

## Urban Outfitters

# Holiday strong at Anthro and FP; new UO president could stabilize sales

Reiterate Rating: BUY | PO: 45.00 USD | Price: 35.90 USD

## Reiterate Buy as Anthro and FP continue to outperform

We reiterate our Buy rating on URBN after a strong holiday, led by Anthropologie (Anthro) and Free People (FP). Holiday (Nov/Dec) sales were up 10% y/y. Retail sales were up 8%, driven by a 6% increase in comps. We are raising our F24/25E EPS by 5%/7% to \$3.32/\$3.53 to reflect the record holiday sales and further margin expansion potential. We are also raising our PO to \$45, still 6x EV/EBITDA (in line with peer average) on higher estimates.

## FP movement +45%, while Anthro maintains strength

We are encouraged by the continued strength at Anthro and FP, as Anthro comps increased 14% and FP comps surged 20% in the holiday period (FP movement comps rose 45%). UO comps decreased 13%, slightly above our -14% est for 4Q. UO cleared through excess inventory and will exit the quarter cleaner, setting up for a better flow of newness and lower markdowns in F25. Nuuly (clothing subscription service) net sales increased 71% during the holiday period driven by a 58% increase in subscriber base y/y.

## GM improvement ahead of plan driven by IMU initiatives

We hosted investor meetings with Frank Conforti, COO and Melanie Marein-Efron, CFO at the ICR conference in Orlando. We are raising our gross margin (GM) forecast by 50bp to +390bp to reflect improved IMU from cross functional initiatives and continued benefit from lower freight. Cross functional initiatives include deeper fabric positioning, improved mode mix, 3D technology to send samples back digitally. We still see 100bp of additional IMU opportunities (1H25 weighted) and the potential for less markdown pressure at UO (2H25 weighted). In our model, this is modestly offset by SG&A deleverage, which will likely persist until UO stabilizes.

## New head of UO North America to turn around brand

URBN also announced the much awaited appointment of its new UO brand North America head effective in Feb. Shea Jensen brings over 30 years of retail experience from Nordstrom and Good American. We expect Jensen's expertise in merchandising and innovation to lead the improvement in product offering and strengthening of marketing that is needed to turn UO.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.13	1.70	3.32	3.53	3.85
EPS Change (YoY)	NM	-45.7%	95.3%	6.3%	9.1%
Consensus EPS (Bloomberg)			3.20	3.41	3.54
DPS	0	0	0	0	4.00
Valuation (Jan)					
P/E	11.5x	21.1x	10.8x	10.2x	9.3x
Dividend Yield	0%	0%	0%	0%	11.1%
EV / EBITDA*	6.0x	9.3x	6.0x	5.3x	4.9x
Free Cash Flow Yield*	2.8%	-1.6%	9.6%	8.2%	9.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

08 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	42.00	45.00
2024E Rev (m)	5,121.4	5,173.3
2025E Rev (m)	5,452.7	5,482.9
2026E Rev (m)	5,774.4	5,818.7
2024E EPS	3.17	3.32
2025E EPS	3.28	3.53
2026E EPS	3.58	3.85

Lorraine Hutchinson, CFA

Research Analyst

BofAS

+1 646 855 0951

lorraine.hutchinson@bofa.com

Alice Xiao

Research Analyst

BofAS

+1 646 743 0227

alice.xiao@bofa.com

### Stock Data

Price	35.90 USD
Price Objective	45.00 USD
Date Established	8-Jan-2024
Investment Opinion	B-1-9
52-Week Range	24.73 USD - 38.13 USD
Mkt Val (mn) / Shares Out (mn)	3,512 USD / 97.8
Free Float	73.6%
Average Daily Value (mn)	74.45 USD
BofA Ticker / Exchange	URBN / NAS
Bloomberg / Reuters	URBN US / URBNOQ
ROE (2024E)	16.0%
Net Dbt to Eqty (Jan-2023A)	-21.3%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

UO: Urban Outfitter brand

HSD: high single digit

LSD: low single digit

IMU: initial markup

ICR: Integrated Corporate Relations

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Timestamp: 08 January 2024 08:11PM EST

# iQprofile<sup>SM</sup> Urban Outfitters

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.5%	5.8%	10.5%	10.1%	10.0%
Return on Equity	19.3%	9.0%	16.0%	14.6%	13.9%
Operating Margin	9.0%	4.7%	7.9%	8.1%	8.3%
Free Cash Flow	97	(57)	336	288	345

