

Urban Outfitters Inc. (URBN)

\$20.04 (As of 08/14/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/20/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: C

Summary

Shares of Urban Outfitters have declined and underperformed the industry on a year-to-date basis. Much of this downside is caused by the dismal first-quarter fiscal 2021 preliminary results. The company reported loss per share in the quarter, with both the top and the bottom line declining year over year. The coronavirus pandemic had a profound impact on Urban Outfitters' first-quarter results. While lower sales and margins marred the bottom-line performance, decline in comparable Retail segment sales and sales across all brands weighed on the top line. Moreover, Urban Outfitters' soft margin performance persisted in first-quarter fiscal 2021. Although management remains encouraged by its robust digital capabilities and store-growth efforts, it projects total comp store sales to decline more than 60% in the fiscal second quarter.

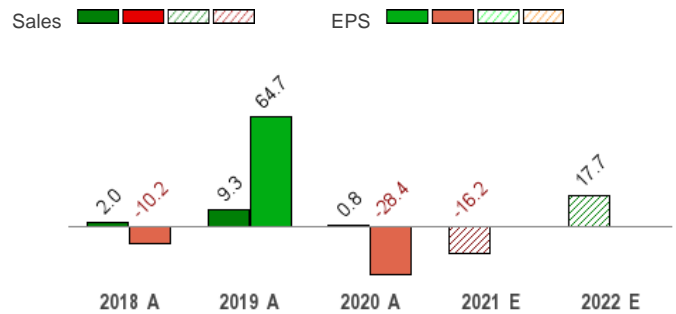
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.41 - \$12.28
20 Day Average Volume (sh)	2,339,027
Market Cap	\$2.0 B
YTD Price Change	-27.8%
Beta	1.30
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Bottom 6% (236 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-403.9%
Last Sales Surprise	-8.2%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	08/25/2020
Earnings ESP	-12.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	933 E	946 E	905 E	1,153 E	3,929 E
2021	588 A	690 E	910 E	1,136 E	3,339 E
2020	864 A	962 A	987 A	1,170 A	3,984 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.24 E	\$0.44 E	\$0.12 E	\$0.48 E	\$1.52 E
2021	-\$1.31 A	-\$0.28 E	\$0.26 E	\$0.45 E	-\$0.97 E
2020	\$0.31 A	\$0.61 A	\$0.56 A	\$0.50 A	\$1.97 A

*Quarterly figures may not add up to annual.

P/E TTM	55.7
P/E F1	NA
PEG F1	NA
P/S TTM	0.5

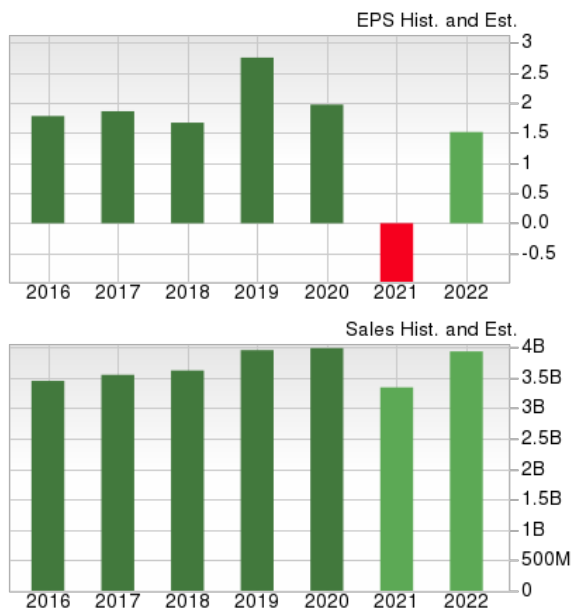
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/14/2020. The reports text is as of 08/17/2020.

Overview

Founded in 1970 and based in Philadelphia, Pennsylvania, Urban Outfitters Inc. (URBN) is a lifestyle specialty retailer that offers fashion apparel and accessories, footwear, home décor and gifts products. The company's merchandises are generally sold directly to consumers through stores, catalogs, call centers and e-commerce platforms. The company has operations in the United States, Canada and Europe.

