URBAN OUTFITTERS, INC.

First Quarter, FY'17 Conference Call
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Participants

Richard A. Hayne, Chief Executive Officer
Frank Conforti, Chief Financial Officer
David McCreight, President, URBN & CEO, Anthropologie Group
Margaret Hayne, CCO, URBN & President, Free People Brand
Trish Donnelly, CEO, Urban Outfitters Group
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Barbara Rozsas, Chief Sourcing Officer
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Oona McCullough, Director of Investor Relations

Good afternoon, and welcome to the URBN first quarter fiscal 2017 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, 2016.

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.

Before we begin today's call, I want to bring to your attention a video we have posted to our investor relations website at www.urbn.com, which highlights two newly opened expanded format Anthropologie stores. Additionally, we posted a brief slide deck that will provide you with key financial information for the quarter and year. You can find the link to both of these items under the presentations tab within the financial news and events section. The slide deck is something we plan on updating each quarter going forward. Hopefully you will find this helpful.

We will begin today's call with Frank Conforti, our Chief Financial Officer, who will provide financial highlights for the quarter. David McCreight, President, URBN and Chief Executive Officer, Anthropologie Group will provide a brief update on the Anthropologie Group. Richard Hayne, our Chief Executive Officer, will then comment on our broader strategic initiatives. Following that, we will be pleased to answer your questions.

As usual, the text of today's conference call will be posted to our corporate website at www.urbn.com .

I'll now turn the call over to Frank.

Frank Conforti

Thank you Oona, and good afternoon everyone.

I will begin my commentary discussing our fiscal 2017 first quarter results versus the prior comparable quarter. Then I will share some of our thoughts concerning our second quarter and the remainder of fiscal year 2017.

Total Company or URBN sales for the first quarter increased by 3% to a first quarter record of $763 million. This sales increase included a 1% retail segment comp, a 16% increase in Wholesale Segment sales and a $9.5 million increase in non-comp sales, including the opening of 2 net new stores in the quarter and sales from the newly acquired Vetri Family restaurants.

Please note, that unlike many other retailers we are not on a 4-5-4 calendar, and therefore, our fiscal 2017 first quarter did benefit from an extra day versus the prior comparable period, resulting from leap year.

Within our retail segment comp, the direct-to-consumer channel continued to outperform stores, posting a double-digit sales increase, driven by an increase in sessions while conversion rate was flat and average order value slightly decreased. Negative comp store sales resulted from decreased transactions and average unit selling price, while units per transaction were flat.

By brand, our retail segment comp rate increased by 2% at Urban Outfitters, was flat at the Anthropologie Group and was down 2% at Free People. Our URBN retail segment comp was fairly consistent each month with March being the strongest and April being the weakest.

Free People wholesale segment sales delivered another strong quarter, as sales rose 16% to $62 million. These results came from double-digit growth in specialty and department store doors.

Total URBN gross profit for the quarter increased 6% to $262 million. Gross profit rate, improved by 100 basis points to 34.3%. The improvement in gross profit rate was primarily driven by improvement in the Urban Outfitters and Anthropologie Group brands maintained margins, with Urban Outfitters delivering significantly lower markdowns versus the previous year. Partially offsetting these improvements was a lower gross profit rate at the Free People brand primarily driven by lower maintained margins due to higher markdowns to clear slow moving product.

Total SG&A expenses for the quarter were up 9% to $211 million. Total SG&A as a percentage of sales, deleveraged by 155 basis points to 27.7%. This SG&A deleverage was primarily due to an increase in marketing expense to support our customer acquisition and retention efforts, deleverage in direct store controllable expenses related to negative store comps, and an increase in technology related expenses used to support our omni-channel initiatives.

Operating income for the quarter decreased by 5% to $50 million, with operating profit margin deleveraging by 55 basis points to 6.6%.

Our tax rate for the quarter was 39.6% compared to 35.6% in the prior year. This increase is due to the ratio of certain foreign losses to global taxable profits in the first quarter. We are still planning our annual effective tax rate to be approximately 37% for the year and believe our fourth quarter tax rate will be lower than the annual planned tax rate.

Net income for the quarter was $29.6 million or $0.25 cents per diluted share.

Turning to the balance sheet, inventory decreased by 10% to $360 million. The reduction in inventory is due to a 10% reduction in retail segment comp inventory at cost. The decrease in retail segment comp inventory is due to improved inventory planning and control as the business continues to work towards managing to a lower weeks of supply. The reduction of inventory is not necessarily predictive of future sales growth, as we are currently doing a nice job of getting faster turns out of our inventory as shown over previous quarters.

