BBWI SECOND QUARTER 2021 EARNINGS COMMENTARY
AUGUST 18, 2021

Introduction

- Bath & Body Works, Inc. is providing this second quarter commentary ahead of its live earnings call scheduled for August 19th at 9:00 a.m.

- We remind you that any forward-looking statements made in this commentary are subject to our safe harbor statement found in our SEC filings and in our press releases.

- Our second quarter earnings release and related financial information are available on our website, www.bbwinc.com. Also available on our website is an investor presentation.

- All of the results included in this commentary are adjusted results and exclude the 2020 significant items as described in our press release.

Spin-off

- As we announced on August 3, the spinoff of the Victoria's Secret business into an independent public company was completed subsequent to the end of the second quarter. The second quarter total company results discussed in this commentary include the Victoria's Secret business. Any forward-looking commentary included in these remarks relates to the Bath & Body Works standalone business.

- A presentation of supplemental financial information which includes historical unaudited financial statements presenting the previously reported Victoria's Secret segment results as a discontinued operation can be found on our website. All of the previously reported results of the "other" segment, consisting principally of corporate overhead, are included as part of the continuing operations results, in accordance with GAAP accounting.

- We believe the spin-off will enable us to maximize management focus and financial flexibility to thrive in an evolving retail environment and deliver long-term profitable growth.

- The benefits of separation include:
    - Distinct strategic and management focus on specific operational and growth priorities,
    - Tailored capital deployment strategies based on the operating and financial model, and
    - The ability for the investment community to value the businesses independently of one another and create significant value and certainty for our customers, associates and shareholders.

<u>Second Quarter Results</u>

- We delivered record results in the second quarter, which we could not have done without the continued hard work and dedication of our associates and partners. We'd like to express our deep appreciation for their continued efforts.

- Turning to a review of our second quarter performance, we reported record second quarter earnings of $1.34 per share compared to adjusted earnings of $0.25 per share last year.

- These bottom-line results were driven by continued strong sales and better than expected margin rates at both Bath & Body Works and Victoria's Secret.

- Net sales for the quarter were $3.318 billion. Second quarter 2020 sales were negatively impacted by the COVID-19 related store closures for roughly half the quarter. Net sales for the second quarter of 2021 increased 14% compared to sales of $2.902 billion in the second quarter of 2019.

- The gross margin rate increased by 1,130 basis points compared to 2019, and by 1,110 basis points compared to 2020 to 45.2%. Compared to 2019, the gross margin rate increase was driven by a significant increase in the merchandise margin rate and significant buying and occupancy expense leverage.

- The SG&A rate leveraged by 70 basis points compared to 2019, and SG&A dollars increased by about 11%. Second quarter costs in the other segment include approximately $40 million related to legal and separation fees and other discrete items.

- Second quarter total company operating income was $599.1 million compared to $206 million in 2020 and $175 million in 2019. The second quarter operating income rate was 18.1% compared to 8.9% in 2020 and 6.0% in 2019.

- Turning to the balance sheet, total inventories ended the quarter flat compared to last year, in line with expectations. Inventories were up at Bath & Body Works, supporting the sales trend, and remained down compared to last year at Victoria's Secret.

- We repurchased 14.4 million shares during the second quarter for $1.03 billion. We have $770 million remaining under our $1.5 billion share repurchase program. Year-to-date, we have repurchased 17.0 million shares for $1.19 billion.

<u>Bath & Body Works</u>

- Turning to Bath & Body Works, we delivered record sales and profitability in the second quarter. Throughout the quarter, sales trends remained strong at continued healthy margin rates. Similar to the first quarter, we were able to be selective on promotional activity.

- Second quarter sales for the Bath & Body Works segment were $1.704 billion, an increase of $597 million, or 54%, compared to 2019, consistent with the first quarter sales growth versus 2019 (excluding the impact of the stimulus).

- Growth in the quarter compared to 2019 was driven by both an increase in transactions and the average dollar sale for both Stores and Direct.

- Performance was strong across all months as we saw good customer response to our summer merchandise, beginning with our Mother's Day gifting assortment. Honey Wildflower, our single-fragrance launch for the summer, led the way as a cross-category fragrance and produced a strong front-of-shop presence with seasonally relevant marketing.

