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

EVENT DATE/TIME: DECEMBER 04, 2024 / 1:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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Eva Boratto *Bath & Body Works Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Alex Straton *Morgan Stanley - Analyst*

PRESENTATION

Alex Straton - *Morgan Stanley - Analyst*

All right. Good morning, everybody. Second day of our conference. Thanks for coming bright and early for a session today. I'm Alex Straton, Morgan Stanley's North America softlines retail and brands analyst.

Super pleased to have Bath & Body Works here with me today. \$8 billion market cap company, segment leader, focused on home fragrance, body care, soaps and sanitizers. I'm joined by two lovely ladies up here, Gina Boswell, CEO; and then Eva Boratto, CFO.

Thank you both for joining me here today. Super happy to have you.

Gina Boswell - *Bath & Body Works Inc - Chief Executive Officer, Director*

Thank you.

Eva Boratto - *Bath & Body Works Inc - Chief Financial Officer*

Thanks for having us.

Alex Straton - *Morgan Stanley - Analyst*

So look, on format, fireside chat. You guys have been through a full day of this. I think you get how it works at this point. We'll explore some of the key investor questions.

And then the other thing I have to remind you of, and my favorite part of this every time is the disclosures, make sure I'm covered. So please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. So that's a mouthful.

QUESTIONS AND ANSWERS

Alex Straton - *Morgan Stanley - Analyst*

Let me start with a big picture question for you both. You joined the business in the last couple of years, both of you. So I'm just curious, big picture, as you look back, biggest learnings you've had? Maybe we'll start with you, Gina.

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

Yes, sure. So from when I arrived, which is just about two years from today. I -- we set out a long-term vision and strategy, and we call it the five-E strategy, which quite simply is elevate the brand and product, extend into new categories and new geographies to engage with the customer through loyalty, which is one of the things we've been working on as well, as well as enable omnichannel, a seamless omnichannel experience and then to enhance operational excellence.

And so we've been very focused on executing against those. But from the start, my priorities were really around implementing targeted marketing and personalization and how do we improve the customer experience. So I built a leadership team to support those new capabilities for the company.

And I suppose, if I think back further about my biggest learnings, our scale and innovation remains a key competitive advantage. And I'm very proud that the team continues to do that. So innovation is the engine, remains the engine.

And if you think about what we've been doing recently in the last couple of years around adjacencies, around collaborations, around everyday luxuries and just putting the newness into fragrance, that's super important for us to continue doing that to attract the customers. And so that is happening for sure.

We've navigated a choppy environment, which you can talk a bit more about. But we focus on what we can control, and we do it with a great deal of cost discipline as well. I'm sure Eva will talk about that. But our focus is -- remains the same, which is how do we, as category leaders, continue to drive the business forward and the category.

And I suppose my biggest, biggest learning is really more of a growing appreciation for our differentiated vertically integrated model. So on the upstream part of that, that's all around our agile supply chain that can quickly respond to what's happening with the customer, all the way to the front end, which is our stores, which I think provides such an incredible shopping experience and customer service to millions of customers upwards of, as you know, 40% of households.

So that's quite a big scale. And so to have that vertically integrated model to meet has just been exceptional. So I'm really proud of the momentum that we've been building upon.

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

Yes. And Alex, what I would add to that, I'd echo everything Gina said, right? So two observations. In addition to the vertically integrated model that is quite unique and enables us to really drive the top line, while also balancing the risk because that ability to chase enables us to chase in the inventory and balance the risk of any -- of any risk there being over inventory. So it's a great asset.

I think the strength of our retail stores we're a fragrance-first company and the experience and the passion to which we bring to customers, I see as unique as you compare that to other retailers. And I think the passion around the brand for -- from the internal company.

And just to add one last thing. One of Gina's five Es was around driving efficiency and effectiveness. And we've done a tremendous job. This program started before I joined, but really building an ability to drive durable cost savings. And we've taken \$300 million of costs out over a two-year program, and it's just a muscle that the team is building to help us improve our margins and drive both top and bottom line.

Alex Straton - Morgan Stanley - Analyst

That's a great overview last two years in review. Can we talk now a little bit about how your priorities are changing, if at all, into 2025, maybe compared to '24 or even the last couple of years? I'll throw this at both of you again.

