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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Lorraine Corrine Maikis Hutchinson** *BofA Securities, Research Division - MD in Equity Research*

## PRESENTATION

**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

Okay. Thanks, everybody. Well, first of all, welcome to our 2024 consumer conference. We're thrilled to be back in Miami, a much nicer weather than most of us are coming from. And we're really happy to kick it off this morning with Bath & Body Works. We have Eva Boratto, the CFO of Bath & Body Works here today. Thanks for joining.

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

Thank you. Thanks for having us.

## QUESTIONS AND ANSWERS

**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

Appreciate you making the trip. So Eva, I wanted to start out with a few questions on sales. After a strong holiday, you saw a little bit of a weaker January and February, there was weather, there were some assortment changes. But you were able to pivot quickly to drive improved traffic. So can you elaborate a little bit on the changes you made and the time frame for typical read and react?

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

Yes. That's great, Lorraine, and good morning, everyone. So as we -- first of all, if you look back at Q4, right, we executed and delivered during our most critical holiday season. Our products were right for our customers, our in-stocks were great, and we had a great season. But as we pivoted to January, we saw some pressures in the business coming out of the -- after the semiannual sale. And those pressures continued in early February. And what we analyzed was really that our front of shop and our focus in the store and in our marketing on reformulation wasn't having the impact that we desired.

So really in a very quick time frame over a couple of weeks, right, we were able to pivot. We bought our tropicals in-store. We brought them to the front of the store. What our customers respond to is newness. Newness in fragrance and excitement. And that's why we made that change. We introduced our new Tropicidelic fragrance, and that impacted the business and improved the trends from what we had seen earlier.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

And when you say there was some reaction to reformulation, was it that the product was reformulated or do you think it was the scent that was the [problem]?

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

No. I think it was -- listen customers today demand, they look at what ingredients are in the product, and reformulation for us to maintain our brand relevance and presence that was an important aspect, but it didn't drive the call to action that our formats and our marketing typically do. So we're pleased with the reformulations, but just from that traffic driver from that call to action, it wasn't what we desire to see, which is why we made the change.

And Lorraine, I'll just add one more thing. I think this speaks to our agility and our model that we could make that change in a short period across our fleet and not just our store base, it was in our marketing programs as well in our online digital. So we're pleased with our ability to be agile and meet the customer where they want us to meet them.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

Okay. So I guess you're thinking about reformulation as maybe table stakes and then you also need to add in a layer of newness to drive that...

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

I think -- I think that's a great way to say it.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

Okay. And just for a minute maybe on that ability to read and react that you talked about the agility. I think one of the interesting things about Bath & Body Works is the domestic supply chain. And I think that's becoming more and more important given the geopolitical tensions and disruptions. So can you talk a little bit about that, about the -- just how you're able to read and react and change things so quickly?

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

Yes. I think stepping back from January, February, just more broadly, we have our Beauty Park, right, which supplies the minority of our product. We have very, very strong partnerships with those suppliers. And we have a very transparent and interactive model that enables us to what we call chase when demand is strong for a product and manufacture and bring that product in and also ramp down where we may not be seeing the demand as strong.

And in my 6 months here, I did visit the Beauty Park, and you talk to these suppliers and what they call out, not what we call out, but what they call out about Bath & Body Works that is different is that partnership, that transparency, that intersection that enables us to just be more agile and rapid to adapt to change.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

So shifting to health of the consumer. I think that's been a topic of debate for years. So can you talk to us a little bit about the health of your target customer this year maybe versus last year? What kind of purchasing patterns you're seeing?

