

## **URBAN OUTFITTERS, INC.**

Third Quarter, FY'25 Conference Call  
November 25, 2024

### **Participants**

Richard A. Hayne, Chief Executive Officer  
Frank Conforti, Co-President & COO  
Margaret Hayne, Co-President & CCO  
Sheila Harrington, Global CEO, Urban Outfitters & Free People Groups  
Shea Jensen, President, Urban Outfitters, North America  
Tricia D. Smith, Global CEO, Anthropologie Group  
Melanie Marein-Efron, CFO  
Azeez Hayne, Chief Administrative Officer  
Dave Hayne, Chief Technology Officer, URBN and President, Nuuly  
Barbara Rozsas, Chief Sourcing Officer  
David Ziel, Chief Development Officer  
Oona McCullough, Executive Director of Investor Relations

Good afternoon, and welcome to the URBN third quarter fiscal 2025 conference call. Earlier this afternoon, the Company issued a press release outlining the financial and operating results for the three and nine-month period ending October 31, 2024.

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. 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](http://www.urbn.com).

I will now turn the call over to Dick.

## **Dick Hayne**

Thank you, Oona, and good afternoon, everyone.

We're pleased to announce record third-quarter sales and profits surpassing the expectations we discussed in August. Speaking to those results on today's call you will first hear from Frank Conforti, our Co-President and COO. After Frank, you will hear updates on two of our newest and fastest growing brands: Dave Hayne will speak about Nuuly, our fashion apparel rental business, followed by Shiela Harrington, who will talk about our athletic brand, FP Movement. Following those updates, Melanie Marein-Efron, URBN's CFO, will talk about our current expectations for the fourth quarter. Then, after my brief closing remarks, we will be pleased to address your questions.

I will now turn the call over to Frank.

## **Frank Conforti**

Thank you, Dick, and good afternoon, everyone.

Today I will discuss our total Company third quarter results versus the prior year followed by some more detailed notes by brand. I will also provide some commentary on our current trends and the macro environment.

Overall, the teams delivered an exceptional quarter which was nicely ahead of our plans as discussed on the second quarter call. Total URBN sales grew by 6% to a Q3 record of \$1.4B and four of our five brands continued to perform remarkably well, posting record third-quarter sales. Our sales growth was driven in part by a Retail segment 'comp' of 2%. Anthropologie and Free People produced a mid-single-digit positive Retail segment 'comp', which more than offset a high single-digit Retail segment 'comp' decline at Urban Outfitters. Nuuly delivered robust double-digit revenue growth due to a 51% increase in average active subscribers versus the prior year. Additionally, the Wholesale segment increased revenue by 17% driven by a healthy increase in the full price sales at Free People.

Now, moving on to gross profit. URBN's gross profit dollars increased by 9% to \$497 million, while the gross profit rate improved by 105 basis points to 36.5%. This improvement was due to improved gross margins for all segments primarily driven by higher initial merchandise margins followed by reduced merchandise markdowns. Both Anthropologie and Free People saw increases in initial margins, while Urban Outfitters drove the improvement in merchandise markdowns. During our last call, we noted the retail segment brands were experiencing a slight slowdown in sales trends and anticipated the need for more promotions compared to the previous year. The good news is, trends improved as the quarter progressed which resulted in Urban Outfitters delivering lower year-over-year merchandise markdowns, Anthropologie merchandise markdowns remaining flat to last year and Free People recording slightly higher merchandise markdowns vs. last year. It is important to note that while Free People did record higher merchandise markdowns in the current quarter, their prior year rate was exceptionally low, and the Free People brand

continues to lead the way with the lowest markdown rate of any of our retail segment brands. Additionally, both the Subscription and Wholesale segments reported strong gross margin gains.

Next, for the quarter, SG&A increased by 7%, just slightly outpacing our rate of sales growth. The rise in total company SG&A expenses was primarily due to increased marketing spend used to drive solid sales growth at the Anthropologie, Free People, FP Movement, and Nuuly brands. The marketing efforts of Anthropologie and Free People significantly boosted traffic to both the store and digital channels, while Nuuly's campaigns led to over 50% growth in average active subscribers.

Total URBN operating income rose by 18% compared to last year, reaching \$129 million, with the operating profit rate improving by over 90 basis points to 9.4%. Net income saw a 24% increase to \$103 million or \$1.10 per diluted share.