- We achieved robust balanced growth of at least 35% in all merchandise categories compared to 2019. Compared to last year, we experienced significant growth in fragrant body care, home fragrance and gifting. As expected, soaps and sanitizers declined versus last year's explosive growth.

- In U.S. and Canada stores, second quarter sales were $1.229 billion, an increase of $347 million or 39% compared to 2019. Dollars per footstep (the combination of conversion and average dollar sale) in stores increased approximately 65% compared to 2019.

- Second quarter direct sales increased by 128%, or $228.8 million, compared to 2019, slightly better than the first quarter growth. As we mentioned last quarter, in the first quarter of 2020 we experienced longer delivery times, due to unexpected high demand, which benefitted first quarter sales growth this year compared to 2020 but negatively impacted year-over-year sales comparisons in the second quarter this year. Year-to-date, direct channel sales decreased 6% compared to last year, as last year we experienced very high demand due to store closures.

- The total segment second quarter gross margin rate increased significantly compared to 2020 and 2019. The merchandise margin rate increased significantly compared to 2019 and decreased compared to last year as expected as we returned to a normalized semi-annual sale in June. As a reminder, last year the sale presence was minimal. Additionally, we experienced higher supply chain costs this year due to market constraints and inflation.

- Operating income in the second quarter was $431 million, an increase of 135%, or $247 million compared to 2019, and an increase of 24%, or $82 million, compared to last year. Our operating income rate for the quarter of 25.3% increased 870 basis points compared to 2019, driven by merchandise margin rate expansion and leverage in both buying and occupancy and SG&A on the high sales growth. The operating income rate decreased 250 basis points compared to last year, driven by the merchandise margin rate decline and SG&A deleverage.

- Total inventory ended the quarter up and in line with expectations. We are partnering closely with our vendors to support production needs to meet customer demand.

- We completed 45 North American real estate projects in the second quarter – 20 new off-mall stores and 25 remodels. We continue to closely evaluate all locations, especially more vulnerable centers, for risk of closure. Year-to-date, we have permanently closed 11 stores, and would anticipate about 20-40 closures for the full year 2021, principally in malls. We are forecasting approximately 55 new, almost entirely off-mall, North American stores, resulting in net square footage growth of about 3% for the full year. Based on these assumptions, about 47% of our stores at year-end will be off-mall and 58% will be in the White Barn store design.

- For Bath & Body Works international, we currently operate 305 stores and 24 online sites across 35 countries through our franchise partners. We opened 8 new international stores and 1 new online site and closed two stores in the second quarter. Second quarter results were strong with double-digit growth in sales and operating income compared to last year despite continued pandemic related store closures. For the balance of the year, we expect our partners to open another 35 to 40 new stores for an annual increase of about 20%.

- We remain disciplined in our expense and inventory management, and are focused on staying close to our customer, all while delivering compelling product assortments. As we begin to transition to Fall, our seasonal and Halloween assortments are already resonating with our customers.

Victoria's Secret

- Net sales for the quarter were $1.614 billion. Net sales for the second quarter of 2021 decreased 10% compared to net sales of $1.785 billion in the second quarter of 2019, reflecting the net closure of 240 company-operated stores since the second quarter of 2019.

- Second quarter comparable sales increased 5% compared to 2019. Direct sales increased 26% to $469 million, partially offset by a 3% decrease in comparable store sales.

- International sales were $108 million and decreased 40% compared to 2019 driven primarily by the transition of our U.K. stores from company-operated to a joint venture with Next.

- The gross margin rate increased substantially compared to 2020 and 2019, driven by a significant increase in the merchandise margin rate and buying and occupancy leverage. The increase in the merchandise margin rate was driven by improved response to our merchandise assortments, disciplined inventory management, as well as strong selling execution in stores and online, which enabled the Victoria's Secret team to reduce promotional activity during the quarter.

- The SG&A rate decreased compared to 2020 and 2019. Compared to 2019, SG&A expense dollars decreased, driven by our profit improvement plan and permanent store closures.

- On a segment reporting basis, second quarter operating income was $232.5 million, an increase of $319.2 million compared to last year, and the operating income rate was 14.4%.

- Turning to the balance sheet, total inventories ended the quarter down high-teens compared to last year, in line with expectations.

- Please refer to the Victoria's Secret & Co. separate commentary available at www.victoriassecretandco.com for additional information on its second quarter performance and outlook for the remainder of the year.

