URBAN OUTFITTERS, INC.

First Quarter, FY'21 Conference Call
May 19, 2020

Participants

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

Good afternoon, and welcome to the URBN first quarter fiscal 2021 conference call. Earlier this afternoon, the Company issued a press release outlining the preliminary financial and operating results for the three-month period ending April 30, 2020.

The following discussions may include forward-looking statements. It's important to note at this time, the global COVID-19 pandemic has had and continues to have a significant material impact on URBN's business. Given an extremely high level of uncertainty about the duration and extent of the virus' near and long-term impact to the global retail environment, content discussed on today's call could change materially at any time. Accordingly, future results could differ materially from historical practices and results or current descriptions, estimates and suggestions. 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.

On today's call you will hear from Chief Executive Officer, Richard Hayne and Chief Financial Officer, Frank Conforti. Following that, we will be pleased to address your questions. For more detailed commentary on our quarterly performance and the text of today's conference call, please refer to our investor relations website at www.urbn.com.

I will now turn the call over to Dick.

Dick Hayne

Thank you, Oona, and good afternoon everyone. Well, this world certainly has changed since we last spoke. COVID-19 is deeply impacting everyone and everything, including URBN.

Our Company entered fiscal '21 with strong, positive momentum across all three brands and product categories. Apparel sales were especially brisk. For February, URBN recorded a total retail segment 'comp' of +11%. Thanks to our highly talented design and merchant teams, our spring/summer assortments were terrific, so we thought we were on our way to delivering outstanding Q1 results.

But the virus began spreading from Central China across the globe in early March. As virus cases accelerated, URBN store traffic and sales weakened, first in Milan, then Seattle, then New York. We grew concerned about the safety of our staff and customers, so on March 14, we made the painful decision to close all stores to the public. With no store sales and our Wholesale division facing dozens of order cancellations, our 'outstanding' quarter quickly became an exercise in crisis management.

As noted, our first concern was for the safety of our associates. Besides closing stores, we also directed all associates who could to work from home, encouraged them to maintain recommended distancing, and adopted rigorous cleaning regimes at our offices, stores, and distribution centers.

I am pleased to report these, and other measures, greatly reduced the spread of infection within our community. As a result, the health-related impact of the virus on URBN associates has been minor, but the economic impact on them and the Company has been significant.

Fortunately, our already vibrant Digital business remained operational throughout the quarter and registered healthy double-digit sales globally, paced by Europe where digital sales jumped by more than 30%. By month, April's 'comp' was best, and May is now trending even better. Many brave employees worked steadily to keep the surge in our digital business running smoothly. I especially appreciate the efforts of our fulfillment center workers and those fulfilling orders from our stores. You have served our customers and our Company well, thank you.

After ensuring our associates' safety, we began re-working demand and inventory models. Our assumptions in mid-March were that most stores would be permitted to re-open in May and once open, customer traffic and sales would be meager at first then rebound slowly over many months. Both assumptions have been right, so far.

With reduced demand models in place, our merchant, planning, and production teams worked to ensure the demand and product on-order were aligned. This proved to be incredibly complex because governments in countries where we source products all announced mandatory factory closures at various times throughout the quarter. It was difficult to guess which factories in which countries would be permitted to operate and ship on a timely basis. Through all the confusion and uncertainty of the past nine weeks, our teams have displayed an amazing degree of adaptability, resilience, and dedication. As a result, our total retail segment inventories were down 18% at quarter's end and our inventories are reasonably clean because we were able to fill more than two million digital shipments from our stores during the quarter. I salute and thank our teams for a job well done.

In addition to controlling inventories, we also focused on controlling expenses and managing cash flow. To accomplish this, we did the following:

- Furloughed a substantial number of store, wholesale and home office associates.
- Froze all new hiring except in our fulfillment and call centers.
- Suspended all merit raises and bonuses for FY21.
- Drew down $220 million on our Line of Credit.
- Reduced planned capital spending by over $140 million, by delaying or canceling new projects.
- Reduced all non-payroll expenses, including creative, marketing, and travel to name a few.
- Extended payment terms to vendors for both merchandise and non-merchandise by 30 days.
- Aggressively reduced investments in our two growth initiatives – Nuuly and expansion into China; and finally,
- Reduced senior leadership compensation for the duration of the furlough period.

In addition, all outside Directors volunteered to forego their cash compensation for the remainder of FY21. We believe the actions outlined above will allow us to maintain a strong cash position as we re-open stores and navigate through the COVID storm.

As we look to the second quarter, we're focused on two key areas:

- The first is continuing to protect the health and well-being of our associates and customers. We are committed to re-opening our stores and offices quickly but responsibly. From a health and safety perspective, we are following recommendations issued by the CDC, as well as State and local regulators. All associates are required to wear masks and maintain recommended distancing. Stores will operate with reduced hours and reduced occupancy levels and they will be cleaned daily using CDC issued protocols. Hand sanitizers are available to customers and associates. Our home office employees will continue to work remotely when practical but those that do return will wear masks and work at a greater distance from their co-workers. Many meetings, especially large ones, will continue to be held via Zoom.

- Our second focus is driving revenue by reopening stores and maintaining strong digital growth. As of today, we have over 40% of our stores open – 252 in North America and 27 in Europe. We hope to have almost 100 more stores open by the first week in June. Initial customer traffic and sales levels in newly re-opened stores have been tepid but have improved each week. We believe a return to near pre-virus levels will take many quarters and a medical vaccine or cure. Since the sales ramp-up is slow and most stores will be open for only part of the quarter, total 'comp' store sales in Q2 could be down more than 60%.

