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BBWI.N - Bath & Body Works Inc at Morgan Stanley Global Consumer & Retail Conference

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OVERVIEW:

Company Summary

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PRESENTATION

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

Okay. Good morning, everyone. I'm Alex Straton, Morgan Stanley's North America softlines retail and brands analyst here at Morgan Stanley. Thanks to all of you for joining us here today on the second day of our conference. I'm super happy to welcome the Bath & Body Works team today.

As a quick introduction, and before I introduce both of these ladies up here, Bath & Body Works is about an \$8 billion market cap business, a segment leader focused on the home fragrance, body care and soaps and sanitizers categories that separate it from its sister company who we also have here today, Victoria's back in 2021. Today, we're joined by BBW's CEO, Gina Boswell, and newer CFO, Eva Boratto. So thank you, ladies for joining me here today.

Eva C. Boratto - *Bath & Body Works, Inc. - CFO*

Thank you.

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

Thank you for having us.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

Great. So let me first run through the necessary kind of format overview and disclosures, and then we'll get into both of your backgrounds more fulsomely. So on format, it's a fireside chat. We're going to explore some of the investor questions I've been getting most frequently. Also, if we have some time at the end, we'll take some audience questions. And then my favorite part of every one of these to cover the disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. So that's the necessary part.

QUESTIONS AND ANSWERS

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

So Gina, maybe rather than me giving a lengthy bio on you, perhaps you can kind of give us your quick background, where you were at before Bath & Body Works, why you joined, I know it was about maybe a year ago at this point. So...

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

Exactly. Well, thank you. It's -- I'm happy to be here, and thank you for having us.

Yes. So I -- before joining Bath & Body Works about a year ago, actually, I had led multibillion-dollar businesses in beauty and personal care and home care businesses, most recently with Unilever, starting out actually at Estee Lauder. And I also -- from a functional point of view, I had led sort of sales and marketing and product development and finance. So that's sort of my functional skill set. And then both businesses domestically and internationally and I actually had run something outside of the United States. So that sort of speaks to the global piece of it.

As I zoom out and think about my -- over the course of my career, I've really worked in almost every distribution channel in which personal care and beauty products have been sold. And so suffice it to say, when I got the opportunity to work with Bath & Body Works, which is an iconic brand, clearly, and a differentiated model, vertically integrated. I jumped at the chance to sort of utilize my full suite of skills. And I have to say, having just completed the first year, we're having a ball. I'm really, really enjoying it.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

That's great. Much better said than I could have explained it. Maybe Eva, same question for you. You joined a little bit more recently. Give us a little bit about your background, why you joined?

Eva C. Boratto - *Bath & Body Works, Inc. - CFO*

Sure, Alex, and thank you, and good morning, everyone. So my background has spanned 3 decades -- more than 3 decades across retail and health care in Fortune 100 -- in Fortune 100 companies. And if you think about the common theme across my experiences, I point to 2 things: One, always being a strategic business partner to unlock value to help businesses grow and transform. And two, holding people accountable to results, to the goals that have been set and the commitments that have been made.

So if I just highlight a couple of things. I was the CFO of CVS Health. As most of you may know, 9,000 retail locations, a company transforming to an integrated customer experience and expanding really into health services. I drove the integration process with, of course, some of my peers there driving the realization of synergies, reprioritizing our investments as we were transforming the company and really participating in a true transformation of the company.

I was with Merck prior to that for about 20 years, where I held a host of different financial positions. But most notably, I'll call out my time in the vaccine business where we evolved the business from \$1 billion pediatric U.S.-centric business to a true global vaccine business covering all cohorts from pediatric to adult with adolescent and really took that business on a transformation growth. And similar to Gina, it's been a fast 4 months here, 2 earnings calls, headed into my first holiday season, and it's been great. I have a great team behind me with tremendous experience in Bath & Body Works. So I'm continuing to engage and learn.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

That's a great overview. Maybe let's talk a little bit about, since you're both relatively newer to the business, I'll start with you Gina and then Eva, I'll ask you the same question. Just on kind of where you feel in your first year as a part of the business, perhaps you pushed the ball most forward in terms of strategic objectives. And then as we're thinking about 2024, perhaps where is the most opportunity or runway still to go?

