BBWI THIRD QUARTER 2022 EARNINGS COMMENTARY
NOVEMBER 16, 2022

Introduction

- Bath & Body Works, Inc. is providing this third quarter commentary ahead of its live earnings call scheduled for Nov. 17 at 9:00 a.m. Eastern.

- 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.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 charges and associated tax impact related to the early extinguishment of debt in 2021. Additionally, the results included in this commentary represent results from continuing operations and exclude the discontinued operations related to Victoria's Secret in 2021.

Third Quarter Overview and Business Update

- We are pleased to have exceeded our third quarter earnings from continuing operations per diluted share guidance of $0.10 to $0.20, reporting $0.40 per diluted share. As a result of our better-than-expected bottom line performance in the third quarter, we are raising our full-year earnings from continuing operations per diluted share guidance range to $3.00 to $3.20 from our prior guidance range of $2.70 to $3.00.

- Looking at the third quarter, our better-than-expected performance compared to our guidance was driven primarily by a better merchandise margin rate and favorability in SG&A expenses.

- We are continuing to prioritize investing in our customer experience. As part of our focus on our customer, we launched our loyalty program nationwide during the month of August. We have been excited to see industry-leading speed in customer adoption of our program. According to our loyalty partner Bond Brand Loyalty, "Based on our experience and our ongoing consumer loyalty tracking data, Bath & Body Works enjoys world class loyalty to the brand as well as to their program—which has resulted in an unprecedented rate of enrollment and market-leading omni sales penetration within a relatively short timeframe since their national launch."

- Our enrollment results have exceeded our expectations, with more than 21 million members enrolled to date, and our loyalty members now make up more than a third of our overall customer base. Additionally, loyalty sales already represent about two thirds of our total U.S. sales since launch.

- Our loyalty customers spend more and visit us more than non-loyalty customers. Additionally, our loyalty customers have retention rates significantly higher than those not in the program. As our enrollment continues to grow every day, we look forward to the robust growth of our loyalty program during the holiday season.

- In terms of product performance, our iconic Fall scents are always a customer favorite. The customer responded well to the multiple forms, fragrances and packaging innovation for the season. Bringing some of our top fragrances to life such as Leaves, Pumpkin Pecan Waffles and Sweater Weather in multiple categories and forms is a unique point of differentiation for the brand.

- Highlights of category performance during the quarter included:
  - Our Men's business continued to significantly outpace the shop with the launch of Leather & Brandy and Coffee & Whiskey, which exceeded our expectations. The Men's business continues to grow rapidly as we test new forms and merchandising ideas to further fuel this growing business. In the fourth quarter and for the first time, we launched a new single fragrance for the Men's business, After Dark.
  - Body Care outpaced the shop in the third quarter. Fine fragrance mists had a strong quarter that was bolstered by our new fragrance, Fall in Bloom, that met the customer mindset during this time of year.

  - Home Fragrance performance was in line with the shop driven by strength in Wallflowers.
  - Soaps performed well, outpacing the shop, as we continue to expand our new formulation that is made without parabens, sulfates or dyes. Our relaunch of Gel Soap has been performing well, and we see opportunities for meaningful future growth through this form. As expected, we continued to see a shift out of our sanitizer business, which accelerated during the pandemic.

- Delivering innovation and newness continues to be a priority. Recent examples include:
  - We recently launched a test of MOXY products online and in 11 stores. This new line includes face and hair care products and dietary supplements designed to help customers reach their skin, hair and wellness goals from the inside out. This launch is in its very early stages, and we are listening and learning. We are planning an adjacent body care launch in 2023.
  - Our men's antiperspirant deodorant, already in 650 stores, will roll to the balance of chain in Spring 2023.
  - We are currently testing recyclable aluminum soap vessels. Next year, we will also be testing cartons that enable our customers to refill their soap containers.
- We continue to learn our customers' preferences in these adjacent product lines and plan to continue to add more new and innovative products as we work to extend our brand's global potential.

- We also continue to take rigorous actions to improve profitability and are pleased with our progress to date. Our efforts included revisiting promotions and pricing, as well as product costing to improve merchandise margin. We are being strategic with our pricing architecture through the balance of the year, knowing the consumer is price sensitive, while continuing to look at opportunities. We are also working to improve product costing by actively working with our vendor base and streamlining our operations to combat inflationary pressures and improve our results.

- Additionally, we implemented several expense reduction actions during the quarter including optimization of corporate overhead and store selling expenses.

Third Quarter Results

- We reported third quarter earnings from continuing operations per diluted share of $0.40 compared to adjusted earnings from continuing operations per diluted share of $0.92 last year. The better-than-expected results compared to our guidance of $0.10 to $0.20 per diluted share were driven primarily by a better margin rate, due principally to category mix and transportation cost improvement, and SG&A expense favorability.