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	0.9x	1.8x	1.3x	1.4x
Asset Replacement Ratio	2.5x	1.9x	2.2x	1.2x	1.1x
Tax Rate	23.2%	27.8%	24.7%	25.0%	25.0%
Net Debt-to-Equity Ratio	-25.5%	-21.3%	-28.4%	-36.3%	-43.6%
Interest Cover	NM	42.4x	NA	NA	NA

## Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,549	4,795	5,173	5,483	5,819
% Change	31.9%	5.4%	7.9%	6.0%	6.1%
Gross Profit	1,494	1,427	1,745	1,873	2,003
% Change	73.1%	-4.5%	22.3%	7.4%	6.9%
EBITDA	514	329	512	579	627
% Change	373.0%	-36.0%	55.5%	13.1%	8.3%
Net Interest & Other Income	(4)	(5)	6	3	5
<b>Net Income (Adjusted)</b>	<b>311</b>	<b>160</b>	<b>313</b>	<b>334</b>	<b>367</b>
<b>% Change</b>	<b>NM</b>	<b>-48.6%</b>	<b>95.8%</b>	<b>6.9%</b>	<b>9.7%</b>

## Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	311	160	313	334	367
Depreciation & Amortization	106	102	102	136	143
Change in Working Capital	(273)	(347)	95	(22)	(4)
Deferred Taxation Charge	(3)	(3)	0	0	0
Other Adjustments, Net	219	231	56	0	0
Capital Expenditure	(262)	(200)	(230)	(160)	(160)
<b>Free Cash Flow</b>	<b>97</b>	<b>-57</b>	<b>336</b>	<b>288</b>	<b>345</b>
<b>% Change</b>	<b>-23.5%</b>	<b>NM</b>	<b>NM</b>	<b>-14.3%</b>	<b>19.6%</b>
Share / Issue Repurchase	(64)	(119)	(8)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	446	383	602	890	1,235
Trade Receivables	64	70	76	80	85
Other Current Assets	776	785	778	823	852
Property, Plant & Equipment	1,145	1,188	1,325	1,348	1,366
Other Non-Current Assets	1,361	1,257	1,277	1,290	1,304
<b>Total Assets</b>	<b>3,791</b>	<b>3,683</b>	<b>4,057</b>	<b>4,431</b>	<b>4,842</b>
Short-Term Debt	0	0	0	0	4
Other Current Liabilities	981	890	918	957	1,001
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	113	115	162	162	162
<b>Total Liabilities</b>	<b>2,046</b>	<b>1,890</b>	<b>1,938</b>	<b>1,977</b>	<b>2,025</b>
<b>Total Equity</b>	<b>1,746</b>	<b>1,793</b>	<b>2,119</b>	<b>2,454</b>	<b>2,820</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,791</b>	<b>3,683</b>	<b>4,057</b>	<b>4,431</b>	<b>4,845</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Retailing-Specialty

## Company Description

Urban Outfitters is a specialty retailer and wholesaler of unique private and third-party apparel, accessories and homegoods. It has three main concepts, Urban Outfitters, Anthropologie and Free People, as well as Terrain and BHLDN. We estimate that the company's store base is underpenetrated and has ample room to grow for the foreseeable future.

## Investment Rationale

Urban is one of the most appealing growth stories in specialty retail, in our opinion. Its three proven concepts each have room for margin expansion and its products are differentiated and compelling. A recovery in sales productivity levels at key brands and improving operating margins provide earnings growth potential.

## Stock Data

Average Daily Volume

2073,922

## Quarterly Earnings Estimates

	2023	2024
Q1	0.33A	0.56A
Q2	0.64A	1.10A
Q3	0.40A	0.88A
Q4	0.34A	0.77E



## Exhibit 1: URBN Income Statement

We reiterate our Buy rating on URBN after a strong holiday, led by Anthropologie (Anthro) and Free People (FP). Holiday (Nov/Dec) sales were up 10% y/y.