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

So this is -- if we think about, this is a very high-quality business. Obviously, we operate in three large categories, that being home fragrance, soaps and sanitizers and body care. And to be number one in two of those three categories, so specifically home fragrance and soaps and sanitizers and to be number two in body care category.

We're starting from a great foundation. So strong margins, strong free cash flow and a competitive advantage with respect to this supply chain agility that we have, which certainly helps in this environment.

So with that as a backdrop, the strategy that we undertook, this five-E strategy, is really a multiyear plan. And it's great to see some of the proof points and starting to kick in and bear fruit. And we're very focused on our investments, whether it be in marketing and loyalty and technology to be able to support that.

So no significant change, rather more a consistent approach to delivering and executing well against that, I would say. I mean, speaking about 2025, I suppose the thing that I'm most excited about is our pipeline of innovation and newness, which, as I said, continues to be better than ever.

And so those would be the things that I think about where we'd be punching a bit above our weight. Anything that you can think of?

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

Yes. Alex, I think about it, I'll come from a market perspective, right? And our priorities remain the same, but the environment, how we're thinking about headwinds and tailwinds headed into 2025. On the tailwind side -- on the headwind side, excuse me, we continue to expect this value-seeking customer, this competitive landscape.

There are risks of tariffs. Now overall, we see -- we think we're relatively well positioned with 85% of our product North American source and have an agility to work through that, but something we're continuing to manage and monitor.

And then finally, I'd say input costs. While 2024, they've been stable to declining, it has been a volatile market. So we'll continue to monitor that. Now on the positive on the tailwind side, our customers are responding to the innovation and the elevation, the newness. So we're super excited, particularly with how core performed last quarter.

Fragrance is on trend. It's on trend with younger customers that's on trend with diverse customers. And I think we'll benefit from a modest wrap of our cost reduction initiatives. So these are the dynamics we're working within and we'll continue to drive towards growth.

Alex Stratton - Morgan Stanley - Analyst

Now you both mentioned a number of topics that we will dive deeper into. One that you just mentioned, Eva was on the competitive landscape. So I just wanted to ask you guys, I mean, sitting in my seat, so many apparel players are moving into beauty.

They view that as a more compelling category. So I'm curious, how has the market and competitive landscape changed for you all? What does it mean for BBW going forward?

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

I'll start with that. I think these are large and generally speaking, healthy categories for us, perhaps more post-pandemic normalization getting healthier as we go through that. And there's always going to be competition.

But from our perspective, we have seen the customer, as Eva alluded to, be value seeking, right? So the customer has been looking for value. And importantly for us, that is not just about price. It's also around the quality, the highest quality products, but it also includes experience, and it includes increasingly convenience.

And so what we are doing is making sure that as the leader in those categories that we continue to bring the highest quality value at an affordable price because this value-seeking customer has actually not changed for several quarters now. So to be able to meet them where they're at is important.

And I think in a -- against any competition in a challenging environment, when customers are really discerning what they put in their baskets, they're looking for brands that will actually be able to deliver against that high-quality standard.

And I'm really pleased that that's how we were able to actually beat the expectations in Q3 at both the top and bottom line because we have a newness, because we had the compelling value proposition, and they came. So we're quite comfortable to win in that environment.

Alex Straton - Morgan Stanley - Analyst

That's a great overview. One thing you both talked about is tariff and your insulation, this advantage, competitive advantage you have with the North America-based supply chain. Can you guys dig into that a little bit for some of the audience that might not be as familiar? I know this is a big advantage for you all.

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

Yes. As we look at our supply chain, and Gina highlighted this before, we have our Beauty Park based out of Ohio. And approximately 85% of our product is North American sourced. We believe that, that's relatively strong relative to others in the industry.

And as you look at some of the areas that have been particularly focused on tariffs, whether it's China, about slightly less than 10% of our product is sourced from China and Mexico and Canada. In total, they represent about 7%.

Think about a 50-50 between the two. So we've driven to the 85% through changes our supply team has made over the years to get to that 85%, and we'll continue to look for ways to optimize, to minimize any impacts as it relates to tariffs.

Alex Straton - Morgan Stanley - Analyst

And anything else as it relates to the new administration that's on your mind? Or is that the big topic?

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

I think that's the most significant topic.

