LB FOURTH QUARTER 2020 EARNINGS COMMENTARY
FEBRUARY 24, 2021

Introduction

- L Brands is providing this fourth quarter and full-year commentary ahead of its live earnings call scheduled for February 25th 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 and full-year earnings release and related financial information are available on our website, www.LB.com. Also available on our website is an investor presentation.

- All results discussed in this commentary are adjusted results and exclude the significant items detailed in our press release.

Fourth Quarter and Full Year 2020 Commentary

Total L Brands

- We delivered record results in the fourth quarter, and we could not have done so without the hard work and dedication of our team of associates and partners. We'd like to express our deep appreciation for their dedication and efforts.

- The pandemic continued to have a profound impact on the retail industry and our business in the fourth quarter. Our new operating models in our stores are focused on providing a safe environment, while also delivering an engaging shopping experience. Additionally, we remain focused on the safe operations of our distribution, fulfillment and call centers while maximizing our direct businesses.

- Turning to a review of our fourth quarter performance, we reported record fourth quarter earnings of $3.03 per share, a 61% increase compared to $1.88 last year.

- These bottom-line results were driven by better than expected sales and margin rates at both Bath & Body Works and Victoria's Secret.

- During the Holiday season, we successfully managed our promotional strategy and provided a safe shopping environment for our customers, while managing increased pressure on our digital channels' fulfillment centers and shipping capacity.

- Improved merchandising and effective selling execution, along with more disciplined inventory management at Victoria's Secret, also enabled us to pull back on promotional activity, resulting in significant increases in our average unit retails and merchandise margin rate.

- Net sales for the quarter were $4.818 billion, and total comps increased 10%.

- The gross margin rate increased by 900 basis points to 47.9%. About three-quarters of the gross margin rate improvement was driven by an increase in the merchandise margin rate. The remaining gross margin rate improvement was driven by buying and occupancy expense leverage.

- We have been working proactively with all our landlords since the pandemic resulted in the shutdown of our stores for extended periods of time.

- In the fourth quarter, we completed negotiations with the majority of landlords, leading to a combination of rent waivers or abatements relating to closure periods, rent relief relating to the post-reopening "recovery" period given traffic declines, and rent deferrals.

- Buying and occupancy expense declined in the quarter and benefitted by about 170 basis points of rent relief related to agreements concluded with our landlords. Almost all of this reduction was one-time in nature and relates to abatements for the time period in which stores were closed as a result of the pandemic. Additionally, about 80% of the total rent relief relates to Victoria's Secret, and the remaining 20% to Bath & Body Works.

- The SG&A rate leveraged by 20 basis points on dollars that were up about 1% to last year. SG&A dollar declines driven by our profit improvement plan and closed Victoria's Secret stores were more than offset by increased store selling costs related to the pandemic and peak incentive compensation payouts given record performance.

- Operating income increased by $465.9 million, or 58%, and the operating income rate increased by 930 basis points to 26.4%. Fourth quarter operating income increased $250 million at Bath & Body Works and $209.8 million at Victoria's Secret.

- For the full year 2020, net sales were $11.847 billion, and total comps increased 21%.

- The full-year gross margin rate increased 450 basis points to 40.9%, principally driven by an increase in the merchandise margin rate, partially offset by some buying and occupancy deleverage on the lower sales.

- SG&A expenses for the full year declined 13% and leveraged by 130 basis points. The dollar decline was driven by our profit improvement plan and the closure of 248 Victoria's Secret stores.

- We continue to expect to deliver $400 million annual savings under our profit improvement plan, which was implemented at the beginning of the third quarter. Roughly half of the savings was realized in the back half of 2020, principally at Victoria's Secret, with the remainder expected to be realized in the first half of 2021.

- Operating income for the full year increased 47% to $1.808 billion. Bath & Body Works increased operating income by $608.4 million, or 50%, and Victoria's Secret operating income declined by $16.6 million, or 9%. The total company operating income rate increased by 580 basis points to 15.3%.

