

URBAN OUTFITTERS, INC.

Second Quarter, FY'09 Conference Call
August 14, 2008

Participants

Dick Hayne	Chairman and President
Glen Senk	Chief Executive Officer
John Kyees	Chief Financial Officer
Ted Marlow	President, Urban Outfitters Brand
Meg Hayne	President, Free People Brand
Glen Bodzy	General Counsel
Bill Cody	Chief Talent Officer
Calvin Hollinger	Chief Information Officer
Bob Ross	Controller
Freeman Zausner	Chief Administrative Officer
Dave Ziel	Chief Development Officer

Introduction

Good morning. It's my pleasure to welcome you to the URBN quarterly conference call. Joining me today is Dick Hayne, our Chairman; John Kyees, our Chief Financial Officer; Ted Marlow, our President of the Urban Outfitters Brand; Meg Hayne, our President of the Free People Brand and our senior executive staff.

Earlier this morning the Company issued a press release outlining the financial and operating results for the three and six month periods ending July 31, 2008. I will begin today's call by reading prepared commentary regarding our performance; then the group and I will be pleased to answer any questions you may have.

As usual, the text of today's conference call can be found on our corporate website at www.urbanoutfittersinc.com.

Highlights

Put simply, we couldn't be more pleased with the exceptional results our team produced during the second quarter:

- Total Company sales for the period increased by over 30% to \$454 million—the second highest quarter in our history.
- Total Company comparable store sales grew by an impressive 13%: Anthropologie, Free People and Urban Outfitters achieved 'comp' increases of 7%, 10% and 19%, respectively.
- Direct-to-consumer sales jumped by 42% despite an increase of just 8% in catalog circulation, with all three brands contributing meaningfully to the result.
- Free People's wholesale revenue increased by 14%, our 19th consecutive quarter of double-digit sales growth.
- Income from operations grew by 75% to a record-breaking \$83 million, or an operating margin of 18.3%.
- Finally, the Company's second quarter earnings increased by 79% versus the same period last year to a record \$57 million, resulting in earnings per diluted share of \$0.33.

I'll now go into more detail on each of the metrics of our business for the quarter, starting with sales:

Sales

Retail Sales for the Quarter

New and non-comparable store sales contributed \$47.0 million, accounting for 44% of the total revenue growth. The Company successfully normalized its store opening schedule, opening 12 new stores in the period—6 Anthropologie stores, 3 Free People stores and 3 Urban Outfitters stores—compared to opening five stores during the same quarter last year.

The Company achieved double-digit 'comps' every month of the quarter, with a gain in momentum throughout the period driven by Urban Outfitter's strong back-to-school trend. Eighty-eight percent of the Company's stores were 'comp' positive for the period, and while all regions experienced healthy gains, the Northeast Region led the way for all brands.

Our 'comp' performance was driven largely by a 13% increase in the number of transactions, with gains of 6%, 1% and 17% at Anthropologie, Free People and Urban Outfitters respectively. The Company's average unit selling price increased 4% in total—down 3% at Anthropologie, and up 12% and 10% at Free People and Urban Outfitters respectively. Units per transaction decreased by 3% in total—up 4% at Anthropologie, and down 3% and 7% at Free People and Urban Outfitters respectively. At

Anthropologie, the change in average unit selling price and units per transaction was primarily driven by an increase in accessories penetration; at Urban Outfitters, the metrics were largely driven by a lower penetration of markdown sales.

Throughout the quarter, all merchandise divisions were 'comp' positive in all brands, with accessories setting the pace for the second quarter in a row. There were meaningful trends across the board at all brands in the women's apparel business as well. We cannot discuss specifics, but I will say that we exited the second quarter with a healthy amount of intelligence with which to position the inventory for the second half of the year.

Now let me turn your attention to our Direct-to-consumer business. Direct sales for the quarter increased by 42% to over \$60 million, with a circulation increase of just 8%. Versus the same period last year, the penetration of Direct-to-consumer sales to total Company sales increased from 12.2% to 13.3%, and website visits were up 35% to 15.7 million, a gain of more than 4.0 million visits.

