URBAN OUTFITTERS, INC.

First Quarter, FY'18 Conference Call
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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
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Azeez Hayne, General Counsel
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David Ziel, Chief Development Officer
Dave Hayne, Chief Digital Officer
Sheila Harrington, President, Free People Brand
Oona McCullough, Director of Investor Relations

Good afternoon, and welcome to the URBN first quarter fiscal 2018 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, 2017.

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, President of URBN and CEO of the Anthropologie Group will provide an update on the Anthropologie Group and 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 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 start my prepared commentary discussing our recently completed fiscal year 2018 first quarter results versus the prior comparable quarter. Then I will share some of our thoughts concerning the remainder of fiscal year 2018.

Total Company or URBN sales for the first quarter of fiscal 2018 were flat versus the prior year. This sales performance resulted from a strong 14% increase in Free People wholesale sales, and an $11 million increase in 'non-comp' sales, including the opening of 3 net new stores in the quarter. These sales gains were offset by a -3% URBN retail segment 'comp'. Additionally, please note that our sales growth during the quarter was negatively impacted by approximately 100 basis points of foreign currency translation.

Free People wholesale segment sales increase of 14% for the quarter was driven primarily by domestic growth at departments stores and specialty stores. These increases resulted from growth in several categories including women's apparel, intimates and movement. We believe Free People wholesale has the opportunity to continue to grow domestically through their category expansion and internationally within all categories. We are still planning for double-digit Free People wholesale growth for fiscal 2018.

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

By brand, our retail segment 'comp' rate increased by 2% at Free People, while Urban Outfitters declined 3% and Anthropologie declined 4%. Our URBN retail segment 'comp' was the strongest in April, which benefitted from the Easter holiday calendar shift, while March, which was negatively impacted by the Easter holiday shift and February posted negative 'comps'.

During the quarter, we opened seven new locations, including: four Free People stores, one Urban Outfitters store, one Anthropologie & Co. Group store and one Food & Beverage Restaurant. During the quarter, we also closed four locations, including: one Free People, Urban Outfitters and Anthropologie store and one Food & Beverage location.

Now moving on to URBN gross profit for the quarter. Gross profit decreased 8% to $240 million versus the prior comparable quarter. Gross profit rate, declined by 284 basis points to 31.5%. The decline in gross profit rate was driven by: first, higher markdowns due to under-performing women's apparel and accessories product at Anthropologie and Urban Outfitters, second, deleverage in delivery and logistics expense primarily due to the penetration of the direct-to-consumer channel, and lastly, deleverage in store occupancy related to negative store 'comps'.

Total 'SG&A' expenses for the quarter were up 3.5% to $219 million versus the prior comparable quarter. Total 'SG&A' as a percentage of sales, deleveraged by 102 basis points to 28.7%. The growth and deleverage in 'SG&A' primarily related to approximately $6 million of nonrecurring expenses incurred in the quarter. These expenses related to severance and fees associated with our store organization project. Without these expenses our 'SG&A' growth rate would have been less than 1%, and our deleverage would have been approximately 25 basis points.

We estimate the annualized savings related to our store organization project will be approximately $25 million. We believe we will incur approximately $2 million of additional costs related to this project in the second quarter, but on a net basis, will begin to see savings related to the project in the second quarter and going forward. We still believe our store experience, including creating unique, compelling spaces with great customer service, remains an important part of our brands and their relationship with their customers. We believe this project will enable us to maintain these critically important points of differentiation, while reducing our expense structure, which is necessary due to the decline in traffic to stores.

Operating income for the quarter decreased by 58% to $21 million, with operating profit margin deleveraging by 386 basis points to 2.8%. The nonrecurring costs associated with the store organization project, noted above, negatively impacted operating profit margin by approximately 80 basis points.

Our effective tax rate for the quarter came in at 44.1% versus 39.6% last year. Similar to last year, this increase is primarily due to the ratio of certain foreign losses to global taxable profits in the first quarter. Additionally, contributing to the increased rate is the new accounting standard related to stock compensation accounting. This new guidance requires all tax effects related to share-based payments to be recorded through the income statement as discrete adjustments versus additional paid-in capital on the balance sheet under the previous rules. This change has no effect on cash taxes paid.