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

Yes, sure. So as we think about the consumer, right, we're cautiously optimistic. I think they continue to monitor their basket, right? They're watching their spend. They look for value in their purchases. And we haven't seen that change meaningfully. Our outlook, our guidance doesn't anticipate that changing. But what they do respond to is newness that we just hit on. And we're pleased with the newness that we're bringing. We rolled out a Sweetheart Cherry, new fragrance for customers, are Tropicdelics that I mentioned that was a new fragrance this year. And we're also getting

ready to roll out our Mother's Day fragrance, our Bloom fragrance. And just being in stores this weekend, our store associates are super excited. They were demoing the fragrance for customers as they were checking out, talking about it. And that's what our customers want to see from us.

Now let me pivot a little bit when you think about engagement, right? Engagement with our customers is also -- with any customer is an important aspect, and we're continuing to leverage our technology to complement that in-store experience to create that omni experience, whether it's personalization, whether it's social proofing to bring that experience, drive conversion and drive call to action.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

And then shifting to the international business. Can you talk to the impact of some of the geopolitical conflicts on sales? And then what other geographies you're entering or excited about that may offset some of these pressures?

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

Sure. So. Before -- Lorraine, before I tackle the near term, right, of the pressures that we have seen and continue to say, we think about international, and we're super excited about the long-term opportunity of this, right? International today represents about 5% of our total business. We're in 5 of the top 10 markets from the positive, but we're not in 5 of the top 10 markets. So that creates the opportunity. So we really see international as a key long-term growth driver for us as we look to return to growth.

Now in the nearer term, you're absolutely right, and we've spoken about this. We have seen pressure on our business in the Middle East, in the regions affected by the war, the conflict. We continue to work with our partners there. What's encouraging, though, if you look at our regions outside, retail sales continue to grow low teens. So we continue to see nice growth outside of the regions. So we're continuing to invest. We expect to open new stores in markets that we're already in as well as entering new markets and more to come there.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

And then maybe just a question on the fleet generally. You had been doing a series of White Barn remodels in a lot of your mall stores, and those were very successful in driving a lift to sales. What kind of renovations are you expecting to complete in 2024? And what's the impact on the fleet, on the sales, maybe on the mix from mall to off-mall as well?

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

Yes, sure. There's a few questions in there, Lorraine. So let me break it apart, right? Our fleet, we see as a critical asset in our omnichannel experience, right? Our overall fleet, 99% of our stores are 4-wall profitable. Our colleagues do an amazing job engaging with consumers and driving a call to action improving, improving conversion, and can't say enough about our store colleagues how favorable they are.

Now going back to your question on the White Barn, our White Barn format is in about 80% of our stores today. The White Barn format focuses on those stronger store locations. We continue to test and innovate new formats that will drive benefits to the top line that will make shopping easier for our customers, more engaging, how we think about the new product, our new adjacencies assortment. So we continue to test those.

We also test and learn at the other end. And we recently tested a package that's geared more toward our low-volume stores and what we were able to do is through some creative work by our real estate and design teams, reduce the cost to roll out the stores. Now we've rolled it out to about 10 locations. So it's still small and it's focused on the low volume. But just we were able to reduce the cost while not diminishing the brand. We test things very thoroughly. So we'll continue to look to make sure our fleet remains productive.

Now on your '24 question, I would think about our real estate investments in '24 is pretty comparable to '23. It's going to represent about half of our CapEx investment and the mix of new stores and remodels I think about pretty consistently with what we did in '23. And our impact of our new stores, we look at this data very regularly, continues to be very strong.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

Okay. And then maybe just the mall versus off-mall mix, and if you're happy with that or if you'd like that to continue shifting to off-mall...

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

Yes, we would like to see it continue to shift. We're sitting today at more than half of our 1,800 stores off-mall. And our goal is about 2/3, 1/3 in that continued journey. So you'll see that continue to progress over time.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

Okay. I wanted to talk about pricing power a little bit because that was a positive surprise in the fourth quarter that AURs were up. You've guided to flat in 1Q and moderate expansion for the year. Can you talk a little bit about the dynamics around that, if that's mix, if that's like-for-like? And what gives you the confidence that you'll be able to pass those prices on to the customer?