I will now provide more details by brand, starting with Anthropologie. The Anthropologie team delivered another excellent quarter with a 6% Retail segment 'comp' and their eighth straight quarter of double-digit operating income growth. Positive 'comps' were driven by similar growth in both the store and the digital channels. By category, apparel, shoes, accessories and beauty delivered nicely positive Retail segment 'comps' in the quarter. Within apparel, there is broad-based strength across categories and the Holiday assortment has been well received by consumers. Strength in these categories was partially offset by a weakness in Home, which was entirely driven by lower furniture sales. Within Home, the gift and entertainment category is nicely positive, driven by consumers investing in seasonal decorative categories to refresh their homes for the holiday. The Anthropologie team continues to execute exceptionally well on their strategic initiative of acquiring new customers, while further engaging existing customers. During the quarter, both new and active customers increased by over 13% versus the prior year. The brand continues to make strategic marketing investments supported by outstanding creative content, which drove high single-digit traffic increases in both the store and digital channel. Impressive sales growth and healthy margin expansion coupled with well-managed expenses drove record operating profit dollars for the brand in the third quarter. As we enter the holiday season the Anthropologie consumer remains optimistic and continues to respond positively to a broad range of categories. Based on our current plans we believe the brand could deliver a positive 'comp' in the fourth quarter similar to the third quarter.

Next, the Free People team produced an outstanding quarter with the global Free People group, including wholesale, total sales increasing 10%. The double-digit increase in sales was driven by a 5% Retail segment 'comp', 20% increase in Wholesale segment revenues and a 176% increase in 'non-comp' sales driven by new store openings. The sales 'comp' was driven by a mid-single digit DTC 'comp' and a low single-digit store 'comp'. During the quarter, the Free People brand achieved positive sales growth across apparel, accessories and FP Movement. The FP Movement brand delivered 30% total growth, driven by a 14% Retail segment 'comp', new store growth, and over 70% Wholesale segment growth. Sheila will speak further to FP Movement later on the call. Based on our current plans, we believe Free People retail segment could deliver a low to mid-single-digit positive 'comp' for the fourth quarter.

The Free People Wholesale segment sales increased 20% during the quarter driven by full price sales gains in department and specialty stores, partially offset by an intentional decline in sales to the closeout channel. Segment profitability improved significantly from the prior year when the brand utilized close out channel sales to reduce aging product. We believe the Wholesale segment could continue to deliver double-digit sales growth and improved profitability versus last year in the fourth quarter.

Now, moving on to the Urban Outfitters brand. Urban Outfitters recorded a 9% decline in the Retail segment 'comp' for the quarter. This negative 'comp' was primarily due to the disappointing performance in North America, while Europe delivered a low single-digit positive 'comp'. Despite the overall decline in North American sales, we are pleased with the improvement in merchandise margin rate driven by lower markdowns in the quarter resulting in a reduction in the brands operating loss versus last year. The brand delivered improving regular price performance in key categories such as denim, accessories, home, and certain key lounge items during the third quarter. These key categories and items are becoming increasingly important as we approach the holiday season. Additionally, the brand showed nice improvements in store 'comps' as the quarter progressed, driven by improving regular price sales, with October being the strongest month of the quarter. We have full confidence in the brand team and the strategies they are implementing. While we acknowledge that progress may be gradual, we believe their efforts will yield meaningful results over time. Based on our current plans we believe the brand could deliver a mid-single-digit 'comp' decline in the fourth quarter.

Before turning the call over to Dave to discuss the strength of the Nuuly business, I would like to briefly address the macro environment and consumer trends. When we last spoke in August, we were experiencing softer demand trends and approached the third quarter with caution. However, as the quarter progressed, we observed a return to healthy consumer spending patterns, with October delivering the strongest 'comp' of the quarter. Although it is still early in the Holiday season with a big shift in the holiday calendar, based on our current results, we are optimistic for the entire Holiday season. We anticipate that total sales growth in the fourth quarter will mirror that of the third quarter, driven by a single-digit increase in Retail segment 'comps', strong revenue growth from Nuuly, and continued double-digit sales growth in the Wholesale segment.

I will now turn the call over to Dave Hayne, President of Nuuly and Chief Technology Officer, to provide details on the Nuuly brand's third quarter performance as well as a strategic update.

