LB FOURTH QUARTER 2019 EARNINGS COMMENTARY

FEBRUARY 26, 2020

Introduction

- L Brands is providing this fourth quarter commentary ahead of its live earnings call scheduled for February 27th 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 fourth quarter earnings release and related financial information are available on our website, www.LB.com. Also available on our website is an investor presentation.

- This commentary contains three sections:
    - Fourth quarter and full year 2019 performance
    - The sale of a majority interest in Victoria's Secret
    - 2020 first quarter outlook

Fourth Quarter and Full Year 2019 Commentary

- Beginning with a review of our fourth quarter performance, all results discussed in this commentary are adjusted results and exclude the significant items detailed in our press release.

- The 2019 fourth quarter significant items include pre-tax, non-cash impairment charges of $725.0 million ($2.58 per share) related to Victoria's Secret goodwill and store-related assets.

- Our adjusted fourth quarter earnings per share result of $1.88 was below our initial guidance of about $2.00. Better-than-forecasted results at Bath & Body Works were more than offset by below expectation results at Victoria's Secret Lingerie and PINK.

- Turning to our fourth quarter results …

- Net sales for the quarter were $4.707 billion, and total comps decreased 2%.

- The gross margin rate decreased by 170 basis points to 38.9%, driven principally by a decline in the merchandise margin rate.

- The total company merchandise margin rate decline was driven by Victoria's Secret, as well as the negative impact of tariffs and lapping negotiated sourcing cost reductions last year.

- The SG&A rate leveraged by 30 basis points on dollars that were down 4% to last year. The dollar decline was driven by lower store selling and marketing expense at Victoria's Secret and the absence of the Henri Bendel and La Senza businesses.

- Operating income dollars decreased by $92.0 million, and the rate declined by 140 basis points.

- For the full year 2019, net sales were $12.914 billion, and total comps decreased 1%.

- The full-year gross margin rate declined 130 basis points to 36.4%, driven by a decrease in the merchandise margin rate and, to a lesser extent, buying and occupancy expense deleverage.

- SG&A expenses for the full year declined 2%, and were flat as a percentage of sales. The dollar decline was driven by the absence of the Henri Bendel and La Senza businesses, and a decrease in marketing expense at Victoria's Secret.

- Operating income decreased 14% to $1.231 billion, and the rate decreased by 140 basis points to 9.5%.

- Adjusted EPS for the full year decreased 19% to $2.29 versus $2.82 last year.

- Turning to the balance sheet, inventories per square foot ended the quarter up 6% to last year, in line with expectations. Inventory per square foot is up at both Victoria's Secret and Bath & Body Works.

Bath & Body Works

- Fourth quarter 2019 sales for the total Bath & Body Works segment were $2.175 billion. Comps increased 10%; store-only comps increased 5%. We continue to see strong performance in our Bath & Body Works direct channel, which grew sales by 33% in the quarter.

- Growth in all three of our main categories of body care, home fragrance and soaps drove the sales increase for the quarter.

- Across the quarter, we saw good sales performance in both our Holiday and Semi-Annual Sale timeframes. Holiday performance was strong and driven by key planned promotional days. Performance in January was led by both Semi-annual Sale and regular price selling as we saw good customer response to our Spring merchandise. As a reminder, as planned, this year's sale was two days longer than last year's shortened sale.

- The merchandise margin rate for the quarter was down compared to last year. The decline in the margin rate was driven by the impact of tariffs and other production and sourcing pressures, as well as the continued impact of channel mix driven by the growth of our Direct channel, and to a lesser extent by customers indexing into key holiday promotions and the longer semi-annual sale.

- For the quarter, operating income was $660.6 million, up 9% on top of last year's 9% increase. Our operating income rate for the quarter of 30.4% was down 70 basis points versus last year, driven almost entirely by the lower merchandise margin rate. Within expenses, selling costs leveraged on the higher sales, while buying and occupancy costs deleveraged slightly, driven by our real estate initiative and continued investments in direct channel fulfillment.

- During the quarter, we continued our real estate initiative by opening or remodeling 20 additional stores, bringing the number of new concept stores to 835 at the end of the year. We continue to be pleased with the overall results of these stores, both in a shop-in-shop and side-by-side format.

- Inventories ended the quarter up to last year on a per-selling-square-foot basis as planned.