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

Yes. I think a few things. As you look at AURs, we were pleased with the 2% that we delivered in the fourth quarter, and that was like-for-like. There was really no mix impact there. And as part of our model, we continue to test and learn and evaluate opportunities where we have room to take price. We balance that with driving traffic, bringing customers into the stores. And I think as you look at 2024, you're right, our Q1 outlook is flat with modest increases as you look through the year. And I would say, I would think about our ticket price, our level of promotion and our percent of shop at full ticket is pretty comparable to 2023, and mix will be a benefit as we look. As that grows, as those higher price point adjacencies grow, mix will be a benefit in that modest increase as we progress through the year.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

Okay. So I wanted to move on to some sales drivers, I think stabilizing the top line as a key piece of the story here, and your guidance is for that to happen more towards the back half. But maybe let's start with loyalty. You launched loyalty over a year ago. I think you have 37 million sign-ups in a year, which is extremely impressive. Maybe talk about the ways you'll be using the customer file in 2024, and how these strategies could translate to sales?

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

Yes. So we're super excited about loyalty. And as we laid out on our earnings call, right, we laid out 4 key areas that will enable us to return to growth in the back part of the year. And loyalty is front and center and is one of those, right? So we're pleased. We've just -- last year in the back part of the year, we anniversaried the rollout of the program. As you said, we have about 37 million members, but I would look at it, we're in the early innings of our loyalty program, and our tech investments will enable us to really drive more engagement as you think about loyalty members. This is a stat that I really like, loyalty members who go from redeeming 1 reward to 2 plus, double their spend, right?

In Q4, we introduced point accelerators, right? That was driven to bring that customer back into the store more frequently, sooner to increase our engagement. So I think as we continue to harvest this data, continue to improve our analytics and outcomes, there's more to come, and we're

looking at enhancements to the program. We've listened to what our customers are saying, what they want to say. So I think you'll continue to see areas that we can make programmatic changes to drive engagement and sales ultimately.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

And I think loyalty is a big area of spending growth as well, IT to enable some of this. So maybe just, while we're on the topic, talk for a minute about the investment you're making in this.

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

Yes. As you look at our -- we've talked for the last year plus, right, about investments in technology. And if you look at what we did throughout largely 2023, it was about separating the company from Victoria's Secret and separating our systems. We largely completed the vast majority of that in Q2, which enabled us to really pivot and invest in things that were going to drive returns, drive engagement, drive the consumer. So that's what you see us doing. That's what you see us doing now. It's around loyalty. It's around data and analytics. It's also around some of the foundational systems that we need.

Think about your point-of-sale system in the stores and the connectivity that you want to have with your online experience, connectivity between our merchandise team as well as our supply chain team. So these are also things, areas that we're investing in to enable us to be smarter, to drive additional revenue and to drive efficiencies in the company. And I'm sorry, Lorraine, just one more thing. As you think about the level of investment in '24, I would say, think about it as comparable to 2023 levels.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

Yes. So moving on to some of the new categories that you're launching. Maybe we'll start with men's. That's been an area of strong growth. We've done some survey work that says, they love it, they want more variety. So can you talk a little bit about the categories that you've already tackled and then what's to come?

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

Yes. So we've talked about a lot about our 4 key adjacencies, right? Men's, lip, hair and laundry, and these are all categories that bring fragrance first, that enable us to attract new customers, to increase share of wallet with our existing customers. So as you said, you wanted to start with men's. We rolled out grooming and anti-perspirant deodorant this year. Men's continues to be our strongest growing category. Those new product lines represented about 75% of growth, so really strong customer exception.

But the exciting thing is, one, awareness is low. It's a \$12 billion market, and we still have low customer awareness. So we see tremendous opportunity. You've seen us really lean in with some of our marketing investments here on the men's side, on social, bringing influencers, bringing new tools to improve this awareness.