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

Great. Yes. So when I first came in, really spent time setting the long-term strategy around elevating the brand, engaging the customer, extending the reach across categories, customers, geographies, enabling a seamless experience and then enhancing operational excellence. So there was sort of a set strategy. And from the start, my priorities were really around a bit more on the -- I sort of said sales and marketing background as well. So targeted marketing, personalization, improving the customer experience, was sort of where I focused first.

And so I built the leadership team to sort of deliver those new capabilities to really facilitate that strategy. Importantly, we also needed to separate from Victoria's Secret, which I'm happy to say we substantially completed in the summer. So we spent time there. That is actually very important. It's only 14 weeks ago now. But that sort of really is the foundational piece where we can actually do much more on the area of loyalty and marketing and the things that I sort of had set out.

So when I think about initially, we set sales and earnings outlook from the beginning. And we are -- we knew going in as I started that we were facing continued macroeconomic softness as well as category normalization. And so with that, we were managing the short term, but we were importantly building the capabilities for the longer term.

And to just to your point, to recap some of the progress we made at the very early part of the year, we set a goal to deliver \$200 million, remove that out of our cost base, with about \$100 million in 2023, and we are actually on track to do \$150 million in 2023. So feeling very good about that. Our operating income margin goals are pretty much on track with the beginning-of-the-year targets. And we have, as you know, raised the EPS as we progress throughout the year. So feeling very good about that.

I think now you alluded to opportunities going forward. With the Victoria's Secret tech separation substantially complete, we're really excited about building the capabilities to go forward. And some of that includes things like marketing. So just to spend a little bit more on kind of marketing and what we're doing.

You may know that we have some categories that are really fast growing. One of them is men's. And so just recently, we put together a whole sort of men's mobile, taking it on the road, if you will. And this is really important because men's is a huge addressable market. Our awareness for our men's business, despite it now in the full 1,800 stores is still relatively low. So we wanted to make sure that we were adding that fuel to really drive what is a big addressable market and growing. We also put together -- and these, by the way, these mobile tours are sort of in different cities, and there's samples there and then there's a bounce back that drives traffic into the stores and so forth. So that's part of that.

We also have recently done sort of a high-profile influencer program to support that. So really very big followers in the athlete arena, and that is also to drive the social media to really sort of say, we have a men's business. And of course, it brings back to my point about extending the reach, it brings a new customer for sure with respect to men's. So there's a whole thing around men's.

Then on -- we've just recently launched a campaign, a brand campaign called Come Back to Your Senses. And this notion is around, how do we actually take this powerful brand and then bring it to life and actually draw a more emotional connection to the customers. And so with that, you'll start to see this a bit more and more.

But since we're here in New York City, not too far away, we put -- right as we were heading into Candle Day, we put a 10-foot candle at Herald Square, tis the season is being big in holiday. And this was like illuminated like a big candle and it was filled with fragrance, of course. So these are just some examples of the kinds of things that we're doing from a marketing perspective and the team is super excited to get going with all the foundational pieces in place.

Alexandra Ann Straton - Morgan Stanley, Research Division - Research Associate

Great. That's all super clear. Maybe there's a few things I want to circle back on and what you mentioned. But before I do that, Eva, I'll put the question to you. Same thing.

Eva C. Boratto - Bath & Body Works, Inc. - CFO

Yes. So let me add on to what Gina said as we work as a team here. So first, a bit -- a huge priority for us is returning to profitable growth, right? And I'm sure we're going to get into that in a little while. I've spent meaningful time on our cost initiatives. As Gina said, we're really pleased with the results we're generating exceeding our initial expectations. And I don't look at these initiatives as a one and done. It has to be ingrained in the

culture, how we think about what we call fuel the growth to enable and unlock capability to drive new investments in other areas and fund that journey.

