth in this channel have been well documented. Still, the team delivered a 4% increase in year-over-year sales in the quarter and 9% growth for the first half. This growth was driven by continued success in expanded categories such as FP Movement and significant growth in the European business where quarterly sales almost doubled versus the same period last year. The team believes there is significant wholesale growth opportunity remaining in Europe.

Looking ahead, timing issues with wholesale shipments in the third and fourth quarters last year create easier comparisons for Q3 while Q4 is more difficult. In spite of this, fall and holiday bookings are strong and the team believes they can return to double-digit growth for the back half of the year.

I thank Meg, Sheila, Dave and Krissy and the entire Free People team. Although not their finest financial results, the quarter marked a return to fundamental disciplines that will benefit the brand going forward. Given the enormous creativity housed within the brand, I'm confident that Free People will continue to delight its customers with fresh fashion and inspiring environments.

I'll take this opportunity also to recognize and congratulate Sheila Harrington on her recent promotion to the role of brand President, reporting to Meg. Sheila has been instrumental in growing the brand over her 13-year tenure at Free People, including extremely successful launches of all of the Free People product extensions – from intimates to Movement. Sheila, thank you for your many contributions and congratulations to you.

Next, I'll speak to the Anthropologie brand. Although the brand reported a negative 2.5% 'comp' for the quarter, there were numerous bright spots to report. Anthropologie Europe delivered positive 'comp' sales. Again, we saw no change in customer demand from the Brexit vote.

Almost all Anthropologie product categories performed well in the quarter with six of seven generating double-digit positive 'comps'. Only women's apparel was negative. Due to exceptional inventory management, the brand was able to limit markdowns in the apparel category and decrease the total markdown rate on a year-over-year basis by more than 100 basis

points. This decrease in markdowns, in combination with very strong IMU improvement, drove significant year-over-year increases in merchandise margins on both a rate and dollar basis. The result: in spite of the negative overall 'comps', Anthropologie generated more operating profits in Q2 this year than in the same period last year.

Obviously, the team's focus is on turning the women's apparel business around, and I believe the brand is making slow but steady progress. Reaction to Anthropologie's apparel assortment on a 'comp' basis improved sequentially in the quarter. Areas of strength included dresses, which registered strong double-digit 'comp' gains and woven tops which improved as the season progressed. The brand believes the apparel assortment will continue to evolve throughout the fall and holiday seasons and feels positive about their assortments in a growing number of apparel classifications. Certainly, re-energizing this category is the brand's number one immediate goal.

Strong performance of the expanded categories, such as home, beauty, BHLDN and Terrain, continues to be a brand highlight. All expanded categories are ahead of plan and are fueling the increases in the direct-to-consumer business and the stellar performance of the two new, larger format stores. Home is the most developed of these categories and continues to surprise on the upside. We're excited to see customer reaction to the September Home journal which will drop in mid-September and have 42% more pages than last year's book.

The brands' beauty assortment is also connecting with the customer and shows significant sales growth in both stores and online. By the holiday season, more than 130 Anthropologie stores will have a beauty shop-in-shop, up from 70 the prior year. The two younger brands, BHLDN and Terrain, which became part of the Anthropologie group over the last few years, have benefitted greatly from the ability to cross merchandise and leverage the Anthropologie group's resources. Both have experienced significant revenue growth and positive 'comp' sales. BHLDN has the potential to top \$50 million in revenue this year and is quickly becoming our customers' go-to destination for her special occasion.

The long-term strategic importance of positive customer reaction to these product expansions and extensions, both in-store and on-line, can't be overstated. Nowhere is that reaction more clear than sales generated at the two newly expanded, stores in Portland and Newport Beach. Last quarter we reported on the phenomenal openings each of these larger-format stores had. Now, three months later, both stores continue to exceed their sales plan and, importantly, for the quarter, both stores averaged higher sales per square foot than the average Anthropologie store. I think that's extraordinary! While one quarter's results do not confirm a trend, should this metric continue, the long-term implications for the brand would be profound. Furthermore, the team believes there are many ways to enhance the assortment and experience of these stores and build sales even further. During the third quarter, Anthropologie plans to open two additional expanded stores: Walnut Creek and King of Prussia. The Palo Alto relocation and expansion is planned to open in the fourth quarter.

My thanks go to David, Meg and the Anthropologie team for delivering an exceptionally profitable quarter and congratulate David and the team for successfully developing the Anthropologie expanded categories and larger-format stores.

Before closing, I will briefly comment on trends in the market and summarize our accomplishments this quarter. Over the past several years, the complaint of lack of fashion has become common in the marketplace. I spoke to this subject on our conference call in March of this year. I actually said I am not predicting exactly when a change in fashion will occur, but that I saw more fashion excitement in spring than I had seen in quite a few years. I repeat those comments again as we move into fall, except I believe the change is now upon us, and our customers are adapting to new looks and silhouettes as we speak. As in all such cycles, some customers and brands adopt newness faster than others but the fact is, there's currently an abundance of exciting fashion happening and this is very good for our brands, for URBN, and for our industry as a whole.

Now, to summarize URBN's accomplishments in the second quarter. During the quarter we:

- Generated record sales with a 1% increase in retail segment 'comp' sales and a 4% gain in Wholesale sales,
- Achieved these record sales with 4% retail segment 'comp' inventory decrease,
- Drove strong direct-to-consumer sales, in part, by increasing our marketing spend,
- Grew year-over-year initial merchandise margins by almost 100 basis points,
- Managed the markdowns to the lowest rate for any quarter in Company history,
- Delivered the highest maintained merchandise margins in recent history, and
- Earned \$77M in the quarter or a record 66¢ per share.

Finally, in closing, I thank our brand and shared service leaders, and our 24,000 associates worldwide for their inspiring dedication, drive and creativity. I also recognize and thank our many partners around the world, and finally, I thank our shareholders for their continued support. That concludes my prepared remarks. I now turn the call over for your questions.