Digital, however, is quite a different story. We are fortunate our brands had well-developed digital capabilities prior to the pandemic. On-line traffic and conversion have exploded in the past six weeks with a 63% jump in new on-line customers. This has produced robust double-digit increases in sessions and demand. We have seen different results by category and by brand – home product and casual apparel like activewear, lounge, renewal and knit tops are overperforming, while dressier apparel and special occasion products are underperforming. Since the Urban brand has a higher penetration of the former categories, its digital 'comp' increase is the highest of the three brands. Our merchants have responded to these consumer preferences and are quickly shifting orders into trending categories and looks. We believe strong double-digit, on-line demand could continue throughout the second quarter.

In summary, no fashion retailer is immune to the effects of COVID-19, but I believe we have reacted quickly and taken the necessary steps to mitigate those effects and ensure that URBN emerges in a strong position when the environment normalizes. We have a solid balance sheet, benefit from a high penetration of digital sales and well-developed digital capabilities, are slowly reopening our store fleet, have a portfolio of unique brands each with a strong emotional connection with their customer, and most importantly, we have a tremendous team of highly talented, creative and dedicated employees.

Now let me say a few words about our efforts to help support the local medical community during this crisis. Over the past few weeks, URBN has been able to support our local hospitals and medical facilities through philanthropic donations of more than 300,000 surgical masks, a half-million hospital gowns, and from our food and beverage group, over a 1,000 meals delivered to health care workers on the frontline. These and many other smaller efforts by our teams is our way of saying 'thank you' to the medical community that risks all to save so many.

In closing, every quarter I thank all brand and shared service leaders, their teams, and all associates world-wide for their hard work and dedication. But this quarter is special. Each of you has gone above and beyond normal expectations. You and your teams have accomplished more than I thought possible in a short amount of time, under tremendous pressure and uncertainty, while also having to learn new ways of working. So, thank you all! Thanks also to our many partners around the world, and to our shareholders for their continued support.

That concludes my prepared remarks. I now turn the call over to Frank Conforti, our Chief Financial Officer.

Frank Conforti

Thank you, Dick.

Wow, what a difference a few months can make. As Dick mentioned, we started the quarter with exceptional performance and were excited at the opportunity to get on this call and report a strong start to the year. Then, as the coronavirus began to spread in March and as the quarter unfolded, we have ended up answering questions on our financial stability instead. I think I have run more financial scenarios in the past several weeks than I can remember doing so in the first 20+ years of my career. With that said, I am happy to report that our business has performed better than most of those scenarios, and we have ended the first quarter in a strong financial position due to the exceptional and expedient efforts by all of our teams.

I would like to take a few minutes and talk through our first quarter cash flow and what our second quarter could potentially look like if the environment continues to unfold as it has over the past several weeks. Please keep in mind, there is nothing but uncertainty in the near future right now and every single day truly feels like a new beginning, so these are only our current thoughts as of today and certainly can change at a moment's notice.

First, let's walk through the first quarter cash flow and our cash position. We entered the first quarter with over $530 million in cash and marketable securities with zero debt. During the first quarter, we used $32 million for working capital purposes, $44 million was spent on capital projects and $7 million on share repurchases. The share repurchases were completed prior to the known spread of the coronavirus pandemic in the United States which forced the Company to close its stores for an extended period of time. In total, we used $83 million of cash. Additionally, during the quarter, we borrowed $220 million on our $350 million Asset Backed Line of Credit facility, leaving us with over $667 million of cash and marketable securities at quarter end.

As Dick mentioned earlier, during the quarter we quickly put in several measures to protect our Company's future and financial flexibility going forward.

- We have reduced our current year planned capital spend of $260 million by over $140 million through cancelled or delayed projects.
- We rapidly reacted to changing consumer demand and reduced inventory receipts leaving our retail segment inventory down 18% at quarter end.
- We reduced our 'SG&A' expense plans through a hiring freeze, Board and executive pay reductions, suspension of raises and bonuses, employee furloughs, as well as reductions in non-payroll expenses in areas such as creative and marketing.

As a result of our disciplined inventory and expense management, we believe our cash uses in the second quarter could be less than the first quarter.

Our cash receipts for the second quarter could remain consistent with the first quarter. In order for this to happen, our digital business would need to continue to perform at a high level and stores would need to continue to open, remain open and slowly improve their sales productivity. Please note that stores are opening at significantly lower 'comp' levels and very slowly improving over time.

In summary, based on a healthy digital business, stores re-opening and slowly improving in their sales productivity for the remainder of FY21, tight inventory and expense management and our strong cash position with no debt coming into the COVID-19 pandemic, we are confident we have sufficient balance sheet strength and liquidity to support URBN through FY21 and give us the opportunity to resume our focus on strategic growth initiatives the following year.

Additionally, please note, that while we have drawn down on $220 million on our $350 million Asset Backed Line of Credit facility, we do have several options for additional borrowing capacity available to us if we thought it was necessary and appropriate.

Lastly, I want to second Dick's thank you to all of our teams. Their leadership and swift actions in the quarter have preserved the strength, stability, and future of URBN. I cannot thank each of you enough.

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.

Thank you for your time, we will now turn the call over for your questions.