Income Statement	1Q 23	2Q 23	3Q 23	4Q 23	FY 2023	1Q 24	2Q 24	3Q 24	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E
	Apr	Jul	Oct	Jan		Apr	Jul	Oct	Jan		Apr	Jul	Oct	Jan	
Urban Outfitter Stores	357.7	396.4	367.6	425.6	1,547.3	308.7	346.4	324.4	354.4	1,333.9	264.0	310.6	333.4	373.4	1,281.4
Anthropologie Stores	419.7	479.2	484.2	602.9	1,985.9	473.6	530.1	549.8	690.1	2,243.7	515.6	576.8	568.6	710.8	2,371.9
Free People	245.8	271.4	280.7	306.2	1,104.0	273.7	331.2	331.8	372.9	1,309.6	306.3	393.6	373.3	420.1	1,493.4
Nuuly	22.8	28.8	35.3	42.7	129.6	51.5	55.8	65.5	81.2	254.0	61.8	67.0	78.6	97.4	304.7
Menus & Venus	5.9	7.5	7.7	7.2	28.3	6.1	8.7	9.7	7.5	32.0	7.1	9.1	7.4	7.9	31.5
Net sales	1,051.9	1,183.4	1,175.3	1,384.6	4,795.2	1,113.7	1,272.2	1,281.2	1,506.2	5,173.3	1,154.8	1,357.1	1,361.3	1,609.7	5,482.9
COGS & occupancy	728.6	808.8	818.3	1,012.3	3,368.0	742.4	816.6	826.8	1,042.4	3,428.3	764.1	864.4	875.0	1,106.0	3,609.5
Gross profit	323.3	374.6	357.0	372.3	1,427.2	371.2	455.6	454.4	463.8	1,745.0	390.7	492.8	486.2	503.7	1,873.4
SG&A expense	277.1	288.7	299.7	335.1	1,200.6	299.8	323.5	345.4	366.9	1,335.7	320.5	351.6	367.0	392.1	1,431.2
Income from operations	46.2	85.8	57.3	37.2	226.6	71.4	132.1	109.0	96.9	409.3	70.2	141.2	119.2	111.6	442.2
Other income/ (expense)	-2.0	-2.3	-5.0	3.9	(5.3)	1.0	3.4	0.7	1.0	6.1	0.8	0.6	1.0	1.0	3.4
Income before income taxes	44.2	83.6	52.3	41.2	221.3	72.4	135.5	109.7	97.9	415.5	70.9	141.8	120.2	112.6	445.6
Income tax expense	12.7	24.1	15.1	9.7	61.6	19.6	31.5	26.7	25.1	102.8	17.7	35.5	30.1	28.1	111.4
Tax rate	28.7%	28.8%	28.8%	23.6%	27.8%	27.1%	23.3%	24.3%	25.6%	24.7%	25.0%	25.0%	25.0%	25.0%	25.0%
Net income	31.5	59.5	37.2	31.5	159.7	52.8	104.0	83.0	72.8	312.6	53.2	106.4	90.2	84.4	334.2
										5%					7%
<b>Earnings per share</b>	<b>\$0.33</b>	<b>\$0.64</b>	<b>\$0.40</b>	<b>\$0.34</b>	<b>\$1.70</b>	<b>\$0.56</b>	<b>\$1.10</b>	<b>\$0.88</b>	<b>\$0.77</b>	<b>\$3.32</b>	<b>\$0.56</b>	<b>\$1.12</b>	<b>\$0.95</b>	<b>\$0.89</b>	<b>\$3.53</b>
Basic shares outstanding	95.5	93.0	92.2	92.2	93.2	92.5	92.7	92.8	92.6	92.7	92.5	92.7	92.9	93.1	92.8
Diluted shares outstanding	96.3	93.6	93.0	93.6	94.2	93.8	94.2	94.4	94.6	94.3	94.5	94.7	94.9	95.1	94.8
<b>Margins</b>															
Gross profit margin	30.7%	31.7%	30.4%	26.9%	29.8%	33.3%	35.8%	35.5%	30.8%	33.7%	33.8%	36.3%	35.7%	31.3%	34.2%
bp change y/y	(168)	(595)	(416)	(68)	(308)	260	416	509	390	397	50	50	25	50	44
GM vs. 2020	(39)	(117)	(214)	(290)	(173)	221	299	295	100	224					
SG&A expense	26.3%	24.4%	25.5%	24.2%	25.0%	26.9%	25.4%	27.0%	24.4%	25.8%	27.8%	25.9%	27.0%	24.4%	26.1%
bp change y/y	185	113	121	63	118	59	103	146	16	78	83	48	0	0	28
% change y/y	22.0%	7.2%	9.1%	6.7%	10.6%	8.2%	12.0%	15.2%	9.5%	11.3%	6.9%	8.7%	6.3%	6.9%	7.2%
SG&A vs 2020	21.0%	21.4%	21.9%	19.1%	20.8%	30.9%	36.0%	40.5%	30.4%						
Operating income	4.4%	7.3%	4.9%	2.7%	4.7%	6.4%	10.4%	8.5%	6.4%	7.9%	6.1%	10.4%	8.8%	6.9%	8.1%
bp change y/y	(353)	(707)	(537)	(131)	(426)	201	313	363	374	319	(33)	2	25	50	15
<b>Y/Y Growth</b>															
Net sales	13.4%	2.2%	3.9%	3.9%	5.4%	5.9%	7.5%	9.0%	8.8%	7.9%	3.7%	6.7%	6.3%	6.9%	6.0%
SG&A	22.0%	7.2%	9.1%	6.7%	10.6%	8.2%	12.0%	15.2%	9.5%	11.3%	6.9%	8.7%	6.3%	6.9%	7.2%
EBIT	-37.1%	-48.3%	-50.5%	-30.1%	-44.5%	54.4%	53.9%	90.1%	160.1%	80.6%	-1.7%	6.9%	9.4%	15.2%	8.0%
<b>Earnings per share</b>	<b>-39.3%</b>	<b>-50.3%</b>	<b>-55.2%</b>	<b>-19.0%</b>	<b>-45.8%</b>	<b>72.0%</b>	<b>73.8%</b>	<b>119.6%</b>	<b>128.9%</b>	<b>95.5%</b>	<b>0.0%</b>	<b>1.8%</b>	<b>8.1%</b>	<b>15.4%</b>	<b>6.3%</b>

