

URBAN OUTFITTERS INC
Form 10-K
April 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from to

Commission File No. 000-22754

URBAN OUTFITTERS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania (State or Other Jurisdiction of Incorporation or Organization)	23-2003332 (I.R.S. Employer Identification No.)
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5000 South Broad Street, Philadelphia, PA (Address of Principal Executive Offices)	19112-1495 (Zip Code)
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Registrant's telephone number, including area code: (215) 454-5500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Common Shares, \$.0001 par value	Name of Exchange on Which Registered The NASDAQ Global Select Market LLC
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by a checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, was \$1,690,134,322.

The number of shares outstanding of the registrant's common stock on March 26, 2018 was 108,530,045.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 is incorporated by reference into Part III hereof from portions of the Proxy Statement for the registrant's 2018 Annual Meeting of Shareholders.

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Certain matters contained in this filing with the United States Securities and Exchange Commission (“SEC”) may contain forward-looking statements and are being made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. When used in this Annual Report on Form 10-K, the words “project,” “believe,” “plan,” “will,” “anticipate,” “expect” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Any one, or all, of the following factors could cause actual financial results to differ materially from those financial results mentioned in the forward-looking statements: the difficulty in predicting and responding to shifts in fashion trends, changes in the level of competitive pricing and promotional activity and other industry factors, overall economic and market conditions and worldwide political events and the resultant impact on consumer spending patterns, any effects of war, terrorism and civil unrest, natural disasters or severe or unseasonable weather conditions, increases in labor costs, increases in raw material costs, availability of suitable retail space for expansion, timing of store openings, risks associated with international expansion, seasonal fluctuations in gross sales, the departure of one or more key senior executives, import risks, changes to U.S. and foreign trade policies, including the enactment of tariffs, border adjustment taxes or increases in duties or quotas, the closing or disruption of, or any damage to, any of our distribution centers, our ability to protect our intellectual property rights, risks associated with internet sales, our ability to maintain and expand our digital sales channels, response to new store concepts, our ability to integrate acquisitions, failure of our manufacturers and third-party vendors to comply with our social compliance program, changes in our effective income tax rate, the impact of the U.S. Tax Cuts and Jobs Act, changes in accounting standards and subjective assumptions, regulatory changes and legal matters and other risks identified in our filings with the SEC, including those set forth in Item 1A of this Annual Report on Form 10-K for the fiscal year ended January 31, 2018. We disclaim any intent or obligation to update forward-looking statements even if experience or future changes make it clear that actual results may differ materially from any projected results expressed or implied therein.

Unless the context otherwise requires, all references to the “Company,” “we,” “us” or “our” refer to Urban Outfitters, Inc., together with its subsidiaries.

PART I

Item 1. Business

General

We offer lifestyle-oriented general merchandise and consumer products and services through a portfolio of global consumer brands comprised of Anthropologie, Bhldn, Free People, Terrain and Urban Outfitters brands, as well as our Food and Beverage division. We also operate a Wholesale segment under the Free People and Anthropologie brands. We have over 47 years of experience creating and managing retail stores that offer highly differentiated collections of fashion apparel, accessories and home goods, among other things, in inviting and dynamic store settings. Our core strategy is to provide unified environments that establish emotional bonds with the customer. In addition to our retail stores, we offer our products and market our brands directly to the consumer through our websites, mobile applications and catalogs. The Wholesale segment sells through department and specialty stores worldwide, customer websites and our Retail segment. The Wholesale segment primarily designs, develops and markets young women’s contemporary casual wear (including intimates and activewear) and shoes under the Free People brand and home goods under the Anthropologie brand. The Food and Beverage division includes pizza and casual dining concepts. We have achieved compounded annual sales growth of approximately 5% over the past five years, with sales of approximately \$3.6 billion during the fiscal year ended January 31, 2018.

Milestones in our Company’s growth are as follows:

- 1970: First Urban Outfitters store opened near the University of Pennsylvania campus in Philadelphia, Pennsylvania
- 1976: Incorporated in the Commonwealth of Pennsylvania
- 1984: Free People Wholesale division established

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- 1992: First Anthropologie store opened in Wayne, Pennsylvania
- 1993: Initial public offering of URBN shares on NASDAQ
- 1998: First European Urban Outfitters store opened in London; Anthropologie website launched
- 1999: Urban Outfitters website launched
- 2002: First Free People store opened in the Garden State Plaza Mall in Paramus, New Jersey
- 2004: Free People website launched
- 2008: First Terrain garden center opened in Glen Mills, Pennsylvania
- 2009: First European Anthropologie store opened in London
- 2011: First Bhldn store opened in Houston, Texas
- 2016: Acquired Vetri Family restaurants in Philadelphia, Pennsylvania
- 2017: Anthropologie Wholesale division established