And in terms of, I think, the last part of your question on men's was what else can we expect? And we'll continue to look, are there opportunities to roll out additional fragrances to enhance the product lines, more natural ingredients in our deodorant. So more to come there, but it's -- it's a huge opportunity for us as we look forward.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

Are you seeing any different reaction from men versus women to either the sense or the product line, anything that you could call out as a learning there?

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

I think a couple of things. Women continue to be the majority purchasers of the men's product. I think it's early to think about that. But our product line, it does bring a new younger, a more diverse customer base, and that's part of the reason to track that customer for some of the marketing. Our men's shop is set up nicely in our stores, right? It really calls out when a man is going into the store, where to go, where to shop. So I think there's tremendous opportunity to grow that awareness and penetration and call to action.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

Okay. And then maybe moving on to hair. Can you talk about where you are in the store rollout? And if that's an incremental purchase for your existing customer or if you're generating new customer aware -- engagement?

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

Yes, great. So as you think about hair, we rolled it out with our top fragrances. And we're now in the full fleet. We rolled out to the full fleet in February. So we're pleased about that. [14%] of our hair fragrant customers are new to the brand. So that's an encouraging stat that we're bringing new customers in to the brand, and we see this as a real opportunity to bring new customers, to gain share of wallet, another leverage point of engaging with loyalty. It brings that newness that we talked about. So we're super excited about the hair category.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

Okay. And then lip is a category you've been in for a long time, but it's -- there's some newness happening now. Can you talk about the fixturing and the results of the initial testing?

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

Yes. So as you look at lip, right, we did 2 things -- we're doing 2 things, I should say. First, we expanded the assortment. And second, we brought in a new fixture. And this fixture enables the customer who is a younger customer to, I'll say, play a little bit at the fixture, right, to test the sample. You have the mirrors. There's a bit of a routine that can bring. So it really brings in that engagement and that customer. The fixture didn't really require us to reposition things in the store. It's a fixture. So we could bring it into the -- into the store without disrupting other aspects.

As of our earnings call, we were in about 380 stores and expect to fully roll out as we -- in the spring season into early fall July, I think we -- it's our goal to be fully rolled out. And while I'll say it's early in the lip, what we have seen in the stores that had the new fixture, we saw a doubling of lip product sales in those stores. So it just shows that there's a tremendous opportunity. It's still small today, but we're reaching in our customers. They're excited about the product.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

Okay? And the last new product, laundry. That seems to be the newest and latest. How is that test going? And where are you in terms of rollout?

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

Yes. So. As you look at laundry, I would say it's the newest, right? We were in about 200 stores, again, as of our earnings call. We'll continue to roll out across the fleet. We launched laundry with our top fragrances for customers. Our customers help select, how to prioritize those fragrances. We -- over the past year, we've been testing, we've been tinkering with the product and feel really good about the rollout, and we see this as another

opportunity. And [as Julie] likes to say, elevate the mundane, right, to bring some fun into the laundry experience and at a competitive price point and opportunity for new customers and for our existing customers who just love our fragrances to bring one more routine into their patterns.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

And I know it's earlier, but just I'm curious, the laundry customer is that your existing customer who's in the store and discovers it that way? Or are you getting any incremental traffic from it?

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

Yes. So we're only in about 200 stores, right? What I can say is the initial testing we did in a subset of the fleet, the response for customers, and this was without any marketing, right? Response from customers was strong, was very favorable. So we've got a to drive awareness, right? We have to increase the awareness, drive trial of the product to continue to roll that out. Laundry is a huge -- it's a huge market, right? It's a \$14 billion market. So we see it as a real opportunity, but we're in the early innings.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

Okay. So moving on to margins. This has always been a high-margin business. Your margins are below where they were pre-COVID or historically. So maybe let's start with raw materials and how much benefit you expect in the first half? And how you expect that to flow through 2024 and perhaps into 2025?

