

URBAN OUTFITTERS, INC.

Third Quarter, FY'09 Conference Call
November 18, 2008

Participants

Dick Hayne	Chairman and President
Glen Senk	Chief Executive Officer
John Kyees	Chief Financial Officer
Ted Marlow	President, Urban Outfitters Brand
Meg Hayne	President, Free People Brand
Glen Bodzy	General Counsel
Wendy Brown	Chief Operating Officer, Anthropologie
Bill Cody	Chief Talent Officer
Calvin Hollinger	Chief Information Officer
Bob Ross	Executive Director of Finance
Wendy Wurtzburger	Chief Merchandise Officer, Anthropologie
Freeman Zausner	Chief Administrative Officer
Dave Ziel	Chief Development Officer

Introduction

Good morning. It's my pleasure to welcome you to the URBN quarterly conference call. Joining me today is Dick Hayne, our Chairman; John Kyees, our Chief Financial Officer; and our senior team including our brand and shared service leads.

Earlier this morning the Company issued a press release outlining the financial and operating results for the three and nine month periods ending October 31, 2008. I will begin today's call by reading prepared commentary regarding our performance; then the group and I will be pleased to answer any questions you may have.

As usual, the text of today's conference call can be found on our corporate website at www.urbanoutfittersinc.com.

Highlights

Put simply, the organization produced extraordinary results during the third quarter. Versus the comparable quarter last year:

- Total Company sales increased 26% to \$478 million—our largest quarter in history.
- Total Company comparable store sales grew by 10%: Anthropologie, Free People and Urban Outfitters achieved ‘comp’ increases of 2%, 4% and 17%, respectively.
- Direct-to-consumer sales jumped an impressive 41% despite a strategic decrease of 9% in catalog circulation.
- Free People’s wholesale revenue increased by 21%, the 20th consecutive quarter of double-digit sales growth.
- The Company delivered improvements in every key component of gross profit margin—initial mark up, mark down rate and occupancy rate—resulting in a 135 basis point gross margin gain to 40.9%.
- The organization managed the business with exceptional discipline, resulting in SG & A leverage of 139 basis points and a ‘comp’ inventory increase of just 2% at quarter’s end.
- Income from operations grew by 47% to a record \$90 million, or an operating margin of 18.9%.
- Finally, earnings increased by 31% to a record \$59 million, resulting in earnings per diluted share of \$0.35.

I’ll now go into more detail on each of our key business metrics for the quarter, starting with sales:

Sales

Retail Sales for the Quarter

New and non-comparable store sales for the quarter contributed \$43 million, accounting for 44% of the total revenue growth. The Company opened 17 new stores—3 Anthropologie stores, 6 Free People stores and 8 Urban Outfitters stores—bringing the total new stores opened for the first nine months of the year to 41.

The Company produced positive comps’ every month in the quarter. On a month-to-month basis, August was the strongest month, followed by October, then September. All regions experienced healthy gains, with the Northeast Region leading the way across the brands. All location types were also ‘comp’ positive for the Company, with metropolitan stores leading, followed closely by mall locations.

Our 'comp' performance was driven largely by an 8% increase in the number of transactions, with gains of 5% and 9% at Anthropologie and Urban Outfitters respectively and a decrease of 1% at Free People. The Company's average unit selling price increased 6% in total—down 3% at Anthropologie, and up 2% and 14% at Free People and Urban Outfitters respectively. Units per transaction decreased by 4% in total—flat at Anthropologie, up 3% at Free People and down 6% at Urban Outfitters. At Anthropologie, the change in average unit selling price was primarily driven by an increase in accessories penetration; at Urban Outfitters, the metrics were driven by a higher average ticket in the women's apparel division and an overall lower penetration of markdown sales.

Throughout the quarter, the accessory category set the pace with a very significant 'comp' performance and all other merchandise categories were positive or flat. Similar to last quarter, there were numerous meaningful trends in the women's apparel business, and I believe we have positioned our inventory appropriately for the remainder of the year.

Now let me turn your attention to our Direct-to-consumer business. Direct sales for the quarter increased 41% to approximately \$66 million, despite a circulation decrease of 9%. The penetration of Direct-to-consumer sales to total Company sales increased by 150 basis points to 13.8% from 12.3% during the comparable quarter last year; these results were driven by website visits which were up 43% to 17 million, a gain of more than 5 million visits over the prior year's quarter.

The strength in our Direct-to-consumer business ran across all brands, but especially at Free People, where, with just 11 'comp' stores, the Direct-to-consumer business revenue exceeded the 'comp' store revenue.

These outstanding results illustrate the success we've had with a myriad of ecommerce initiatives including our new web platform, redesigned websites at all three brands, international shipping, product reviews, video, blogs and a variety of innovative functionality and marketing techniques.

Wholesale Sales

Finally, the Company's quarterly wholesale sales increased by 26% versus the same period last year to approximately \$34 million.

