LB THIRD QUARTER 2020 EARNINGS COMMENTARY

NOVEMBER 18, 2020

Introduction

- L Brands is providing this third quarter commentary ahead of its live earnings call scheduled for November 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 third quarter earnings release and related financial information are available on our website, www.LB.com. Also available on our website is an investor presentation.

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

Third quarter review

Total L Brands

- The third quarter of 2020 continued to be an unprecedented time for the world, the retail industry and our business. Our first priority continues to be our associates’ and customers’ safety. Our new operating models in our stores are focused on providing a safe environment, while also providing an engaging shopping experience. Additionally, we remain focused on the safe operations of our distribution, fulfillment and call centers while maximizing our direct businesses.

- We delivered record results in the third quarter, and we could not have done so without the hard work and dedication of all associates across our business … in stores, distribution and fulfillment centers, call centers and home offices. We’d like to express our deep appreciation for their dedication and efforts.

- Turning to our third quarter financial results, we significantly exceeded our internal expectations, driven by record results at Bath & Body Works, as well as an improved performance at Victoria’s Secret.

- Total company sales increased by 14% in the quarter to $3.055 billion, and comparable sales increased 28%.

- Our gross margin rate increased by 870 basis points, driven by a significant improvement in the merchandise margin rate and significant buying and occupancy expense leverage.

- We reduced SG&A expenses in the quarter by 6%, and the rate improved by 570 basis points.

- Total adjusted third quarter operating income increased by $454.4 million, or 472%, over the third quarter of 2019, driven by a $285.4 million increase in the Bath & Body Works segment and a $184.6 million increase in the Victoria's Secret segment.

- Adjusted third quarter earnings per share were $1.13 compared to 2 cents last year.

- We continue to execute against our previously announced profit improvement plan and are on track to deliver $400 million in annual savings. There has been some shift in the calendarization of those savings, and we expect to realize roughly half of that in the second half of 2020.

- We have been working proactively with all our landlords since the pandemic struck and caused the shutdown of our stores for extended periods of time.

- We have made substantial progress on negotiations with nearly all landlords, the result being a combination of rent waivers or abatements relating to closure periods, rent relief relating to the post-reopening "recovery" period given traffic declines, and rent deferrals.

- Turning to the balance sheet, total company inventories ended the quarter down 8% compared to last year. We are actively managing our inventory to adjust for the impact of channel shifts to meet customer demand. The current environment requires unprecedented agility, and we are leveraging the speed that we have in our supply chain, our close partnerships with our suppliers and the capabilities of our sourcing, production and logistics teams to respond quickly.

- We are very well-positioned with respect to cash and liquidity. In the third quarter, we issued $1 billion in bonds. We called all $450 million of our 2021 bonds and retired an additional $808 million of our 2022, 2023 and 2037 bonds through a tender offer. We ended the quarter with $2.6 billion in cash. We have substantial liquidity and, at the appropriate time, will look for additional opportunities to retire debt.

<u>Bath & Body Works</u>

- Turning to the Bath & Body Works segment, we delivered record sales and profit results in the third quarter. These sales were also delivered at very healthy margin rates, as we were able to strategically pull back on promotional activity in the quarter. We conducted extensive testing of the frequency and depth of promotional activity during the quarter. This approach maximized results for the third quarter and helped inform our strategy going into the fourth quarter, as we recognize that we will have challenges achieving last year's fourth quarter sales results in the current environment.

- Third quarter sales for the Bath & Body Works segment were $1.702 billion, up 55%, or $603.2 million compared to last year, and total segment comparable sales increased 56%. As expected, sales comps moderated throughout the quarter as our entire fleet re-opened.

- Third quarter sales were strong across all regions, store types and merchandise categories. In both the company-operated stores and direct channels, we achieved very strong balanced double-digit growth in all categories. Two-thirds of our dollar growth came from our Home Fragrance and Body Care categories, with one-third of the growth coming from Soaps and Sanitizers.

- In the stores channel, third quarter sales were $1.2 billion, up $330M and comparable store sales increased 38%.

- In the direct channel, third quarter sales increased by 132%, or $254.1 million, to $446.5 million. We have focused on increasing our fulfillment capacity to meet the significant increase in demand, and as a result are achieving record productivity while maintaining standard delivery times for our customers. Year to date, the direct channel sales have increased 138% or $726.7 million to last year.

- For Bath & Body Works international, we currently operate 286 stores and 15 online sites across 36 countries through our franchise and travel partners. Third quarter results were strong, with double-digit sales and operating income growth.

- For the total segment, the merchandise margin rate for the quarter was up significantly compared to last year, as customer response to our merchandise assortment was strong, which allowed us to pull back on our promotional activity, including marketing related offers. As we head into the fourth quarter, we believe our merchandise margin rate will be more in line with last year, as we strategically add back Holiday promotions to spread sales across more days in consideration of the capacity constraints we anticipate during traditional peak days and weeks, and as we incur increased online shipping costs.

- Operating income in the third quarter was $494.1 million, an increase of 137%, or $285.4 million, compared to last year. Our operating income rate for the quarter of 29% increased 1,000 basis points compared to last year driven by three roughly equal factors: the merchandise margin rate increase and buying and occupancy and SG&A expense leverage. We made significant investments into our fulfillment centers and store selling models but were able to leverage those increased costs on higher sales.