## **Dave Hayne**

Thank you, Frank and good afternoon, everyone.

I'm pleased to share an update on our rental business, Nuuly. On this same call last year, we celebrated surpassing 200,000 active subscribers and achieving our first quarterly operating profit. Since then, our active subscriber base has grown 50%, ending this third quarter at 297,000, and in the last few weeks in November we have crested over 300,000. The third quarter was particularly exciting, with a net increase of 52,000 active subscribers, or 21% total growth in just three months,

and with quarterly records for “new” subscribers, as well as records for attracting paused and canceled customers back into the business.

The strong third quarter subscriber growth translated directly into robust financial results. Nuuly delivered \$97M in third quarter revenue, a 48% increase versus last year. We have continued to improve gross margins and operating efficiency, resulting in a nicely profitable quarter with \$4M in operating income at a 4.2% operating margin rate. This marks our second consecutive quarter with a mid-single-digit operating profit rate, and we believe this trend will continue into the fourth quarter, which should lead to Nuuly’s first full year of positive operating profit.

Over the past several quarters, our team has been focused on three primary pillars: advancing the customer experience, scaling our operations to support our robust growth, and driving customer awareness.

First, the customer experience. We know that the main reason women choose Nuuly is for our breadth of brands and fashion assortment, and at the heart of the assortment are styles from our family of brands: Anthropologie, Free People, FP Movement, and Urban Outfitters. Over the past year, 47% of the units rented on the platform were from our sister brands. And we regularly hear from our customers that rental allows them to experiment with new styles, which leads to reciprocity back to the brands on the platform. A great example is Anthropologie’s Colette pant, which has been rented by nearly a quarter million different Nuuly subscribers, with nearly one-fifth of these subscribers also purchasing a Colette pant from Anthropologie directly. This positive reciprocity also extends to our market brand partners, who tell us that they see many of their new customers referencing Nuuly as the place they first learned of them.

In FY’25, Nuuly initiated partnerships with Madewell, Alex Mill, Barbour, Mother denim, and Polo Ralph Lauren, among others, and we have more name brand additions planned for next year. Product collaborations, like the August collaboration with Farm Rio on 12 exclusive styles, have been very well received by subscribers, and we have recently announced fourth quarter collaborations with both Rachel Antonoff and Favorite Daughter, which have been strong marketing moments for both brands and Nuuly.

In addition to the assortment, we know the digital platform has a direct impact on our customer experience. In February, we launched a feature allowing subscribers to create multiple lists of styles to rent in future Nuulies. In June, we released significant improvements to our search and browse functionality, making our website faster and more intuitive. In September, we introduced gift cards, making it easier for people to gift Nuuly to their friends and family. And just a month ago, we launched our new “Thrift Shop,” a subscriber-only benefit allowing customers to buy a selection of rental inventory that will be held and shipped for free in their next Nuuly rental shipment. These features help to strengthen the customer experience, as well as drive incremental revenue for the business.

The second pillar of focus has been scaling our operations to ensure we have the necessary capacity and throughput required to serve the customer. At the start of this calendar year, we had one fulfillment center which was operating at maximum capacity. In February, we opened our new 600,000 square foot facility in Raymore, Missouri, which has tripled our subscriber capacity.

Throughout this year, we have migrated millions of units of inventory, trained hundreds of new staff, and this facility is now processing nearly 60% of subscriber volume, with virtually no interruption to our customers. This smooth transition was only possible due to the excellent effort of our teams, and we believe we are now well positioned to support our future growth.

This fulfillment expansion has not only enabled us to scale to meet growing demand, it has also enabled us to be more efficient. In the third quarter we achieved leverage in both logistics and delivery expenses, and in the first half of next year, we plan to implement more robust automation in the Raymore facility that will enable us to gain further leverage in logistics expenses. Additionally, as the business continues to grow, we believe we can further leverage our fixed costs, and we will continue to reduce variable expenses, leading to even greater improvement in operating margins.

Along with our focus on customer experience and operational improvements, our third pillar of focus has been improving brand awareness to drive customer acquisition. To this end, in Q3 we launched our largest marketing campaign yet. The campaign featured talking Nuuly bags, and centered on the notion that "buying is normal, renting is Nuuly". It was featured across a mix of channels including streaming TV, Meta, YouTube, and Out of Home placements, and all indications point to the awareness growth that we were seeking.