We ended the quarter with $306 million in cash and marketable securities. During the quarter, the Company repurchased and retired 325 thousand common shares for $11 million. We repurchased and retired a total of 15.0 million common shares in fiscal year 2016 for $465 million. We have seven million shares remaining on the most recent Board of Directors share repurchase authorization. Additionally, during the first quarter we paid down $75 million of our outstanding revolver leaving $75 million currently outstanding.

As we enter the second quarter of fiscal year 2017, it may be helpful for you to consider the following:

We are planning to open a total of approximately 24 net new stores for the year, excluding our food & beverage division. For the second quarter, we are planning six new Free People stores in North America, two new Anthropologie stores in North America and one new Urban Outfitters store in Europe. For the year we are planning on opening, 4 net new Urban Outfitters stores, including 1 in Europe, 8 net new Anthropologie stores, including 2 in Europe, and 12 net new Free People stores. Additionally, we are expanding or relocating four existing Anthropologie stores in support of our new Anthropologie store format. As David McCreight will soon speak to you about, these expanded format stores give us a tremendous opportunity to please the customer more, with a broader assortment in categories like home, beauty and intimates, as well as the BHLDN wedding brand and the Terrain outdoor living brand. We are also planning on opening three new Vetri Pizzerias and one café adjacent to an Anthropologie large format.

URBN’s gross margin rate for the second quarter, could improve slightly versus the prior year. This improvement could come from improved maintained margin driven largely by the Urban Outfitters brand which could be partially offset by a maintained margin decline at the Free People brand to clear through slow moving product. This improvement would require the current May sales trend to recover closer to where we are forecasting our business for the second quarter. Quarter-to-date, May’s sales have started out slower than what we delivered for the first quarter and slower than what we had originally planned at each of our brands.

Based on our current plan, we believe SG&A could grow at the high end of a low, single-digit rate for the second quarter. This increase would be driven by direct-to-consumer channel investments related to marketing and technology, as well as store related expenses to support our square footage growth which is planned at approximately 5% for fiscal 2017. For the year, we believe SG&A could grow at a high, mid-single digit rate, with the third quarter potentially coming in higher than the annual rate due to some large incentive compensation reversals in the prior year.

Capital expenditures for fiscal 2017 are planned at approximately $170 million with approximately $10 million moving from fiscal 2016 into fiscal 2017. The total spend for fiscal 2017 is primarily driven by new, relocated and expanded stores and the completion of our new east coast fulfillment center.

Finally, our fiscal year 2017 annual effective tax rate is planned to be approximately 37%.

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 it is my pleasure to pass the call over to David McCreight, CEO of the Anthropologie Group and President of URBN.

David McCreight

Thank you Frank, and good evening everyone. I will begin my commentary with highlights from the first quarter Anthropologie Group performance and then provide a review of our long-term strategic growth initiatives.

The Anthropologie Group delivered flat retail segment comparable sales for the quarter, along with improved merchandise margins compared to the first quarter of last year. Strong, double-digit growth in the expanded categories like Home, Beauty, Intimates, Terrain and BHLDN, helped to drive these results and were partially offset by declines in certain apparel categories.

Although much has been written about the broad weakness in the apparel category, we believe we have the opportunity, regardless of industry trends, to improve the appeal of our assortment and find ways to delight her.

As discussed on previous calls, the Anthropologie apparel merchant and design team has been implementing new processes and procedures designed to provide more structure around the concept-to-customer approach, shorten the design calendar, reduce overall weeks of supply and improve product accuracy. These changes, modelled after Meg's excellent work within the Free People and Urban Outfitters' merchant and design organizations, will emphasize key looks, offer better fabric variety, elevated decoration, and a more strategic edit, which will be supported by improved in-store and digital presentations. In this past quarter, the most complete example of the concept-to-customer approach was applied to one of our key apparel categories, dresses. We expanded the choices available in stores, created dress shops in 75 locations, built digital stories, and mailed a journal focused on this category. Response to this distorted dress category outpaced our expectations with double-digit, regular price comps both in stores and online.

Additionally, during the quarter, our own brand apparel penetration increased significantly, and we experienced strong sell-throughs in some items, well above historical performance, giving us confidence in this approach. As often occurs in transition periods, it will take some time for the design, merchant, and planning teams to coalesce around our new approach, but we are encouraged by the early steps and see progress in how the apparel team is working together for future deliveries. Throughout the quarter, we took markdowns on less appealing spring apparel and exited the first quarter leaner than where we would have liked to be. Based on our learnings from spring, we have chased in to what the customer responded to and look forward to the arrival of deliveries later this month.

