

URBAN OUTFITTERS, INC.

First Quarter, FY'12 Conference Call
May 16, 2011

Participants

Glen T. Senk	Chief Executive Officer
Eric Artz	Chief Financial Officer
Oona McCullough	Director of Investor Relations
Meg Hayne	Global President, Free People Brand
Wendy McDevitt	Global Co-President, Anthropologie Brand
Wendy Wurtzburger	Global Co-President, Anthropologie Brand
Glen Bodzy	General Counsel
Frank Conforti	Chief Accounting Officer
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. With me today is Eric Artz, Chief Financial Officer; Oona McCullough, Director of Investor Relations; 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 month period ending April 30, 2011.

Eric will begin today's call by providing details on our performance, I will continue the prepared commentary with closing remarks, then the group and I will be pleased to answer any questions you may have.

As usual, the text of today's conference call, along with detailed management commentary, will be posted to our corporate website at www.urbanoutfittersinc.com. I'll now turn the call over to Eric.

Eric

Thank you Glen.

The following summarizes our First Quarter Fiscal 2012 performance versus the comparable quarter last year:

- Net sales increased 9% to a first quarter record of \$524 million.
- Excluding the Leifsdottir one-time transition costs of \$3 million during the current quarter, income from operations decreased 25% to \$62 million, or an operating margin of 11.8%.
- Net income as reported was \$39 million or \$0.23 per diluted share.
- Comparable Retail Segment sales, which include our Direct-to-Consumer channel, decreased 1%, with increases of 30% and 1% at Free People and Urban Outfitters respectively, while Anthropologie decreased 6% in the quarter.
- Total Company comparable store net sales decreased 5%.
- Direct-to-Consumer comparable net sales rose 15% with direct penetration increasing to 20%.
- Wholesale net sales increased 22% to \$31 million.
- Gross profit decreased 4% to \$193 million, while gross profit margins decreased 493 basis points to 36.9%.
- Selling, general and administrative expense, expressed as a percentage of net sales, increased 96 basis points to 25.7%.
- Comparable Retail Segment inventories at cost, which include our Direct-to-Consumer channel, were 6% higher at quarter's end, while comparable store inventories increased 1%.
- Finally, during the quarter the company repurchased and retired 4.8 million common shares for \$149 million, leaving 5.7 million shares remaining on the current authorization to purchase up to 10 million shares.

Turning to our key business metrics, I'll begin by providing detail on sales for the quarter.

New and non-comparable store sales contributed \$48 million to the consolidated net sales increase. The Company opened 10 new stores in the quarter—3 Anthropologie stores; 5 Free People stores, and 2 Urban Outfitters stores.

Within the quarter, total Company comparable store sales were strongest in April, followed by February, then March.

Within North America, sales at Anthropologie and Urban Outfitters were strongest in the South and weakest in the Northeast, while sales at Free People were strongest in the West and weakest in the Northeast. In Europe, sales at Urban Outfitters were strongest in Continental Europe and weakest in Ireland.

By store type, sales at Anthropologie were strongest in lifestyle centers and weakest in malls and street locations, while Urban Outfitters was strongest in malls and lifestyle centers and weakest in street locations. Sales at Free People were strong across all venues.

The comparable store net sales decline was driven by decreases in average unit selling prices, average number of units per transaction and total transaction counts of 2%, 1% and 3%, respectively.

Direct-to-Consumer revenue increased 19% to \$102 million. The penetration of Direct-to-Consumer net sales to total Company net sales increased 150 basis points to 20%, with results largely driven by a 24% increase in website traffic to over 31 million visits.

For Retail Segment sales, intimates and home were strongest at Anthropologie, men's and home were strongest at Urban Outfitters, while all categories were strong at Free People.

Wholesale Segment sales for the quarter increased 22% to \$31 million, driven by a 15% increase at Free People and increased off-price sales at Leifsdottir.

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

Gross profit in the quarter decreased 4% to \$193 million, and the gross margin rate decreased 493 basis points to 36.9%. This decline was primarily due to increased markdowns to clear slow moving women's apparel inventory at Anthropologie and Urban Outfitters, as well as a \$2 million non-recurring loss associated with the sell-off of Leifsdottir wholesale inventories.

Total selling, general and administrative expenses for the quarter, as a percentage of sales, increased by 96 basis points to 25.7% due primarily to the deleverage of store operating costs caused by negative store comparable sales. Additional items contributing to the deleverage in the quarter were investments in new technology, planned transition costs for our new distribution and fulfillment centers in Europe and \$1 million of Leifsdottir non-recurring transition costs.

The Company's effective tax rate was 35.8% for the quarter versus 35.9% for the prior comparable period.