So really pleased with the progress that we're making there. I've been spending time on capital allocation, making sure we take a disciplined and balanced approach to our capital allocations in returning value to shareholders while also making progress toward our leverage goals. And finally, I'm 4 months in so I've been learning the business as we go here.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

That's great. Maybe one of the questions I wanted to follow up on was that \$150 million in cost savings that you guys have delivered. For those that are newer maybe to the story, can you talk about what are some examples of what that included? How is it split maybe across COGS and SG&A? Just so we can kind of illuminate it a little bit.

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

Did you want to take that?

Eva C. Boratto - *Bath & Body Works, Inc. - CFO*

Yes, sure. I'll start. So I'd highlight it in a couple of areas. One, in our store operating cost, right, doing a better job of matching our store hours with the demand in the stores, creating back-end efficiency, so the stores can be more efficient, home office expenses, really scrutinizing all the investments we're making there, continued -- we've optimized our call centers. Move is another area, right, transportation. And transportation, yes, some of that comes from macro but it's also us striving and optimizing how we run our program. So Alex, they're a few examples that I would provide.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

That's perfect and super helpful. Maybe now I'll turn to what from my end, feels like the key focus here, which is the top line growth and how you think about the algorithm in the future. I think one question that I get super frequently is how this business was able to do such, I think it was high single-digit growth historically. So can you just talk about that? What have you learned as to what drove that historically?

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

Yes. And it's a great question and being here 1 year and then 4 months, we -- obviously, the first thing we did upon arrival is to study sort of the secret sauce and the historical growth, and you are correct. I think it's basically 5 things that fueled the historical growth, product innovation, for sure; a strong value proposition; category expansion, there was a time when there was no 3-Wick candle business and that sort of grew; I think market share gains and also average unit retail that was consistently growing low to mid-single digit throughout. So those are sort of the 5 vectors, if you will, that kept the historical growth going.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

Super clear. Maybe help me bridge that to, I think your long-term algorithm is about mid-single-digit growth. So help me think about that haircut as you guys think about it.

Gina R. Boswell - Bath & Body Works, Inc. - CEO & Director

Yes, I think -- so if you think about the recent sort of prepandemic, pandemic, post pandemic. As we sit here today and we spoke about this on our last call, and we speak about it pretty much every call, we -- even though in 2019, it feels like a long time ago, we harken back and sort of say, "What is our CAGR relative to 2019, even in the last quarter," and it's around 9%. So if you smoothed it. Now that's depending on which category that can be roughly 2 to 3x what categories grow or what we would be growing at. So I just want to put that piece in perspective.

But having said that, there has been normalization because some of the post-pandemic mindset and people not being home as often, this is obviously led to a bit of a decline industry-wise as it relates to candles and sanitizer specifically. And so we speak about that as one of the reasons why we've got the continued softness that we've been experiencing. So does that help answer the question?

Alexandra Ann Straton - Morgan Stanley, Research Division - Research Associate

Yes, it does.

Gina R. Boswell - Bath & Body Works, Inc. - CEO & Director

Maybe you want -- maybe a bit more to go into the inflection point. But that's sort of what happened.

Alexandra Ann Straton - Morgan Stanley, Research Division - Research Associate

I think it's a nice segue into kind of how you guys think about reversion. It's one of you -- you guys are one of the few I might say that has this dynamic. So maybe how you think about what inning you're in, in terms of the normalization that this business has been experiencing. Your view on that would be super helpful.

Gina R. Boswell - Bath & Body Works, Inc. - CEO & Director

Yes. So the -- as I said, at an industry level, candles and sanitizers have been normalizing. And that normalization has accelerated slightly between Q2 and Q3. And so in our business, of course, mirrored those trends. I think what is important to note and we speak about it as a measurement of our success amidst that environment is that we continue to hold leading market share in units for candles. And year-to-date, we have gained unit market share for sanitizers. And so -- but if you look at sort of candles and sanitizers, they are elevated versus 2019 levels, more than the rest of shop. So that has sort of that backdrop. But that's how we think about it.