- For fiscal 2019, total sales grew by 12% and comps increased 10% with store-only comps increasing 5%; our direct channel grew sales by 32%. The operating income was $1.191 billion, up 11% to last year. Our operating income rate was 23.0%.

- In 2019, Bath & Body Works achieved a significant milestone as we surpassed $5 billion in sales for the segment.

- Looking toward 2020, we will continue to see pressure on occupancy costs with the impacts of our continued real estate initiative and our expansion of direct channel capacity and capability. Additionally, we expect continued margin rate pressure from ongoing supply chain impacts specifically related to global trade tariffs and sourcing costs.

- As always, we will remain disciplined in expense and inventory management, and we will continue to make appropriate investments to drive sustained growth in the business. We remain focused on staying close to our customer and their needs while delivering compelling products.

Victoria's Secret

- Fourth quarter sales for the Victoria's Secret segment were $2.276 billion, and comp sales decreased 10%, including a 10% decline in store comps, driven by declines in traffic and average unit retails. Total digital sales decreased by 8%.

- The total segment gross margin rate decreased significantly, driven by a significant decline in the merchandise margin rate and buying and occupancy expense deleverage. Merchandise margin dollars declined in the high-teens versus the third quarter result of down high-single digits.

- SG&A expense dollars decreased in the quarter, driven by a decrease in store selling and marketing expenses, but deleveraged on the sales decline.

- Fourth quarter operating income declined by $154.3 million to $146.4 million, and the rate decreased by 550 basis points.

- In the lingerie business, fourth quarter comps were down mid-teens, and the merchandise margin rate declined significantly. We continued to pull back on promotional activity in bras, and while sales were down significantly, the merchandise margin rate was up meaningfully. Sleepwear performance was below our expectations, with sales and merchandise margin rate down significantly to last year. The miss to expectations was driven by casual sleepwear, as sales increased in sexy sleep and margin dollars were about flat.

- In PINK, fourth quarter comps were down in the mid-teens, and the merchandise margin rate was down significantly. Lingerie sales and margin dollars were about flat, offset by a meaningful decline in sales and margin dollars in apparel, principally in tops.

- Victoria's Secret Beauty had a solid fourth quarter – comps increased in the low-single digit range due to growth in prestige fragrance, driven by a strong launch of Bombshell Intense, and growth in PINK beauty and accessories. The merchandise margin rate was up to last year, driven by category mix into prestige fragrance, and lower clearance in semi-annual sale.

- For the full year, sales for the Victoria's Secret segment were $6.805 billion, and comps decreased 7%. Sales in the direct channel declined 3% to $1.693 billion.

- Operating income declined 78% to $114.6 million. The operating income rate declined 520 basis points.

- Looking ahead to the first quarter, we are most focused on our product assortments, which we believe we have clear opportunities to improve. We have new product launches throughout Spring in Lingerie, PINK and Beauty, and we will continue to leverage the speed we have in our supply chain to test, read and react.

International

- International fourth quarter revenue of $177.1 million was down $13.6 million compared to last year. Operating income increased by $1.4 million to $20.1 million.

- The Bath & Body Works franchise business continues to perform well, with strong high-30's percentage growth in sales and operating income.

- Performance for the Victoria's Secret company-owned stores in the UK and China continues to be challenging.

- International revenue for the full year 2019 of $600 million was down about $5 million compared to last year. Operating income of $6.2 million improved by $12.8 million to compared to last year's operating loss of $6.6 million.

- In 2020, we expect to open around 50 to 60 net new stores outside of North America, an increase of about 7%. The most significant growth will be in the Bath & Body Works franchise business, where we'll add about 40 net new stores, an increase of about 15%. For Victoria's Secret, we continue to test new store formats, including smaller Victoria's Secret full assortment stores in China and adding lingerie to Victoria's Secret Beauty and Accessories stores.

Sale of a majority interest in Victoria's Secret

- As you know, last week we announced the sale of 55% of the Victoria's Secret Lingerie, Victoria's Secret Beauty and PINK global businesses (collectively, Victoria's Secret) to Sycamore Partners for proceeds of approximately $525 million.

- The transaction is the result of a comprehensive review of a broad range of options undertaken by the Board, with input from outside financial advisors, designed to best position our brands for long-term success and drive shareholder value.

- We believe this transaction will highlight the value and performance of the standalone Bath & Body Works business, enhance management focus and reduce structural complexity.

