Final

LB THIRD QUARTER 2019 EARNINGS COMMENTARY

NOVEMBER 20, 2019

Introduction

- L Brands is providing this third quarter commentary ahead of its live earnings call scheduled for November 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 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 results discussed in this commentary are adjusted results, and exclude the significant items detailed in our press release.

- The 2019 significant items include:

    - A $247.5 million pre-tax non-cash impairment charge ($0.83 per share) related to certain Victoria's Secret store and other assets, principally in Greater China, including Hong Kong, and the U.K.; and

  - A $37.2 million pre-tax charge ($0.10 per share) to increase reserves related to ongoing guarantees for the La Senza business, which was sold in the fourth quarter of 2018.

Third Quarter Commentary

- Our third quarter earnings per share result of 2 cents was within our forecasted range of a loss of 5 cents to earnings of 5 cents.

- Bath & Body Works exceeded our expectations for the quarter and continues to deliver strong results, with a 9% comp increase and a 10% increase in operating income.

- Outperformance at Bath & Body Works was offset by a Victoria's Secret result that was at the low end of our expectations.

- Turning to our third quarter results …

- Net sales for the quarter were $2.677 billion, and total comps decreased 2%.

- The gross margin rate decreased by 110 basis points to 35.8%, driven by buying and occupancy expense deleverage. The merchandise margin rate was about flat. The total company merchandise margin rate benefited from the absence of the closed Henri Bendel and sold La Senza businesses, both of which had lower merchandise margin rates than the rest of the business.

- The total company merchandise margin rate was negatively impacted by lapping negotiated sourcing cost reductions last year and tariffs.

- The SG&A rate deleveraged 90 basis points on dollars that were down 1% to last year. The dollar decline was driven by the absence of the Henri Bendel and La Senza businesses.

- Operating income dollars decreased by $59.3 million, and the rate declined by 200 basis points.

- Turning to the balance sheet, inventories per square foot ended the quarter up 14% to last year, in line with expectations. Inventory per square foot is up at both Victoria's Secret and Bath & Body Works.

<u>Victoria's Secret</u>

- Third quarter sales for the Victoria's Secret segment were $1.412 billion, and comp sales decreased 7%, including an 8% decline in store comps, driven by declines in traffic and average unit retails. Total digital sales decreased by 6%.

- The total segment gross margin rate decreased significantly, driven by a decline in the merchandise margin rate and buying and occupancy expense deleverage. The merchandise margin rate did not decline by as much as the second quarter, and the decline was principally driven by lapping sourcing cost concessions from last year, as promotional activity in the quarter was roughly flat.

- SG&A expense deleveraged on the sales decline.

- Third quarter operating income declined by $95.3 million to a loss of $81.1 million, and the rate decreased by 660 basis points.

- In the lingerie business, third quarter comps were down low-double digit, and the merchandise margin rate declined. Comps decelerated versus the second quarter result of down mid-single digit, principally driven by a comp decline in bras, where we pulled back on promotional activity, resulting in margin rates and average unit retails that were up versus last year. For the lingerie business in total, the third quarter margin dollar percentage decline to last year was similar to the second quarter result.

- Turning to PINK, comps decreased in the mid-single digit range, an improvement from the second quarter decline of low-double digits. Intimate apparel sales increased in the high-single digit range, driven by strong growth in sport bras, bralettes and panties. A decline in apparel more than offset growth in intimates, principally driven by a decline in tops. We continue to work to improve the apparel assortment and are seeing bright spots in bottoms and new products like seamless workout tights.

- The PINK merchandise margin rate was down significantly in the third quarter, driven by sharper opening price points and an increase in promotional activity. We rebalanced our good, better, best pricing architecture to increase merchandise offerings in the "good" range. This was done in part to make the brand more accessible to our core customers. As a result of this rebalancing, average unit retails declined significantly, but our units sold increased meaningfully. PINK's third quarter margin dollar percentage decrease to last year declined by less than the second quarter result.

- Victoria's Secret Beauty third quarter comps increased in the low-single digit range due to growth in prestige fragrance, driven by a strong launch of Bombshell Intense, the mist collection, and PINK beauty. The merchandise margin rate was flat compared to last year. Merchandise margin dollars were up compared to last year.

- Inventories ended the quarter up compared to last year, driven by key Holiday investments in sleepwear and matchback panties.

- Looking to Holiday, we are up against aggressive promotional activity from last year. We will continue to remain agile in reading the business and respond with appropriate promotional activity to drive traffic and manage inventory levels while optimizing our margin dollar result.

<u>Bath & Body Works</u>

- Third quarter sales for the Bath & Body Works segment were $1.064 billion, up 11% or $107.9 million to last year, and comps increased 9%; store only comps increased 5%.

- Sales performance was balanced across the quarter. Customers responded well to our merchandise assortment with all major merchandise categories growing relative to last year.

- Customer response toward our seasonal products was strong. Promotional levels in the quarter were up slightly to last year, and the customer was value-focused as we saw increased response to key promotional days in the quarter.

- For the quarter, operating income was $195.6 million, up 10% to last year. Our operating income rate was 18.4%, decreasing 20 basis points to last year. The decline in profit rate was driven by a decline in the merchandise margin rate, partially offset by overall favorable expense leverage on the higher sales volume.

- The merchandise margin rate was heavily impacted by ongoing supply chain pressures, including higher transportation and labor costs, as well as tariffs. The continuing growth of the direct channel also contributed to the decline.

- Our BBW Direct channel grew sales by 30% in the third quarter versus 31% last year.

- Inventories ended up to last year on a dollar-per-selling-square-foot basis, in line with expectations as we prepared for the fourth quarter.