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

Sure. So in terms of our margins, I'm going to take a step back, Lorraine, right, we delivered meaningful margin improvements as you looked at the back half of last year. That was the result of deflation benefits that we started to realize on some of our ingredient costs as well as our cost reduction initiatives. So we saw -- if you think about soy wax, we did see commodity prices come down over the last 6 months, we'll expect that to continue. As you think about emollients, surfactants or components, those prices are stable to down modestly. As you think about the benefits, I would think about it, they're going to be more front half skewed given in the back half, we'll be annualizing the benefits we saw this year.

But Lorraine, I want to also take the opportunity to speak about our cost reduction initiatives here, right? It's not just deflation and external market factors that are driving improvements. We delivered \$150 million of cost savings in 2023. About 60% of that was margin, about 40% was SG&A. And we expect to deliver another \$100 million as we pivot into 2020 -- as we pivot into 2024. Now that will be skewed a little more toward SG&A, 50-50-ish.

But we see these -- we see this is a muscle, we've to continue to lean in on. No, we're not going to save our way to growth. We're going to drive topline growth, but the focusing on cost levers also enables us to fuel the journey as well and invest in new aspects of the business. So we're really pleased with what we've been able -- what we've been able to drive and what we expect to deliver in '24 on these programs.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

And then rounding out the gross margin transportation costs have also been a headwind across the industry. So where are we on the recapture of some of those outsized cost pressures?



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

Yes. We started actually to benefit from transportation back in Q1 of '23. We continue to benefit throughout -- throughout '23. We expect that to continue. And I'd say that's a function of external dynamics as well as some contractual changes that we've made to drive improvements. So we expect continued benefits there.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

Okay. So it seems like there are a lot of levers on gross margin. You've been very successful on cutting costs. I think as we think about the SG&A line, though, we should keep in mind that you are investing back a lot of savings in the stores, loyalty program, any other buckets that you're really focused on for investment?

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

No. As we think about the investment, right, tech is clearly one and while flat till last year, it is at an elevated level, and we see that as a very important investment area to drive the omnichannel we spoke about earlier. Two, we're investing marketing, right? And as you think about our marketing investment, it's about 100 basis points of sales, and it started in Q4 of 2023. Those investments are really aimed to drive what we'll call a full funnel marketing.

We were -- we began that in the fourth quarter. It's things like social presence. It's thing like brand awareness at the top. For those in New York, we had our large candle during the holidays, right, in Herald Square. We had another event in Florida later in the season. And it just elevates the brand and brings awareness, and we want to drive them all the way through to conversion.

So that's another key area. We're not -- as you look at payroll and investments in the stores, of course, we'll continue to invest in the fleet. We do not expect or anticipate another step-up in store wage rates. I would think about that as more normal merit increases, if you will.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

And the marketing investment, the 100 basis points that started in 4Q. So we should expect that throughout the first 3 quarters to continue to build into the...

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

Yes, and you'll be wrapping it in Q4.

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**Lorraine Corrine Maikis Hutchinson** - BofA Securities, Research Division - MD in Equity Research

That's right. Right. Okay. I want to talk about the reformulations. We touched on it earlier, but the -- you've updated the soap formula last year. I guess, what's the customer reaction? And then are there other categories, like candles, where you're expecting a reformulation?

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

Yes. As we think about reformulation, right, like we said earlier, our products expect us. Our customers expect us to do this, right? They require that, particularly as you start look at a younger customer in the mix. So we're pleased with our soaps and our body care reformulation. We started focusing on what touches the body, right, versus the home fragrance area. So as you look at the changes of removing -- as removing the ingredients. As you think about soaps, we will annualize that in July of this year, so the impact will continue through the first half. And then on the body care side, it will more be a back half annualization. We completed, for example, our shower gel rollout in November of 2023.

There are no near-term other large-scale investments like we had in our body care and soaps. But as you think longer term, right, home fragrances, it's both the ingredients that are -- that you put in, right, as well as what you may take out of those products.