These outstanding results illustrate the success we've had with a myriad of ecommerce initiatives including our new web platform, redesigned websites at all three brands, international shipping, product reviews, video, blogs and a variety of innovative functionality and marketing techniques.

Wholesale Sales

Finally, Free People's wholesale sales increased by 14%. The increase was driven by a 5% increase in units and an 8% increase in average unit price, with department stores growing faster than specialty stores. Bookings for Fall deliveries are nicely ahead of last year, and we remain optimistic regarding the potential of our new sub-brands, We the Free and Intimately Free People.

Leifsdottir, Anthropologie's new wholesale line, shipped for the first time and generated revenue of just under \$600,000 toward the very end of the quarter. The reaction at retail has far exceeded expectation, so we are encouraged by the brand's growth prospects.

Gross Margin, SGA and Income

Gross Margin

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

Total Company gross margin advanced 373 basis points for the quarter to 41.1%. This increase, which was driven by all three brands but especially by Urban Outfitters, reflects across-the-board improvements in initial margins, markdown rates and store occupancy rates.

Total Company comparable inventory was up 3% at quarter's end. We believe our inventories are clean and that we are appropriately positioned for the second half of the year.

S. G. & A.

The Company reduced its operating expense by 95 basis points to 22.8%, principally due to the leverage of direct store controllable expenses and other fixed corporate expenses which more than offset results-based bonus compensation and our investments in our new start-up businesses, Terrain and Leifsdottir.

Income

Income from operations increased by 75% to \$83 million versus the same quarter last year, generating an 18.3% operating margin. Net income advanced by 79% to \$57 million, with earnings per diluted share growing from \$0.19 to \$0.33 versus the same quarter last year.

Initiatives

Before I close I'd like to provide a bit of qualitative commentary on each of our brands and our shared service group.

First, at Anthropologie:

- We couldn't be more pleased with the brand's stellar performance—the team executed superbly resulting in a 7% 'comp' on top of a 14% 'comp', and a profit performance that ranked amongst the best in the brand's history and its competitive peer group.
- Anthropologie's spring shoe test was successful, resulting in an extension to 42 doors this fall.
- The brand is on track with its Canadian and European expansion plans, and we are encouraged by the buzz in the press. In June of this year, for example, the Daily Mail wrote "Visitors to America can't help but fall in love with Anthropologie.....the place to head for those in the know. Frequent flyers would often pack an extra suitcase just to fill up with everything...Anthropologie is famous for its brilliant mix of the affordable and luxurious....the genius of Anthropologie is that there really is something for everyone among the quirky and unusual products." I think this piece says it all.
- Finally, the brand's CRM initiative—Anthro—continues to gain traction, with over 500,000 members in the database and a burgeoning program.

At Free People:

- We were equally pleased with the brand's superb performance—another double-digit quarter of growth for the wholesale business, its 18th consecutive quarter of retail 'comp' store sales gains (14 of which have been double-digit), the fastest growing segment of our direct business, and a profit performance that ranked amongst the best in the brand's history—all while almost doubling the store count from 11 to 21 and launching two new sub-brands, Intimately Free People and We the Free.

At Urban Outfitters:

- I'd like to begin by reading a quote from my first earnings call last year:

“I have personally spent a good amount of time visiting numerous Urban Outfitters stores, digging deep into the business, reviewing the product, getting to know the staff and working with Ted. First let me say that we are all aligned—Ted, his team and I. Second, let me say that I have rarely seen a brand franchise as powerful as Urban Outfitters. The connection Urban Outfitters enjoys with its customer is extraordinary, the energy in the store is palpable, and the brand's fashion leadership is unparalleled in the industry—there's not another brand like it, and I wholeheartedly believe the business will dramatically improve as soon as the assortment improves. This, as I said, is our most important goal, and I am tremendously excited by the opportunity of working with Ted and his team on this objective.”
- Our first step in the turnaround process, to quote Jim Collins, was “filling the seats on the bus with the right people”. Ted began by hiring Jim Brett, Liz Richardson and Sun Choe into lead positions in the business, and Jim, Liz and Sun proceeded to hire more than 40 new members to the design and buying team.
- We had an extremely large-scale and aggressive agenda that we developed to reverse the declining women's apparel and accessories businesses:
 - 1) To increase the style count while holding the sku count flat, thereby providing a more appropriate balance of silhouette, color, novelty, fabric, brand and price point.
 - 2) To manage the business on a tighter calendar, resulting in increased receipt flow, faster turns and fresher inventory.
 - 3) To manage the markdowns more effectively, resulting in better sell through, a higher penetration of regular price sales and higher inventory productivity.
 - 4) To employ a complex attribute system to optimize inventory based on trend.
 - 5) To utilize design concepts to synchronize the design and buying process, resulting in a dynamic yet cohesive, balanced and compelling assortment.

