

URBAN OUTFITTERS, INC.

Third Quarter Fiscal 2015 ended October 31st, 2014 Management Commentary

Summary Highlights

The following are highlights from our Third Quarter Fiscal Year 2015 performance versus the comparable quarter last year:

- Net sales increased 5% to \$814 million.
- Comparable Retail segment net sales, which include our comparable direct-to-consumer channel, decreased 1%.
- Comparable Retail segment net sales at Free People and Anthropologie Group increased 15% and 2%, respectively, while Urban Outfitters decreased 7%.
- Wholesale net sales increased 26% to \$63 million.
- Gross profit decreased 3% to \$284 million, while gross profit rate declined 295 basis points to 34.8%.
- Income from operations decreased 27% to \$76 million and operating profit rate declined 423 basis points to 9.4%.
- Net income was \$47 million or \$0.35 per diluted share.

Revenue

Retail Segment – Comparable Retail Segment net sales, which include our comparable direct-to-consumer channel, decreased 1% due to negative comparable store net sales, partially offset by strong direct-to-consumer growth. Within the quarter, total Company comparable Retail segment net sales were strongest in October, followed by August, then September. The Company opened 15 new stores and closed 1 store during the quarter bringing the global store count to 539. The negative comparable store net sales resulted from decreased transactions and units per transaction which was partially offset by higher unit selling prices. Direct-to-consumer net sales were driven by a higher average order value and an increase in website and mobile traffic.

Wholesale Segment – Wholesale segment net sales increased 26% to \$63 million in the quarter driven by double-digit sales increases at department stores and specialty accounts and strong international sales growth.

Brand Highlights for the Third Quarter

Anthropologie Group – The group, which consists of the Anthropologie and Bhldn brands, opened 6 new stores during the quarter bringing the global store count to 199. Square footage increased 5% over the prior year period to 1,383,955. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 2%. By region, store net sales were strongest in the Southeast and weakest in the East. By venue, store net sales were consistent across all locations. By Retail segment merchandise category, women’s apparel was the strongest and accessories was the weakest.

Free People – The brand opened 5 new stores during the quarter bringing the total store count to 102. Square footage increased 32% over the prior year period to 158,745. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, increased 15%. By region, store net sales were strongest in the West and weakest in the Northeast. By venue, store net sales were strongest in traditional mall locations and weakest in metropolitan locations. All Retail segment merchandise categories delivered positive comparable net sales.

Urban Outfitters– The brand opened 4 new stores and closed 1 store during the quarter bringing the global store count to 236. Square footage increased 7% over the prior year period to 2,127,072. Comparable Retail segment net sales, which include the comparable direct-to-consumer channel, decreased 7%.

In North America, by region, store net sales were negative across all regions with California outperforming the overall average. By venue, store net sales were weak across all locations with no one format significantly different from another. By Retail segment merchandise category, home was the strongest while women’s apparel was the weakest.

In Europe, by region, store net sales were strongest in the United Kingdom. By Retail segment merchandise category, home was the strongest and women’s apparel was the weakest.

Other – Other includes Terrain. The net sales increase for Terrain was driven by positive comparable store net sales.

Gross Margin

Gross profit in the quarter decreased 3% to \$284 million. Gross profit rate declined by 295 basis points versus the prior year’s comparable period. The deleverage occurred primarily due to lower initial merchandise markup followed by higher markdowns at the stores and store occupancy expense deleverage due to negative store comparable net sales, which were all primarily driven by the poor performance at the Urban Outfitters brand.

Selling, General & Administrative Expenses

Total selling, general and administrative expenses, expressed as percentage of net sales, increased by 128 basis points to 25.4%. The increase was primarily due to increased marketing and technology expenses which drove higher direct-to-consumer traffic.

Other Income Statement Items

The Company's effective tax rate for the third quarter of fiscal 2015 was 37.8% compared to 33.3% in the prior year's comparable period. The increase in rate is primarily due to state tax adjustments in both periods.

Balance Sheet and Cash Flow Items

Cash, Cash Equivalents and Marketable Securities decreased from the prior year by \$368 million to \$358 million primarily due to the share repurchase activity in fiscal 2015.

Total inventories increased \$60 million to \$467 million, a 15% increase over the prior year period. The growth in total inventories is primarily related to the acquisition of inventory to stock new and non-comparable stores as well as an increase in comparable Retail segment inventories. Comparable Retail segment inventories increased 8% at cost while decreasing 7% in units.

Total capital spending was \$70 million for the quarter and depreciation and amortization was \$34 million for the quarter.

During the third quarter of fiscal 2014, the Board of Directors authorized the repurchase of 10.0 million common shares under a share repurchase program. During the first quarter of fiscal 2015, the Company repurchased and retired 9.7 million common shares for approximately \$353 million completing the share repurchase authorization. During the second quarter of fiscal 2015, the Board of Directors authorized the repurchase of an additional 10.0 million common shares under a share repurchase program. As of October 31, 2014, the Company repurchased and retired 3.9 million common shares for approximately \$132 million, leaving 6.1 million shares available for repurchase under the current authorization.