Alex Straton - Morgan Stanley - Analyst

Perfect. Well, let's turn to something you've both alluded to, which was a good timing ahead of the conference. You had a pivot or return to growth of the core categories, which is something many of us have been waiting for.

Can you talk about what enabled that in the third quarter? And then how sustainable you think it is going forward?

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

Yes. We were really pleased with our third quarter results. As I said, we beat the top and the bottom-line expectations. And a bit to unpack there, but we were particularly pleased with the store traffic and conversion.

And for those of you who know how that calculation goes, it's hard to get both going at the same time, right, traffic increases, conversion increases. And importantly, those traffic numbers exceed the benchmark that we use. So we knew we were outpacing, which is important.

But it was really also very helpful this quarter is that, to your point, on core categories, it came across the board. So the big three, so home fragrance, body care and soaps and sanitizers all grew low single digit in the quarter. And to take that further, underneath those, let's take body care as an example.

We were -- we had launched Everyday Luxuries, which helped boost a double-digit increase in our Fine Fragrance Mist, which is a core category for us. So that was really well received by our customers. The -- our fall seasonal sense hit the mark with respect to customers.

So that supported that category as well. And then towards the end of the quarter as well, we were -- we knew it was a shortened holiday calendar coming upon us, and so we were strategic in putting a candid promotion there as well. And that was quite successful because it delivered both against the top line as well as margin dollars.

So we were pleased with the overall health. Now not to say the adjacencies, which we often talk about, they also grew above shop in the quarter. So to have core and more, as I like to call it, lifting, means it's going to be a solid quarter.

Alex Straton - Morgan Stanley - Analyst

That's great. We'll get into some of those, especially the adjacencies. One thing I want to dig in on quickly is on some of these categories that were going through this post-COVID normalization. You all were unique in my coverage for having this dynamic.

And it seems like some of the commentary from the call indicated that, that was mostly behind you, you feel like those categories maybe have normalized. So can you just unpack that a little bit more?

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

Yes, Alex, I'll take that one. It was largely focused around the candles, right? And as over the past year or two, right, you've seen the overall market normalize, i.e., units down year over year in each of the quarters. When we set our initial expectations for this year, what we expected was normalization would continue at a moderating rate, and that has occurred.

And basically, as we analyze that data incoming and the Q3 data, what we saw was it was a pretty immaterial impact. So we expect where the normalization is behind us and don't expect that to be a significant headwind as we look forward.

Now what it doesn't mean is it doesn't mean candles are back to growing low single digits, right? It maintains a competitive market, but that unit decline that we've seen over several, several quarters now, we see as flattening.

Alex Straton - Morgan Stanley - Analyst

Well, I am certainly happy to hopefully not be talking about post-COVID reversion. It only took us five years.

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

You'll need this.

Alex Straton - Morgan Stanley - Analyst

Yes. That's great. Okay. Let's hope that remains the case. Another bright spot in the quarter was on digital. I think it returned to growth or it was growing pretty nicely compared to the relative trend. Can you talk about -- I know that's been a key focus key area for you all making this more of an omnichannel brand since you've joined the company.

Can you talk about that digital result? What you've changed and then what your hopes are for the long term, maybe in terms of penetration?

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

Yes. So we -- it is one of the ease to enable a seamless omnichannel experience. So in fact, it's not digitally focused per se, it's more around wherever and whenever the customer wants to shop. And so we look at it from an omnichannel perspective, first and foremost, a customer-centric view.

And it is around making sure that we invest in technology to do that. So having a new upgraded mobile app, which is a lot of purchases happen through that. So we look at it that way. We invest against that way.

We're looking to remove friction wherever there is friction. And some of the proof points for this is what you're seeing is for example, BOPIS. So Buy Online Pickup In Store as a result, that's digital demand, but then fulfilled through our 1,800-plus stores.

And to have that grow 40% in the third quarter, and effectively, our stores deliver one in four. So 25% of our digital demand is delivered by our stores. So we think of it as a big picture how does our -- how do our customers shop from an omnichannel perspective.

We know that when they shop both channels, they're even more important to us from a customer value standpoint. So it's really important that we lift both. And so a lot of the work that we are putting in place is to drive that.