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Urban Outfitters (URBN)

Our \$45 price objective is based on 6x our F25 (C24) EV/EBITDA estimate. This is in line with the peer average and reflects its strategic positives (small store base, high ecommerce penetration, strong customer loyalty, clean balance sheet).

Downside risks to achieving our price objective are if comps decelerate, preventing gains in productivity and operating margins. The stock could surpass our price objective if comps rebound more quickly than expected in coming quarters.

## Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
<b>NEUTRAL</b>				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
<b>UNDERPERFORM</b>				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA

## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

*IQmethod<sup>SM</sup>* is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *IQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*IQdatabase<sup>®</sup>* is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

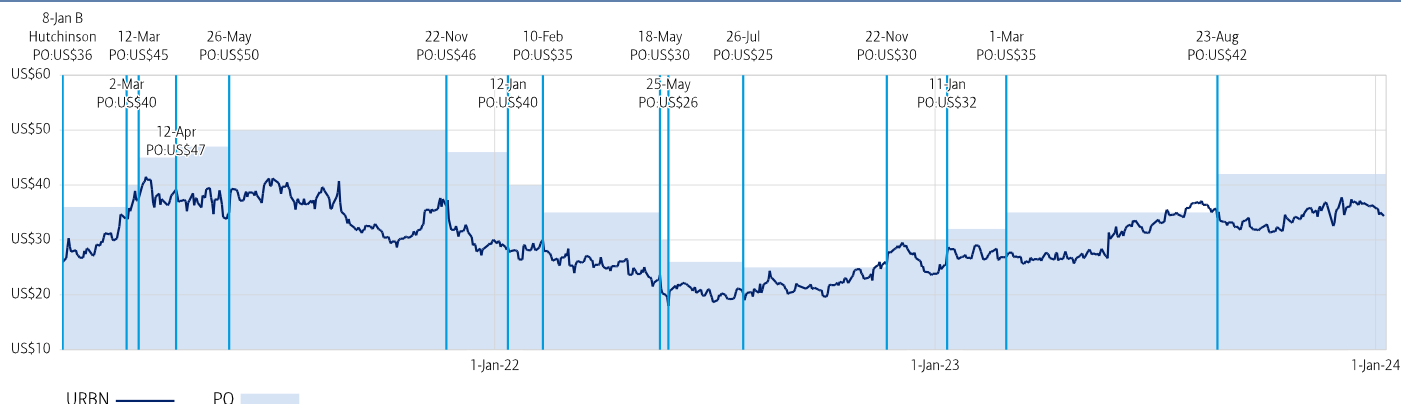
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# Disclosures

## Important Disclosures

### Urban Outfitters (URBN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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