Moving on to the successes we have experienced over the last year in our expansion categories, including home, accessories, beauty, BHLDN and Terrain, you may recall I often refer to the tremendous opportunity the Anthropologie Group has to grow our brand by capturing share of her spend in adjacent categories and services. Our vision has been to grow within our current customers' life stage and interests by strategically expanding into specific categories based on her purchase behavior. We have spoken to you about the investments in the teams, marketing, and delivery mechanisms in order to grow existing categories, as well as to expand into these new categories. We have built a structure within the Anthropologie group where these categories have become distinct businesses under the Brand umbrella. A short year and a half since our analyst day, I remain just as convinced and even more excited about achieving the goal of doubling the group's revenue.

One of the largest contributors to our future growth plans is the home opportunity. Andrew and the home team's efforts across product, aesthetic, sourcing, and marketing have been very well-received by our customers. Each season we have refined our aesthetic and tailored our offer. Successful inroads have been made into each of our target rooms and categories. We are steadily adapting our digital experience to the needs of a home shopper. The spring home journal that you received in March was our best to date, both in terms of product assortment and creative execution. Units per order and average order value continue to climb. The response from our customers have given us momentum towards fall where we will launch our largest home offer ever, including a journal with more than 200 pages supported with digital marketing.

Similar to home, the accessories category was an untapped opportunity to build a deeper and more diverse relationship with the Anthropologie customer. We were aware of her level of spend, and we knew we had permission to participate in these categories. The right shopping experience and offer would present us with the ability to capture greater share. While the assortment is still developing, we have seen positive response to our new deliveries in shoes and jewelry and we believe we will continue to show significant growth.

Another successful category expansion launch has been Catherine and her team's efforts in building a Beauty business. While in the early days of development, we are ahead of where I expected to be at this stage. We are seeing fascinating trends in her response to our shopping experience and assortment. We continue to seek out unique offerings that appeal to her sensibilities and needs in skincare, color, and fragrance. Based on the customer's positive response to our beauty shops within stores, we will be expanding this concept to over 120 communities this summer, and look for further emphasis of beauty in our digital and social messaging.

Rounding out our category expansion are our two brands, BHLDN and Terrain. Both brands have been built around a unique and appealing product and experience. From helping make a special moment in someone's life more special, to tapping into the garden's inspirational seasonal change, both brands are delivering a remarkably engaging experience to new and current customers. These efforts when coupled with the synergies of the "Anthropologie Group" have accelerated their growth.

The momentum of all of these category and brand expansions has been achieved mostly through existing store base and direct to consumer channels. We believe to capture the full opportunity and reach the goal of doubling our revenue, we need to bring more of these products to her. As discussed over 18 months ago, in addition to a web presence, we needed to create an in-store experience to support these categories. The goal is to provide enough representation of the expanded assortments to become a destination for in-store purchases, while driving her online where she can shop the broader assortment. Success will be measured by activating a larger assortment on line, so that the combined store and digital spend of the surrounding area grows.

We are proud to announce that during the first quarter, we opened our first two expanded footprint locations, the first in Portland followed by Newport Beach. These locations are expansions of existing stores and now have approximately two and a half times more square footage than the typical Anthropologie store. This larger footprint provides us with the ability to present a broader offering in the expanded categories including a petite shop, expanded jewelry and accessories, an intimates boutique, a 800 square foot beauty shop, a full-service shoe salon, as well as over 6,000 square feet of home. Additionally, we have dramatically reduced the back-of-house in these locations to maximize the selling space and are supporting them with more frequent replenishments.

I was in each market before, during and after the re-openings to observe and evaluate the concept. I can tell you in my almost 30 years in retail, I have never seen such an enthusiastic customer response. She is travelling a greater distance, spending a longer time shopping in the store, and shopping across multiple categories. We have seen this behavior from new, reactivated, and existing customers. Average order value is up, units per transaction have increased and sales are exceeding our expectations. Even if the supporting data and results were not enough already to provide positive indication around proof of concept, one only needed to see the looks on our customers' faces or overhear their comments while gleefully shopping the new concept to know that we are headed in the right direction. And remember, many of these assortments are still developing! I do hope you had the chance, as Oona said, to watch the video available on our investor relations website of these stores. Our plans are to open 4 or more locations over the next 12 months. These locations will range from 20 to over 30,000 square feet and some will include Terrain, BHLDN and a dining experience.

