BBWI FOURTH QUARTER 2021 EARNINGS COMMENTARY

FEBRUARY 23, 2022

Introduction

- Bath & Body Works, Inc. is providing this fourth quarter commentary ahead of its live earnings call scheduled for February 24th 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 fourth 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 significant items detailed in our press release. Additionally, the results included in this commentary represent results from continuing operations and exclude the discontinued operations related to Victoria's Secret.

Fourth Quarter and Full Year 2021 Performance Overview

- 2021 was a historic year for Bath & Body Works. We made incredible progress across the company to build on our already-strong foundation, ensuring our brand and business remain healthy and relevant well into the future:
    - We successfully separated from Victoria's Secret and became a standalone public company.
    - We delivered significant and balanced two-year growth across all our major product categories and channels.
    - We grew our active customer file to a record 60 million customers, an increase of 13% compared to pre-pandemic levels.
    - We continued to move towards an omni-channel mindset and enhanced our capabilities to engage our customers how, when and where they want: online through an upgraded order management system; via expanded buy-online-pick-up-in-store (BOPIS) capabilities; through our Canada e-commerce site; and in our store fleet, where about 60% of our stores have been remodeled or newly opened in the past 7 years.
    - We demonstrated agility to read, react and re-plan the business in the midst of strong customer demand, while experiencing inflationary pressures and production constraints. Our primarily North American supply chain provides us agility, and we were able to present full merchandise assortments to our customers.
    - We adeptly adjusted to continuous COVID-19 protocol changes to keep our associates and customers safe.
    - We started planning and constructing a new company-run fulfillment center to support the future growth of our online business.

    - We invested in our associates to enable future growth: increasing wages in our stores and distribution centers; making key hires needed to support our standalone business and help lead critical areas such as sustainability, social responsibility and corporate governance; and establishing a new separate and dedicated team to innovate into new categories and businesses.

- All of these accomplishments, as well as the efforts and dedication of our associates and partners, enabled us to deliver record sales and earnings results for both the fourth quarter and full year 2021.

<u>Fourth Quarter Results</u>

- Net sales for the quarter were a record $3.027 billion, an increase of 11% compared to sales of $2.718 billion in the prior year. Compared to 2019, fourth quarter sales increased by 36%.

- In U.S. and Canada stores, fourth quarter sales were $2.191 billion, an increase of 15% compared to 2020 and 26% compared to 2019. Sales growth compared to the prior year was driven by a low-double digit percentage increase in transactions and a low-single digit percentage increase in the average dollar sale. Store capacity constraints due to COVID-19 protocols were less restrictive than in 2020, which benefitted store traffic in the quarter.

- Fourth quarter direct sales were $763.9 million, an increase of 2% compared to the prior year and a 77% increase compared to 2019.

- International revenue increased 11% in the fourth quarter to $72.9 million, driven by store and direct growth.

- Holiday (November and December) sales were above expectations with positive customer response across all categories. Customers responded well to key promotional events, and the week prior to Christmas was particularly strong. Our Holiday fragrance launch, Pure Wonder, was our most successful Holiday single fragrance launch in the history of the brand.

- While sales in the month of January were negatively impacted by the Omicron COVID-19 variant, inclement weather and lapping stimulus payments that benefitted results in the prior year, our performance improved as the month progressed as we exited semi-annual sale with a clean inventory position and launched new Spring merchandise.

- In terms of category performance, during the quarter we experienced solid growth in fragrant body care, home fragrance and gifting/accessories compared to the prior year. As expected, soaps and sanitizers declined versus the meaningful growth experienced in 2020. All categories experienced strong growth compared to 2019.

- The fourth quarter gross margin rate was 48.1%, a decrease of 370 basis points compared to the prior year and an increase of 70 basis points compared to 2019. The gross margin rate was in line with our forecast for the quarter.

- The 370-basis point gross margin rate decline compared to 2020 was driven principally by a decline in the merchandise margin rate. The merchandise margin rate decline was driven by increased inflationary costs, which were at the high end of our forecast of $90 million to $110 million. We were able to partially offset some of these cost increases through ticket price increases and adjustments to promotional offers.

- Buying and occupancy expense deleveraged compared to the prior year, driven by lapping approximately $20 million in one-time rent concessions in 2020 and continued investments in direct fulfillment capabilities.

- SG&A expense of $567.1 million increased about 6% compared to the prior year and leveraged 100 basis points on the sales increase. Dollar growth was principally driven by an increase in marketing as we returned to more normalized activity and an increase in technology costs as we began the work to stand up a separate IT function following the spin-off of Victoria's Secret.

