LB SECOND QUARTER 2020 EARNINGS COMMENTARY
AUGUST 19, 2020

Introduction

- L Brands is providing this second quarter commentary ahead of its live earnings call scheduled for August 20th 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 second 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 three sections:
  - Actions taken in the second quarter to advance our go-forward strategy;
  - Second quarter results; and
  - 2020 fall season outlook.

Actions Taken During the Second Quarter to Advance our Go-Forward Strategy

- The second quarter of 2020 continued to be an unprecedented time for the world, the retail industry and our business. Our first priority was and continues to be the safety of our associates and customers as we re-opened the majority of our stores in the second quarter. We adopted new operating models in our stores that focused on providing a safe shopping experience. Additionally, we focused on our distribution, fulfillment and call center safety and maximizing our direct businesses.

- We delivered strong results in the second 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 efforts.

- During the second quarter, we took a number of important steps to prepare Victoria's Secret and Bath & Body Works to operate as standalone separate companies, improve L Brands' profitability, maintain liquidity during the pandemic and maximize our financial performance.

Specifically, we:

- Completed our comprehensive review of our home office organizations in order to achieve meaningful reductions in overhead expenses and decentralize significant shared functions and services to support the creation of standalone companies. This resulted in a reduction of our home office headcount by approximately 15%, or about 850 associates.

- Managed inventories with discipline, including working with suppliers to identify opportunities to reduce merchandise costs in order to increase merchandise margin rates at Victoria's Secret. As a result of this effort already underway, Spring inventory receipts for Victoria's Secret were down approximately 45% compared to last year, and Fall receipts are expected to be down approximately 50% compared to last year.
- Began taking action to reduce Victoria's Secret store selling costs through changes in the management structure and labor model.
- Continued to execute our previously announced plan to close 250 Victoria's Secret stores in 2020 while also negotiating with landlords for ongoing rent relief.
- Worked to reduce operating losses in the company-owned businesses in the U.K. and China. In the U.K., we entered into 'Light Administration' in June to restructure lease agreements and explore the sale of the business to a joint venture or franchise partner. We subsequently signed Heads of Terms with a major fashion retailer and are in an exclusive period of negotiation.
- In China, we closed our unprofitable flagship store in Hong Kong, are nearing a resolution to restructure lease terms on other unprofitable stores and have implemented a significant overhead expense reduction plan.
- Converted our revolving credit facility to an asset-backed loan facility and issued $1.25 billion in new notes. We expect to use a portion of the proceeds to retire the $450 million maturity due in April 2021.

  - Maintained a strong financial position, with $2.6 billion in cash on the balance sheet at quarter-end and no amounts drawn under the ABL. Our second quarter free cash flow was approximately $560 million, and about $160 million year-to-date.
  - Safely reopened stores in the United States and Canada while adhering to state and local guidelines. As of the end of the quarter, 1,600 Bath & Body Works and 691 Victoria's Secret stores were open, representing the majority of our stores.
  - Dedicated resources to expand capacity in our direct fulfillment centers to meet increased customer demand. In the second quarter, Bath & Body Works direct channel sales increased 191% compared to last year and Victoria's Secret direct channel sales increased by 65%.
  - Subsequent to the end of the quarter, we retained Goldman Sachs and J.P. Morgan to serve as financial advisors on the separation of Bath & Body Works and Victoria's Secret.

- As we previously disclosed, we expect these actions will result in approximately $400 million of annualized cost reductions, about $175 million of which we expect to achieve in the remainder of 2020. Importantly, these actions will enable more efficient and faster decision making and set each business up independently, allowing for an easier future separation.

- Positioning a company for future growth and success means difficult decisions had to be made to reduce and realign our workforce. For those associates who have been impacted: we have the deepest appreciation for your contributions and for making L Brands part of your career. For those who remain: we continue to face an extremely challenging environment, yet we are confident we're setting the stage for a promising future.

<u>Second Quarter Financial Results</u>

- Turning to our second quarter financial results, we significantly exceeded our internal expectations, driven by exceptionally strong results at Bath & Body Works, as well as better-than-expected performance at Victoria's Secret.

- Total company sales declined by 20% in the quarter to $2.319 billion, driven by declines in our stores businesses as stores were closed during periods of time throughout the quarter due to COVID-19. On average, Bath & Body Works stores were closed for about half of the quarter and Victoria's Secret stores were closed for about 70% of the quarter (including the impact of the 250 stores planned to close/not reopen).

- Our gross margin rate increased by 20 basis points, principally driven by a significant improvement in the merchandise margin rate that was only partially offset by significant buying and occupancy expense deleverage.

- We reduced SG&A expenses in the quarter by 28%, and the rate improved by 260 basis points, driven by a reduction in store selling costs given store closures and a reduction in marketing expense.

- Total adjusted second quarter operating income increased by $31.1 million, or 18%, over the second quarter of 2019, driven by a $150.7 million increase in the Bath & Body Works segment, partially offset by a $55.5 million decrease in the Victoria's Secret segment, a $11.6 million decline in the International segment and a $52.5 million decrease in the Other segment. The Other segment decline was driven by a decrease in Mast sourcing profit as a result of the decrease in Victoria's Secret inventory receipts and by expenses related to the Sycamore transaction.

- Adjusted second quarter earnings per share were 25 cents compared to 24 cents last year.

- Total company inventories ended the quarter up 11% compared to last year. We are actively managing our inventory to adjust for the impact of store closures, channel shifts, product category shifts and meeting 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.

- Turning to the Bath & Body Works segment, second quarter sales for the Bath & Body Works segment were $1.2 billion, up 13%, or $136 million compared to last year. Year to date, sales were $1.9 billion, down 1%, or $22 million compared to last year.