Net income for the quarter was $11.9 million or $0.10 cents per diluted share. The nonrecurring costs associated with the store organization project noted above negatively impacted earnings per diluted share by approximately $0.03 cents per diluted share. Additionally, the higher tax rate in the first quarter negatively impacted earnings per diluted share by an additional $0.02 cents when compared to 36.5% which is what we believe our annual effective tax rate for fiscal 2018 could be.

Turning to the balance sheet, inventory was $359 million, which was flat versus the prior year. Retail segment 'comp' inventory decreased by 3.3% at cost. The decrease in retail segment 'comp' inventory was offset by inventory to stock our 'non-comp' stores. We believe overall inventory is well controlled as it is in-line with our retail segment sales 'comp'. By brand, we believe the Anthropologie brand is slightly higher than where it should be, while both Urban Outfitters and Free People are well controlled.

We ended the quarter with $409 million in cash and marketable securities and have zero drawn down on our asset backed line of credit facility. Capital expenditures came in at $24 million for the quarter, and we are planning for approximately $90 million in total capital expenditures for fiscal year 2018. The capital spend for fiscal 2018 is primarily driven by new, relocated and expanded stores followed by investments in direct-to-consumer related technology.

As we enter the second quarter of fiscal year 2018, it may be helpful for you to consider the following: We are planning on opening 19 new stores during the year while closing 8 stores due to lease expirations. Urban Outfitters is planning on opening 1 new store in North America while closing 2 stores and is planning on opening 3 new stores in Europe. Anthropologie is planning on opening 4 new stores, including 1 expanded format store and closing 2 stores, all in North America. Free People is planning on opening 10 new stores and closing 3 stores, also all in North America. The Food & Beverage division has opened one restaurant adjacent to an expanded format Anthropologie and closed one restaurant adjacent to an Urban Outfitters.

Now moving on to gross profit. We believe URBN's gross margin rate for the second quarter could decline at a rate greater than the year-on-year decline in first quarter of fiscal 18. This decline could be due to increased markdowns and lower initial mark-ups on women's apparel product at Anthropologie and Urban Outfitters, deleverage in delivery and logistics expenses related to the increased penetration of the direct-to-consumer channel and deleverage in store occupancy related to negative store ‘comps’.

Based on our current plan, we believe ‘SG&A’ could grow at approximately 2% for the second quarter and 1% for the fiscal year 2018.

Our planned annual ‘SG&A’ growth rate primarily relates to marketing and direct-to-consumer technology investments to continue to support our strong direct-to-consumer channel sales growth.

Finally, as stated earlier, our fiscal year 2018 annual effective tax rate is planned to be approximately 36.5%.

Similar to fiscal year 2017, and as seen in the first quarter of fiscal 2018, we believe our fiscal year 2018 quarterly effective tax rate will be higher in the first half of the year and lower in the second half of the year due to the ratio of certain foreign profits and losses to global tax profits in those periods.

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 David McCreight, President of URBN and CEO of the Anthropologie Group.

David McCreight

Thank you, and good evening everyone.

As Frank mentioned, in Q1 we experienced a -4% comparable sales decline versus last year and commensurate margin pressure. Transactions for the quarter were flat, but average order declined as a result of continued challenges in women’s apparel which is overshadowing excellent strides made in other areas of the Group.

Staying finely tuned to our customer has always been an important aspect of our brand. It’s this intimate awareness that has helped us shape a brand experience and offer that has resonated with many, extending through multiple stages of Her life.

So where did Anthropologie apparel miss the fashion mark, and why is it taking so long to correct? Unfortunately, the assortment over the past several quarters did not properly reflect the established archetypes, the style references became less identifiably ‘Anthropologie’ outside of our unique, aesthetic lanes. Additionally, the assortment architecture followed the momentum of Her increasingly casual lifestyle but, as the casual assortment built nicely, the merchants overcorrected and missed some of the other dressier occasions in Her life – appropriate styles for social gatherings and work. So, we will continue to adapt to Her more casual attitude, but will maintain a better balance across the spectrum of Her apparel occasion needs.