Now as for the ultimate sales growth potential of the business, we're building all the capabilities that I spoke about earlier. We're driving customer acquisition. We're driving growth. We're expanding the operating income based on some of the fuel-for-growth initiatives that Eva mentioned, even amidst some of the macroeconomic pressure that we have been recently experiencing and continued category normalization. So we do expect both of those to continue in the fourth quarter and into 2024, as we had talked about in our last earnings call.

Alexandra Ann Straton - Morgan Stanley, Research Division - Research Associate

So keeping on the topic of top line growth, one thing you guys did on your last earnings call, you made it very clear that in terms of the cadence for next year, you think the back half is when you can return to growth. So maybe help us understand how you arrived at that, how we should think about what the drivers are of that cadence?

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

Yes. So I'll start, and you might want to chime in, Eva. I think the -- some of the tests and pilots that we've been putting in place since the 14 weeks separation from Victoria's Secret are bearing fruit, but they're on a small scale, and we would expect those to sort of build and compound as 2024 continues. So recognizing that -- a lot of that loyalty, we just finished one year in loyalty. And so we're moving from sort of enrollment a little bit more into engagement. So those things and the test will take a bit more time, sort of in the back half.

But in addition to that, we have a portfolio of categories. And as part of our long-term strategy of extending our reach, we see a lot of opportunity in men's, in laundry, in lip and in hair. Hair will be fully rolled out in the spring. And so there's sort of a reshaping of the portfolio, if you will, that starts to build more momentum in the back half together with these new capabilities that we would expect to bear fruit.

Eva C. Boratto - *Bath & Body Works, Inc. - CFO*

And I think for those that are new to the story, as you think about some of those categories, Men's is a \$12 billion market, laundry is a \$14 billion market. These are large markets that we're going into and penetrating. Lip enables us to bring in a little younger audience, right? And we've seen -- in the stores that we're in with lip today, we've seen real excitement about our presentation and the product that we have. And I think, Alex, it's a near-term, medium-term story, right? We haven't expanded our adjacencies.

As Gina said, we've just recently separated from a technology perspective. So all of the work we're doing today on personalization, loyalty are those green shoots that Gina references that gives us the confidence that in the back half of the year, we will return to growth. We also -- and it hasn't come up as we look at the business, AURs have been flattish, if you will, right, as we're able to do more personalization, less broad-based promotion. It's our goal to return AURs to that low single-digit contributor to the algorithm over a longer period of time.

Alex, I'm not sure if this was in your question, but we've gotten the question before, why now, why did you give the outlook for 2024. And in the spirit of communication with the investor base, we saw a disconnect with what -- where expectations were and what we were seeing with the business, where we were confident in the business going. So we chose in the spirit of good communication, transparency to provide some preliminary outlook as we looked at 2024.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

That's a perfect overview. Maybe one thing I wanted to dig in on that you mentioned and Gina, you did as well on AUR, the business' historical ability to take AUR, it sounds like year in and year out. Can you just remind us where do AURs sit versus like pre-pandemic levels? And then how has the business been able to drive that higher, so consistently over time? What enables that?

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

I would take the back part, which is we have a number of different ways of getting AUR growth over the long term. We do raise ticket prices, and we raise our everyday deals. And so an example of that would be a \$5 to \$25, we raised it to \$5 to \$27 and we're able to get sort of more AUR through there. There's a bit of mix as well. And as we said, historically, the business does deliver low single digit to mid-single-digit AUR. And relative to 2019, I don't know if you wanted to comment on that?

Eva C. Boratto - *Bath & Body Works, Inc. - CFO*

Yes. Overall AURs -- again, harkening back to 2019. And as the business changes, that will become harder and harder, right? But our portfolio is significantly up from that level, about 35% as you look at net sales. And AURs are a portion of that. We haven't disclosed the breakout between volume and AUR.