- Net sales for the quarter were $1.604 billion, down 5% compared to the third quarter 2021 but up 46% compared to the third quarter 2019.

- The sales results in the quarter compared to 2021 were at the high end of our expectations. The decline as compared to the prior year was driven by both a decrease in transactions and lower average dollar sale. Our data indicates that our customers are continuing to be more cost conscious with the uncertain macro environment.

- In U.S. and Canada stores, third quarter sales were $1.18 billion, a decrease of $60 million, or 5%, compared to last year. Sales were up $306 million, or 35%, compared to 2019.

- Third quarter Direct sales of $345 million decreased by $24 million, or 6%, compared to 2021. Sales were up $153 million, or 80%, compared to 2019. The decline to last year is partially due to last year's strong results as well as our customers continuing to take advantage of our omni-focused option of buy online-pick up in store (BOPIS). We ended the third quarter with BOPIS availability in more than 1,280 stores. During the third quarter, BOPIS-fulfilled sales represented approximately 10% of online demand. As a reminder, BOPIS sales are recognized as store sales.

- International sales for the third quarter were $81 million and increased 10% compared to last year. Our international business continues to perform consistent with expectations. Our third quarter recognized revenues were negatively impacted by timing shifts related to product shipments.

- The gross margin rate for the third quarter decreased by 770 basis points compared to 2021 to 42%. Compared to 2021, the gross margin rate decrease was driven by a significant decrease in the merchandise margin rate and buying and occupancy expense deleverage due to the sales decline. The decline in the merchandise margin rate was primarily driven by increased product cost due to continued inflationary pressure and incremental promotions to drive sales. Our average unit retail (AUR) adjusted for mix was down mid-single digits, in line with expectations and consistent with what we experienced in the second quarter. Our full-year 2022 AUR is projected to increase in the high teens as compared to pre-pandemic levels.

- We continue to focus on disciplined expense management given the uncertain macroeconomic environment. We are pleased that our emphasis on expense management resulted in SG&A expenses that were below our beginning of quarter expectations. As compared to 2021, the SG&A rate for the third quarter increased by 410 basis points. As we have previously mentioned, we are making strategic investments in technology in connection with our IT separation and transformation and our associates which have resulted in increased spend versus last year.

- Taking into consideration the above factors, third quarter total company operating income was $201.8 million compared to $408.5 million in 2021. The third quarter operating income rate was 12.6% compared to 24.3% in 2021.

- Third quarter net income from continuing operations was $91.0 million, compared to adjusted net income from continuing operations of $244.8 million in 2021.

- Third quarter earnings from continuing operations per diluted share were $0.40 compared to adjusted earnings from continuing operations per diluted share of $0.92 in the prior year. Lower shares outstanding contributed 6 cents of EPS growth.

- Turning to the balance sheet, total inventories ended the quarter up 10% compared to last year, better than expectations. Finished goods retail units were up 7% compared to last year, in line with expectations. The difference between dollar growth and unit growth is due primarily to inflationary pressures in product cost, partially offset by lower component inventory compared to last year. The finished goods unit increase relates to categories that were very lean last year, particularly Soaps and Body Care. We believe our inventory is well positioned to support a strong holiday season.

- We completed 51 North American real estate projects in the third quarter – 31 new off-mall stores and 20 remodels.

- Year-to-date, we have permanently closed 34 stores and anticipate about 50 closures for the full 2022, principally in malls. We are forecasting approximately 100 new off-mall North American stores this year, resulting in net square footage growth of about 6% for the full year. Based on these assumptions, approximately 50% of our stores at year end will be off-mall and about two thirds will be in the White Barn store design. Our overall real estate portfolio continues to be very healthy. Our entire store fleet continues to significantly outperform pre-pandemic levels, led in strength by our non-mall locations.

- For International, our franchise partners operated 394 stores and 28 online sites across 41 countries as of the end of the quarter. Our partners opened 28 new stores and closed 3 in the third quarter. For the balance of the year, we expect our partners to open another 24 to 35 new stores and close up to 3 stores. This would be the largest store growth year for our international business, ending the year with 415 to 429 stores.

Outlook for Fourth Quarter

- We believe we are well-positioned as we head into the important holiday season and fourth quarter. We have a robust gifting assortment at accessible price points that we believe will resonate with customers. Our fourth quarter sales forecast reflects a decrease between mid-single digits to low-double digits compared to 2021 sales of $3.027 billion. The high-end of our guidance is aligned to the third quarter trend, but we remain mindful of the challenging environment and inflationary pressure affecting our customers and our business. We will continue to quickly read and react to the changing business trends during the quarter to optimize sales and inventory positioning as we exit the year.