The company primarily reports through two segments: 1) Retail segment (91% of fiscal 2019 total sales), which comprises brands such as Urban Outfitters, Anthropologie, Free People, Terrain and BHLN, and 2) Wholesale segment (9% of fiscal 2019 total sales), which is better described through Free People wholesale division (established in 1984) that designs, develops and markets contemporary casual attire for women. Free People, Anthropologie Group and Urban Outfitters wholesale sell their products through approximately 2,300 department and specialty stores worldwide, digital businesses and the Company's Retail segment.

As of Apr 30, 2020, the company operated 249 Urban Outfitters stores in the United States, Canada and Europe, offering apparel, footwear and accessories to younger men and women in the age bracket of 18 to 28 years; 233 Anthropologie Group stores in the United States, Canada and Europe, offering casual clothes and accessories, shoes, home furnishings targeted at women in the age group of 28 to 45 years; 144 Free People stores in the United States, Canada and Europe, offering private label branded merchandise that includes apparel, intimates, shoes, accessories and gifts for women aged between 25 and 30 years; 11 Menus & Venues restaurants, 5 Urban Outfitters franchisee-owned stores, one Anthropologie Group franchisee-owned store, and one Free People franchisee-owned store.



Reasons To Sell:

▼ **Q1 Loss, Y/Y Decline in Sales:** Shares of Urban Outfitters have plunged 27.8% compared with industry's decline of 18% year to date. Much of this downside was caused by dismal first-quarter fiscal 2021 preliminary results. The company reported loss per share in fiscal first quarter, with both the top and the bottom line declining year over year. The coronavirus pandemic had a profound impact on Urban Outfitters' first-quarter preliminary results. While lower sales and margins marred the bottom-line performance, decline in comparable Retail segment sales and sales across all brands weighed on the top line. By brand, net sales were down 34.1% at Anthropologie Group, 42.2% at Free People and 25.1% at Urban Outfitters. Moreover, Menus & Venues net sales were down 50% from the prior-year quarter. Segment-wise, net sales fell roughly 28% at Retail on account of store closures and 74% at Wholesale.

Urban Outfitters reported loss per share in first-quarter fiscal 2021. Lower sales and margins adversely impacted the bottom-line performance in the reported quarter.

▼ **Soft Margins:** Urban Outfitters' soft margin performance persisted in first-quarter fiscal 2021. In the quarter under review, preliminary gross profit was down 95.6% from the year-ago quarter, while gross margin contracted significantly from 31.1% to 2% on deleveraged store occupancy costs. Although SG&A expenses dropped 8.1%, as a percentage of net sales, the metric increased 930 basis points to 35.8%. This deleverage can be attributed to higher store and field management costs coupled with escalated marketing expenses owing to increased digital channel penetration. Further, the company recorded operating loss of \$198.7 million against operating profit of \$40 million in the year-ago quarter. During the fourth and third quarter of fiscal 2020, gross margin contracted 351 bps and 217 bps, respectively, while operating margin fell 470 bps and 230 bps.

▼ **Soft Q2 Comps View:** Although the company is focused on reopening stores, management projects total comp store sales decline of more than 60% in the fiscal second quarter. It cited the reason that majority of its stores will be open for part of the impending quarter and sales ramp-up is slow. During the first quarter of fiscal 2021, comparable Retail segment net sales fell roughly 28% on account of negative retail store sales due to store closures. Brand-wise, comparable Retail segment net sales declined 19% at Free People, 33% at the Anthropologie Group and 24% at Urban Outfitters. Further, Wholesale segment sales declined nearly 74% from the year-ago quarter.

▼ **Fashion Obsolescence:** Fashion obsolescence remains the key concern for Urban Outfitters' business model, which includes sustained focus on product and design innovation. The taste and preferences of people are ever changing, and thus one which is in fashion may become out of fashion, with the entrance of new trendier assortments in the market. So, there remains a challenge to constantly revamp its assortments for the fear of losing market share against other big players who may pour the market with more in trend collections. If the company is not successful in its approach, there is a fear that this may have an adverse impact on the company's sales and margins.