- Second quarter store sales were down 23%, or $204 million compared to last year, and comp store sales increased 87%. We believe three factors positively impacted our comp store results. First, with only about half of the stores open on average, during the quarter, traffic naturally fell to open locations. Second, with most stores closed during March and April, there was "pent-up demand" for our products. And third, there was unparalleled industry and customer demand for soaps and sanitizers. It's also probable that government stimulus checks were supporting increased customer spending. Average store sales moderated as stores were opened longer and additional stores began to open in each market.

- Year-to-date, store sales were down 31%, or $495 million compared to last year.

- Our Bath & Body Works direct channel second quarter sales increased by 191%, or $340 million, compared to a 28% increase last year. Year-to-date, direct channel sales increased 141%, or $473 million compared to last year. We have focused on increasing our fulfillment capacity to meet the significant increase in demand, and as a result are achieving record productivity, and maintaining standard delivery times for our customers after experiencing delays earlier in the year.

- In both channels, sales were strong across all regions, store types and merchandise categories, driven by continued high demand for Soaps and Sanitizers and also strong comp performance in Body Care and Home

Fragrance.

- The merchandise margin rate for the quarter was up significantly compared to last year. The increase in the merchandise margin rate was primarily driven by a stronger product margin rate. With demand exceeding our expectations coupled with smart inventory management, we entered our semi-annual sale period with less distressed inventory, which enabled us to clear inventory more profitably. Promotional activity and marketing offers were also down to last year. As we head into the back half of the year, we anticipate that our margin rates will remain healthy but will be more in line with historical rates as we are planning to return to a more normalized promotional cadence. As always, we will read and react to the trends of the business.

- For the second quarter, operating income was $331 million, up 84% compared to last year. Our operating income rate for the quarter increased significantly versus last year driven by the merchandise margin rate strength and expense leverage in our direct channel. Our store channel results include all rent and landlord charges, even for closed locations, as well as increased investments in labor and supplies to safely operate re-opened locations.

- Year-to-date, operating income was $400 million, up 19% compared to last year.

- We ended the quarter with 1,600 open stores and are 100% re-opened in most states. We have launched Buy Online Pick Up In Store (BOPIS) capabilities in some locations and are able to operate stores as “BOPIS Only” in jurisdictions that do not permit open shopping. We will continue to follow local laws, to ensure a safe environment.

- We are projecting approximately 55 real estate projects (new stores and remodels) for 2020. We plan to open approximately 27 new stores and are closely evaluating all locations, especially the more vulnerable centers at risk for closure. Year-to-date, we have permanently closed 14 stores, and would anticipate about 30-50 closures for the full year 2020.

- Store inventories ended the quarter up high-single digits on a per-selling-square-foot basis, and total segment inventories were up and in-line with expectations. We believe that our inventory levels are well-positioned to fuel the business for the fall season and meet customer demand for new products.

- For the Victoria’s Secret segment, total second quarter sales decreased 39% to $977.5 million. Store comps declined 10% and sales in the direct business increased 65% to $613.9 million, reflecting significant growth in the Lingerie, PINK and Beauty businesses.

- The Victoria’s Secret merchandise margin rate increased significantly in the second quarter, reflecting a meaningful pullback in promotional activity and better pricing during semi-annual sale.

- SG&A expenses at Victoria's Secret were down meaningfully in the quarter, driven by lower store selling and marketing expense.

- The second quarter adjusted operating loss for the Victoria's Secret segment was $38.9 million compared to operating income of $16.6 million last year.

- Year-to-date, we have closed 210 Victoria's Secret stores in the United States and Canada and remain on track to close a total of approximately 250 stores in 2020. While the closure of these stores will result in a decrease in sales, we expect the impact to overall profitability to be about neutral, as we expect roughly 30% to 40% of sales from the closed stores to transfer to nearby locations or the direct channel.

- Revenue for the international segment declined by 48% to $80.0 million due to a significant number of temporary store closures during the quarter. The operating loss increased to $12.9 million compared to an operating loss of $1.3 million last year.

- For Bath & Body Works international, revenue increased slightly. Despite the fact that international franchised stores were closed throughout the quarter, strong sales in stores after reopening and a significant increase in online sales drove revenue growth. Operating income also increased slightly.

<u>Fall Season 2020 Outlook</u>

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

- Looking toward the second half of the year, we will remain disciplined in expense and inventory management, and focused on staying close to our customer, while delivering compelling products. In accordance with continuously changing local regulatory requirements and guidelines, we will continue to operate both of our channels in a safe manner for our customers and associates. We expect continued strength in our direct business and will continue to support elevated investment in labor and supplies in stores.

- As you know, the majority of our sales and profits for the year occur in the fourth quarter. Given the traffic constraints imposed by social distancing protocols in stores and capacity restraints in our direct channel distribution centers, we have a very cautious outlook about our ability to manage our typical Holiday volumes, which are about three times larger per week than the average week in the second quarter historically.

- We are evaluating and testing ideas to spread our Holiday volume out over a broader time period, and to pull some volume out of the fourth quarter and into the third. We also expect to return to a more typical promotional approach.

- We are forecasting meaningful expense pressure driven by increased store costs, including payroll and supplies, as a result of the new labor model imposed by social distancing protocols, wage rate inflation in the domestic supply chain and increased direct channel fulfillment and shipping costs.

- While all of the factors mentioned above, along with the continued uncertainty of the environment, result in a wide range of financial forecasts for the balance of the year, we remain confident in the strength of our brands and our ability to maximize 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.