- 6) To improve our own brand execution, moving away from a tactic of “private label” towards a more strategic brand initiative featuring authentic, iconic brands.
 - 7) To initiate vendor collaborations to achieve fashion authority and offer the eclecticism for which we’ve become known.
- Kudos to Ted and the team for achieving these ambitious initiatives, achieving a spectacular ‘comp’ performance, an excellent profit performance, and most importantly, building the foundation for the business to grow and prosper for years to come.

Terrain

- Finally, Terrain has been operating for nearly four months now. For those of us who were around during Anthropologie’s inception, it’s a feeling of déjà vu. To use an English expression, our customers are “gob-smacked” by the experience—they want to move into the site, they want their gardens to look just like what they see, and they’re spending hours strolling the facility, mulling over a meal, and just all-around enjoying the experience. Just like with Anthropologie’s beginning, however, we have a lot of learning in front of us and adjustments to make, and it will take some time before the brand model is refined.

Shared Service

I’ve said that it’s our Company’s operational excellence that liberates the merchants to focus on their customers, their product and the total brand experience. Once again the shared service team delivered to the merchants, and of course, to our customer. Their accomplishments are too numerous to elaborate on, but suffice to say that we continue to make great strides with talent acquisition and development, information technology, concept-to-market, all areas of logistics, real estate and development and finance. Each of our teams are best in class and it’s an honor to work with them.

Conclusion

If it sounds like I’m bursting with pride you’re correct. When investors ask me about the biggest difference between being a brand president versus the CEO, I respond that it’s the people. Leadership is certainly critical at all levels of our Company, but at the brand level, my biggest responsibility was the stewardship of the brand, and as part of creating the brand experience, I spent a good portion of my time on the assortment, inventory management and the product itself. I’m endeavoring to be a different kind of CEO—one that spends his time developing the leaders of our brands and the future leaders of our business, so I would say that my primary focus has shifted from the product to the people.

In fact, as I progress through my second year as CEO, I am continually reminded that it is our employees who enable our Company to thrive. All 11,000-plus employees are custodians of our brand—our business is very much the result of a collaborative and shared vision.

The first time I entered Urban Outfitter's offices some 16 years ago I was struck by the diversity and breath of talent, and by an unprecedented level of passion, creativity, entrepreneurship and extraordinary commitment to excellence. Dick had created an environment I couldn't wait to work in, and it is my number one priority to continue to build on that culture.

Our definition of the Company's core competency has also been constant—to create emotional connections with our customers through the creation of compelling, differentiated experiences. Our product offering is critical, but we believe the experiential aspect of our strategy is what truly differentiates us from other retailers.

We believe the Company has built three of the most recognized, distinct and compelling brands in the industry—three brands that have consistently inspired a profound level of customer loyalty. Equally exciting, each brand has significant opportunity to grow through multi-channel expansion and brand extensions, and we now have Terrain to provide another means of growth.

Our overarching goal has been constant and simple: to grow revenue by at least 20%, to grow profit at a faster rate than sales, and to reach a minimum of 20% operating margin. We have achieved our growth goals consistently over time and we remain confident in our prospects going forward.

As always, the leadership team and I couldn't be more excited about the prospects ahead, and we look forward to continuing to inspire our customers and reward our shareholders and employees.

Q & A

I will now open the call to questions, and as is our custom, I ask each of you to limit yourselves to one question. I apologize in advance; if you ask more than one question, we will respectfully respond only to your first query.