

URBAN OUTFITTERS, INC.

First Quarter, FY'25 Conference Call
May 21, 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
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David Ziel, Chief Development Officer
Oona McCullough, Executive Director of Investor Relations

Good afternoon, and welcome to the URBN first quarter fiscal 2025 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, 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.

On today's call you will hear from, Richard Hayne, Chief Executive Officer, URBN, Frank Conforti, Co-President and COO, URBN and Melanie Marein-Efron, Chief Financial Officer, URBN. Following that, we will be pleased to address your questions. Please note, today we will be speaking to our financial results on an adjusted basis which does not include non-recurring adjustments for one-time store closure and impairment charges. The effect of these items is detailed in our press release as well as the investor presentation that is posted to our URBN investor relations website at www.urbn.com.

I will now turn the call over to Dick.

Dick Hayne

Thank you, Oona. Good afternoon, everyone, and thank you all for joining our call today.

In my introduction I'll make some quick remarks regarding our results, give some updates on the Urban brand, and then discuss the mood of our customers. After that I will turn the call over to Frank and Mel for a more in-depth review of our results and our thoughts on the remainder of the year.

Put simply, URBN's first quarter results were outstanding and topped our expectations. Four of our five brands posted record first quarter revenues and three posted record operating income. The Anthropologie, Free People, FP Movement and Nuuly brands all produced double-digit revenue growth. These brands are delighting their customers, capturing additional market share, and executing at a best-in-class level. Combined, the four brands more than offset continued softness at the Urban Outfitters brand.

At the Urban brand in North America, the new senior team has begun to make changes in how the brand operates. This includes initiating a more robust read and react process to take advantage of our speed to market capabilities; lowering some prices in several product categories including women's accessories and home goods; and changing the marketing strategy by investing more and differently in social media. At the same time the team began to fashion a strategy based on information gleaned from surveys, focus groups and brand history.

Toward the end of the quarter and into May, customer reaction to these changes has been encouraging. Both the women's accessories and home categories have delivered positive 'comps' and we've registered more new digital customers in the last few weeks. Small wins for sure, but trending in the right direction.

Frank will speak more about the Urban brand in his commentary, and Sheila and Shea will share more about the strategic review on our call in August. Rest assured that returning the Urban brand to profitability and growing their customer base remains our number one priority.

Turning now to the health of our customers at all brands – as a group, we believe they are currently in good shape enjoying both solid job security and incomes that are rising slightly faster than inflation. They are still excited by our new fashion offerings, and traffic in stores and on-line remains strongly positive, but their purchases are slightly more considered than last year. Overall, I would classify the customer mood this, versus last year, as enthusiastic rather than exuberant; we believe this new mood is healthier because it's more sustainable.

With that I'll now turn the call over to Frank.

Frank Conforti

Thank you, Dick, and good afternoon, everyone.

Today I will discuss our total Company first quarter results versus the prior year followed by some more detailed notes by brand.

As Dick noted, the first quarter performed ahead of our expectations as discussed on the fourth quarter call. Total URBN sales grew by 8% to a Q1 Record of \$1.2B and four of our five brands continue to perform exceptionally well, posting record first-quarter sales. Our sales growth was driven in part by a Retail segment 'comp' of 5%. The Anthropologie, Free People and FP Movement brands all produced double-digit retail segment 'comp' growth more than offsetting the negative double-digit 'comp' at the Urban Outfitters brand. Nuuly also delivered robust double-digit revenue growth due to a 56% increase in subscribers versus the prior year. Additionally, the Wholesale segment increased revenue by 3% driven by an increase in the regular price sales at Free People.

So far in May trends have remained solidly positive for total Company and four of our five brands. Although the second quarter comparison from the prior year is difficult, we believe Retail segment 'comps' could grow in the low single-digit range. Positive retail segment 'comps' combined with robust revenue growth from Nuuly and single-digit growth in the Wholesale segment could result in a mid-single-digit increase in total Q2 URBN sales.

Moving on to URBN gross profit. Adjusted gross profit dollars, excluding the one-time store closure and impairment charges totaling \$4.6 million, increased 11% to \$413 million while our adjusted gross profit rate increased by 106 basis points to 34.4%. The improvement in the adjusted gross profit rate was primarily due to increased initial margins at all brands. These improvements were partially offset by a higher markdown rate at Urban Outfitters as the brand continues to need incremental discounts to move through inventory. We also experienced deleverage in logistics due in part to one-time expenses related to the opening and transition of subscribers and inventory into our second Nuuly Fulfilment center.

