

URBAN OUTFITTERS, INC.

Second Quarter, FY'11 Conference Call
August 16, 2010

Participants

Glen T. Senk	Chief Executive Officer
Eric Artz	Chief Financial Officer
Oona McCullough	Director of Investor Relations
Meg Hayne	President, Free People Brand
Steve Murray	Global President, Urban Outfitters Brand
Wendy McDevitt	Global Co-President, Anthropologie Brand
Wendy Wurtzburger	Global Co-President, Anthropologie Brand
Glen Bodzy	General Counsel
Frank Conforti	Controller
Barbara Rozsas	Chief Sourcing Officer
Freeman Zausner	Chief Administrative Officer
Dave Ziel	Chief Development Officer
Calvin Hollinger	Chief Information and Logistics Officer

Introduction

Glen

Good afternoon, and welcome to the URBN quarterly conference call. Before I begin today, I'd like to introduce Oona McCullough, the Company's newly appointed Director of Investor Relations. I'll ask Oona to take a brief moment to share her objectives, and review some of the changes we've made to our investor communications policies since she's joined the team.

Oona

Thank you Glen. URBN is a company that I've long admired—as a consumer equity research analyst at Blackrock, and especially as a customer. Our investor relations objective is simple—to provide clear, comprehensive, timely, and insightful communication within the guidelines of the regulatory framework. To that end, we've made the following changes:

- For the first through third quarters, we will report sales and earnings simultaneously on the third Monday following quarter's end.

- We will continue our tradition of reporting Holiday sales in early January, and will report fourth quarter sales and year-end earnings on the first Monday in March.
- Our sales and earnings release, along with a detailed management commentary, will be posted to our corporate website, www.urbanoutfittersinc.com, at 4:00 PM EST on the day of our release. The management commentary will address many of your “housekeeping” questions so that during the earnings call, you may focus your attention on more strategic issues.
- Our earnings call will take place at 5:00 PM EST on the day of the release.
- We will begin to report sales at a brand and channel level, and will post historical comparisons on our corporate website for your reference.
- The earnings call will close sharply at the end of the hour so our “one question rule” will be strictly adhered to; in the event you have additional questions, feel free to follow up with me after the call.
- Finally, as usual, the text of the conference call will be posted on the corporate website immediately following the call.

I’ve had the good fortune to meet many of you over the last several weeks and I’d like to thank you for the warm reception and for your feedback in crafting these new policies. I’ll now turn the call back over to Glen.

Glen

Thank you Oona. Also joining our call today is Eric Artz, Chief Financial Officer, and the majority of our executive management team.

Earlier this afternoon the Company issued a press release outlining the financial and operating results for the three and six month periods ending July 31, 2010. We were truly delighted to announce a series of record-breaking results for the quarter, and I will ask Eric to review the details of our performance. After that, I will finish the prepared commentary with closing remarks, then the group and I will be pleased to answer any questions you may have.

Eric

Thank you Glen. The following summarizes our Second Quarter Fiscal 2011 performance versus the comparable quarter last year:

- Net sales increased 20% to \$552 million.
- Income from operations grew 35% to \$107 million, resulting in an operating margin of 19.4%.
- Net income increased 46% to \$72 million or \$0.42 per diluted share.
- Comparable Retail Segment sales, which include our Direct-to-consumer channel, rose 11%, with increases of 13%, 24% and 9% at Anthropologie, Free People and Urban Outfitters respectively.
- Total Company comparable store sales increased 7%.

- Direct-to-Consumer sales rose 36% with all three brands posting double-digit increases.
- Wholesale revenue increased 16% to \$30 million.
- Gross profit margins improved 173 basis points, driven by a lower rate of markdowns to clear seasonal inventories, leveraging of store occupancy expense due to increases in comparable store sales and improvements in initial merchandise margins.
- Selling, general and administrative expense, expressed as a percentage of sales, declined 52 basis points to 23.2%.
- Comparable Retail Segment inventories, which include our Direct-to-Consumer channel, were 3% higher at quarter's end.
- Finally, Cash, Cash Equivalents and Marketable Securities grew by \$165 million on a year over year basis to \$749 million.

I'll now provide more detail on each of our key business metrics for the quarter, starting with sales.

New and non-comparable store sales contributed \$46 million. The Company opened 7 new stores in the quarter—3 Anthropologie stores, 1 Free People store and 3 Urban Outfitters stores—bringing the global store count to 342. We expect to open approximately 45 new stores during fiscal 2011.

Within the quarter, total Company comparable store sales were positive each month but strongest in June, followed by July. On a two year basis, total Company comparable store sales in the second quarter were consistent with the first quarter and strongest in July.

By region, sales at Anthropologie and Urban Outfitters were positive in all locations with Anthropologie strongest in the West and Urban Outfitters strongest in the South.

By store venue, sales at both Anthropologie and Urban Outfitters were strongest in the malls, likely driven by the summer season's record heat.

For stores, transaction counts increased 6%, units per transaction increased 1% and average unit selling prices were flat.

Direct-to-Consumer revenue increased 36% to \$97 million. The penetration of Direct-to-consumer sales to net sales as a whole increased more than two percentage points to 17.5%, with results largely driven by a 28% increase in website traffic to nearly 25 million visits.

