

## Bloomberg Intelligence

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# Urban Outfitters' Curation, Storytelling Fuel Growth

Read Research Report: Urban Outfitters Equity Research



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Free People, Anthropologie Gains Mask Urban Outfitters' Slide

(Bloomberg Intelligence) -- Urban Outfitters' 2025 adjusted operating margin may reach 10% vs. 7.7% in 2023 on potentially lower markdowns at its namesake, better operating practices and Nuuly's rental growth. It's delivering a steady stream of on-trend new merchandise to compel purchases at its Anthropologie and Free People brands, driving strong 1H comparable-sales gains (up 8.4% and 11.5%) that offset the Urban brand's 11.4% decline. (09/17/24)

### 1. Four Brands Blooming; One Finding Roots to Grow

Urban Outfitters' growth plan is rooted in Anthropologie's and Free People's (including FP Movement activewear) curation of broad yet shallow apparel assortments and obtaining new customers with digital storytelling via social media and YouTube content. The Nuuly segment leverages this curation to offer an extensive rental collection to a growing subscriber base (more than 250,000 average active users). Comparable sales are up at four of the company's five brands. The fifth, Urban Outfitters, is still negative but improving sequentially now that Shea Jensen, former president of Good American, is leading its revival. (09/17/24)

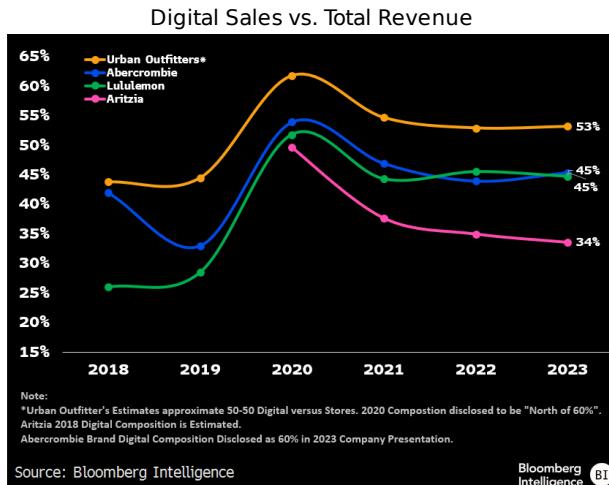
#### Key Points:

- Digital About 50% of Sales; Own Brands 55-59%
- Anthropologie/Terrain/BHLDN (239 Stores), 43% of Revenue; Targets Women 28-45 With Household Income (HHI) of \$100,000-\$150,000
- Free People, FP Movement (205 Stores), 25% of Sales; Aimed at 25-30 Year Olds (Mothers, Daughters) With \$100,000-\$150,000 in HHI Income
- Urban Outfitters (263 Stores), 26% of Sales, Targets College Students 18-25 With HHI Near \$100,000
- Nuuly (Rent) 5% of Revenue and Averages Over 250,000 Subscribers
- North America 87.5% of Sales; International 12.5%
- Sourcing: 5,000 Vendors; 20-25% From India, Pakistan

### 2. Urban Outfitters' Digital Leads Growth Amid Vast Offerings

Urban Outfitters' 4Q digital-sales growth outpaced stores, up high-single digits vs. mid-single digits year over year. The gain was mostly associated with online's more-expansive assortment, particularly at Free People. Online (excluding wholesale) is about 50% of revenue, with Free People's digital revenue 70-75% of its direct business. Abercrombie's Hollister store sales rose more than digital since its teen cohort prefers shopping online then buying in store. (03/19/24)

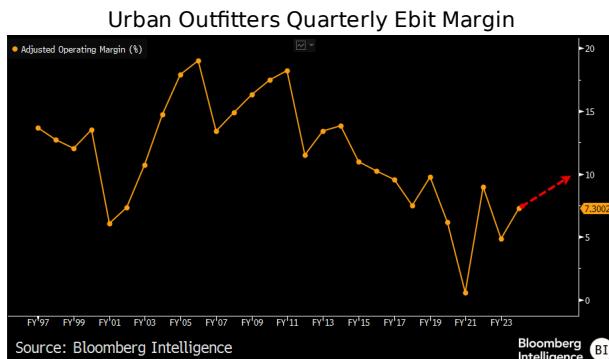
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### 3. Margin Has 100-Bp Upside Opportunity

Urban Outfitter's adjusted Ebit margin, which rose 281 bps year over year to 7.7% in 2023, could increase another 100 bps in 2024 vs. consensus' 49 bps. That's due to lower expected markdowns (50-75 bps) and operating leverage on fixed costs (25 bps or more), offset in part by a slightly higher selling, general and administrative rate on Urban brand sales declines.

The company indicated that once it can arrest sales declines at its namesake, reaching its 10% operating-margin goal might be doable by 2025, we believe, now that Nuuly is profitable and if it maintains an accelerated growth rate. (03/19/24)



### 4. Marketing Campaigns Drive Double-Digit Traffic

Urban Outfitter's core brands -- Anthropologie, Free People and Nuuly -- could keep drawing new customers not only on compelling assortments, but robust messaging across media channels and email. The company has been a leader in digital marketing and attributes its comprehensive campaigns as a key tenet in bringing new customers to Anthropologie (26% more in 4Q) and Free People, garnering robust sales.

In our channel checks, we've seen emails that feature inspired storytelling with new fashion and fresh assortments in stores largely absent from markdowns and promotions. (03/19/24)

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### Bloomberg Transcript

"Anthropologie and Free People brand's marketing efforts helped to drive double-digit traffic gains to the store and digital channels, while Nuuly's marketing campaigns helped to produce over 50% active subscriber growth."

Frank J. Conforti - Co-President and COO, Urban Outfitters  
2Q Earnings call transcript, Aug. 21, 2024

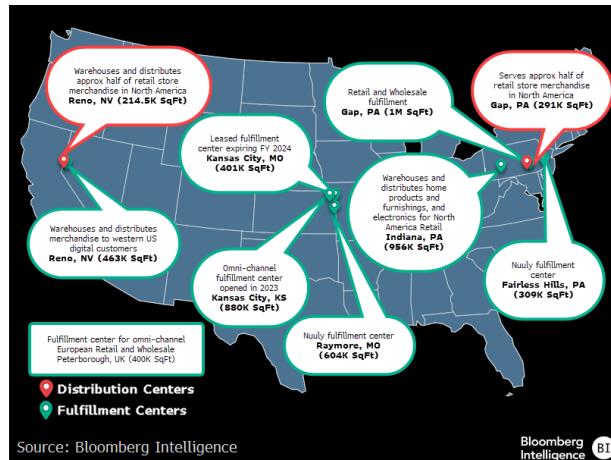
Quote located on page 2, click to view entire transcript

## 5. Urban Outfitters' Logistics Modernizing, Expanding

Urban Outfitters' new modernized 880,000 square-foot fulfillment center in Kansas City, Kansas, could start adding to margin in 2024 when a temporary facility is closed, given the new one can process inventory far faster. To support Nuuly's rapid growth, a new 604,000-square-foot leased fulfillment center in Raymore, Missouri, is set to open in early 2024, capable of serving over 400,000 subscribers. This brings total Nuuly-dedicated facilities to three, including a 309,000-square-foot center in Bristol, Pennsylvania, and a 227,000-square-foot warehouse in nearby Fairless Hills. The company also owns (in-fee) four facilities, three fulfillment centers and one distribution center.

Urban sources from 5,000 vendors worldwide, with no single supplier constituting 10%. India and Pakistan make up about 25-30% of products sourced. (03/19/24)

Distribution Centers, Store Locations



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