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Our omni-channel strategy enhances our customers' brand experience by providing a seamless approach to the customer shopping experience. All available shopping channels are fully integrated, including stores, websites, mobile applications, catalogs and customer contact centers. Our investments in areas such as marketing campaigns and technology advancements are designed to generate demand for the omni-channel and not the separate store or digital (formerly referred to as "direct-to-consumer") channels. Store sales are primarily fulfilled from that store's inventory, but may also be shipped from any of our fulfillment centers or from a different store location if an item is not available at the original store. We also allow customers to view in-store inventory from our websites and mobile applications. Digital orders are primarily shipped to our customers through our fulfillment centers, but may also be shipped from any store, or a combination of fulfillment centers and stores depending on the availability of particular items. In addition, customers can pick up digital orders and return certain merchandise purchased through digital channels at store locations. As our customers continue to shop across multiple channels, we have adapted our approach towards meeting this demand. Due to the availability of like product in a variety of shopping channels, we source these products utilizing single stock keeping units ("SKUs") based on the omni-channel demand rather than the demand of the separate channels. These and other technological capabilities allow us to better serve our customers and help us complete sales that otherwise may not have occurred due to out-of-stock positions. We manage and analyze our performance based on a single omni-channel rather than separate channels and believe that the omni-channel results present the most meaningful and appropriate measure of our performance. Over the next several years we plan to continue to shift investment to the digital channel to align with changing customer preferences and focus on improving our speed-to-customer capabilities.

Our fiscal year ends on January 31. All references to our fiscal years refer to the fiscal years ended on January 31 in those years. For example, our fiscal 2018 ended on January 31, 2018.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with, or furnished to, the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our investor relations website, www.urbn.com/investor-relations, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We will voluntarily provide electronic or paper copies (other than exhibits) of our filings free of charge upon written request. You may also obtain any materials we file with, or furnish to, the SEC on its website at www.sec.gov.

Retail Segment

Urban Outfitters. Urban Outfitters targets young adults aged 18 to 28 through its unique merchandise mix, compelling store environment, websites and mobile applications. We have established a reputation with these young adults, who are culturally sophisticated, self-expressive and concerned with acceptance by their peer group. The product offering includes women's and men's fashion apparel, activewear, intimates, footwear, accessories, home goods, electronics and beauty. A large portion of our merchandise is exclusive to Urban Outfitters, consisting of an assortment of product designed internally and designed in collaboration with third-party brands. Stores average approximately 9,000 square feet of selling space. Our stores are located in large metropolitan areas, select university communities, specialty centers and enclosed malls. Our stores accommodate our customers' propensity not only to shop, but also to congregate with their peers.

As of January 31, 2018, we operated 245 Urban Outfitters stores, of which 180 were located in the United States, 18 were located in Canada and 47 were located in Europe. We plan to open approximately five Urban Outfitters stores and close approximately five Urban Outfitters stores due to lease expiration, globally, in fiscal 2019. Urban Outfitters is at or close to our currently planned total store count in North America. We plan for future growth to come from modest expansion internationally, which may include opening new stores or entering into franchise or joint venture agreements. Urban Outfitters operates websites and mobile applications in North America and Europe that capture the spirit of the brand by offering a similar yet broader selection of merchandise as found in its stores. Urban Outfitters offers a catalog in Europe offering select merchandise, most of which is also available in our Urban Outfitters stores. Urban Outfitters' North American and European Retail segment net sales accounted for approximately 30.8% and

7.9% of consolidated net sales, respectively, for fiscal 2018.

Anthropologie Group. The Anthropologie Group consists of the Anthropologie, Bhldn and Terrain brands. We initially operated the Bhldn and Terrain brands as standalone concepts and opened two Bhldn stores and two Terrain garden centers. We ultimately determined that the Bhldn and Terrain brands were complementary to the Anthropologie brand and integrated those brands into the Anthropologie Group during fiscal 2015 and 2016, respectively.

The Anthropologie brand tailors its merchandise and inviting store environment to sophisticated and contemporary women aged 28 to 45. The Anthropologie brand's unique and eclectic product assortment includes women's casual apparel and accessories, intimates, shoes, home furnishings, a diverse array of gifts and decorative items and beauty. The brand offers registry services through its website and mobile applications and in all of its stores throughout the United States, allowing customers to create gift registries for any occasion. In addition, the brand offers catalogs in North America and Europe that market select merchandise, most of which is also available in Anthropologie brand stores.

The Bhldn brand emphasizes every element that contributes to a wedding. The brand offers a curated collection of heirloom quality wedding gowns, bridesmaid frocks, party dresses, assorted jewelry, headpieces, footwear, lingerie and decorations.

The Terrain brand is designed to appeal to women and men interested in a creative and sophisticated outdoor living and gardening experience. Terrain's product offering includes lifestyle home, garden and outdoor living products, antiques, live plants, flowers, wellness products and accessories.