- Full year adjusted earnings per share increased 51% to $3.46 compared to $2.29 last year.

- Turning to the balance sheet, total inventories ended the year down 1% compared to last year, in line with expectations. Inventories are up at Bath & Body Works, supporting their sales trend, and remain down compared to last year at Victoria's Secret.

- Capital expenditures in 2020 were $228 million, a decrease of $230 million compared to $458 million last year, as we pulled back on real estate activity at the beginning of the year to increase liquidity during the pandemic. Free cash flow in 2020 was $1.8 billion.

- We ended the year with $3.9 billion in cash. Our adjusted debt to EBITDAR leverage ratio at year-end was 3.1. We remain committed to reducing debt and the related leverage ratio. We are evaluating our go-forward capital structure, including the best approach to reduce debt.

<u>Bath & Body Works</u>

- Turning to Bath & Body Works, we delivered record sales and profitability in the fourth quarter. Across the quarter, we achieved sales that were above our expectations at record high margin rates. Similar to the third quarter, we were able to pull back on promotional activity across the whole quarter as overall demand was stronger than anticipated.

- We were pleased with Holiday performance as we delivered consistent growth across big days and base days.

- Performance in January was led by both semi-annual sale and regular price selling as we saw good customer response to our Spring merchandise.

- Fourth quarter sales for the Bath & Body Works segment were $2.718 billion, an increase of $487.2 million compared to last year, and total segment comparable sales increased 22%. As expected, our comps, while strong, decelerated versus our exceptional third quarter 56% result. Traffic during the Holiday time period was limited by capacity constraints in stores on high volume days; and third-party fulfillment and shipping network backlogs dampened throughput in our direct channel.

- We achieved growth in all merchandise categories. Similar to the third quarter, two-thirds of our dollar growth came from our home fragrance and body care categories, with one-third of the growth coming from soaps and sanitizers.

- In the stores channel, fourth quarter sales were $1.903 billion, an increase of $159.3 million compared to last year. Comparable store sales increased 9%, compared to a 5% increase last year.

- In the direct channel, fourth quarter sales increased by 74%, or $318.7 million, compared to a 33% increase 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 while maintaining consistent delivery times for our customers.

- For Bath & Body Works international, we currently operate 288 stores and 21 online sites across 35 countries through our franchise partners. Fourth quarter results were strong with double-digit growth in sales and operating income, led by the online business.

- The merchandise margin rate for the quarter was up significantly compared to last year as strong customer response to our merchandise assortment allowed us to pull back on promotional activity, as described earlier.

- Operating income in the fourth quarter was $913.7 million, an increase of 38%, or $250 million, compared to last year. Our operating income rate for the quarter of 33.6% increased 380 basis points compared to last year driven primarily by merchandise margin rate expansion and buying and occupancy leverage. We continued to make significant investments into our store selling models to ensure a safe shopping environment, resulting in additional labor and other costs, which led to slight deleverage of SG&A expenses.

- For full-year 2020, total sales grew by 20%, or $1.078 billion, to $6.434 billion and total comps increased 45%. Store-only comps increased 26% and our direct channel grew sales by 109%. Our store sales were roughly flat to last year at $4.207 billion, despite the fact that the majority of stores were closed for roughly 3 months. We surpassed the $2 billion mark in the direct channel with full-year sales of $2.003 billion in 2020.

- International revenue for Bath & Body Works increased by 21% in 2020, despite the negative impact of pandemic related store closures.

- Our sales are well-diversified across channels: for the full year 65% of sales came from our direct and off-mall store channels, with the remaining 35% generated from mall stores.

- Operating income for the full year was $1.832 billion, up 50% compared to last year and the operating income rate was 28.5%, an increase of 560 basis points over last year.

- Total inventory ended the year up and in line with expectations. We will continue to leverage the speed in our supply chain to read and react quickly while focusing on exceptional execution in the first quarter to maximize our results.