So we have been able to hold on to a meaningful portion of the price actions we were able to take, I would say, more near-term focus, given the macro backdrop, it has been challenging, right? And that's how we say we're agile to adapt to where the customer is. We've seen customers pressured, their basket. We don't see them trading down, but we see them managing the size of their basket. So as we manage to drive both top and bottom line, right, we'll evaluate all of our pricing actions and promotions that we take.

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

I think the 2 other things, we are early innings on really leveraging the full capabilities, for example, of loyalty and customization and personalization. But we had been historically using a lot of broad-based promotions, so think direct mail and there could be subsidized volume because it's not necessarily targeted. As we develop those, that's another lever for AUR growth as well. We are no more promotional than we were. And so it really is not that. It's more about how do we meet the customer where they're at.

This business -- what I've been super impressed with this business is the read and react capability. And the fact that we are vertically integrated end-to-end means that we -- for example, we only have to purchase really 60% of what we need. And so there's this chaseability. What does that do for AUR? Well, that you're not -- you don't have inventory that you have to then clear and therefore, you don't have to pile on sort of the promotions piece. That's really wonderful. But also, we can read the business every week. And so we kind of know can we get AUR growth, where should we get AUR growth and where, in those cases, based on elasticities, based on basket pressures is it more optimal in terms of driving top line and bottom line.

So it's a very agile model. It's one of the things I've actually never experienced before to be able to have that ability to see end-to-end.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

Yes, I'm glad you actually touched on that because I think the reason reactivity is something that I spend a lot of time kind of educating people on. We got the pleasure of seeing the Beauty Park, I think, about 1.5 years ago. So maybe can you elaborate a little bit on that for those that don't -- aren't as familiar with the story, what is the Beauty Park? How does it work, so people can kind of understand why it's such an advantage.

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

Yes. So taking absolutely no credit for that for the year, a very (inaudible) approach that the -- essentially in -- within 5 miles of Columbus, we have a network of suppliers that really is responsible for a huge percentage of our total supply chain. And so this brings so many differentiating and competitive advantages for us. One is speed. So when you have somebody who's creating the bottle and you have somebody who's developing the juice, if you will, within minutes of each other, just think about -- there's no transportation from one to the next. And so even on an ESG level, to be quite honest, there's some credit there with respect to how we get things done.

But then if you think about how we develop product and having a background in product development, you used to have to go somewhere to sort of get a comp to take a look at it. This is literally our merchandising people can get in a car and just spend a few minutes to go to Beauty Park and working with some of the finest suppliers in the industry, and they're all there. And this was done more than a decade ago. So now a very well-oiled machine with respect to what it can do.

Now we have this ability to chase based on demand. So a perfect example of that, that happened earlier this year is we had a collection called Gingham, which is a number of different variances, if you may remember from a fragrance point of view. Well, you never get a forecast perfectly right. Maybe you have one that is a runaway and we did have one and the other ones were not growing as fast. So what Beauty Park delivers to us is this ability to only manufacture the winning one and not be sort of hampered with the rest of this inventory. So it is a big differentiator for us.

Alexandra Ann Straton - Morgan Stanley, Research Division - Research Associate

It's a great overview. Maybe a similar line of question, we'll move away from top line and some of the other topics and go down to profitability. This business has also been when you look historically at how it delivered within LB, remarkably consistent from a profitability perspective, 20-ish percent EBIT margin. So from your point of view, can you talk about how the business was able to do that historically? And I'll just start with that, and then we can move to how we get back thereafter.

Gina R. Boswell - Bath & Body Works, Inc. - CEO & Director

I'll start, but I'd love you to add. I think we have what we have as our long-term goal, which is 20% operating margin, which would [be] best-in-class sort of operating income margin and that's comprised of sort of 45% gross margin and then 25% SG&A. Historically, I don't know if you want to speak to sort of -- because it was part of a bigger company, obviously, as part of L Brands. But to us, that's sort of the shape of as we go forward and what we're aspiring to get to.