For Retail Segment sales, women's apparel drove the strongest absolute comparable increases across all brands.

Wholesale Segment sales for the quarter increased 16% to \$30 million, driven by a 14% increase at Free People and a 38% increase at Leifsdottir.

I'd now like to turn your attention to gross margin, operating expense and income.

Gross margins for the quarter improved 173 basis points to 42.5%, driven by a reduction in merchandise markdowns to clear seasonal product, a lower rate of occupancy expense and improvements in initial margins. With the initial margin gain, it is important to note that comparisons were favorable to both the prior year's quarter and the first quarter of this year. The Company managed inventory well throughout the quarter, with comparable Retail Segment inventories, which include our Direct-to-Consumer channel, just 3% higher at quarter's end.

Total selling, general and administrative expenses for the quarter, as a percentage of sales, declined 52 basis points to 23.2%, driven by the control and leveraging of direct store expenses.

The Company's effective tax rate was 33.3% for the quarter versus 38.3% for the prior comparable quarter. The improved tax rate is primarily due to the favorable impact of foreign operations as well as a one-time federal rehabilitation credit earned during the quarter related to our newest building at the Company's headquarters in the Philadelphia Navy Yard. This one-time federal rehabilitation credit resulted in a \$.01 favorable impact on earnings per share for the quarter.

The Company generated an impressive 19.4% operating margin, earning a second quarter record of \$107 million in income from operations, an increase of 35% versus the same quarter last year. The Company also achieved its highest-ever net income for a second quarter—\$72 million, an increase of 46% from the prior year, with earnings per diluted share of \$0.42.

Cash, Cash Equivalents and Marketable Securities grew year to year by \$165 million to \$749 million at quarter's end, but declined by \$24 million compared to the end of the first quarter of this year. The Company repurchased and retired 2 million common shares for \$68 million during the quarter, leaving 4.8 million shares remaining on the current authorization to buy up to a total of 8 million shares.

I'll now turn the call back over to Glen.

Glen

Thank you Eric.

First and foremost, I'd like to express my gratitude to the entire URBN team for an exceptional quarter. Virtually every brand, every channel, every region and every shared service group delivered superior results. I have said that I believe challenging times have the potential to generate renewal and strength—including heightened discipline and greater creativity. I believe our second quarter results illustrate the efficacy of our vision, operating model and strategies, and most importantly, I believe they illustrate the excellence of our team.

When we discussed the economic environment during our last call, I remarked that we didn't see much change from the second half of 2009 into the first quarter of 2010, and I attributed our results to execution, as opposed to any secular changes with the consumer. While there's considerably more stability than in the fall of 2008, we believe we're facing a slow and lengthy recovery that will be punctuated by periods of uncertainty and inconsistency, thus we are focused on executing our business as nimbly as we have over the last several quarters, with an emphasis on sound inventory and expense management.

What's relatively constant, however, are the changes we've seen in our customer. Her view of luxury and value has changed profoundly in the "new normal", and thanks to new media, her level of awareness is heightened and moves at warp speed. In our world, this means the customer is looking for authenticity, scarcity and freshness—in other words, she continues to respond to truly compelling, differentiated product. We continue to see minimal evidence of price elasticity, but maximum evidence of "newness" elasticity. Put simply, the customer is more discriminating than ever.

I know the subject of sourcing is top of mind for many of you. We believe the environment has become more challenging as the balance of supply and demand has shifted throughout the year and as the manufacturing landscape has changed in China. Our organization anticipated these changes and made appropriate adjustments to our sourcing strategies, so while there's certainly pressure on the rate of our initial margin improvement, we believe there's continued opportunity to improve costs, especially over the long term.

Before we finish with our prepared remarks, I'd like to remind you of our four key growth initiatives: driving brick and mortar productivity, increasing our ecommerce penetration, accelerating international expansion and adding new brands to the URBN portfolio. It's satisfying to achieve record sales and earnings, but to do so while making substantial investments in our long term growth strategies is even more gratifying.

Since we've spent a considerable amount of time talking about the detail behind each initiative, I'll just provide some highlights today:

- We're on track with a myriad of systems implementations including Tradestone, Sterling and Merkle
- We're driving continued gains in ecommerce penetration through the successful execution of a variety of strategies
- We're laying the groundwork for a more aggressive European expansion through investment in talent, systems and logistics
- We're laying the groundwork for a 2012 entry into Tokyo
- And of course we're continuing to invest in and shape our new brands Terrain, Leifsdottir and our wedding concept

Many of you have asked me how the Company manages the breadth and complexity of our business, and how we protect our core while pursuing a multitude of growth initiatives. I've responded by saying that our Company has thrived over the years with

an organizational design and culture that engenders entrepreneurship and ownership. Our overarching financial goals haven't changed in the nearly 17 years we've been public, and our team has always collaboratively established the Company vision, objectives and strategies. As we've grown larger we've developed more formalized means of internal communication and measurement, but as always, the initiatives are managed by a broad spectrum of talented leaders throughout the organization.

I'd like to once again thank those leaders and the rest of the URBN team for a truly outstanding quarter, and thank our shareholders for their continued support.

I will now open the call to questions, and as is our custom, I ask each of you to limit yourselves to one question.

Thank you.