But of course, we also look at digital traffic and store traffic, and we were pleased to see that digital alone, the traffic and conversion for our digital channel also had improved from the first half trend. So it looks like some of the investments that we're making to drive engagement and bring all that improvement have been working as well.

Alex Straton - Morgan Stanley - Analyst

And just on the long term there, do you have a view of like what should that be as a percentage of the business? Or is it more just driving these strategies in the meantime?

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

No. We know that the customer will choose the best way to shop for them. And we're making more convenient ways for them to shop, by the way. So we have Buy Online Pickup In Store. We love it in part because we are a fragrance-forward store experience.

So when you shop at night, because that's when it's convenient for you, but then when you pick it up, we know that a third of those customers actually top up their baskets more and add further to that. So we like that as well. But there's other ways to shop.

We have, through our digital app and so forth, if you came to your cart, you could see that you could buy through Instacart, you can see that there's a Scent-Scripture, which is basically a subscription service that we provide. So you can have your high-quality wall flowers or other assortments to your door delivered on a regular basis.

So our digital experience is expanded to be able to bring the most convenient offerings to our customers. So what penetration that could be, we're going to leave that up to the customer. We just know that we see them as a holistic customer, and we know that they love our stores at the same time.

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

And Gina, can I just add one thing in terms of -- as you know, we've been on a journey investing in technology and building out a data and analytics team. And one of the things that we've been doing is engaging with customers more digitally, building stronger customer retention.

And that's all of the assets working together. We had our strongest customer retention on record, and that's the assets working together, but also some of the capabilities that we've built to engage with customers digitally.

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

Yes. And I neglected to mention TikTok shop, which is something that we also did. So particularly important for the younger customers, but another very digitally-oriented way to bring our products to their mindset, but also delivered through them.

Alex Straton - Morgan Stanley - Analyst

Yes, definitely sitting in my seat, a notable difference from how the business operated even just five years ago. Another thing from a revenue perspective I wanted to dig into is on the geographic split of the business. This is obviously mostly North America.

There's been some idiosyncratic dynamics impacting the international business this year. So could you just walk us through what's happened to that business this year and then how you see the longer-term opportunity from a geographic perspective?

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

Sure. So overall, international represents about 5% of our top line. We're in 6 of the top 10 markets, and we see this as a huge opportunity for longer-term durable growth. We have an asset-light model, right? We enter markets with franchise partners, which brings their immediate expertise to us and enables us to grow with them.

So we really like our model. This year, Alex, about half of our business today is in regions that have been affected by the war in the Middle East. When you look at the other half of the business, it's growing very nicely.

When you look at retail system-wide sales, which are the end market sales, which is the right way to look at the health of the business, growing double digits, continues to perform well. We're opening new stores, strong comp growth.

And it's just -- I think it really speaks to the brand relevancy that we have outside of the US. So we're managing through this difficult time in those areas affected by the war, but we see tremendous opportunity through expansion in markets we're in as well as entering new markets.

Alex Straton - Morgan Stanley - Analyst

And just a quick clarification. That will be still a partner-oriented strategy? Are there any goals to do that on your own?

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

We like the model that we have today because it's asset-light and profit accretive and actually really builds on the local understanding. And so these categories, while they're quite global, they're also nuanced in terms of how to support them.

So for us, it's an asset that we have that we will continue. I would also point out that we are in 6 out of the top 10 international markets right now. So when we talk about that second E of extending our reach and geographies, the international growth pillar is still very much intact with respect to where we can go from here. So lots of runway forward.

Alex Straton - Morgan Stanley - Analyst

Perfect. Probably being a dead horse here on a revenue question. So we have so many different pillars happening for you all and one of them is the adjacencies that Gina mentioned: men, lip, hair, laundry, et cetera. Can you walk us through those opportunities?

They've been newer for you in the last two years, some just this year, which, I guess, have seem like the more compelling opportunities or less after you've learned a little bit, and how we should think about those longer term?

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

Yes. So these adjacent categories, which -- the role of which is really to expand and diversify our portfolio in the stores and bring our fragrance expertise to life through new and different forms, right? And so ultimately, they're basket builders, but they also bring in new customers and so forth.

Last quarter, we spoke, I think, in first -- for the first time dimensionalize the size of them in aggregate. So these adjacent categories, men's, lip, laundry and hair represent about 10% of our portfolio. And in the third quarter, they grew above shop as they had been consistently for the first half.