To summarize, it is clear to us that we have built something special in Nuuly. We have become the largest fashion rental company in the world, with robust customer demand and subscriber growth, and a profitable business model. We know we are expanding the overall rental market by winning first-time customers, as over two-thirds of our new subscribers report they have never rented clothing prior to Nuuly. Our subscriber retention rates are high for a subscription service, with nearly 45% of subscribers still active after 12 months, and nearly 40% still active after 36 months. And we believe the total addressable market for clothing rental services stretches well into the many millions, providing ample opportunity to grow significantly into the future, and helping to showcase why we are all so excited about what we've built in Nuuly.

I'd like to thank the Nuuly team, and all our shared service and brand partners for helping to achieve this success. And I'd like to particularly thank our subscribers for inviting Nuuly into their closets.

Thank you, I will now turn the call to Sheila Harrington to discuss the FP Movement brand.

### **Sheila Harrington**

Thank you, Dave, and good afternoon, everyone.

Today, I will discuss more details around the ongoing success of FP Movement, as well as the future direction and ambitions for the brand.

FP Movement strives to be a leading female athletic brand prioritizing performance alongside fashion to allow for the creative expression of the individual. Product innovation and creativity are the cornerstones of the brand's growth. This is evident as the team has created and built powerful first-to-market businesses such as the "onesie" and "runsie," and how it embraces color, pattern, washes, and textures that uniquely define the brand, as well the continual evolution of silhouette and outfitting. We push fashion in a performance business that typically shies away from this. We strive to serve the fully active lifestyle of our consumers, committed to excellence in performance to allow them to move comfortably and confidently in a range of activities. This year and this quarter's results reflect this commitment, with our bra and performance apparel from studio, court, and trail outpacing growth in our retail segment. We continue to evolve and invest in the right talent and sourcing to fuel this commitment within our organization, blending it with the fashion and aesthetic handwriting true to the brand.

FP Movement has achieved stellar growth across all three of its distribution channels this year as well as this past quarter. FP Movement's early and explosive digital growth was primarily driven by Free People's Brand and digital strength. More recently, the brand has achieved higher visibility and name recognition, a higher portion of the brand's new consumers are independently driven first by FP Movement, as we see with strong increases in unique brand searches and net new to the brand ecosystem through FP Movement. We attribute this positive change to be from the consistent brand and digital marketing, along with the expansion of both of stores and wholesale presence and are only at the beginning of our journey. The sustained growth of the digital channel forms the foundation of our distribution strategy, but we also have a significant opportunity to continue to expand the store's fleet and add wholesale partners and build our FP Movement brand.

Wholesale channel growth this year has been exceptionally strong, driven by both large premier strategic partnerships within the athletic space, and the strength of sales within their business, as well as our specialty store business, which grew 100% in that last quarter. Our specialty strategy encompasses studio, run, along with outdoor sporting goods stores, aligning with our product strategy and creating a path and confidence to sustain long term growth.

Stand-alone stores remain a significant part of FP Movement's growth plans. Existing stores are achieving strong profitability, driven by healthy sales per square foot and strength across all metrics, including AOV, UPT, and conversion. This past quarter and year-to-date, our comparable stores have produced high single-digit gains. This year we plan to open a total of 25 new standalone stores, increasing our total to 63 standalone stores and 51 shop-in-shops. While the footprint of most standalone stores is under 2,500 selling square feet, in May, we opened a larger store in Soho, NYC. It is a spectacular expression of the brand. Since our first store opened in 2020, we have increased our average square footage by 30% and continue to see elevated sales per square foot. We are confident that the typical 'Movement' store of the future will be between 2,500-3,000 square feet and believe the fleet could include at least 300 standalone stores in North America. Not only are our stores highly productive from a sales perspective, but they also provide education and touchpoints for the brand and serve as centers for community building. Our store and marketing teams are committed to consistent activations and events, including mat-based workouts and run clubs across North America. The attendance and energy are contagious and motivate us to do more.

Over the last 5 years FP Movement has achieved a compounded growth rate of 39%. The brand continued its strong performance in the third quarter this year by delivering a 30% year-over-year increase. This growth was driven across all three channels. The Wholesale channel led the way with a 74% gain while the retail segment delivered a 19% increase. Coupled with strong top-line growth, operating profits over those same five years grew by triple digits. Third quarter profits remained strong, fueled by increased sales, rigorous inventory management, higher IMU, and strong expense control.