Now moving on to 'SG&A' expenses. For the quarter, 'SG&A' increased 11% versus the prior comparable quarter and deleveraged by 87 basis points. The deleverage was primarily due to the Urban Outfitters brand not being able to reduce 'SG&A' at the same rate as sales declined. As we noted on our previous call, while we did reduce our 'SG&A' spending at the Urban Outfitters brand in Q1, we did not believe it was prudent to reduce expenses at the same rate as sales. The increase in Total Company, 'SG&A' expense was largely due to increased marketing spend supporting the double-digit sales growth at Anthropologie, Free People, FP Movement and Nuuly brands. It is important to note, not only did these brands deliver double-digit sales growth, each of these brands also delivered double-digit customer growth.

Total adjusted URBN operating income, excluding the one-time store closure and impairment charges, increased 11% versus last year to \$79 million and adjusted earnings jumped 23% to \$66 million or \$0.69 per diluted share.

I will now provide more details by brand, starting with Anthropologie. The Anthropologie team delivered a strong 10% retail segment ‘comp’ in Q1 and total revenue growth of 11%, recording the fifth consecutive quarter of double-digit ‘comp’ growth. Positive ‘comps’ were driven by double-digit growth in both the store and the digital channels. By category, apparel, shoes and accessories delivered nicely positive double-digit retail segment ‘comps’ in the quarter. Within apparel, there is broad-based strength across categories with outsized growth in some of the more causal categories. Strength in these categories was partially offset by a decline in Home, where furniture remains negative. Within Home the gift and entertaining category is nicely positive driven by consumers investing in decorative categories to refresh their homes.

The Anthropologie team continues to execute exceptionally well on their strategic initiative of acquiring new customers and further engaging existing customers. During the quarter both new and active customers increased by over 18% versus the prior year. The brand continues to make strategic marketing investments supported by outstanding creative content, which drove double-digit traffic increases in North American stores and double-digit digital traffic during the quarter. Impressive sales growth and healthy margin expansion coupled with well managed expenses drove record brand operating profit dollars for the first quarter.

As we enter the second quarter the Anthropologie consumer remains optimistic and continues to respond positively to a broad range of categories. We continue to believe the brand can deliver mid-single digit ‘comp’ growth for fiscal year 25.

Next, I will call your attention to Free People. Once again, the Free People team produced an outstanding quarter with retail segment ‘comps’ achieving an impressive 17% gain. The retail segment ‘comp’ was driven by double-digit ‘comp’ growth in both the digital and store channels. During the quarter, the brand achieved strong double-digit growth across apparel and Movement. The FP Movement brand delivered another strong quarter, achieving 25% retail segment ‘comp’ growth. Record sales and improved margins helped Free People deliver record first quarter operating profit dollars.

Customer response to the brand’s summer trends has been strong and the brand continues to gain market share. We believe the brand could deliver a high single-digit ‘comp’ on top of the unbelievably strong 27% Q2 ‘comp’ from last year.

The Free People wholesale segment sales increased 6% 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. The FP Movement brand led the way with strong sales growth in the quarter. Segment profitability improved significantly from the prior year when the brand had elevated closeout channel sales to reduce inventory levels. We believe the Wholesale segment could continue to deliver improved profitability versus last year, while Q2 sales could be slightly positive.

Now moving on to the Urban Outfitters brand. Urban Outfitters recorded a 14% retail segment ‘comp’ decline in the quarter. This was largely in line with our expectations when we spoke with you in February. UO’s negative ‘comp’ was the result of disappointing performance in both North America and Europe. Global retail segment ‘comp’ declines were driven by double-digit declines

in both the digital and store channels and all product categories were negative. As you know, new leadership joined the brand in North America in February. This team spent much of the first quarter assessing the health of the business and aligning on their strategic priorities go forward. You will hear more from this team on the August call.

Month-to-date the brands' sales trends in North America have shown early signs of improvement, more so in the digital channel than the store channel. This improvement has been fueled in part by Women's Accessories and Home categories which both delivered positive sales on a regular price and total 'comp' basis in North America in the month of April and have continued that trend in May. Women's and Men's apparel have not shown the same improvements. Therefore, during the second quarter the brand plans on cleaning out slower moving inventory in these categories, clearing the way for fresh looks and updated pricing architecture for the important back-to-school season. These adjustments will likely result in elevated markdown levels in the second quarter, but we believe will give the brand an opportunity to show improved regular price sales and product margins in the back half of the current year. Marketing strategies have also been a huge focus for the brand. The brand is encouraged that some of their recent adjustments to distribution channels, content and community conversations have resulted in growth in new and total customers on the digital channel for the first time in quite some time. These results are very early, representing improvements only over the past few weeks, but are encouraging that the brand and teams are heading in the right direction. We believe the brand could deliver gradual 'comp' sales improvements as the year progresses with improvements in 'comp' sales for the second quarter followed by further improvement in sales and product margin in the back half of the year.

