

## **Third Quarter Fiscal 2012 ended October 31st 2011** **Management Commentary**

**November 14, 2011**

### **Summary Highlights**

The following are highlights from our Third Quarter Fiscal Year 2012 performance versus the comparable quarter last year:

- Net sales increased 6% to \$610 million.
- Comparable Retail Segment net sales, which include our Direct-to-consumer channel, decreased 3%, including a 7% decrease in comparable store net sales and a 15% increase in comparable Direct-to-consumer net sales.
- By major brand, retail segment comparable net sales increased 14% at Free People, flat at Urban Outfitters and a 7% decrease at Anthropologie.
- Wholesale net sales increased 13% to \$39 million.
- Gross profit decreased 8% to \$216 million, while gross profit margins decreased 571 basis points to 35.4%
- Income from operations decreased 30% to \$73 million, or an operating margin of 12.0%.
- Net income was \$51 million or \$0.33 per diluted share.

### **Revenue**

**Retail Stores** - The Company opened 16 new stores for the quarter bringing the global store count to 408. New and non-comparable stores contributed \$62 million in net sales during the quarter.

Within the quarter, total Company comparable store net sales were strongest in September, followed by August, then October. Comparable store net sales decline was driven by a 1.3% decrease in average unit selling prices, a 1.5% decrease in average number of units per transaction and a 4.5% decrease in total transactions.

**Direct-to-consumer** – Direct-to-consumer revenues increased 17% to \$123 million, including a 15% increase in comparable net sales. The penetration of direct-to-consumer net sales to total company net sales increased 180 basis points to 20%. These results were largely driven by a 31% increase in website traffic to more than 37 million visitors.

**Wholesale Segment**– Wholesale segment revenues increased 13% to \$39 million in the quarter, driven by a 18% increase at Free People, offset by the reduction in Leifsdottir sales as a result of the decision to exit the channel in May of this year.

## **Brand Highlights for the third quarter**

**Anthropologie** – The brand opened 4 new North American stores in the quarter bringing the global store count to 164. Square footage increased 8% to 1,189,167. Comparable retail segment net sales, which include the direct-to-consumer channel were -7%. By region sales were strongest in the South and weakest in the Canada. By venue sales were strongest in free standing locations and weakest in mall locations. By merchandise category, home was the strongest.

**Free People** – The brand opened 4 new stores in the quarter bringing the global store count to 55. Square footage increased 43% to 75,807. Comparable retail segment net sales, which include the direct-to-consumer channel, increased 14%. By region sales were strongest in the West and weakest in the Northeast. By venue sales were strongest in lifestyle centers and weakest in street locations. By merchandise category intimates were the strongest.

**Urban Outfitters**– The brand opened 7 new stores in North America bringing the global store count to 187. Square footage increased 11% to 1,704,388. Comparable retail segment net sales, which include the direct-to-consumer channel, were flat. Domestically, by region, sales were strongest in the South and weakest in Canada. In Europe, sales were strongest in Continental Europe and weakest in Ireland. Domestically, by venue sales were strongest in malls and weakest at street locations. By merchandise category men’s accessories and intimates were the strongest.

**Other Brands** – Other brands include Terrain and BHLDN in the current year and Terrain and Leifsdottir in the prior year. Revenues for other brands increased 19%, excluding Leifsdottir from the prior year revenue increased 141% driven by the addition of BHLDN.

## **Gross Margin**

Gross profit in the quarter decreased 8% to \$216 million, and the gross margin rate decreased 571 basis points to 35.3%. This decline was primarily due to increased markdowns to clear slow moving women’s apparel inventory at Anthropologie and Urban Outfitters, as well as occupancy deleverage caused by negative comparable sales.

## **SG & A**

Total selling, general and administrative expenses for the quarter, expressed as a percentage of sales, increased by 53 basis points to 23.4% due primarily to deleverage of direct selling and supervisory costs driven by negative comparable sales.

## **Other Income Statement Items**

The Company's effective tax rate for the third quarter decreased as compared to 32.8% as compared to year to date primarily due to favorable revisions to federal and state tax estimates resulting from our tax return filings in the quarter. We expect our annual effective tax rate to be approximately 36% for the full fiscal year 2012.

## **Balance Sheet and Cash flow Items**

Cash, Cash Equivalents and Marketable Securities decreased year-to-year by \$430 million to \$260 million at the end of the quarter.

During the quarter the company repurchased and retired 13.3 million common shares for \$322 million. These repurchases completed the Company's 2010 and 2011 repurchase authorizations. As of October 31, 2011, no common shares were available for repurchase.

Total inventories increased \$78 million to \$367 million, or a 27% increase over the prior year period. Total comparable retail segment inventories (which includes our direct-to-consumer channel) increased by 18% at cost while total comparable store inventory increased by 13% at cost. The balance of the increase was driven by the acquisition of inventory to stock new retail stores.

Total capital spending was \$62 million for the quarter and depreciation and amortization was \$27 million for the quarter.