- We are projecting about 56 real estate projects in 2020 – 26 of which are new non-mall stores and about 29 of which are remodels, 12 of which are in non-mall locations and the remainder in better-tier malls. This is down from our recent historical rate of about 200 projects per year. Year-to-date, we have opened 25 of those new stores. We are closely evaluating all locations, especially more vulnerable centers, for risk of closure. Year-to-date, we have permanently closed 18 stores, and would anticipate about 30 total closures for the full year 2020.

- Inventory was flat to last year and in-line with expectations. Store inventories ended the quarter down on a per-selling-square-foot basis. We invested in production capacity and, despite production challenges associated with the pandemic, our supply chain partners were able to ramp up capacity resulting in record production. We will leverage the speed in our supply chain to read and react quickly and focus on exceptional execution in Holiday to maximize our fourth quarter opportunities.

- All aspects of our assortment showed positive results in the third quarter, including Core, Seasonal and Fashion. Our customer loved our Fall scents and our new iteration of Holiday Traditions product. Our new single fragrance launch, "You're the One", was launched in early November in multiple categories, and we are encouraged by early results.

Victoria's Secret

- For the Victoria's Secret segment, total third quarter sales decreased 14% to $1.353 billion, and total comparable sales increased 4%. Store comps declined 10% and sales in the direct business increased 42% to $470 million. The store comp decline was driven by traffic declines in the mid-40's, offset by substantial increases in conversion and average unit retails.

- Customers are responding positively to our merchandise assortments and product margin dollar comps improved across all segments of the business. Highlights include:

- In the Lingerie business, a focus on fashion and an improved balance of good, better and best price points are driving improved performance across all categories. The relaunch of Body by Victoria, with updated and modernized fashion, was a success. Our sleepwear and lounge categories are strong, driven by customers "nesting" at home.
- In PINK, brand health is strong as demonstrated by double-digit growth in sales and margin in our logo shop. The intimates business increased significantly in comps and overall penetration.
- In Beauty, customers responded strongly to the relaunch of our Bombshell and Tease fragrances. We also saw strong growth in PINK beauty.

- The Victoria's Secret total segment merchandise margin rate increased significantly in the third quarter. The increase in merchandise margin rate and AUR was driven by the disciplined management of inventory, strong selling execution in stores and online, as well as the improved response to our merchandise assortments, which enabled us to reduce promotional activity during the quarter.

- The buying and occupancy expense rate was down significantly to last year, driven largely by the growth in the direct channel.

- SG&A expenses and rate at Victoria's Secret were down meaningfully in the quarter, driven by lower store selling and marketing expense as a result of the reductions driven by our profit improvement plan and disciplined expense management.

- The third quarter adjusted operating income for the Victoria's Secret segment was $114.6 million, an increase of $184.6 million compared to an operating loss of $70 million last year. The operating income rate improved by 1,290 basis points to 8.5%, driven roughly equally by an improvement in the gross margin rate and SG&A expense leverage.

- We closed on the Victoria's Secret U.K. and NEXT joint venture during the quarter. Under this agreement, Victoria's Secret will own 49% of the joint venture, and NEXT will own 51% and assume responsibility for operations. We expect this arrangement, along with the restructure of lease terms that occurred through the Administration process, to meaningfully improve our results in the U.K. and provide us with additional growth opportunities through NEXT's stores and online platform.

- In China, in addition to the second quarter closure of the Hong Kong flagship, we restructured lease terms on the two mainland flagship stores and have implemented a significant overhead expense reduction plan.

- Victoria's Secret inventories ended the quarter down in the high-teens. We will continue to manage inventories with discipline and chase back into merchandise that our customers are responding to.

- Year-to-date, we have closed 239 Victoria's Secret stores in the United States and Canada.

- We are certainly encouraged by the substantial progress made on many fronts at Victoria's Secret and PINK and are energized to know that we are at the beginning of what we intend to be a very significant turnaround.

<u>Fourth Quarter 2020 Outlook</u>

- Due to the high level of uncertainty in the current environment, we will not be providing fourth quarter 2020 earnings guidance.

- We have a cautious view of the fourth quarter, given the high level of uncertainty around the pandemic and the potential for further restrictions. While we are optimistic about our Christmas product assortment and our continued strong execution in stores and online, we expect significant challenges in generating store channel sales growth.

- Our typical Holiday volumes are about three times larger per week than the average week in the third quarter historically, and the current capacity limitations at 25 to 50% of normal will not allow us to see the same number of customers on peak days that we did in prior years. The situation remains fluid, as additional capacity limits have been recently announced, and further restrictions may occur. Additionally, the hours which stores are permitted to be open are fewer than last year and we will be closed on Thanksgiving Day this year.

- We also have additional constraints in direct channel fulfillment and shipping capacity.

- As a result, we will be taking action to spread our big promotions, which historically have occurred on single days, over a longer time period. We have also added additional registers to stores in both businesses.

- We expect continued increased cost pressures in the fourth quarter as a result of higher store selling costs, safety equipment and supply costs, increased fulfillment expense and higher parcel carrier surcharges in the direct channel.

- We believe that all of the factors mentioned above have the potential to lead to a wide range of financial outcomes for the fourth quarter, the higher end of which would approximate last year’s operating income result.

- We will stay close to our customers and leverage the speed and agility that we have in the business to optimize our fourth quarter results.

- 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.