- We completed 56 North American real estate projects in 2020 – 26 new non-mall stores, 1 new top-tier mall store and 29 remodels. This is down from our recent rate of about 200 projects per year, as we deliberately pulled back on this activity during the pandemic. We continue to closely evaluate all locations, especially more vulnerable centers, for risk of closure, and in 2020 we permanently closed 30 stores, 26 of which were mall locations. We ended the year with 45% of North American stores in off-mall locations.

- In 2021, we are forecasting approximately 50 new almost entirely off-mall North American stores, partially offset by about 20 to 40 closures, principally in malls, resulting in net square footage growth of 3 to 4%.

- We opened 14 new international stores and closed 4 in 2020. Additionally, we opened 16 new international digital sites. We ended the year with 288 franchise-operated stores outside North America. In 2021 we expect our partners to open another 50 to 70 new international stores, increasing our store count by 15% to 23%.

- We remain disciplined in expense and inventory management, and focused on staying close to our customer, while delivering compelling products. We continue to operate both of our channels in a safe manner for our customers and associates. And we remain focused on maximizing results both near- and longer-term.

Victoria's Secret

- Fourth quarter sales for the Victoria's Secret segment were $2.1 billion, and comparable sales decreased 3%, including an 18% decline in store comps, driven by declines in traffic, which was particularly constrained on high volume Holiday days. Dollars per footstep in stores (the combination of conversion and average dollar sale) were up about 75%.

- Demand in our digital channel continues to be strong, and sales increased 33% in the quarter to $831.1 million. Digital penetration increased to 42% compared to 28% last year.

- Customers are responding positively to our merchandise assortments. Highlights for the North American business include:

    - In the Lingerie business, we focused on our sleepwear and lounge categories and results were strong, driven by customers spending more time at home. We were also pleased with results in bras and panties. Comps were positive in all categories, and we increased margin dollars in all categories as well. Improved inventory management, as well as an improved mix of good, better and best price points, drove an AUR increase in the mid-thirties.
    - In PINK, total intimates comps were positive and margin dollars increased. PINK AUR increased by nearly 40%. Brand health is strong as demonstrated by nearly 80% comp growth and more than 100%

margin growth in our PINK logo shop, which represents about half of our apparel assortment.

- Beauty delivered solid results against a good holiday performance last year. Comps were negative, driven by a decline in store comps, although margin dollar comps were about flat. Digital penetration increased significantly to about 40% this year versus a little more than 20% last year.

- In Victoria's Secret international, fourth quarter sales declined by $94 million, driven by pandemic related store closures (about 20% of stores closed during the quarter) and the exclusion of U.K. retail sales due to the establishment of the joint venture with Next.

- The total Victoria's Secret segment gross margin rate increased over 1,100 basis points, principally driven by a significant increase in the merchandise margin rate. The increase in merchandise margin rate and AUR was driven by improved response to our merchandise assortments, the disciplined management of inventory, as well as strong selling execution in stores and online, which enabled us to reduce promotional activity during the quarter.

- Buying and occupancy expense leveraged and benefitted from the rent relief mentioned earlier and the benefit of mix shift to the direct channel.

- SG&A expense dollars decreased in the quarter, driven by our profit improvement plan and permanent store closures, but deleveraged slightly on the sales decline.

- Fourth quarter operating income increased by $209.8 million to $403.4 million, or 108%, and the rate increased by 1,140 basis points to 19.2%.

- For the full year, sales for the Victoria's Secret segment were $5.413 billion, and comps increased 1%. Sales in the direct channel increased 31% to $2.223 billion. The sales impact of the 241 North American stores that were permanently closed in 2020 was approximately $500 million, before any impact of sales transfer, which we believe will be about 30%.

- International revenue declined by $309.3 million in 2020, or 44%, driven by pandemic related store closures and the exclusion of U.K. retail sales due to the establishment of the joint venture with Next. Despite the challenges presented by pandemic related lockdowns and restrictions affecting almost 20% of the store fleet, the International business continued to benefit from the restructuring carried out in the UK and China. Regions such as the Middle East that remained open during this period continued to perform relatively well.