- Operating income in the fourth quarter was a record $888.6 million, an increase of 2% compared to 2020 and 45% compared to 2019. Our operating income rate for the quarter of 29.4% decreased 260 basis points compared to the prior year, driven by the previously described inflationary impact of approximately 360 basis points and increased 190 basis points compared to 2019.

- Fourth quarter net income from continuing operations was $599.7 million, an increase of 8% compared to 2020 and a 53% increase compared to 2019.

- We reported adjusted fourth quarter earnings per share from continuing operations of $2.30 compared to $1.96 per share in the prior year, an increase of 17%.

Full Year 2021 Results

- For the full year, sales were a record $7.882 billion, an increase of 22% compared to sales of $6.434 billion in 2020. In the last two years, our sales have increased by 46%. Store sales increased by 36%, and direct channel sales decreased by 6% compared to 2020.

- International sales increased by 27% compared to 2020, driven by store and online growth (338 stores compared to 288 in the prior year; and 27 websites compared to 21 in the prior year).

- The full-year gross margin rate increased 90 basis points to 49.0%, principally driven by a significant decrease in the buying and occupancy expense rate, which leveraged on the sales growth, that was partially offset by a decline in the merchandise margin rate. In 2021, increased inflationary costs amounted to approximately $175 million, or 220 basis points, most of which impacted gross margin.

- SG&A expenses for the full year increased 26%, and the rate increased by 70 basis points. The dollar increase was driven by higher store selling expenses given pandemic-related store closures in 2020 and an increase in marketing expense as we returned to more normalized activity.

- Operating income for the full year increased 24% compared to 2020 to $2.019 billion, and the rate increased by 20 basis points to 25.6%. Full-year operating income increased 94% compared to 2019, and the rate increased by 640 basis points.

- Full-year net income from continuing operations increased 40% compared to 2020 and 138% compared to 2019, to $1.230 billion.

- Full-year adjusted earnings per share from continuing operations increased 45% to $4.51 compared to $3.12 in 2020 and increased 143% compared to $1.86 in 2019.

- Turning to the balance sheet, total inventory ended the year up 24% compared to 2020. Finished goods inventory is up 17% compared to 2020 on a dollar basis and up 9% on a unit basis. Component inventory is contributing 7 points to the total inventory growth, as we proactively pulled forward delivery of items such as candle lids, accessories and soap pumps from Asia to mitigate against global supply chain and distribution network disruptions. We ended the season clean, and we are well positioned to support our sales plans in 2022.

- During the fourth quarter, we repurchased 5.7 million shares at a total cost of

$405 million. For the full year, we repurchased 28.2 million shares at a total cost of $1.96 billion, retiring 10% of the shares outstanding at the beginning of the year.

- We completed 133 North American real estate projects this year – 54 new off-mall stores and 79 remodels. We permanently closed 35 stores, principally in malls. We increased our net square footage by 3% for the full year and ended the year with about 47% of our stores in off-mall locations and 58% in the White Barn store design.

- Our franchise partners opened 58 new international stores in 2021, resulting in net store growth of 17%.

- Total 2021 capital expenditures were $205 million, with about 60% in real estate investments, and the remaining investment principally in technology and fulfillment center capabilities.

<u>2022 Outlook</u>

- As we head into 2022, we are confident in our future and well-positioned for continued momentum:
    - We continue to lead the market in our categories, with multiple #1 product forms. The beauty, personal care and home fragrance markets continue to be strong and growing.
    - Our mostly North American supply chain and production through the Beauty Park campus has enabled us to successfully navigate a

challenging supply chain environment and present full and abundant merchandise assortments to our customers with speed and agility.

- Our active customer file consists of a record 60 million customers, with growth of 13% since 2019. We benefit from a diverse range of customers who are loyal brand enthusiasts, with retention rates over 60% and increasing levels of average spend.
- Our product pipeline is full, and we will continue to launch new fragrances and products every 4 to 6 weeks. Some highlights of our planned 2022 launches include:
  - Continued packaging and formula upgrades:
    - By this Fall, we plan to have all of our plastic bottles made from a minimum of 50%, and up to 100%, of post-consumer recycled content (PCR).
    - We will be repackaging many of our bestselling fragrances. Elevating and updating our packaging has proven to be a successful strategy to retain customers as well as attract new customers. Throughout the year, we will launch updated packaging for bestselling fragrances including Gingham, Japanese Cherry Blossom, Into the Night, A Thousand Wishes and Warm Vanilla Sugar.
    - We are relaunching our Aromatherapy (AT) collection this Spring, with improved formulas made without sulfates, parabens or dyes.
    - We recently launched a new high-intensity formula for Wallflower bulbs.