Risks

- **Multi-brand and Multi-channel Retailer:** Being a multi-brand and multi-channel retailer, Urban Outfitters offers flexible merchandising strategy. The company also has a significant domestic and international presence with rapidly expanding e-commerce activities. The company remains committed to improve comparable-store sales performance, sustain investments in direct-to-consumer business, enhance productivity in existing channels, add new brands and optimize inventory level. The company made an unprecedented move by acquiring Philadelphia's The Vetri Family group of restaurants, including the Pizzeria Vetri chain. The attempt is seen as a part of the company's strategy to target and attract millennials to the stores. Further, to enhance reach Anthropologie and Nordstrom entered into a partnership, whereby more than 200 items from Anthropologie Home are now available at selected Nordstrom full-line stores and on Nordstrom.com. The Anthropologie Home collection comprise categories including kitchen, dining and entertaining, bed and bath textiles, room decor, stationery and hardware.
 - **Rational Store-Growth Efforts:** The company remains rational in opening new stores. During fiscal 2019, the company opened 18 retail locations while shuttered 11 locations. During the said period, it also opened five franchisee-owned stores. Encouragingly, during fiscal 2020, the company opened 26 retail outlets comprising 10 Free People stores, nine Anthropologie Group stores and seven Urban Outfitters stores. Simultaneously, it shuttered 12 retail locations — five Anthropologie Group stores, four Urban Outfitters stores, one Free People store, and two Food and Beverage restaurants. In the aforementioned period, two franchisee-owned stores were also inaugurated — one Anthropologie Group and Urban Outfitters store each.

During the first three months of fiscal 2021, the company opened four retail outlets, two each for Anthropologie Group and Urban Outfitters. Simultaneously, it shuttered one Urban Outfitters store.
 - **Debt Analysis:** Urban Outfitters' cash and equivalents (including marketable securities) at the end of first-quarter fiscal 2021 increased nearly 51% sequentially to \$653.8 million. Notably, the company's cash position remains sufficient to meet current portion of operating lease liabilities of about \$243.7 million as of Apr 30, 2020. Further, the company's non-current portion of operating lease liabilities of \$1,088.9 million, as of Apr 30, has decreased 4.3% on a sequential basis. Moreover, the company has borrowed \$220 million to protect its cash reserves. It has also been lowering non-payroll costs, cancelling or delaying projects and eliminating bonuses for fiscal 2021.
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Last Earnings Report

Urban Outfitters Reports Q1 Loss

Urban Outfitters released preliminary first-quarter fiscal 2021 results, wherein it reported loss per share. Also, the top and the bottom line declined from the year-ago quarter. Margins were also dismal in the reported quarter.

Management informed that "These preliminary financial results include a provisional impairment expense and the corresponding tax effects, all of which are currently being evaluated. While these items are non-cash in nature, a potential change to the provisional impairment expense could materially impact the reported results." Further, the company is focused on reopening stores and expects to reopen nearly 100 more by the first week of June. However, management projects total comp store sales decline of more than 60% in the fiscal second quarter, citing that majority of its stores will be open for part of the impending quarter and sales ramp-up is slow.

On the bright side, management is encouraged by its robust digital capabilities as the company saw a 63% increase in new online customers over the past six weeks. Moreover, categories like home product and casual apparel, including active wear, lounge and knit tops, are performing well.

Deeper Insight

This lifestyle specialty retail company delivered a loss of \$1.41 per share that compared unfavorably with earnings of 31 cents recorded in the year-ago quarter. Adjusting for store impairment charges, bottom line came in at a loss of \$1.31 per share compared with the Zacks Consensus Estimate of loss of 26 cents. Lower sales and margins marred the bottom-line performance in the quarter.

