

LB FIRST QUARTER 2020 EARNINGS COMMENTARY

MAY 20, 2020

Introduction

- L Brands is providing this first quarter commentary ahead of its live earnings call scheduled for May 21st 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 first 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.
- This commentary contains four sections:
 - Actions taken in response to COVID-19 pandemic;
 - First quarter results;
 - Go-forward plan for Victoria's Secret/PINK; and
 - 2020 second quarter outlook

Actions Taken in Response to COVID-19 Pandemic

- As we have communicated throughout the quarter, the company has taken a number of actions in response to the COVID-19 pandemic, including:
 - Closing all stores in North America as of March 17 and asking all associates who can to work from home;
 - Closing the Victoria's Secret distribution centers on March 19 to implement additional safety measures, with a reopening on March 25. The Victoria's Secret online business was also shut down during this brief time period;
 - Furloughing most store associates as of April 5;
 - Suspending store rent for April and May. We are in active discussions with our landlords to negotiate with respect to these rent payments and go-forward occupancy costs. While the suspension of rent payments results in a cash benefit, rent was still accrued and expensed in the first quarter for accounting purposes;
 - Reducing our capital expenditures forecast from \$550 million to approximately \$250 million;
 - Reducing Spring inventory receipts versus last year by approximately 45% at Victoria's Secret/PINK and 20% at Bath & Body Works;
 - Suspending our quarterly dividend;
 - Extending vendor payment terms;
 - Suspending associate merit increases;
 - Reducing salaries for senior vice presidents and above by 20%;

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- Suspending cash compensation for the Company's former Chairman and CEO, Les Wexner, and for board members, and;
 - Amending our revolver to an asset-backed loan facility.
- Our cash balance at the end of the quarter was \$957 million, and there were no borrowings outstanding under the ABL.

First Quarter Financial Results

- As part of our strategy to increase shareholder value, we remain committed to establishing Bath & Body Works as a pure-play public company, and we are taking the necessary steps to prepare the Victoria's Secret Lingerie, Victoria's Secret Beauty and PINK businesses to operate as a separate, standalone company.
- Total company sales declined by 37% in the quarter to \$1.654 billion, driven by declines in our stores businesses as stores were closed in the United States and Canada as of March 17, and earlier in international locations.
- Our gross margin rate declined by 1,220 basis points, principally driven by buying and occupancy deleverage on the sales decline. As mentioned previously, rent was expensed in the quarter.

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- We reduced SG&A expenses in the quarter by 22%, as we took actions as noted above to reduce expenses, however SG&A deleveraged by 700 basis points on the sales decline.
- Total adjusted first quarter loss per share was 99 cents compared to earnings per share of 14 cents last year. First quarter adjusted operating loss was \$220.9 million compared to operating income of \$153.3 million last year, and adjusted net loss was \$275.2 million compared to net income of \$40.3 million last year.
- Total company inventory per-square-foot ended the quarter up 8% to last year.
- Turning to the Bath & Body Works segment, the first quarter of 2020 was an unprecedented time for the world, the retail industry and our business.
- First quarter sales for the Bath & Body Works segment were \$712.7 million, down 18%, or \$158.1 million compared to last year.
- Store sales were down 41%, or \$290.5 million compared to last year. Comp store sales increased meaningfully prior to closing all stores in mid-March, driven largely by significant increase in demand for Hand Soaps and Sanitizers. The Body Care and Home Fragrance businesses were also positive during this period.
- The Bath & Body Works Direct channel grew sales by 85%, or \$132.4 million in

the first quarter, compared to a 40% increase last year. We have focused on increasing our fulfillment capacity to meet the significant and unplanned increase in demand and are realizing record productivity. Our third party fulfillment partners have been providing outstanding support, while implementing additional safety measures. All categories are experiencing positive sales growth, with high demand for Soaps and Sanitizers.