    - We are launching several new forms this year. Bar soap launched in January in the full chain and is off to a great start. We also just launched Scent Control Wallflowers with three settings (low, medium and high), a feature our customers have been asking for.
    - Our men's collection has been the fastest growing part of our body care assortment, and we will continue to focus on and expand the collection. Men's anti-perspirant/deodorant is currently featured in about a third of our stores, and we plan to roll it out to all stores this Fall. We are also testing an expanded Men's shop in a few stores, which will include an expanded men's assortment featuring hair care, beard care, face and shave.
    - As always, we will be continuously testing new ideas, including various new container and vessel concepts in candles and soaps, as well as SPF sunscreen.
  - We plan to roll out our new customer loyalty program to the entire chain starting this Summer. We have been piloting a customer loyalty program, and we are encouraged by those results. Our loyalty members have higher spend and retention rates than our average customer. Importantly, the program will also provide us with in-depth customer data that will enable us to market more effectively.
  - Our balance sheet and cash position are strong. We ended the year with approximately $2 billion in cash, and our gross adjusted debt to EBITDAR leverage ratio at 2.3, below our target of mid-2s. Our Board and management team are committed to returning free cash to shareholders, as evidenced by the Board's recent authorization of a new

$1.5 billion share repurchase program and a 33% increase in our annual dividend.

- We are confident that the Bath & Body Works brand is strong, with continued opportunities for growth. We are comfortable with and committed to the 3- to 5-year growth algorithm that we communicated at our investor day last July: mid- to high-single digit percentage sales and operating income growth and an operating income rate in the low- to mid-20 percent range. In 2022, we are investing in the business to support long-term growth, and there are macro factors such as inflation that will impact our results. These investments and macro pressures could cause this year to vary from that growth algorithm:

  - First, we are lapping two years of extraordinary growth in the business. Since 2019, sales have increased by 46%, and operating income has increased by 94%. The first quarter of 2021 benefitted from customers receiving government stimulus payments. We estimate that we received approximately a $50 million benefit to sales and a $30 million benefit to operating income.
  - Second, we, like so many others, are experiencing increased inflationary costs in raw materials, transportation and wage rates. We expect that these increased and incremental costs could range between $150 million and $175 million throughout 2022, with approximately $50 million of pressure in the first quarter. While we are strategically raising prices and carefully managing promotional activity to partially offset these costs, we want to be thoughtful about customer response to additional

price increases. Our selling average unit retail has increased by more than 20% since 2019.

- Third, we continue to invest in the customer experience, and as previously mentioned, we plan to roll our loyalty program to the whole chain starting this Summer. We expect that the loyalty program will drive sales and customer retention, deepening our relationships with customers over the long-term. The accounting impact of the rollout of the program will result in an estimated $50 million initial revenue deferral as we defer our customers' accumulated points until they are used.
- Fourth, over the next two to three years we will be investing to stand up a separate IT function with upgraded, state-of-the-art capabilities for the Bath & Body Works business. We are experiencing some deleverage in costs as we build our own technology function to support our standalone business. We estimate that the impact of the separation project costs as well as the increased ongoing costs is an incremental $75 million in SG&A expense in 2022, as well as a $75 million capex investment, which will then stabilize in 2023 as we complete our transition.
- And finally, as we previously communicated, we are investing in a new company-owned fulfillment center to complement our existing third-party network. Over time, this additional center, which will be highly automated, will support the growth of our direct channel, improve our speed to the customer and minimize our costs. We expect our total

investment in fulfillment center capabilities in 2022 to be approximately $10 million in incremental expense and $90 million in capex.

  - The above factors in total are expected to pressure our full-year 2022 operating income by approximately $315 to $340 million, or $1.00 to $1.08 per share.

<u>2022 Financial Guidance</u>

- Our financial guidance for the first quarter and full year 2022 reflects the factors discussed above.

- Specifically, for the first quarter of 2022, we expect sales to be down low- to mid-single digits compared to $1.469 billion in 2021. Excluding the estimated $50 million 2021 stimulus benefit, we estimate sales will be down low-single digits to up low-single digits.

- We expect our gross margin rate for the first quarter of 2022 to decline significantly, to about 45% compared to 50.5% in 2021. This decline is primarily the result of the estimated $50 million, or about 350 basis points, in increased inflationary costs. We also expect promotional activity to be slightly higher compared to the prior year, as very strong demand in 2021 enabled us to continue to pullback on promotional activity. We will continue to leverage our test, read and react capabilities with respect to our promotional approach. Our forecasted merchandise margin rate, excluding the impact of inflation, remains significantly above pre-pandemic levels.