Outlook for Remainder of 2021

- The remainder of the year will present challenging comparisons to last year, as we experienced record productivity in stores and exceptionally strong growth online in 2020. We do expect significant growth versus 2019. As a reminder, in 2020 Bath & Body Works grew operating income by $285 million, or 137%, in the third quarter and by $250 million, or 38%, in the fourth quarter. In the third quarter of last year alone, we grew sales by more than our full year sales growth in 2019 (approximately $600 million sales growth in third quarter last year, compared to a sales increase for the full year of 2019 of approximately $580 million). Exceptionally strong demand allowed us to significantly pull back on promotional activity, and the full year 2020 segment operating income rate was a record 28.5%.

- We are forecasting Bath & Body Works standalone third quarter earnings per share between $0.55 and $0.60, excluding one-time costs related to the Victoria's Secret spin-off, compared to earnings per share from continuing operations of $0.83 in 2020 and $0.20 in 2019.

- Our third quarter sales forecast reflects an increase of between 40% and 45% compared to 2019 sales of $1.1 billion. We are pleased with our August results to date, which we have incorporated into our third quarter guidance.

- We expect the gross margin rate to increase by about 100 to 150 basis points compared to 2019's rate of 43.8%, principally driven by buying and occupancy expense leverage. Our forecast includes approximately $40 to $60 million of incremental inflationary cost increases in the third quarter related to raw materials, wages and transportation, which will put pressure on our merchandise margin rate. We also expect potential pandemic related constraints in the supply chain, which could result in increased costs, as well as inventory delays. We are working hard to manage and mitigate these headwinds, which we expect will be more significant in the fourth quarter.

- We expect third quarter SG&A expense dollars (excluding estimated costs related to the Victoria's Secret spin-off of approximately $75 million) to be down slightly compared to $427 million last year, which will result in rate deleverage on the lower sales forecast compared to 2020. Last year's SG&A expense includes the total L Brands corporate overhead expense of about $40 million, while this year we are forecasting approximately $25 million of corporate overhead expense (one-quarter of the annual forecasted expense of approximately $100 million).

- We expect third quarter net non-operating expense of approximately $100 million, a tax rate of about 27%, and weighted average shares outstanding of approximately 268 million.

- We are estimating 2021 capital expenditures to be between $345 million and $370 million for the total company, or between $275 million and $300 million for Bath & Body Works standalone. While not fully returning to our pre-pandemic levels, we are resuming our investment in the remodeling and opening of new stores. Additionally, we are investing in technology, distribution and logistics capabilities to support our growth.

- At Bath & Body Works, we are optimistic about our Fall and Holiday product assortments and our continued ability to execute against our long-term growth strategy in stores and online. Risks related to COVID-19 persist, and we will continue to operate both of our channels in a safe manner for our customers and associates.

- As we said at our July 19th investor day, we have confidence in our ability to grow sales at a mid- to high-single digit rate over the next three to five years, and believe an operating margin in the low to mid-twenties is appropriate for Bath & Body Works. This operating margin target reflects the right value and quality proposition for our customers, as well as the right level of investment in product innovation, quality and engaging, best-in-class store and online experiences.

- This operating margin target includes estimated annual corporate overhead costs of approximately $100 million, or roughly half of the historical L Brands corporate overhead reported in the other segment. As a reminder, historical results from continuing operations include 100% of the historically reported L Brands corporate overhead expense, with none allocated to the Victoria's Secret discontinued operations results.

- As mentioned last quarter, we also expect future capital and expense related to the implementation of new information technology platforms. Although our work is in the early stages and our estimates are preliminary, we currently estimate that total BBWI expenditures could be $100 to $150 million over the next several years. Such estimates are subject to change as our work continues. Victoria's Secret will provide technology services to Bath & Body Works under a Transition Services Agreement while we create independent systems environments, which we believe will help to minimize dis-synergies.

- We have confidence in our opportunities for long-term growth as we continue to focus on maximizing our performance by leveraging the strength of our brand, maintaining close connections to our customers and capitalizing on the speed in our supply chain.

- We invite you to join us for our live earnings call tomorrow morning at 9 a.m. Eastern by dialing 1-888-946-7609 (international dial-in number: 1-517-308-9411). The conference ID is 6362067.