Free People's wholesale sales increased by 21%, our 20th consecutive quarter of double-digit sales growth. The increase was driven by a 10% increase in units and a 10% increase in average unit price, with all channels of distribution growing relatively equally. More importantly, our retail partners were generally pleased with their Free People performance in the 3rd quarter; I believe we continue to rank in the top productivity tier at most, if not all, of our accounts. Bookings for spring deliveries are slightly ahead of last year, and we remain optimistic regarding the potential of our new sub-brands, We the Free and Intimately Free People.

Leifsdottir, Anthropologie's new wholesale line, generated wholesale revenue of \$1.4 million in the quarter. The reaction at our retail partners has far exceeded expectations, so we continue to be encouraged by the brand's growth prospects.

Gross Margin, SGA and Income

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

Gross Margin

Total Company gross margin advanced 135 basis points for the quarter to 40.9%. Congratulations are due to the Urban Outfitters brand for leading the advance with the most significant improvement.

Total Company comparable inventory was up 2% at quarter's end, and we believe our inventories are clean and appropriately positioned for the final quarter of the fiscal year.

S. G. & A.

The Company reduced its operating expense by 139 basis points to 22%, principally due to the control and leverage of direct store expenses and other fixed corporate expenses which more than offset results-based bonus compensation and investments in our new start-up businesses, Terrain and Leifsdottir.

Income

Income from operations increased 47% versus the same quarter last year to \$90 million, generating an 18.9% operating margin. Net income advanced by 31% to \$59 million, with earnings per diluted share growing to \$0.35 versus \$0.27 for the same quarter last year. The Company's third quarter tax rate was 35.4% versus 28.5% in the comparable period last year, but it's important to remember that last year's unusually low annual effective tax rate was primarily impacted by the receipt of one-time federal tax incentives for work performed on the development of our new home offices.

During the quarter, the Company wrote off a single issue of approximately \$2.9 million of auction rate preferred shares associated with the failure of Freddie Mac. Our portfolio strategy has always been to preserve capital, and this has been the only permanently impaired security in our portfolio.

Closing Comments

I am extremely proud of the Company's third quarter results. The Anthropologie and Free People teams successfully lapped difficult comparisons, and Ted and the Urban Outfitters team continued to make exceptional progress in the brand's turnaround. All three brands delivered a compelling customer experience in the quarter, including a highly differentiated and well positioned product assortment.

I've intentionally gone this far in my prepared remarks without commenting on the economy. Those of you who have covered us or invested with us over the years have seen us focus primarily on what we can control, and that's how we will continue to manage our business.

Here's what we know about the current environment: the economy is contracting, unemployment is at a 14 year high, the consumer is fearful, and many retailers are struggling. I've visited a variety of malls and centers over the last week. Many retailers are highly promotional—in fact, I don't think I've ever seen quite so many "percent off" placards or "friends and family" events before, and we expect it's going to become even more promotional before the end of the holiday, which may certainly impact our business.

Not surprisingly, the national press is hyping the story which breeds even more fear. Just yesterday, for example, the New York Times featured a front page story whose headline read "Buying Binge Slams to Halt: Crisis of Confidence for U.S. Consumers."

The URBN family will continue to compete the way we always do—by remaining wholly customer-focused and working hard to "wow" the customer on a daily basis; by continuing to take managed-risks so that we excite the customer with newness and innovation; and by making our stores, catalogs and websites unexpected and fun so that they create a powerful emotional connection and provide a respite from the moroseness in the world. Let's remember—women shop to feel good, to feel beautiful, to feel comfortable and to feel connected.

Rest assured—we are paying close attention to the daily tells in our business. While we plan on maintaining all customer-facing expenditures, we will rigorously manage the inventory and variable expenses to our business trend. The sales trend thus far in November has slowed from our brisk October pace, and while we cannot forecast the fourth quarter, we certainly expect the months ahead to be challenging and we are prepared to respond.

With regard to longer-term expenditures, our strategy is to continue to appropriately invest in our growth initiatives which include driving 'comp' store productivity, opening new stores, developing new concepts—including Terrain—and continuing with the related shared service programs that support these initiatives. We have always managed cash conservatively, but given the existing environment, we intend to employ even more demanding analysis and requirements.

The current turmoil, economic outlook and consumer unrest is uncomfortable—but challenging times present abundant opportunities. We are convinced that as we navigate through this period, we will emerge stronger, more disciplined and with greater market share in each of our brands. We know that the only thing that's eternal is change, and that those who thrive—who continue to grow and prosper—are those who are most adaptive.

Our team—and our business partners—are motivated, positive and determined. Our goal is to run an outstanding business in good times and bad, and our 12,000-plus employees share this vision and commitment.

The Company's overarching goal has been constant and simple: to grow revenue by at least 20%, to grow profit at a faster rate than sales, and to reach a minimum of 20% operating margin. We have achieved our growth goals consistently over time and we remain confident in our prospects going forward. As always, the leadership team and I look forward to continuing to inspire our customers and reward our shareholders and employees alike.

Q & A

I will now open the call to questions, and as is our custom, I ask each of you to limit yourselves to one question. I apologize in advance; if you ask more than one question, we will respectfully respond only to your first query.