- During the quarter, we continued our real estate initiative by opening or remodeling 78 additional stores in our fleet, bringing the net number of new concept stores to 816 at the end of the quarter. Our current projections are targeting approximately 835 stores in our new concept by the end of the year. We continue to be pleased with the overall results of these stores.

- Our results in the third quarter have helped us gain clear learnings for next year and prepare for the fourth quarter.

- As stated previously, occupancy costs, from both our real estate initiative and direct fulfillment, as well as sourcing costs will place pressure on gross margin in the fourth quarter and the foreseeable future.

- We are planning promotional levels to be about flat to last year for the fourth quarter. However, the period between Black Friday and Christmas is the shortest timeframe possible due to the calendar shift of the Thanksgiving holiday. We will continue to rely on the strength of our agility and will continue to test pricing and promotion strategies, react to customer preferences, and chase into proven product winners as necessary to drive results.

- We remain focused on disciplined expense management and we will continue to make appropriate investments to drive growth in the business.

<u>International</u>

- International third quarter revenue of $133.4 million was about flat to last year. The operating loss was reduced by $2.4 million to a loss of $8.7 million.

- Revenue and operating income in our partner business both increased, principally driven by strong performance in Bath & Body Works.

- In the U.K., revenue declined, driven by continued negative comp performance. The operating loss was about flat to last year.

- Revenue in Greater China also declined, driven by the unrest in Hong Kong. The operating loss in Greater China increased slightly.

- In 2019, we expect to open around 65 net new stores outside of North America, an increase of about 9%. We continue to test new store formats, including smaller Victoria's Secret full assortment stores in China and adding lingerie to VSBA stores.

- We continue to be confident about our prospects for growth in international markets… and of course, we remain focused on the fundamentals: great execution of our brands wherever we go.

<u>2019 Outlook</u>

- Looking to the fourth quarter, we are forecasting earnings per share of about $2.00.

- New CEO's John Mehas and Amy Hauk are very focused on getting close to our customers and making improvements to our merchandise assortments and marketing. We have more work to do, and we recognize that it will take some time to see improvement in the business. Also, as mentioned earlier, we are up against aggressive promotions from last year and the time period between Thanksgiving and Christmas is 6 days shorter than last year.

- Therefore, our fourth quarter guidance assumes a Victoria's Secret merchandise margin dollar percentage decline in the high-single digit range, which is consistent with our third quarter result.

- For the total company, we forecast fourth quarter comps to be about flat. The change in total sales in the fourth quarter will be about 2 points lower than the comp result, driven by the loss of La Senza and Henri Bendel sales offset by square footage growth at Bath & Body Works.

- We expect the fourth quarter gross margin rate to be down compared to last year, driven principally by a decline in the merchandise margin rate. The merchandise margin rate decline is primarily driven by the impact of tariffs and from lapping negotiated cost concessions from our suppliers from last year.

- We expect the SG&A rate to be about flat.

- Fourth quarter net non-operating expense, consisting primarily of interest expense, is anticipated to be about $90 million.

- We expect the fourth quarter tax rate to be about 26%.

- We expect to end the year with inventory per-square-foot up in the high-single digit range compared to last year, driven by sleep and lounge investments at Victoria's Secret Lingerie and Bath & Body Works lapping low inventories from last year.

- For the full year 2019, we are projecting comps to be about flat to down slightly. Total sales growth will be about 2 points lower than comps due to the loss of La Senza and Henri Bendel sales.

- We expect our full-year gross margin rate to be down compared to last year, driven principally by a decline in the merchandise margin rate.

- We expect full-year SG&A rate to be about flat and dollars to be about flat to down slightly driven by the elimination of the La Senza and Henri Bendel businesses and ongoing efforts to manage expenses.

- Non-operating expenses, consisting principally of interest expense, are projected to be about $365 million.

- We estimate our full-year tax rate will be about 26%.

- We are forecasting weighted average shares of about 279 million in the fourth quarter and full year.

- Assuming all of these inputs, we expect adjusted earnings per share for the full year 2019 to be about $2.40, compared to our previous guidance of $2.30 to $2.60.

- With respect to tariffs, our forecast does include the impact of the previously announced increase to List 3 (included in prior guidance) and the 10% List 4 tariffs on goods imported from China. Our largest country of supply is the U.S. where the majority of Bath & Body Works and Victoria's Secret Beauty products are produced. Our lingerie and apparel merchandise is principally produced in Asia, but across a well-diversified group of countries, with no one country having a majority of production. China currently represents a little under 20% of our total production, and we have taken and will continue to take action to mitigate our exposure to China.

- We are projecting 2019 capex of about $500 million versus $629 million in 2018.

- Our overall spending on stores and real estate will decline from about 75% of total capex in 2018 to roughly 55% in 2019.

- We will continue to actively manage our real estate portfolio to ensure we are best positioned to meet customer demand … over the last 10 years, we have opened 822 stores, closed 675 stores and sold 130 stores.

- Given the decline in performance at Victoria's Secret, we have substantially pulled back on capital investment in that business while we focus on ensuring that our merchandise resonates with customers.

- At Bath & Body Works, we will continue to invest in the White Barn concept in 2019, which continues to yield strong returns. We have about 200 White Barn projects planned for 2019.

- Victoria's Secret square footage in North America is projected to decline by about 3%, and Bath & Body Works square footage in North America will increase by about 3%, yielding a total company square footage decrease of about 1%.

- Turning to liquidity, with a full-year adjusted earnings per share forecast of about $2.40, we estimate 2019 free cash flow of about $750 million.

- 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 8594448.