To your question, the most mature of the four is men's. It's been in the shop longer and has been growing very nicely, consistently, but with still low awareness. And so much of our marketing investment is still to drive the awareness, higher full funnel marketing, right, to get aware we do have a men's portfolio.

I think this past quarter, we had our first purchase with purchase in men, so you can get a bag with Ocean and which is a top-selling men. So we're supporting the business through product promotions and marketing as we would. And we like what we see so far.

So we think that, that is the biggest and will continue to drive growth. The next one I would say is lip, and lip is exciting because we have been putting these lip fixtures into each of our stores, and we just rolled that out completely. And the lip sales in those stores had doubled when the fixture is put in.

So it is a veritable playground, especially for younger customers who come in and want to look at the scrub and the masks and the tints. Many of you may know that lip is a very big category, but it's a very engaging category. So that lip fixture is doing its job as well.

And you can expect to see more there, more launches with respect to lipstick, lip glosses and things. So we're fueling that with future innovation as well.

I think on laundry, we had just completed the rollout now in September, which is an important milestone because then we can support it through TV and other way advertising to build the awareness that we do, in fact, have laundry detergent and fragrance boosters in our signature scents as well as our scents designed for laundry.

And there, what we're doing is just trying to make sure we drive trial and awareness. And so it's working and we will continue. I think if anybody saw the golden bachelorette, you would have seen maybe a TV commercial that we launched in laundry, which is really exciting.

And then finally, hair, hair is another way for our customers. They love fragrance head to toe. And so putting some of our core fragrances into shampoo and conditioner is another way to add to the basket and to our fragrance expertise.

And what we're learning there is that the repeat rate is strong, the number of new customers that come, which is a bit -- that's a plus up, right? Because if they love Japanese cherry blossom, we would expect them to be existing customers, but we're getting 13% new-to-brand customers even in hair.

So in total, these adjacencies are 10%. We would expect in the future, they would grow both in size and contribution. And again, the goal being that we want to offer more categories, diversify, but then bring our expertise, which is, I think, second to none with respect to getting the same sense in so many different forms, which is what our customers create.

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

And these are large addressable markets for us, right?

Alex Straton - Morgan Stanley - Analyst

Definitely. I think we've gone through a lot of revenue questions. I'll ask you one final one. You've got this \$10 billion target out there. Talk to me about the time line. Is that still the right level? And how do we get there?

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

Yes. So we haven't given the time line for when we're going to achieve those long-term targets. But I would note that, as we alluded earlier, the term that we're probably not going to have to mention anymore, right, which is the normalization.

We did have normalization, however, and that, coming out of the pandemic, and we also had a choppy macro. So I think that we -- overall, we love the categories that we're in, and we would expect now post-normalization for those categories in total, and from a market point of view, to continue to return to growth. And that will, of course, help.

And then we are focusing on our execution. We're focusing on our 5Es. We're making very focused investments in our marketing to support that. And we'll probably have a lot more to say around 2025 when we report our Q4 results.

Alex Straton - Morgan Stanley - Analyst

I won't press you further there. But I will move downwards on the income statement, turning to gross margin. And I think, Gina, you even mentioned this, the use of some strategically planned promotional activities. That was a dynamic that somewhat weighed on gross margin.

Can you just walk me through the puts and takes there? And what exactly was that? How your promotional strategy changed and what that means for the fourth quarter and maybe beyond?

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

Yes. I'll start, Alex. And it goes back to a comment Gina made earlier, right? We knew -- we plan all year for holiday. And we knew heading into this holiday season, it was going to be a compressed five days less between Black Friday and Christmas.

So we had to think differently how we would optimize the holiday season for us. So we added a strategically planned promotion, a candle event at the end of the quarter, that we said a couple of times here, right, that, a, we're pleased with what it drove on the top line, pleased with the incrementality on the bottom line as well, and it just speaks to our agile model.

Our gross margins came in right in line with the guidance that we had set. So we're very focused on driving value, both at the top line as well as the bottom line.

So the reference to the strategically planned promotion, I would say, was largely pointed to that new candle event. We'll always be agile with other events as you progress through the quarter and how customers are responding.