Now for a quick update on my new role as President of URBN. As mentioned on the last call, continuing the growth of Anthropologie Group remains my key focus. But I am happy to report that since last we spoke, we have hired a leader for our international expansion plans. The new leadership role will be filled by Stefan Laban who will join us this summer. Stefan brings with him decades of experience expanding US brand footprints in new markets across the world. He is highly respected by those that have worked with him, and we expect he will be a key strategic partner in growing the reach of our brands.

In closing, we believe we are headed in the right direction. We have a bold strategy for future growth; we have a line of sight on re-energizing the apparel business, an expanded category strategy of material scale that is ahead of schedule, and early confirmation from our customers on the new expanded format stores. I would like to thank Dick, Meg, and thousands of team members that make URBN such a creative and dynamic environment to work. I will now pass the call over to Dick.

Dick Hayne

Thank you, David. Congratulations on the Portland and Newport Beach store expansions. Both stores looked amazing and customer response has been incredible. Sales in all categories at those stores are significantly ahead of plan and customers have responded especially well to the expanded shoe and home assortments. It's hard to overemphasize how important these results are for the future of the brand and the Company. Sales and testimonials have affirmed our strategy of giving our customer more choices and more product categories both in-store and on-line. It certainly gives us confidence to expand more stores across the U.S. These exceptional shopping experiences required well-orchestrated teamwork to create, so David, I thank you, the entire Anthropologie and the Shared Service teams for a job very well done.

Next, let me discuss the Free People brand.

As we've repeated many times, the Free People brand has also benefitted from expanding its product categories and, like its sister brand, Free People has also seen success in opening expanded stores. Last year, Free People opened stores in Dallas and Denver with 5,000 square feet of selling space. These replaced smaller stores in both markets. The extra space was used to house expanded assortments of intimates, shoes, party dresses and FP Movement. Customer response to these additional categories has been very positive and the brand intends to expand more of its smaller stores in select markets.

While expansion categories continued to perform well in the first quarter across all channels, response at retail to the core Free People apparel assortment was disappointing. The issue was less about having the correct fashion and more about having the correct distortion. The Free People merchant team played Q1 too safe and distorted their buy more to the known than to the new. Customers clearly wanted the new. As a result, total retail segment comps in the quarter retreated by 2%. In addition, the team failed to react quickly enough to the retail sales miss to plan, so inventories grew and additional markdowns had to be taken.

On a more positive note, wholesale channel sales grew by 16% on a quarter-over-quarter basis. Sales to both specialty and department store customers registered solid, double-digit gains and all categories generated increases. Once again, expansion categories grew the fastest.

Current wholesale bookings remain positive on a like-for-like basis, but the brand plans to manage future wholesale inventories more tightly given the current market turbulence. The team, therefore, anticipates good, but somewhat slower wholesale channel growth for the remainder of the year.

In summary, after producing stellar results for twelve consecutive quarters, first quarter results at the Free People brand were good, but not outstanding. I believe the team will make adjustments, including more rigorous inventory control and over the next few quarters, will, once again, realize the kind of results we have come to expect from this fashion leader.

I thank Meg, Sheila, Dave and their teams for their hard work and look forward to watching the progress of the brand this year.

Turning now to the Urban Outfitters brand, I'm happy to report that the rebuilding initiatives that began two and a half years ago are now firmly established and driving positive results. For the quarter, total retail segment comp sales increased in both North America and Europe.

Please keep in mind that the brand remained highly promotional in the first quarter last year. In Q1 this year, regular price sales rose more than 6% on a comp basis, more than enough to offset the double-digit decrease in markdown sales. By category, women's apparel was strong, accessories gained momentum throughout the quarter, and the expanded categories – intimates, beauty, shoes, home decor, electronics and entertainment – all excelled. Comp sales of men's apparel and accessories were still negative in the quarter, but made steady progress as the quarter progressed.

While delivering better comp and strong regular-price sales, the brand also realized improved IMU and the lowest quarterly markdown rate in the past ten years, which is as far back as our electronic records go. Together, these factors created hundreds of basis points of merchandise margin improvement.

Ending inventory on a weeks-of-supply basis, was the leanest it's been in years and merchandise scheduled to arrive in the second quarter shows additional IMU improvement. Thus, the team is enthusiastic about the opportunity to continue to deliver better merchandise margins in the second quarter and beyond.