- We ended the year with 62 company operated stores in Greater China and 458 partner operated stores outside North America. In 2020, we grew our digital footprint with additional web and social commerce sites to a total of 15 across partner and company owned operations. In 2021, we will continue to expand international digital operations with the opening of another 20 websites.

- For the full year, Victoria's Secret operating income declined $16.6 million to

$174.3 million, principally driven by the decline in the first half of the year when stores were closed as a result of the pandemic. The full-year operating income rate increased 70 basis points to 3.2%.

- In 2020, we permanently closed 241 stores in North America. In 2021, we are forecasting to close another 30 to 50 North America stores.

<u>2021 Outlook</u>

- Given the ongoing uncertainty in the environment, as well as the impending separation of the Bath & Body Works and Victoria's Secret businesses, which we are targeting to complete in August, we will not be providing guidance for the full year 2021.

- However, we will provide guidance for the first quarter of 2021.

- We are forecasting first quarter earnings per share between 35 and 45 cents. Both businesses have opportunity for sales and operating income growth in the first quarter, given the fact that stores closed in mid-March last year due to the pandemic.

- We are projecting first quarter sales to be roughly flat compared to 2019 first quarter sales of $2.6 billion, representing significant sales growth at Bath & Body Works offset by a decline at Victoria's Secret, principally driven by permanent store closures. We are pleased with February results, which include strong customer response to spring products at both businesses. The February results have been incorporated into our first quarter guidance.

- We expect the gross margin rate to be up significantly, driven by a significant increase in the merchandise margin rate and buying and occupancy expense leverage.

- We expect the SG&A rate to be about flat to 2019's 29.7%.

- We expect net non-operating expense of approximately $120 million and a tax rate of about 22%.

- We are estimating 2021 capital expenditures to be between $350 and $400 million. Roughly 60% of the forecasted capex relates to Bath & Body Works, with the remaining 40% at Victoria's Secret. Bath & Body Works, while not fully returning to recent levels, is resuming its investment in the remodeling and opening of new stores. Additionally, we will be investing in technology, distribution and logistics capabilities for both businesses in 2021.

- At Bath & Body Works, we are optimistic about our Spring product assortment and our continued ability to execute well against our plans in stores and online. We are well positioned to deliver a strong first quarter, particularly as stores were closed for an extended period in the first quarter of last year.

- The remainder of the year will present more challenging comparisons to last year, although we do expect significant growth versus 2019. We experienced record productivity and exceptionally strong growth online in 2020. As a reminder, in 2020 Bath & Body Works grew operating income by $165 million, or 90%, in the second quarter, by $285 million, or 137%, in the third quarter and by $250 million, or 38%, in the fourth quarter. Exceptionally strong demand allowed us to significantly pull back on promotional activity, and the 2020 operating income rate was a record 28.5%.

- As we've consistently said, we believe an operating margin in the low to mid-twenties is appropriate for the current Bath & Body Works segment, which reflects the right value/quality proposition for our customers, as well as the right level of investment in product innovation, quality and engaging, best-in-class store and online experiences.

- Having said that, we will continue to focus on maximizing our performance, leveraging the strength of our brand, our close connection to our customers and the speed we have in our supply chain, and we have confidence in our opportunities for long-term growth.

- In the Victoria's Secret business, we believe we have opportunities for continued improved performance, particularly in the first half of the year, driven by improved assortments, more disciplined inventory management, our profit improvement plan and lapping 2020 pandemic related store closures.

- We have significant long-term opportunities for growth in the Victoria's Secret business, which continues to lead the lingerie market, and are managing to a 10-15% operating margin.

- Over the next 6 months, we will continue to work toward the separation of the two businesses, proceeding down a dual track to prepare for either a spin-off or a sale. We continue to believe that we can maximize value for shareholders through a separation and look forward to communicating further details on the opportunities for both of these exceptional businesses as we get closer to the separation.

- 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.