As of January 31, 2018, we operated 226 Anthropologie Group stores, of which 204 were located in the United States, 12 were located in Canada and ten were located in Europe. Stores average approximately 8,000 square feet of selling space. Our stores are located in specialty centers, upscale street locations and enclosed malls. We plan to open approximately five Anthropologie Group stores and close approximately two Anthropologie Group stores due to lease expiration, globally, in fiscal 2019. Some of the new stores may be expanded format stores that include multiple Anthropologie Group brands and that allow us to present an expanded assortment of products in certain categories such as petites, jewelry and accessories, footwear, intimates, beauty, wedding and events, outdoor living and home furnishings. The Anthropologie Group is at or close to our currently planned total store count in North America. We plan for future growth to come from modest expansion internationally, which may include opening new stores or entering into franchise or joint venture agreements. The Anthropologie Group operates websites and mobile applications in North America and Europe that capture the spirit of its brands by offering a similar yet broader selection of merchandise as found in its stores. The Anthropologie Group's North American and European Retail segment net sales accounted for approximately 39.1% and 1.6% of consolidated net sales, respectively, for fiscal 2018.

Free People. Our Free People retail stores primarily offer private label merchandise targeted to young contemporary women aged 25 to 30. Free People offers a unique merchandise mix of casual women's apparel, activewear, intimates, shoes, accessories, home products, gifts and beauty and wellness. Free People retail stores average approximately 2,000 square feet of selling space. Our stores are located in enclosed malls, upscale street locations and specialty centers.

As of January 31, 2018, we operated 132 Free People stores, of which 126 were located in the United States and six were located in Canada. We plan to open approximately four new Free People stores and close approximately four Free People stores due to lease expiration in fiscal 2019, all in North America. We plan for future growth to come from modest expansion internationally, which may include opening new stores or entering into franchise or joint venture agreements. Free People operates websites and mobile applications in North America, Europe and Asia that capture the spirit of the brand by offering a similar yet broader selection of merchandise as found in its stores, as well as substantially all of the Free People wholesale offerings. Free People also offers a catalog offering select merchandise, most of which is also available in our Free People stores. Free People's Retail segment net sales accounted for approximately 11.3% of consolidated net sales for fiscal 2018.

Food and Beverage. In February 2016, we acquired six restaurants as part of our acquisition of the Vetri Family group of restaurants, which were combined with our existing restaurants to form our Food and Beverage division. The Food and Beverage division provides a dining experience that focuses on excellence in food, beverage, and service. As of January 31, 2018, we operated ten restaurants, all of which were located in the United States. We plan to open approximately three new restaurants in fiscal 2019. The Food and Beverage division net sales accounted for less than 1.0% of consolidated net sales for fiscal 2018.

Wholesale Segment

The Wholesale segment consists of the Free People and Anthropologie brands. The Wholesale segment was established in 1984 with the Free People brand to develop, in conjunction with Urban Outfitters, private label apparel lines of young women's casual wear that could be effectively sold at attractive prices in Urban Outfitters stores and later began selling to department and specialty stores worldwide. The Anthropologie wholesale division, established in fiscal 2018, designs and sells home goods to select department stores. We display our Free People and Anthropologie products in certain department stores using a shop-within-shop sales model. We believe that the shop-within-shop model allows for a more complete merchandising of our products, which allows us to differentiate

ourselves from our competition and further strengthens each brand's image. During fiscal 2018, the Wholesale segment's range of young women's contemporary casual apparel (including intimates and activewear), shoes and home goods were sold through approximately 2,100 department and specialty stores worldwide, including Macy's, Nordstrom, Lord & Taylor, Selfridges, John Lewis, customer websites and our Retail segment. We monitor the styles and products that are popular with our wholesale customers to give us insight into current fashion trends, helping us to better serve our retail customers. Wholesale sales and showroom facilities are located in London, Los Angeles, Chicago and New York City. Our Wholesale segment net sales accounted for approximately 8.7% of consolidated net sales for fiscal 2018.

Store Environment

We create a unified environment in our stores that establishes an emotional bond with the customer. Every element of the environment is tailored to the aesthetic preferences of our target customers. Through creative design, much of the existing retail space is modified to incorporate a mosaic of fixtures, finishes and revealed architectural details. In our stores, merchandise is integrated into a variety of creative vignettes and displays designed to offer our customers an entire look at a distinct lifestyle. This dynamic visual merchandising and display technique provides the connection among the store design, the merchandise and the customer. Essential components of the ambiance of each store may include playing music that appeals to our target customers, using unique signage and employing a staff that understands and identifies with the target customer.

Our Urban Outfitters, Anthropologie Group, and Free People stores are primarily located in upscale street locations, free-standing locations, enclosed malls, and specialty centers. We plan for our store environment and location strategy to remain consistent over the next several years.

Buying and Design Operations

Maintaining a constant flow of fresh and fashionable merchandise for our Retail segment is critically important to our ongoing performance. We maintain our own buying groups that select and develop products to satisfy our target customers and provide us with the appropriate amount and timing of products offered. Merchandise managers may supervise several buyers and assistant buyers. Our buyers stay in touch with the evolving tastes of their target customers by shopping at major trade markets, attending national and regional trade shows and staying current with mass media influences, including social media, music, video, film, magazines and pop culture.

Merchandise