As we look forward to the balance of the year, while we will not provide specific guidance, it may be helpful for you to consider the following:

- We continue to plan to open 50-to-55 new stores this year.
- The productivity of our inventory continues to lag our expectations and we therefore anticipate increased markdown levels in the second quarter similar to what we experienced in the first quarter.
- We remain focused on managing our selling, general and administrative expenses in light of negative comparable sales, but we also remain committed to investing in our long term growth initiatives. Our estimated leverage point for expenses in the first half remains at an approximate 4% comparable store sales increase.
- We also remain on track with our long term capital projects, including the addition of a west coast fulfillment center and expansion of our home offices, and continue to plan for fiscal 2012 capital expenditures of \$175-\$195 million.
- Finally, we are planning our annual effective tax rate at 36.5%.

With that as a financial backdrop, I'll turn the call back over to Glen who will proceed with his closing commentary.

Glen

Thank you Eric.

Let me begin my prepared remarks by stating that the organization and I were disappointed with our overall first quarter performance. While it's true that we achieved many highlights during the quarter—including record consolidated sales, the successful launch of BHLDN, and strength in the entirety of Free People along with select categories at Anthropologie and Urban Outfitters—our performance in the all-important women's apparel and accessory divisions at Anthropologie and Urban Outfitters did not meet our expectations.

We can do better, and I want to assure you that we are keenly focused on the right priorities, namely assortment and product execution, in conjunction with achieving a compelling expression of the brands across our stores, catalogs and websites.

To help accomplish this objective, I have personally reoriented my time over the last several months, working with the merchant teams at Anthropologie and Urban Outfitters on assortment architecture, distortion strategies and our overall process from design through allocation. I'm also working to help the merchants feel emboldened again—encouraging them to move forward with conviction and to place their buys with confidence. While I always urge managed risk, now is not the time for increased conservatism or an overly cautious approach.

I have also spent a good amount of time in the area of talent development, reviewing our structure, and of course our staff. Anthropologie recently announced the addition of Judy Collinson as Executive Director of Women's Apparel and the return of Johanna Uurasjarvi to the position of Executive Creative Design Director. Judy is a world class merchant and brings a fresh perspective from her vast experience at Barneys NY, while Johanna's 10 years of prior experience with Anthropologie will enhance the already strong merchant team led by Co-President Wendy Wurtzburger.

I am also pleased to announce that Terence Bogan will join the Urban Outfitters brand as general merchandise manager of women's apparel, effective June 6th. With 18 years of history at Barneys Coop, Terence is another world class, innovative merchant, and we are excited to welcome him to the team. I'd also remind you that we are in the midst of a chief merchandising officer search for the Urban Outfitters brand, and we hope to have news on that front shortly.

Before I close, I'd like to reiterate that I continue to believe change is good for our business and that our merchants are best-in-class. Managing through this transition is a highly iterative process, however, with a complex web of interdependencies.

It takes time for the merchant and design teams, which number in the hundreds, to fully absorb the change. Once that understanding occurs, they adjust the product and continue to rebalance the assortment and buys based on real-time selling information. In tandem, the store, catalog and web teams adjust and refine their messaging across all channels. And ultimately, the customer must embrace the change, which typically occurs in an asymptotic manner.

I am confident that we are taking the necessary steps to bring our women's apparel and accessories performance back to our high standards. We are making progress—I see it—but it will take time to play out, so I anticipate the improvement to occur gradually over the course of the year. In the meantime, I want to be sure to recognize the organization's superb operational execution—from store operations to fulfillment, from technology to sourcing, from planning and allocation to finance—the performance has been outstanding.

As always, we continue to invest in our future, and our planned strategic growth initiatives for the year include:

- Opening 50-55 new stores.
- Accelerated investment in the direct channel, including incremental circulation and marketing spend based on initial learnings from our consumer insight initiative.
- Accelerated European expansion including our new distribution and fulfillment centers and accelerated store expansion in Germany.
- Continued new systems development, including the final implementation of our order management system, a new planning and allocation system, and the rollout of mobile POS systems across all three brands.
- And finally, an increased investment in BHLDN, with a second quarter launch of home furnishings, a third quarter store opening in Houston and an early 2012 store opening in Chicago.

In closing, although disappointed with our current performance, I am highly encouraged by each brand's progress, and by our teams' focus, energy and commitment. We are more confident than ever in the strength of our business model, which is based on delivering a compelling, differentiated mix of product through unique, multi-channel shopping experiences that create emotional connections with the customer. As always, I'd like to offer my heartfelt thanks to the URBN team and to our shareholders for their continued support. I will now open the call to questions, and as is our custom, we will limit the queries to one per caller.