Alex Straton - Morgan Stanley - Analyst

Maybe just a quick follow-up on that is how nimble can you all be executing something like that? Is that something you had already identified at the outset of the quarter? Or is it something that you can be more nimble with?

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

That one was preplanned because we knew that we were heading in terms of a five-day shorter season, how would customers react. We wanted to make sure that we could offer that as an incremental. But other than that, we can be very nimble too.

So every week, we -- this is what the DNA of the business is it's read and react, right? And this is the real power in having a vertically integrated end-to-end view. So not only can we look at what it would take on a Monday based on what we saw, but we can also go to our beauty park and say, hey, this is a bestseller.

Let's chase that inventory through and get into stores in weeks rather than months. So the whole model is set up for a level of nimbleness and agility that honestly, in my 30 years, have never seen that ability to meet the customer mindset and what they're craving. And we can do that. But this particular one that we're talking about was preplanned.

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

And we're always focused on execution, right? Because whenever you do this, you want to create a great customer experience, great response, so to ensure the whole enterprise works to surprise and delight our customers.

Alex Straton - Morgan Stanley - Analyst

Now I do want to bridge this. It's super helpful near term on what's been going on in gross margin. How do we get to that 45%, I think, longer-term target you have for that metric?

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

Yes. As you look at our full year guidance that we have, our guidance is about approximately 44%. So we've made tremendous progress in driving toward that goal over the last number of quarters, starting in the back half of last year.

So we'll continue to -- as I think about it, right, there's further opportunity to optimize your cost. As you drive the sales growth, you'll be able to leverage your B&O that will improve your margins. We'll continue to elevate the product and invest in our cost.

Now we would expect to get paid for that, right, through our pricing. But it's all of those factors working together to drive us toward those targets, 45% margin.

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

Yes. As we think about the long-term goal of \$10 billion, but also the 20% operating income margin as a target. And from where we sit today at the high teens, that's really a reflection of our investments that we're making in marketing and loyalty and technology.

But to Eva's point, our full year 2024 guidance at the gross margin is 44% versus the 45%. Our SG&A is 25% would be the goal in the target, and we're sitting at 27%. So really, the key to unlock the rest of that is sales leverage.

And so we'd like to think, of course, that the investments that we're making in marketing and loyalty as well as product innovation will create that leverage. And then there, underneath all of that is, of course, the 45%, 25% and voilà, we have the 20%.

So that's the long-term goal. And I like the progress that we're tracking to that end with all the cost savings, but also the on-trend innovation that will drive the growth forward.

Alex Straton - Morgan Stanley - Analyst

It seems like part of what's lifted the gross margin and benefited SG&A, at least in the last couple of years, has also been that Fuel for Growth savings plan. It seems like you've been able to uncover a little bit more than you would have expected. So can you walk us through what that targeted and then where you found a little bit more?

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

Yes. I'm going to take a big step back, Alex, if I could. When the program was initially announced, it was expected to deliver \$200 million over two years, right? Our current projections are to deliver \$300 million over two years, 2023, 2024.

And we've been able to drive those incrementality through. It's both in gross margin and SG&A. It's about two-thirds gross margins. As you think about gross margin, it's distribution, it's our value engineering, it's some of the supply chain efficiencies that we've driven in the margin.

And on SG&A, it's -- we've enhanced our non-merch procurement capabilities. We've changed some things on our customer care, home office costs. We've optimized our store payroll to have the payroll in the stores to match the demand. So these are all things that we're doing that I like to say are durable, right?

They're not onetime in nature, and it's a muscle will continue to flex. And what we're not doing in this program, I think equally important is we're not cutting costs where it can affect the top line. We ran some tests quite honestly, in some of the store optimization, and it negatively affected the top line.

So we did not move forward with those. So I think our discipline of test and roll is one we're applying here as we approach the cost savings.

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

And the same disciplined approach to the marketing investments that we're making, that's up 100 basis points and is now 3.5% of sales. So the same cost discipline in terms of is it meeting the return on ad spend? Is it meeting the thresholds that we expect so that it can drive the top line forward. So we're investing while we save.

Alex Straton - Morgan Stanley - Analyst

You mentioned marketing a number of times here, Gina. Can you just elaborate for us how has BBW's approach to marketing changed in the last couple of years? Like what's different now versus then?