Eva C. Boratto - Bath & Body Works, Inc. - CFO

So Alex, I'll go back to 2019, right? As we look at the company, we were at about 19.2% operating margins. The algorithm that drove that were strong merchandise margins right, benefits from that low single digit, mid-single-digit pricing impact, strong growth in digital and online and a very productive fleet of stores. And obviously, the backdrop of a strong portfolio of product to drive customer demand and growth.

As you look at the last several years where that's brought us to, right, we've -- as many industries have realized significant cost inflation affecting the business to a large extent, also, to a lesser extent, a step-up in technology investments as well as store operating cost, wage rate pressure, if you will, and some of the costs related to a stand-alone company. So that's what's put pressure on our overall margins. As you look at -- the tail end of your question, as you look going forward, what's going to get us to that 45%, 25%, 20% that Gina highlights, right?

First, focused on improved merch margins, continuing to drive that, whether that's our cost optimization programs utilization of the beauty, continued cost deflation, a more personalized AUR. We just had a chat about the AUR, right? So ability to return to that AUR is a key contributor of growth. Two, we talked about this earlier, our cost optimization initiative. It's not one and done. We have to continue to be disciplined around our cost management.

And then finally, turning back to top line growth and the green shoots in the product portfolio and growing our customers through the personalization and the loyalty are the formula longer term. And we haven't hit on this yet loyalty. We're -- while we have nearly 41 million members in our loyalty program, we're only a year in. And I'd say in the infancy stage of really unlocking value of how we can engage, retain and expand value from that loyalty program.

Alexandra Ann Straton - Morgan Stanley, Research Division - Research Associate

Yes. That's great. I wanted to zero in on the cost inflation piece. You guys gave that great margin bridge when you first joined about a year ago. And I think cost inflation was the biggest deterrent in that bridge, and that was keeping and constraining margin. Where are we at in that journey? Where can we go from here in terms of bringing that down?

Eva C. Boratto - Bath & Body Works, Inc. - CFO

So the -- the last couple of quarters, we've spoken to, we've seen cost deflation. We expect that to continue in Q4, but our costs remain meaningfully elevated from those 2019 levels. We'll continue. It's stable until it's volatile, right? And we'll continue to push on levers we can control and manage as we look at purchasing raw goods and materials, taking advantage of the marketplace, but our costs are still meaningfully elevated from those pre-pandemic levels.

Alexandra Ann Straton - Morgan Stanley, Research Division - Research Associate

Great. And then one other piece that you mentioned that's impacting the margin are the tech investments, are most of those behind you as you separate from Victoria's? Or is it also more investment to come as you have all these initiatives in marketing and in digital and just to drive the top line? How should we think about that?

Eva C. Boratto - Bath & Body Works, Inc. - CFO

Yes. So Gina, I'll take that. So as you think about it, the last period of time has been really focused on that separation work, separating us from Victoria's Secret and creating our own infrastructure. As we've spoken about, we do expect our tech investments to remain at an elevated level as we pivot from separation to some of these more strategic areas, the loyalty, the personalization, the data analytics that Gina highlighted.

Alexandra Ann Straton - Morgan Stanley, Research Division - Research Associate

That's perfect. Maybe I'll zoom in here with you guys and see what you're able to say so far. So perhaps, remind us what your kind of holiday outlook was, how you were thinking about the fourth quarter and then whatever you've been comfortable sharing on so far what you've seen, whether high level or whatever you're most comfortable?

Eva C. Boratto - Bath & Body Works, Inc. - CFO

Okay. So I'll start with what we shared for our fourth quarter guidance. Our fourth quarter top line guidance and people have all of this published, right, sales down 3% to up 1.5%. And it's a wider range than a typical quarter. It's a very significant quarter with a lot of events. We saw some pressure in September, in particular, October rebounded a bit as you looked at traffic.