- We expect buying and occupancy expense to deleverage with the decrease in sales as we invest in fulfillment capabilities for our direct channel.

- We expect the first quarter SG&A rate to be about flat compared to 27.5% in 2020. We expect that SG&A dollars will be down slightly compared to the prior year, as we are lapping first quarter 2021 charitable contributions.

- We expect first quarter net non-operating expense, principally interest, to approximate $90 million and the tax rate to be about 21%.

- We project our weighted average shares outstanding for the quarter at about 245 million, which reflects the benefit of approximately 13.6 million shares retired at the beginning of the quarter through our $1 billion accelerated share repurchase program. We will receive the benefit of the remaining shares that will be retired under the program when we settle with our bank after they complete the repurchase activity in the second quarter.

- We are forecasting first quarter earnings per share from continuing operations between $0.47 and $0.55 compared to $0.60 per share in 2021.

- We expect to end the first quarter with total inventory up in the mid-30s range compared to last year and finished goods dollars up in the low-20s and units up in the high-single digit range.

- For the full year, we are forecasting sales to be flat to up 4% compared to $7.9 billion in 2021. Excluding the anticipated $50 million 2022 loyalty program revenue deferral and the $50 million first quarter 2021 estimated stimulus benefit, sales are forecasted to be up low- to mid-single digits.

- We expect the full-year 2022 gross margin rate to decrease by 300 to 400 basis points compared to 49.0% in 2021. The decline is primarily driven by a decline in the merchandise margin rate, related to the previously mentioned estimated $150 million to $175 million incremental inflationary costs, and the estimated $50 million revenue deferral from the loyalty program rollout. We also expect buying and occupancy expense to deleverage, driven by our investments in direct fulfillment capabilities.

- We expect the full-year SG&A rate to be about flat compared to 23.4% in 2021. We will work to offset the pressure of increased store selling wage rates and technology investments through disciplined management of expenses, with an overall goal of growing expense dollars slower than sales.

- We expect our full-year operating income rate to be in the low-20s, consistent with our low- to mid-20s target despite the previously discussed investments and anticipated macro pressures in 2022.

- We expect full-year 2022 net non-operating expense of approximately $360 million, a tax rate of about 25% and weighted average shares outstanding of approximately 237 million.

- We forecast full-year 2022 earnings per share from continuing operations to be between $4.30 and $4.70 compared to $4.51 adjusted earnings per share from continuing operations in 2021. This forecast reflects pressure of between $1.00 and $1.08 per share related to the previously detailed anticipated investments and macro factors in 2022.

- We are estimating 2022 capital expenditures to be approximately $400 million, with about 40% relating to real estate investments. We are planning approximately 146 total real estate projects in 2022, consisting of approximately 100 new off-mall stores and 47 remodels to the White Barn store design, offset by about 40 to 50 mall closures, yielding square footage growth of approximately 6%. The remaining capex forecast is principally related to our IT investments and the new direct fulfillment center.

- Internationally, we expect our franchise partners to open approximately 70 to 100 gross new stores, for store count growth between 18% and 30%.

- We expect 2022 free cash flow to be between $800 and $900 million.

Capital Structure

- The company and our Board of Directors are committed to returning free cash to shareholders, as evidenced by the recent announcements increasing our dividend by 33% to $0.80 per share annually and the authorization of a new $1.5 billion share repurchase program, $1 billion of which is currently being executed through an accelerated share repurchase.

- We continue to target a debt leverage ratio (defined as gross adjusted debt, including balance sheet lease liabilities, over EBITDAR) in the mid-2x's range. At the end of 2021, this leverage ratio was slightly under our target, at 2.3 times.

- Our minimum targeted year-end cash balance is approximately $500 million.

- Our plans for use of cash are as follows:

    - First, we will continue to invest in the business to support growth: in new off-mall stores and remodels, direct channel technology and fulfillment capabilities, as well as standing up a new IT function and pursuing any potential acquisition opportunities.
    - Continue to pay the annual dividend of $0.80 a share; with an intention to consistently increase the dividend as earnings increase.
    - Any remaining excess cash generated through operations or through raising debt to maintain our mid-2s leverage ratio is expected to be returned to shareholders through share repurchases. We estimate our share repurchase activity, over the long-term, could contribute mid-single digit growth to earnings per share.

- We have confidence in our opportunities for long-term growth as we continue to focus on maximizing our performance by leveraging the strength of our brand, maintaining close connections to our customers and delivering compelling products and experiences at a great value.

- 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.