During the quarter, the store teams further refined the shop-in-shop concepts to more accurately align product demand and space allocation. The shops also provided an easier shopping experience and clear messaging for the customer. I believe the Urban stores look better and fresher today than they have in many years. Better product and a better in-store experiences combined to drive improved conversion and fell just short of overcoming the high, mid-single digit decline in store traffic we experienced in Q1.

Meanwhile, all metrics in the direct-to-consumer channel remained positive. Sales and number of orders showed double-digit increases, while sessions, AOV and conversion posted strong gains as well. Across both channels the teams were able to create compelling brand marketing messages which led to increased omni-channel counts across all customer groups – new, active and reactivated.

In summary, the Urban team has made excellent progress in reinvigorating the brand over the last two and a half years. Customers are responding to:

- better product that has less redundancy within assortments,
- better product distortion by item, class and category,
- clearer and more appropriate marketing with better imagery and a bigger social media presence, and
- cleaner, less cluttered stores that house a number of clearly defined shop-in-shops.

These customer-facing improvements were accomplished by better back-of-house processes, more teamwork across functions, tighter controls and, in some instances, better talent. While everyone recognizes there is still much to be accomplished, tremendous effort on the part of the entire team has succeeded in turning this brand around.

Congratulations to Trish, Meg and the teams on both sides of the Atlantic for orchestrating this success. I look forward to seeing continued progress in the quarters ahead.

Now, let me say a few words about our customers' spending habits across all brands and what it means to URBN. For many years now we've repeated that the direct-to-consumer channel and certain product and service categories, such as home goods, intimates, beauty, entertainment and dining out, are growing and capturing a larger share of our customers' wallet. As for the apparel category, I believe she is still buying approximately the same number of items per year, but because of unit price deflation, her total annual spend on apparel is down on a year-over-year basis. This has been true for a number of years and it continued in the first quarter this year.

As a result, we believe it is important for URBN to continue to invest in the following areas:

- larger assortments and a higher penetration of proprietary products in all categories, especially in the expanded ones,
- new and enhanced capabilities, including better marketing, to support the rapidly growing and changing direct-to-consumer channel,
- more technology to better know and understand the customer and allow for more efficient operations,
- expanded stores to house the larger assortments of non-apparel product, and
- controlled international growth utilizing all of our channels of distribution.

These investments are and will be focused in the areas of merchant and creative design talent, technology capabilities, both hard and soft marketing, logistics, and data analytics.

There has been much written lately about the changes in our industry, so allow me to offer some thoughts about the macro-environment in which we operate. Obviously, the retail industry is going through a rather painful period of rationalization. Rarely have I read so many negative articles about our industry. Unlike much of what has been written, I don't believe the consumer is the problem; I think our customer is in relatively good shape.

The problem as I see it is more of a supply issue, especially in the apparel category. Simply put, America is overstored and overstocked. We have approximately 10 times more retail space per capita than our European counterparts and more direct-to-consumer choices, too. Rather than trying to differentiate their products and experiences, many retailers try to drive demand by offering constant and ever-larger price promotions that erode not just the bottom line, but brand equity as well. When that isn't enough, companies start closing stores in an attempt to 'right-size' their fleets.

The URBN brands have invested heavily in creative talent to make our products and shopping experiences unique and compelling, so demand isn't dependent solely on price-driven promotions. The success of the Anthropologie larger format stores is one example of how to win through creativity.

Also, fortunately for us, we have always been cautious, some have argued paranoid, about over-penetrating our brands. The careful, deliberate manner by which we grew the store base of all our brands now serves us well. There are few markets in which we have store redundancy.

Our brands were early direct-to-consumer adopters and while we continue to invest more in electronic shopping capabilities, we also strongly believe that bricks is synergistic with clicks and that a well-conceived and executed store strategy is a powerful competitive advantage.

Another advantage for URBN brands is that most of our offerings consist of unique products. This is increasingly important in the age of comparison shopping via the internet.

Finally, the URBN retail concepts have always been about offering an eclectic mix of multiple categories. Today, we're emphasizing this feature more than ever. Of course, this adds complexity and costs to our business model, but we do it because our customers respond positively, it differentiates our brands and it gives us flexibility to promote or demote categories as customer demand changes over time.

For these reasons I believe our brands are strategically well positioned to weather the current turbulence. As is true in any business, the best concepts are worthless without the right people to drive and execute them. I believe our teams are among the strongest and most creative in the industry and feel quite confident they will continue to deliver attractive results.

That concludes my prepared remarks. I extend my thanks and deep appreciation to all URBN associates around the world, and I thank our shareholders for their continued support. Now I turn the call over for your questions.