- The merchandise margin rate for the quarter was down 90 basis points to last year. The decline in the merchandise margin rate was primarily driven by a greater mix into the direct channel. Additionally, there was slight margin deleverage as a result of fixed costs and investments in product development. Promotional activity was down meaningfully to last year, leading to a significantly higher product margin rate during the quarter.
- For the quarter, operating income was \$69.1 million, down 55% versus last year's strong 25% growth. Our operating income rate for the quarter decreased versus last year and was driven by the merchandise margin rate decline and deleverage of store expenses, due to store closures.
- We are projecting about 55 real estate projects (new stores and remodels) for 2020, down from our recent historical rate of about 200 projects per year. Our forecast includes 51 closures in 2020, and we are closely evaluating all locations, especially more vulnerable centers for risk of closure.
- Retail inventories ended the quarter down slightly on a per-selling-square-

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foot basis, while total segment inventories were up, and in-line with expectations. We continue to review and modify our future orders, while positioning the business for future seasons with newness.

- During the quarter, we tested two different store reopening models in Ohio. In one model, we are limiting the number of customers allowed in the store at one time, and in the other model customers order product for pickup in store. We had a total of 23 stores open in Ohio as of the end of the quarter.
- For the Victoria's Secret segment, total first quarter sales decreased 46% to \$821.5 million. Store comps declined 15% and sales in the direct business also declined 15% to \$307.6 million, partially driven by the 6-day closure of the direct business. During April, when the online business was operational and stores were closed, direct sales increased by 30%.
- First quarter adjusted operating loss at the Victoria's Secret segment was \$203.1 million compared to operating income of \$32.7 million last year. The operating loss was driven by the 46% decline in sales, despite significant expense savings actioned on in the first quarter.
- We are actively managing inventory levels, and we have made significant reductions to merchandise purchases. We plan to implement additional profit improvement initiatives as further described below.

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- In the international segment, significant number of store closures drove a 51% revenue decline in the first quarter to \$65.5 million. The operating loss increased to \$35.3 million compared to \$4 million last year. Almost all of the 2020 first quarter loss was driven by the wholly-owned businesses in the U.K. and China.
- For Bath & Body Works international, revenue increased slightly. Despite the fact that international franchised stores were closed for most of the quarter, strong sales in stores prior to their closure and a significant increase in online sales drove revenue growth. Operating income also increased slightly.

Go-forward plan for Victoria's Secret/PINK

- Turning to our go-forward plan for the Victoria's Secret business, we remain committed to taking the necessary steps to prepare this business to operate as a separate, standalone company, and we have appointed Stuart Burgdoerfer, current CFO of L Brands, as interim CEO of the Victoria's Secret business.
- Stuart is actively engaged with brand leaders John Mehas, Amy Hauk, Greg Unis and head of international Martin Waters to implement a profit improvement plan for this business.
- The elements of this plan include:

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- A substantial increase in our focus on inventory management, sourcing cost reductions and tariff mitigations, and an increase in full-price selling driven by an improved product assortment;
- A meaningful reduction in store selling costs;
- A significant rationalization of the Victoria's Secret company-owned store footprint. We estimate that we will close approximately 250 stores in the U.S. and Canada in 2020. We are also actively evaluating strategic alternatives to reduce or eliminate losses in the U.K. and China and;
- A holistic review of our home office organizations, which will include the decentralization of significant functions and services in support of creating standalone companies and a meaningful reduction in overhead expenses, along with a focus on retaining key talent.

Second Quarter 2020 Outlook

- Given the high level of uncertainty in the current environment, we will not be providing second quarter or full-year 2020 earnings guidance.
- We intend to thoughtfully open stores throughout the second quarter, taking steps to ensure the safety of our customers and associates, and adhering to government guidelines. We expect that the majority of our stores will be open by the end of July.
- We will also continue to maximize our growth online.

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- We remain committed to managing inventory, expenses and capital conservatively to preserve cash and maximize liquidity.
- We invite you to join us for our live earnings call tomorrow at 9 a.m. Eastern by dialing 1-888-946-7609 (international dial-in number: 1-517-308-9411). The conference ID is 6362067.