FY'25 is shaping up to be another record-breaking year for FP Movement. It was jump started by our most successful marketing campaign to date, entitled "Stand out never still". This campaign authentically celebrates our focus on the female athlete with a diverse roster of brand ambassadors including NCAA athletes, Olympians, professional athletes and women forging their own activity-based paths.

Our goal over the next few years is to surpass \$1 billion in sales but longer-term we believe the brand has an opportunity to be substantially larger. Our aim is to become the leading fashion-infused, female athletic brand globally. We remain unwaveringly focused on meeting her needs and excelling in both performance and fashion. Our confidence is rooted in the strong creativity and passion of our team, our execution to date, and the market opportunities we see.

Finally, I wish to recognize and thank the entire FP Movement team. The brand's amazing success is a tribute to their hard work, passion and dedication.

I'll now pass the call over to Melanie.

### **Melanie Marein-Efron**

Thank you, Sheila.

Now I will discuss our thoughts on the fourth quarter financial performance and fiscal year FY'25 performance. The following Q4 forward-looking statements reflect comparison to Q4 FY'24 results adjusted for certain on-time items in the prior year.

Based on the start of the quarter, we believe that fourth quarter total Company sales growth could be mid-single digits. Sales growth in Q4 could result from low single-digit growth in Retail segment 'comp' and high teen growth in the wholesale segment. In addition, we believe that Nuuly segment revenue growth could be mid-double-digits.

Now on to gross profit margin. Based on current sales performance and plan, we believe URBN's gross margin rate for the fourth quarter could improve by approximately 100 basis points compared to the prior year fourth quarter. The increase in gross profit margin could be primarily due to lower markdowns, particularly at the Urban Outfitters brand, as well as higher initial product margins from cross-functional initiatives.

Moving on to SG&A expenses. Based on our current sales performance and plan, we believe SG&A growth for the fourth quarter will increase in the mid-single-digits. Our planned growth in SG&A could be primarily driven by increased marketing expenses to drive growth in customers and sales at Anthropologie, Free People, FP Movement and Nuuly. As always, if sales performance fluctuates, we maintain a certain level of variable SG&A spending that we can adjust up and down depending on how our business is performing.

We are currently planning our effective tax rate to be approximately 24.25% for the fourth quarter and 24% for the full year.

We believe that inventory levels in the fourth quarter could grow at a rate similar to fourth quarter sales growth.

Capital expenditures for the fiscal year are planned at approximately \$210 million. The FY'25 capital project spend is broken down as follows: approximately 50% is related to retail store expansion and support, approximately 25% is related to logistics capacity investments including the Nuuly rental fulfillment center in Raymore, Missouri, which we opened in the first quarter, and the remaining 25% would be our normal capital investments supporting IT, home office and logistics operations.

Lastly, we will be opening approximately 58 new stores and closing approximately 31 stores during FY'25. Our net new store growth is being driven by growth in FP Movement, Free People and Anthropologie stores. During FY'25, we plan on opening 25 FP Movement stores, 13 Free People stores and 13 Anthropologie stores.

As a reminder, the foregoing 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, I am pleased to turn the call to Dick, Chief Executive Officer of URBN.

**Dick Hayne**

Thank you, Melanie and thanks also to Sheila and Dave.

We're happy to share the incredible success stories of these two, fast-growing brands. Despite being our smallest and youngest, both brands are punching above their weight by making major contributions to our top line growth while also delivering impressive profitability. They're not only adding value today but are poised to become an even more important part of the URBN portfolio of brands moving forward. I'm excited by our many growth opportunities and I'm confident in the continued success of URBN.

In closing, I thank our Co-Presidents, Meg and Frank; our brand leaders, Tricia, Shelia, and Dave; their merchant, creative and operating teams; our Shared Service teams, and our 31,000 associates worldwide. Their collective efforts produced another record quarter, and I thank them. I'm constantly humbled by their remarkable dedication and creativity. I also recognize and thank our many partners around the globe. And finally, I thank our shareholders for their continued support.

That concludes our prepared remarks. I now turn the call over for your questions.