- Additionally, we believe that a private entity structure creates the best environment for a Victoria's Secret turnaround. While we recognize that Victoria's Secret performance has deteriorated meaningfully over the last several years, the brand leads the lingerie category in North America and has high levels of global awareness. We believe that Sycamore, which has substantial experience in the retail industry, will bring a fresh perspective and greater focus to the business. We are pleased that, by retaining a significant ownership stake, our shareholders will have the ability to meaningfully participate in the upside potential of this iconic brand.

- Andrew Meslow, former Chief Operating Officer of Bath & Body Works, has been promoted to Chief Executive Officer. He has been with the business for 15 years and has an exceptional understanding of the business and its customers.

- Nick Coe, previously Chief Executive Officer of Bath & Body Works, has been named Vice Chairman of Bath & Body Works Brand Strategy and New Ventures. In his new role, he will focus more intently on the strategic position of the business, the evolution of the brand, product development and new ventures/acquisitions.

- We are confident that this succession plan, which leverages the unique partnership established by Nick and Andrew to advance the long-term, strategic direction of the brand, is the best arrangement for the business.

- Upon the close of the transaction, which is expected to occur in the second quarter, Les Wexner will step down as Chief Executive Officer and Chairman of L Brands to become Chairman Emeritus, remaining as a member of the Board.

- We intend to use the proceeds from the sale, as well as approximately $500 million in excess balance sheet cash, to reduce debt. There are also about $2.5 billion in balance sheet lease liabilities related to Victoria's Secret. After accounting for the expected debt and lease liability declines, on an adjusted debt to EBITDAR basis, we expect that our overall leverage ratio will be close to its current level.

- We know that you have many questions about what the new standalone Bath & Body Works business will look like from a financial perspective. In the investor presentation which we made available with the transaction announcement, we have allocated our international business and Mast functions to Victoria's Secret and Bath & Body Works for the past five years.

- Over the next several months, we will be reviewing the functional and corporate support required for the standalone Bath & Body Works business, with a view to simplifying our existing structure, and recognizing that we will still be supporting the Victoria's Secret businesses through Transition Services Agreements with various terms, which will minimize near-term dissynergies.

- The management team, in conjunction with our Board, will also be evaluating the capital structure and cash priorities for the standalone Bath & Body Works business.

- It is our intent, when we have greater clarity on the above, to conduct meetings with analysts and investors and provide the financial characteristics and growth plans for the standalone Bath & Body Works business.

<u>2020 Outlook</u>

- Given the fact that we will be working through these details, we will not be providing full year 2020 earnings guidance at this time.

- We are providing guidance for the first quarter of 2020, as we don't expect the transaction to close until sometime in the second quarter.

- We are forecasting a first quarter adjusted loss per share of about 5 cents. This forecast includes an estimate for continued challenges at Victoria's Secret, and flat to modest operating income growth at Bath & Body Works, given the occupancy and supply chain pressures mentioned previously.

- Our first quarter forecast includes a negative impact of about 3 cents from the closure of stores in China due to coronavirus. From a sourcing perspective, we estimate that we will see delays of 2 to 4 weeks for certain items, principally related to lingerie and apparel merchandise for the Spring season. The situation is dynamic and evolving, and we are taking steps to mitigate the impact of these potential delays. While we have a diversified finished goods sourcing base by country, China is a critical source of raw materials.

- We are projecting first quarter comps to be down low-single digits.

- We expect the gross margin rate to be about flat, with buying and occupancy deleverage offset by an improvement in the merchandise margin rate.

- We expect the SG&A rate to increase significantly, deleveraging on the negative comp.

- We expect net non-operating expense of approximately $90 million.

- We expect tax expense of roughly $5 million, which includes the expected negative impact of Accounting Standards Update 2016-09, which we adopted in 2017. This accounting pronouncement requires that income tax effects of share-based awards be recognized in the income statement when awards vest. Since our stock price has decreased over the life of the awards that are vesting in the first quarter, a portion of our share-based compensation expense previously recognized will not be tax-deductible upon vesting, resulting in a negative impact to our tax expense.

- We invite you to join us for our live earnings call tomorrow morning at 9 a.m. Eastern by dialing 1-866-363-4673 (international dial-in number: 1-973-200-3978). The conference ID is 6695987.