Am I confident it will be corrected? In a word, yes. We have heard from thousands of customers who have shared their perspectives, encouraging us to take the necessary steps to course correct.

The apparel archetypes initially outlined are attractive to our customer; we have a team gaining brand experience and hope to see progress this fall.

While apparel has faced self-inflicted challenges here in North America, the UK team has seen notable successes over recent months with double-digit positive ‘comps’ sales in apparel. The UK assortment reflects a broader range of lifestyle occasions, from casual to dressy and continued the unique appeal through qualities and the special pieces that make Anthro beloved.

Now turning to our category expansion strategies. I am proud to report that home continues to realize double-digit sales growth over 9 sequential quarters, with nearly half of all sales coming through Digital and the expectation to reach 75% in the coming years. We remain very optimistic about the future growth of our home business. Recent research indicates that many of our customers are not aware of the impressive breadth of the new home assortment. A small minority of our markets have the ability to see the décor in person; our website is being modified this summer to improve the home digital shopping experience; our supply chain efforts are improving costing and reducing the size of future inventory investments; and we have yet to introduce our broader home offer to the untapped interior designer trade. In fact, Anthropologie home is exploring wholesale opportunities as several national and international department stores have approached us to carry our line. The pending category expansions, lack of assortment awareness by millions of our existing customers, and untapped new market potential all suggest that the ultimate revenue target for the home strategy looks more than achievable. I would like to thank Andrew and his home team for their continued progress toward our goal of becoming a leading home destination.

Beauty has also continued to deliver impressive growth. Our vision of bringing an artfully curated assortment wrapped in the halo of the distinctive Anthropologie experience has garnered the attention of small artisanal brands as well as industry titans. Future beauty initiatives include continued expansions in color and skin, securing additional special brands, building our online beauty community, and gaining exposure for our own brand lines. I want to take a moment to recognize Catherine and the beauty team for their innovative approach to curating an experience tailored to the Anthropologie customer and defying the conventions of an overcrowded industry space.

When speaking to growth and evolution, I would be remiss in not mentioning BHLDN and Terrain. Both have consistently delivered double-digit growth with a combined 40% CAGR over the past 5 years. Success stems from their ability to create captivating experiences and offerings in specialized industries. As with home and BHLDN, assortment evolution and distribution expansion will fuel growth in the coming years. For BHLDN, growth will come from opening more BHLDN boutiques in top markets within Anthropologie stores, further digital evolutions, and building on the cult-like brand following. Terrain’s growth will continue with logical category extensions, accelerating *Design by Terrain*, and the opportunity for Terrain to evolve into the leading component of Anthropologie home’s outdoor living offer. As customers devote increasing portions of their time and money on experiences, both brands are nicely positioned being not only purveyors of products but enablers of activities, special occasions, and memory making. The performance to date of these young brands point to a successful path for unlocking additional value from the Anthropologie Group platform, one with millions of passionate followers. Congratulations to Nicole, Beth and their teams for building their brands and business models.

While the assortment takes center stage, the shopping experience, be it in stores or online, must deliver to, if not surpass, expectations. Consumer retail behavior is fundamentally changing – she is engaging in new ways online and her expectations for stores are evolving. Across URBN we are taking a thoughtful approach to the role each channel plays in our growth.

In stores, we are catering to the attributes that make in-store shopping not only relevant, but often preferred. Our stores are a place to escape, a place to be inspired, and a place to find unique items you can't find anywhere else. This is true of both our core stores and also of our expanded Anthropologie & Co. footprints. Now more than ever, we are evaluating investments to ensure our processes and activities are spent on high impact areas for our customers. We surgically reduced store operating expenses while working to preserve the special customer experience and are investing in complementary omni-channel initiatives. Stores will remain a critical part of our future; over time, the actual number of locations will contract in North America, but the overall square footage may grow.