In the reported quarter, net sales of \$588.5 million declined 31.9% year over year and missed the Zacks Consensus Estimate of \$641 million. This downside is attributed to lower comparable Retail segment sales and sales decline across all its brands. By brand, net sales were down 34.1% year over year to \$234.1 million at Anthropologie Group, 42.2% to \$107.7 million at Free People and 25.1% to \$237.3 million at Urban Outfitters. Moreover, Menus & Venues net sales totaled \$3.2 million, down 50% from the prior-year quarter. Again, Nuuly, the subscription rental service for women's clothes, contributed roughly \$6.3 million to net sales.

Segment-wise, the company reported net sales of \$561.2 million at the Retail Segment and roughly \$21 million at the Wholesale Segment. Comparable Retail segment net sales fell roughly 28% on account of negative retail store sales due to store closures. This was partly offset by low double-digit growth across the digital channel. Brand-wise, comparable Retail segment net sales declined 19% at Free People, 33% at the Anthropologie Group and 24% at Urban Outfitters. Further, Wholesale segment sales declined nearly 74% from the year-ago quarter.

Costs & Margins

In the quarter under review, preliminary gross profit came in at \$11.8 million, down 95.6% from the year-ago quarter. Further, preliminary gross margin contracted significantly from 31.1% to 2%, primarily on deleveraged store occupancy costs.

Meanwhile, SG&A expenses dropped 8.1% to \$210.6 million on cost-saving efforts. However, as a percentage of net sales, the metric increased 930 basis points to 35.8%. This deleverage is attributed to higher store and field management costs coupled with escalated marketing expenses owing to the increased digital channel penetration. Further, the company recorded operating loss of \$198.7 million against operating profit of \$40 million in the year-ago quarter.

Store Update

During the first three months of fiscal 2021, the company opened four retail outlets, including two each for Anthropologie Group and Urban Outfitters. Simultaneously, it shuttered one Urban Outfitters store. In the aforementioned period, no franchisee-owned stores were inaugurated or closed.

Other Financial Details

The company ended the quarter with cash and cash equivalents of \$588.7 million, marketable securities of \$65.1 million and total shareholders' equity of \$1,298.1 million. As of Apr 30, 2020, total inventory decreased 17.8% year over year to \$335.6 million, driven by lower inventory across its Retail and Wholesale segments.

Further, the company used net cash of \$59.7 million in operating activities during the fiscal first quarter. Additionally, it has drawn down \$220 million from its \$350-million Asset Backed Line of Credit facility.

In August 2017, the company's board of directors authorized a buyback of 20 million shares. During the first three months of fiscal 2021, Urban Outfitters bought back and subsequently retired 0.5 million shares for roughly \$7 million. In June 2019, the company's board of directors authorized repurchase of 20 million shares under a new repurchase program. As of Apr 30, 2020, the company had 25.9 million shares remaining under these programs.

Quarter Ending **04/2020**

Report Date	May 19, 2020
Sales Surprise	-8.18%
EPS Surprise	-403.85%
Quarterly EPS	-1.31
Annual EPS (TTM)	0.36

Valuation

Urban Outfitters shares are down 27.8% in the year-to-date period and 3.9% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 18% but the Zacks Retail-Wholesale sector is up 27.8% in the year-to-date period. Over the past year, the Zacks sub-industry is down 17.9% but the sector is up 36.9%.

The S&P 500 index is up 4.6% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 0.54X forward 12-month sales, which compares to 0.59X for the Zacks sub-industry, 1.25X for the Zacks sector and 3.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.32X and as low as 0.31X, with a 5-year median of 0.83X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$17 price target reflects 0.46X forward 12-month sales.

The table below shows summary valuation data for URBN

Valuation Multiples - URBN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.54	0.59	1.25	3.7
	5-Year High	1.32	1.09	1.25	3.7
	5-Year Low	0.31	0.32	0.82	2.53
	5-Year Median	0.83	0.8	0.97	3.05
P/B TTM	Current	1.51	3.52	9.4	4.52
	5-Year High	3.87	6.2	9.45	4.56
	5-Year Low	0.86	1.35	3.69	2.83
	5-Year Median	2.39	4.56	5.02	3.74
EV/EBITDA TTM	Current	23.22	12.45	20.11	12.74
	5-Year High	24.21	12.45	20.2	12.85
	5-Year Low	3.42	4.71	11.14	8.25
	5-Year Median	6.46	6.63	12.95	10.91