But also, as we talk about reformulation, we talk about reformulation and restage. Restage in elevating the brand, whether that's packaging, whether that's product design, will -- is more of an ongoing investment as we look to continue to elevate our brands.

And Lorraine, I think if I could just go back to our marketing discussion. I'm not sure if I missed the word incremental, right? The 100 basis points is an incremental investment that we drove. Obviously, we had a baseline and so I just want to make sure that was clear.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

Yes. Thank you. So moving to the capital structure. You -- maybe just talk a little bit about where your leverage sits today and your goals for that? And then you have some share repurchase in the guidance. How you're balancing share buyback versus paying down more debt?

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

Sure. So I think it probably goes without saying, right, we'll always take a disciplined amounts approach to our capital allocations. We enter 2023 at a leverage of 3.1x levered. Our goal is 2.5x. So we exited the year at 2.8x leverage. So we're really pleased with our ability to deleverage while we were also repurchasing shares in the back part of 2023. Our outlook assumes we repurchased shares, about \$300 million, really pleased our Board approved a new share authorization program of \$500 million, and we'll opportunistically look for areas whether it's continuing to buy back our debt or incremental share repurchases to return cash.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

Thank you. Maybe we'll see if the audience has any questions. We have a few minutes left.

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**Unidentified Participant**

All right. Thanks, Eva. Thanks for the present -- or for the discussion. So I had a question about the potential for more promotions, right? You had a bit of a soft start to the year in a lot of categories. I think a lot of the brands you compete with in these categories have seem to be committed to preserving margins and not getting overly promotional. Some of those brands don't own retail outlets. So just like how does -- how do you approach that as you kind of move through the balance of the year? And just under the scenario where the consumer is still being choiceful, right, about their purchases. Are promotions potential as you move through the back half of the year? Is it spending more marketing? Just you need to stimulate demand as this fiscal year goes on, just what's the lever you pull?

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

Yes. Thanks for that question. And as we look at promotions and look at driving AUR, you're absolutely right. We use promotions as a traffic driver, as an aspect of engagement, and that's part of our brand. But we also test and learn as to where we can tweak our activities, whether it's a buy one, get one, whether it's a 10 off, whether it's different types of promotional activities that will generate the customer call to action, while optimizing our margin and our profitability.

So that's something we do each and every day, we analyze each and every week, and we'll continue to do that. Marketing, we do expect to help and support, right, because that's also another engagement level of call to action. Also, as we launch some of these new brands, we have to engage with our customers and encourage trial, promotion is one opportunity to do that while we're gaining new customers in these spaces.

**Unidentified Participant**

Just wanted to ask a question about all the sort of new adjacencies that are driving the extra sales this year. Can you talk a little bit about the cost side of the equation with those in terms of how much it costs due to leaning to them and develop these categories? I think you've mentioned that in terms of the average ticket, they're perhaps accretive. I don't know what it looks like on the gross margin side. And then in terms of any SG&A that's required to drive these things? Just curious to hear about that.

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

Yes. Thank you for the question. Big picture, as you think about new categories, new adjacencies that we come into, I would think about it that margins improve over time as we scale the product as we bring them into our optimized, our beauty supply chain, right, category. So they're small today. So in terms of impact on the margin, I would say there's not anything meaningful to come out, but you should expect margins to improve over time.

You also asked about the marketing investments, right? We're looking with some of the new marketing investments that we're making as well as tech investments, right? How can we be -- how can we be more surgical to optimize those investments within our portfolio, where does the next dollar go? How can we rely less on broad-based promotions and rely more on personalization and call to actions? So there are a couple of areas that I'd highlight.

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**Lorraine Corrine Maikis Hutchinson** - *BofA Securities, Research Division - MD in Equity Research*

I think with that, we're about out of time. So thank you very much, Eva. This is a lot of fun. I appreciate your time.

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

Thank you so much, and thanks to everyone for your interest.

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