The Anthropologie & Co format has delighted our core customer but we are also seeing the benefits of adding new customers while also supporting the sales of retail-advantaged categories on the web. Direct sales for home, jewelry, accessories, and beauty outperform the brand in large format markets by up to 25%. We believe the larger format experience will play a significant role for the Anthro brand in the future, but we will remain patient for the real estate market dynamics to adjust to supply and demand pressures.

It should come as no surprise that more of our customers are participating through digital channels, driving direct-to-consumer to over one-third of total Group sales. Stores continue to deliver one of the most unique, delightful shopping experiences in the industry, and they remain our largest channel. Simultaneously, many of our retail customers are becoming omni-channel brand participants and new customers are entering the brand through digital. Dick will review the cohesive URBN channel strategy, but I want to share a few specific digital updates for Anthropologie. This year we plan to continue to grow our digital store across categories, increasing digital SKUs by 25%. As with our sister brands, enhance our digital story telling by leveraging our customers' creativity and passion to inspire each other. And, in an effort to reduce friction from shopping digitally with Anthro, we are introducing a new perk for our loyalty members, a permanent path to free shipping.

Clearly, there is so much opportunity to build on the nascent success of the Anthropologie Group. I remain confident in our previously stated potential to double the size of the Group based on (1) the scale and commitment of a well-heeled customer whose participation with the brand spans decades, (2) successful early development of complementary categories, and (3) relatively underpenetrated markets both domestic and international. As recent style misses in apparel are resolved, when coupled with the continued progress of these strategic category and brand adjacencies, could herald one of the more compelling periods of growth for Anthropologie in years.

I'd like to thank Dick, Meg, colleagues on the executive team, and team members across URBN for their continued support and enthusiasm for the Anthropologie Group.

And now I'd like to turn the call over to Dick Hayne, CEO of URBN.

Dick Hayne

Thanks, David, and good afternoon folks.

This is a difficult period for US fashion apparel retailers and URBN's first quarter results reflect that difficulty. Total retail segment 'comp' sales registered a disappointing 3% decline, well below plan. This drove increased promotional activity and more margin pressure than we had anticipated. As in previous quarters, the Company saw extreme variability in results by channel.

The sales shortfall in Q1 was wholly attributable to weaker than expected store channel performance in North America where all three brands encountered sluggish customer traffic and sales. This issue is impacting virtually all U.S. brick and mortar retailers. There are simply too many stores and too many malls in North America. We expect to see more closures and brands disappear until a healthier balance is reached. I believe our brands deliver some of the best, most creative store experiences in the world, however, it's clear that these experiences currently aren't enough to overcome the decline in traffic and the tepid interest in apparel in stores. We intend to continue to treat our stores like the important part of the omni-shopping experience they are and equip them and our associates with the technology they need to please the omni-channel shopper.

In the quarter, demand for women's apparel in stores was particularly weak. Besides the traffic problem, all brands had an assortment issue – execution in the dress category. Each brand planned its dress business down from the very robust spring '16 level. The belief was that in spring '17, some of those sales would migrate to other categories like bottoms or to the newer fashion looks of onesies and rompers. Thus, the brands planned, ordered and therefore, sold fewer dresses during the period. During Q1, sales of bottoms, onesies and rompers did indeed trend up nicely, but except for the Free People brand, increases in those categories did not offset the loss in dresses. In retrospect, dresses were planned lower than they needed to be. Also, since the dress assortment carries one of the highest average price points in the women's assortment, by ordering and selling fewer dresses, each brands' AUR suffered. Further depressing AUR during the quarter was the change in sales mix by product category.

Unfortunately, problems with the store channel overshadowed the great progress made in our other two channels.

The URBN digital channel progress is evidenced by a strong, double-digit increase in sessions which, in turn, produced double-digit Direct sales gains. DTC penetration to total retail segment jumped by almost 400 bps to our highest penetration ever, even surpassing Q4 last year when it typically peaks. Direct was not the only channel to show strong results; the Wholesale channel produced an outstanding quarter which I will speak to shortly.