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (236 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Eagle Outfitters, Inc. (AEO)	Neutral	4
AbercrombieFitch Company (ANF)	Neutral	4
Burberry Group PLC (BURBY)	Neutral	4
DICKS Sporting Goods, Inc. (DKS)	Neutral	3
The Gap, Inc. (GPS)	Neutral	3
L Brands, Inc. (LB)	Neutral	3
Capri Holdings Limited (CPRI)	Underperform	5
Designer Brands Inc. (DBI)	Underperform	5

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	URBN	X Industry	S&P 500	AEO	ANF	DBI
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	4	4	5
VGM Score	F	-	-	F	F	D
Market Cap	1.96 B	577.64 M	23.68 B	1.93 B	666.49 M	526.38 M
# of Analysts	9	4	14	10	10	3
Dividend Yield	0.00%	0.00%	1.68%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	D	D
Cash/Price	0.35	0.26	0.07	0.49	1.15	0.50
EV/EBITDA	7.15	7.02	13.36	7.02	5.66	6.77
PEG Ratio	NA	3.16	2.99	NA	NA	NA
Price/Book (P/B)	1.51	1.51	3.22	1.94	0.84	1.06
Price/Cash Flow (P/CF)	6.06	4.19	12.82	4.50	3.06	2.61
P/E (F1)	NA	32.68	22.06	NA	NA	NA
Price/Sales (P/S)	0.53	0.36	2.51	0.49	0.20	0.17
Earnings Yield	-4.84%	1.56%	4.30%	-2.74%	-26.89%	-33.56%
Debt/Equity	1.01	1.10	0.77	1.95	1.78	2.37
Cash Flow (\$/share)	3.30	2.03	6.94	2.60	3.53	2.80
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	-2.63%	-1.21%	10.41%	1.62%	2.25%	0.82%
Proj. EPS Growth (F1/F0)	-149.29%	-76.36%	-6.32%	-121.55%	-497.95%	-260.13%
Curr. Cash Flow Growth	-22.87%	-0.32%	5.20%	0.06%	-6.25%	-6.06%
Hist. Cash Flow Growth (3-5 yrs)	-2.66%	1.68%	8.55%	10.42%	-5.89%	-2.77%
Current Ratio	1.77	1.45	1.33	2.35	1.32	1.30
Debt/Capital	50.21%	55.77%	44.59%	66.13%	63.97%	70.35%
Net Margin	-0.08%	-2.68%	10.13%	-2.68%	-5.50%	-4.91%
Return on Equity	2.65%	2.57%	14.51%	5.92%	-14.29%	-7.59%
Sales/Assets	1.13	1.08	0.51	1.15	0.98	1.24
Proj. Sales Growth (F1/F0)	-16.19%	-9.20%	-1.43%	-12.52%	-14.42%	-22.92%
Momentum Score	C	-	-	F	F	A
Daily Price Chg	3.51%	0.00%	0.12%	-0.85%	1.12%	5.49%
1 Week Price Chg	16.75%	4.16%	2.30%	8.90%	2.80%	18.61%
4 Week Price Chg	18.65%	2.49%	4.41%	2.37%	2.95%	11.11%
12 Week Price Chg	13.67%	11.87%	13.66%	30.21%	-10.06%	25.43%
52 Week Price Chg	0.91%	-27.29%	5.80%	-21.03%	-28.67%	-49.13%
20 Day Average Volume	2,339,027	523,213	1,984,154	7,241,937	2,384,558	1,506,751
(F1) EPS Est 1 week change	-2.78%	0.00%	0.00%	-3.27%	-3.16%	0.00%
(F1) EPS Est 4 week change	-0.27%	0.00%	2.08%	-18.15%	-3.97%	0.00%
(F1) EPS Est 12 week change	-195.25%	-65.42%	2.66%	-177.81%	-311.26%	-413.99%
(Q1) EPS Est Mthly Chg	-2.26%	0.00%	0.94%	-2.05%	-64.58%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	C
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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