- We expect the gross margin rate to be approximately 41% to 42%. The decline to last year is principally driven by a significantly lower merchandise margin rate. Our average unit retail is expected to be down mid-single digits versus last year, and our guidance assumes a more promotional approach in the fourth quarter compared to last year. Our forecast includes approximately $70 million of incremental inflationary cost increases in the fourth quarter related to raw materials, wages and transportation. Buying and occupancy expenses are also forecasted to deleverage driven by the sales decline. The fourth quarter gross margin rate will also be impacted by the loyalty program.

- As a reminder, we defer a portion of the sales that occur with our loyalty customers. The portion that we defer is linked to the value of the free reward that the customer receives upon reaching an accumulated point threshold. As we continue to enroll more customers and as loyalty customer sales rise, our deferral will continue to rise.

- We expect the revenue deferral impact to peak in the fourth quarter as enrollments continue and new and existing loyalty customers return during the holiday period, and we anticipate it will continue until we anniversary the nationwide launch of the program in the third quarter of next year.

- We expect the fourth quarter SG&A rate to be approximately 22% of sales compared to 18.7% last year. As discussed in our first quarter earnings call, the increase as compared to prior year is principally driven by the investments in technology, store wage rates, retention for our associates and CEO transition costs.

- We expect fourth quarter net non-operating expense, principally interest, to be approximately $80 million and the tax rate to be about 25%.

- We project our weighted average diluted shares outstanding for the quarter to be approximately 230 million.

- Considering all these inputs, we are forecasting fourth quarter earnings from continuing operations per diluted share to be between $1.45 and $1.65.

Outlook for Full Year

- For the full year, we are forecasting sales to be down mid-single digits compared to $7.9 billion in 2021.

- We expect the full-year gross margin rate to be approximately 42% to 43%. The decline to last year is primarily driven by an expected decline in the merchandise margin rate related to incremental promotional levels given the current macro environment, expected incremental inflationary costs totaling $220 million to $230 million and the estimated revenue deferral impact of approximately $40 million from the loyalty program rollout. We also expect buying and occupancy expense to deleverage, driven by lower sales and our investments in direct fulfillment capabilities.

- We expect the full-year SG&A rate to increase about 200 basis points compared to 23.4% in 2021, principally driven by the previously mentioned investments in technology and our associates.

- We expect full-year net non-operating expense of approximately $340 million, a tax rate of about 24% and weighted average diluted shares outstanding of approximately 233 million.

- We forecast full-year earnings from continuing operations per diluted share to be between $3.00 and $3.20.

- We are forecasting ending the year with total inventory dollars up in the mid-teens with the goal of ending inventory of finished goods units approximately flat to the prior year.

- We are estimating 2022 capital expenditures to be approximately $400 million. We are continuing our investments in the remodeling and opening of new stores. Additionally, we are investing in technology, distribution and logistics capabilities to support our long-term growth.

- We expect 2022 free cash flow to be between $475 million and $550 million.

- Our plans for use of cash are as follows:

- First, we will continue to invest in the business to significantly improve customer experience and support growth in existing and new categories. We will also continue to invest in new off-mall stores and remodels and fulfillment capabilities, as well as our IT separation and transformation.
- Continue to pay the annual dividend of $0.80 per share, with an intention to increase the dividend over time as earnings increase.
- We will communicate plans for any additional excess cash when we provide guidance for 2023.

<u>Conclusion:</u>

- We are confident about our positioning through the remainder of the year and beyond.

- We will remain disciplined in our expense and inventory management and strategic about the investments we make in the growth of our business as we continue to effectively navigate the challenging environment and inflationary pressures.

- Next month, we will welcome global personal care and beauty industry veteran Gina Boswell as Bath & Body Works' next Chief Executive Officer. She will also join our Board of Directors at that time. Gina brings more than 30 years of experience, including leadership roles at global companies such as Unilever, Alberto Culver Company and The Estee Lauder Companies, and brings deep expertise in sales, marketing, brand-building and business development and strategy, along with strong operational experience and a demonstrated track record of delivering successful business outcomes. The Board is confident that under Gina's leadership, the company will accelerate growth across our channels and categories globally, while delivering enhanced value for shareholders.

- Looking ahead, we are confident in the fundamentals and potential of our business and excited for Bath & Body Works' next chapter of growth.

- We invite you to join us for our live earnings call tomorrow at 9:00 a.m. Eastern by dialing 1-888-946-7609 (international dial-in number: 1-517-308-9411). The conference ID is 6362067.