Due to the significant disparity in channel results, we moved aggressively during the period to bring our cost structure more in line with sales. This resulted in changes to each brand's store structure with the elimination of some redundant positions and new job assignments throughout the store hierarchy. Keeping North American store expenses under control as traffic falls is a challenge and will likely require cooperation from our landlords. Fortunately, in the past 24 months they seem to be more willing to partner with us.

The digital team has also been restructured, moving from three separate groups each serving a single brand with little cross-brand coordination, to a centralized configuration where resources are better prioritized and aligned. New roles were added during the period to help in the areas of personalization, mobile and omni-channel integration.

Digital improvements in the first quarter included the successful rollout of our new site platform to the Urban Outfitters brand globally, including the launch of our iOS and Android apps in Europe. With this implementation, all major brands now share a common platform. The new platform has better user speed and navigation and has resulted in double-digit basis point improvements in bounce rates and conversion. It, along with the new digital structure, should enable URBN to leverage digital investments across all brands and make improvements to our sites at a greatly accelerated pace.

Other enhancements to site functionality and convenience scheduled for implementation this year include: full inventory availability by store, pick-up in store, greater site personalization, search and browse improvements, custom order furniture capabilities, improved customer communications and better service levels like faster, less expensive and more reliable delivery options.

Now I'll discuss first quarter brand highlights beginning with Urban Outfitters. UO's quarter was in-line with the total Company; global retail segment 'comp' sales fell by 3%. Women's apparel in North America underperformed against our expectations mainly due to the issues I discussed previously, that is, poor store traffic and sales, lower dress sales and lower AUR. But in Europe, the women's category significantly overperformed with strong 'comp' sales in both the store and direct channels. Curiously, a considerable amount of the women's product is common to both geographies which might support the notion that one of the biggest problems facing US retailers is too much supply and too many stores.

Despite the topline shortfall, the brand exited the first quarter in a clean inventory position. Total 'comp' inventory decreased by 3% versus the prior year period and product freshness improved with the percent of aged product over 90 days falling by approximately 800 bps. This improvement reflects the progress the team has made in adopting a faster, speed-to-market discipline meant to have quicker inventory turnover and allow new product to reach the customer faster.

The Urban brand continues to see good growth in its Direct channel where all categories except women's accessories recorded solid, regular price, year-over-year sales increases. Sessions this year versus the same period last year, advanced by mid-teens and this was accomplished before the benefit of the new platform which was installed in mid-April. Increased traffic is being driven, in part, by social media. UO Instagram followers now stand at 7 million, a 43% increase over the same time last year and the brand was mentioned almost a half-million times on Instagram in the first quarter, a sequential increase from Q4 of 129%.

Moving on to the Anthropologie Group, I believe David covered much of the quarterly performance information in his commentary, so I won't repeat it. What I do want to reinforce is how much opportunity I believe resides in this brand. We continue to execute the strategy outlined three years ago at our Vision 20|20 conference. Then, as now, we realized that customers were migrating to Digital. The only thing we misjudged was the velocity of that migration. Much of our work was aimed at increasing our capabilities and fluency in categories beyond apparel. The expanded category concept was primarily designed to help drive our Direct business and, secondarily, to diversify away from reliance on women's apparel. It turns out our strategy was prescient. Once the women's apparel assortment is improved, and I believe we are making progress toward that goal, the Anthropologie Group will be well positioned to be one of the dominate lifestyle brands serving their chosen demographic across multiple categories.

I now turn your attention to the Free People brand. First, let me say that I believe the Free People apparel offering is currently among the best and freshest in all retail. In Q1, on-line customers enthusiastically embraced the fashion and drove strong full-price apparel 'comp' increases but once again, sluggish 'comp' store sales diminished that success, so total retail segment 'comp' sales grew by only 2%. Relative to the other URBN brands, Free People benefits from having the highest penetration of Direct sales to its retail segment sales. This is encouraging because we believe the other brands will evolve to this higher DTC penetration, as well.

The Free People wholesale business posted impressive revenue growth in the first quarter, with year-over-year sales up 14%. Increases came from gains in the core apparel offering and all customer groups, including domestic and international accounts, and department, specialty and digital stores. Expansion categories accounted for 25% of wholesale revenues in Q1. The brand team believes this percentage will grow as new categories, like FP Movement, gain wider recognition and acceptance. To that end, marketing efforts in the quarter included mailing a FP Movement catalog to 390,000 customers and opening a small Movement pop-up shop in New York City.