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

So when I arrived, certainly, there was marketing in place. But I would say that for all the full funnel things that one does when you have a brand as coveted as Bath & Body Works, you really want to reach a broad set of customers where they're at, right?

And to do that, you really need to do the full funnel. You need to drive awareness. And we knew that Bath & Body Works had very high awareness, but people didn't really understand or feel who we are and what we represent.

And especially as we were launching new categories, we need to fill that pitcher almost repeatedly, whether it was in men's, whether it was in laundry, lip and hair. And so over the last couple of years, and certainly, I hired someone to come in that has done this repeatedly, too.

You're talking about social media strategies that are -- it is art and science in terms of how you develop those and putting the content in the right place. But what we're trying to do from a marketing perspective here is to put the brand at the center of culture.

And so some of the marketing is around those collaborative partnerships that we have with Netflix, whether it's Bridgerton or Stranger Things or now, Emily in Paris. I mean these are marketing investments that we're making to make sure that we are as relevant and with fantastic product at the right affordable price so that customers will come in and enjoy what fragrance brings to their lives, which is, of course, joy.

Alex Straton - Morgan Stanley - Analyst

That's great. Maybe one more thing I want to touch on before we wrap this up is just on that path to the 20% margin. Gina, you elaborated a little bit in the prior answer on how you get there from where you are here. But I just want to make sure you guys can get a key message across what we should hear on the path to the 20%.

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

Well, as I said, I think that the key is sales leverage, right? Once the -- so we have categories over time that resume their normal overall. Certainly, our ability, and that's why we're so pleased to maintain our unit market share leadership for sure.

But then getting that sales leverage, but also that gross margin of 45%, which we're one point away from and then making sure that all of the SG&A, we've had, obviously, quite a bit of investments post separation to put in place technology, loyalty, marketing.

So those things together working on a flywheel will create that sales leverage and therefore, the long-term algorithm will be very much intact. That's our plan.

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

And I would just add, and I said this before, Alex, right, the cost discipline that we've continued to build and the muscle to build to enable us to, one, invest in the product, invest in the business, but also to fund the journey and enable us to expand those margins.

Alex Straton - Morgan Stanley - Analyst

That's perfect. One final one for you because naturally, we're sitting here in December. Everyone is curious. We just had Black Friday. Can you just remind us what your initial holiday view was? And then any incremental information you are permitted to share or not.

And just one final quick one on holiday. I've been getting a number of questions. I'm pretty sure your policy is not to update the way I think L brands did in the past, but just a clarification there, I think, would be helpful too.

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

So what we've said during our call, and this is at the highest level is that we're assuming that the revenue trends that we saw in the third quarter will continue in the fourth quarter once you adjust for the calendar shifts, which is effectively the 53rd week, the shorter -- five-day shorter shopping season as well as the calendar shift.

So with that, it's comparable. That's what we're expecting. But we're excited about the holiday collections that we have in stores right now.

And I think that one of the benefits of being in the stores as much as I am, is that you see the customers gravitating not just to the newness and innovation. But we have so many products at different price points that it's really truly something for everyone.

And if you're super time starved, right now, you can pick up a grab-and-go gift box at any range from \$10 to \$50. So we're set. And we hired 30,000 seasonal workers to meet the demands of our shoppers, and they're out there in full bore with their beautiful red apron. So I encourage all of you who have not shopped yet, to get to your local Bath & Body Works store.

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

And can I just add, Gina. Listen, as we said on our call, we were really excited with the momentum we were building, coming out of the third quarter into the fourth quarter. And have great -- as Gina just said, have great product in the store and a significant portion of the quarter is still ahead of us.

But we're pleased with the momentum we've built in the business. And to your other more tactical question, we do not intend to report -- I don't know if you're thinking about monthly comps or anything like that, that's -- we don't intend to do that.

Alex Straton - Morgan Stanley - Analyst

Now we've got the list of holiday reporters circulating and people were curious how you -- so I wanted to clarify. That's great. Well I guess we are up on time. Thank you for your time. Thank you so much for joining me.

Gina Boswell - Bath & Body Works Inc - Chief Executive Officer, Director

Thank you for having us.

Eva Boratto - Bath & Body Works Inc - Chief Financial Officer

Thanks, everyone, for joining.

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