So the midpoint of our guide assumes really a continuation of what we saw in October with our customer base. The upside, returning more to trends that we experienced in the first half of the year, a stronger consumer response to our holiday assortment and the downside, the macro environment getting worse or softer consumer response. So that's the backdrop that we described.

As we sit here today, I would remind folks that there is a significant amount of the quarter ahead of us. And with what we've seen to date, we remain confident with the range that we provided on our earnings call. And we're pleased with how we're executing through the season thus far, and we remain focused to drive the business forward, and we'll have more to say as we get to the end of the year.

Alexandra Ann Straton - Morgan Stanley, Research Division - Research Associate

Wonderful. We'll look out for it. Before I turn to the audience, there are a few questions that we're asking each company that joins us for the conference. And I think one that actually requires maybe a little bit more elaboration on your end, and you alluded to it here, Eva, is just on capital allocation. So how you think about it for the business between dividends, buyback, debt pay down? Maybe walk us through how you're thinking about that for next year.

Eva C. Boratto - Bath & Body Works, Inc. - CFO

Sure. So I'll speak not particularly to next year, but more strategically and philosophically, right? Our first priority is to invest in the business to drive profitable growth. We will always look to return value to shareholders through dividends and share buybacks and be disciplined in our approach there. As folks have heard us say, we're -- our leverage targets were not at our mid 2.5x leverage target. So we've been opportunistically paying down debt as our bonds were trading below par year-to-date. We paid down through December 1 about \$465 million while we've also been able

to repurchase shares in the market through December 1, again, \$115 million. So we'll continue to take a balanced approach, balancing all of the priorities that we have.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

That's great. The 2 other ones that we have are just first, as you think about demand trends heading into next year, 3 potential answers: Accelerate, decelerate or stabilize or kind of flat. If you guys were to answer that, how do you think about it? What influences your view?

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

Well, as we discussed on our recent earnings call, based on the consumer behavior that we saw in the third quarter, we expect that, that macroeconomic pressure to continue and the category normalization to continue as well. At the same time, we said we're building the capabilities to -- that are designed to drive the customer acquisition retention and so forth. And as those are fully implemented, that's when we expect that sort of inflection point in the back half of next year.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

Great. And the second or technically the third and final is on how you guys think about margins for next year? It sounds like the trajectory is upwards from here, but the options are up, down, flat and kind of what influences it? We talked about a lot of the different levers here, if there's any others you wanted to hit on?

Eva C. Boratto - *Bath & Body Works, Inc. - CFO*

Yes, Alex, I appreciate the question. As we look at next year, in particular, we'll have much more fulsome guidance to provide, as we always do on our earnings call. We're in the throes of our budgeting process. We have our most significant quarter, still partially ahead of us. So the levers we've talked about, whether it's deflation, whether it's our cost optimization work, we'll continue to push on those levers to drive long-term sustainable benefits.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

Okay. Maybe one final one for you, then we can open up for questions. It's just any final key messages you wanted to leave us with before we open it up?

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

All I would say is that we're managing the short term, and we know the impacts we're executing against the strategy, and we feel very confident as we see these green shoots that over the long term that are 20% OI and our \$10 billion aspiration from a top line is in pursuit. So I want to thank you. Thank you for allowing us to spend time. Was there any key message from you that you'd like to land?

Eva C. Boratto - *Bath & Body Works, Inc. - CFO*

No, I'm good.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

Perfect. I do want to open it up if there was any questions from the audience. We could probably take 1 or 2. We've got about a minute left or so -- you guys can get interrogated in your meetings. But if there's no questions, thanks for joining us and thanks for having us.

Gina R. Boswell - *Bath & Body Works, Inc. - CEO & Director*

Thank you.

Eva C. Boratto - *Bath & Body Works, Inc. - CFO*

Thanks, Alex.

Alexandra Ann Straton - *Morgan Stanley, Research Division - Research Associate*

Perfect.

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