The Free People team learned from past problems and exercised outstanding inventory control in Q1. As of April 30th, total brand 'comp' inventory this year stood 21% below last year, while the brand delivered a 10% increase in total sales. In addition, the brand realized several hundred basis points improvement in merchandise margins in the quarter.

Except for 'comp' sales in the store channel, the Free People team delivered an outstanding quarter.

That's a short look at URBN's first quarter results, now let me turn your attention to our vision for the future.

Short-term, I believe the trends established in Q1 will likely persist into Q2 with some upside potential in the Free People brand. Second, quarter-to-date store traffic and sales at all brands continue to be challenged. Since it's unclear if, or when, this trend will change, it's important that URBN focus on and invest in other areas of opportunity.

Currently, we are experiencing success in four major business areas and these four are where we see the most opportunity for future growth.

The first is Digital:

Digital is URBN's biggest opportunity and our primary focus. We intend to accelerate the growth of our digital reach. By this I mean we will enlarge our audience, add followers, expand our social media presence, and at the same time, build our content, including adding products, product categories, brands and services, along with more compelling images, videos, and more user-generated content. We will also continue to invest in better user experiences. This requires continual improvements to our sites and apps, greater ability to know the customer and tailor experiences based on that knowledge, and better service levels regarding delivery. We believe that total Digital sales could double within five years.

The second is International:

Non-American sales currently account for less than 10% of total URBN sales. Given the power of our brands and their recent strong performance in Europe, we believe we have substantial opportunity to extend their reach and increase the international sales penetration. To that end, last year we created a new position, Global Head of International, and hired an executive with many years of international expansion experience. He has made significant progress in identifying and negotiating more than a half-dozen new European store leases, as well as franchise arrangements in multiple Mideastern and other countries. We plan to open three new stores in Europe this year and ramp-up that pace over the next several years. Besides opening more stores, we will continue to focus our international expansion efforts using our digital and wholesale channels, as well.

The third is Wholesale:

One of the primary strengths of our brand teams is their ability to create compelling products and experiences, in other words, to create content. Free People has grown its wholesale revenues at a double-digit pace for five consecutive years. This has been accomplished through a combination of enlarging the brand's reach geographically and expanding the product categories offered. And while Free People is our model, this content creation capability exists within each of our brands. We believe we can better leverage and monetize our talent by offering more of our content through the wholesale channel. In addition, we have new and expanded categories that have amazing opportunities for wider distribution – these range from Free People Movement to Anthropologie home. Overall, I would like to see our wholesale revenues double within five years.

The fourth is our Smaller Brands:

> We have spent almost a decade incubating our two brands – BHLDN and Terrain. While both brands remain relatively small, they are growing the fastest. Both benefitted from becoming part of the Anthropologie Group, and both have an opportunity to serve a much larger audience. I believe BHLDN's annual revenues could exceed $100M, and Terrain could exceed $50M, both within the next three to five years.

So, in conclusion, the URBN brands are powerful and still possess significant untapped opportunities for growth. The four areas of opportunity I've just discussed, if properly implemented, could add many hundreds of millions, if not billions of dollars to our top line. This at a time when many North American retailers are desperately searching for growth vehicles because the traditional method – opening more stores – is no longer viable. We believe our brands have significant and exciting alternatives, and we intend to exploit them.

To achieve this growth, we intent to invest for the long term. We won't be arbitrary; we will plan and we will test and learn, but our bias will be towards growth and achieving scale. We have amazing opportunities to expand and extraordinarily creative talent within the Company to accomplish it. I'm quite confident we will succeed.

That concludes my prepared remarks. In closing, I want to thank our brand and creative leaders, as well as our Shared Service team. I also thank and salute our 24,000 associates worldwide for their hard work, dedication and amazing creativity. Finally, I thank our shareholders for their continued advice and support. I will now turn the call over to your questions.