Finally, I will touch on the Nuuly business which delivered another exceptional quarter. Nuuly added over 50,000 active subscribers versus the fourth quarter, ending the quarter with over 244,000 active subscribers and over 224,000 average active subscribers for the full quarter. As we have noted, historically Nuuly experiences the most significant growth in subscribers during the seasonally strong first and third quarters. Strong growth in subscriber counts continued in early May and the active subscriber count now over the quarter of a million milestone. During the first quarter, the team began transitioning to our second facility in Raymore, Missouri. This facility will support future subscriber growth by tripling the brand's total capacity. As of today, over 60,000 subscribers are being served from the facility, which we plan to ramp to 50% of total subscribers in the back half of the year. The new facility supports the outsized growth of the brand and enables us to deliver our 'Nuulies' faster with a lower delivery cost to certain customers based on geographical proximity. As discussed on the fourth quarter call, this transition led to incremental and some non-recurring costs in logistics, which will continue but abate in the second quarter. Excluding these expenses the Nuuly brand would have been profitable in the first quarter. We believe the brand could deliver a small profit for the second quarter and will be profitable on a full-year basis for fiscal year 25.

Thank you for your time, I will now turn the call over to Melanie Marein-Efron, our Chief Financial Officer.

Melanie Marein-Efron

Thank you, Frank and good afternoon, everyone.

Now I will discuss our thoughts on the second quarter financial performance.

We are pleased that overall consumer demand has remained strong to start the quarter, and we are planning for this strength to continue throughout the second quarter. Right now, we believe that second quarter total Company sales growth could be mid-single digits. Sales growth in Q2 could result from low single-digit growth in Retail segment 'comp' and wholesale sales. In addition, we believe that Nuuly segment sales growth could be mid-double-digits.

Now on to gross profit margin. We believe URBN's gross margin rate for the second quarter could decline by approximately 75 basis points compared to the prior year second quarter. While we believe we can continue to see improved initial product margins at Anthropologie and Free People, those improvements are unable to offset the continued weakness at the Urban Outfitters brand. The reduction in gross profit margin at the Urban Outfitters brand could be primarily due to depressed product margins and occupancy deleverage because of negative sales performance. We do believe URBN can return to delivering gross profit margin growth in the back half of the year, as well as our full year plan of approximately 50-100 basis points of gross margin improvement compared to the prior year.

Now moving on to 'SG&A' expenses. Based on our current sales performance and plan, we believe 'SG&A' growth for the second quarter will increase in the high single-digits. Our planned growth in 'SG&A' could be primarily driven by higher marketing expenses to support growth in customers and sales at Anthropologie, Free People, FP Movement and Nuuly. The deleverage in 'SG&A' primarily relates to the Urban Outfitters brand where we have reduced expenses but not at the rate of the sales decline. While we believe 'SG&A' growth could outpace sales growth in Q2, we also believe that 'SG&A' expense growth in the second half of the year will be more closely aligned with sales growth. 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% for the second quarter and 24.5% for the full year.

Now moving onto inventory. We believe that inventory levels in the second quarter could grow at a rate below sales growth. The teams continue to be focused on speeding up inventory turns and managing to fewer weeks of supply.

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 57 new stores and closing approximately 21 stores during fiscal year 25. Our net new store growth is being driven by growth in FP Movement, Free People and Anthropologie stores. During fiscal year 25, we plan on opening 25 FP Movement stores, 13 Free People stores and 13 Anthropologie stores.

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, I am pleased to turn the call back over to Dick.

Dick Hayne

Thank you, Mel.

Before turning the call over for your questions, I wish to thank our Co-Presidents, the brand, design and shared service leaders and their teams, and all associates world-wide. Our outstanding Q1 results are a direct product of your creativity, determination, and hard work. So, thank you. Thanks also to our many partners around the world. We appreciate your significant contributions to our success. And finally, thanks to our shareholders for your continued support.

That concludes our prepared remarks. Now for your questions.