**BBWI FIRST QUARTER 2022 EARNINGS COMMENTARY**

**MAY 18, 2022**

Introduction

- Bath & Body Works, Inc. is providing this first quarter commentary ahead of its live earnings call scheduled for May 19th 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 first quarter earnings release and related financial information are available on our website, www.bbwinc.com. Also available on our website is an investor presentation.

- All of the results included in this commentary are adjusted results and exclude the 2021 significant item detailed in our press release. Additionally, the results included in this commentary represent results from continuing operations and exclude the discontinued operations related to Victoria's Secret.

First Quarter Overview

- We are pleased with our strong start to fiscal 2022 on top of the phenomenal growth over the past two years. We delivered better than expected sales and earnings results in the first quarter despite challenges in the current inflationary environment. Our company continues to deliver industry leading operating margins at 19.3% for the first quarter of 2022.

- Entering fiscal 2022, we continue to lead the market in many of our categories, with multiple #1 product forms. The beauty, personal care and home fragrance markets continue to be strong and growing.

- Our team remains highly focused on innovation and our product pipeline is full. We are launching new fragrances and products every 4 to 6 weeks and expect to maintain this pace going forward.

- The Company's Beauty Park campus and our predominantly North American vertically integrated supply chain are enabling us to successfully navigate a dynamic environment and present full and abundant product assortments on time to our customers with speed and agility. We are confident in our continued ability to deliver and chase winners.

- We are benefiting from a diverse range of customers who are loyal brand enthusiasts, with retention rates over 60%. Our active customer file consists of approximately 60 million customers, with growth of 10% since 2019. Our product offering of accessible luxury at affordable price points allows us to connect with our customers and drive traffic and spend.

First Quarter Results

- Net sales for the quarter were $1.450 billion, a decrease of 1% compared to sales of $1.469 billion last year. Excluding the estimated first quarter 2021 benefit of $50 million related to government stimulus payments, net sales increased 2%. The company's net sales in the first quarter of fiscal 2022 is on top of 53% net sales growth between fiscal 2019 and fiscal 2021.

- In U.S. and Canada stores, first quarter sales were $1.059 billion, an increase of 1% compared to last year.

- We were pleased with our positive store traffic trends in the first quarter. Our customer responded well to our merchandise and our in-store experience. Overall transactions were up low single digits compared to the first quarter last year.

- First quarter direct net sales were $317.5 million, a decrease of 9% compared to last year. The decline is partially due to last year's strong results as well as our customers continuing to take advantage of our omni-focused option of buy online-pick up in store (BOPIS). We ended the first quarter with BOPIS availability in over 700 stores. As a reminder, BOPIS sales are recognized as store sales.

- International net sales increased 5% in the first quarter to $73.2 million, driven by royalties and other partner revenue, which grew in the upper teens, were partially offset by a shift of wholesale sales out of the first quarter and into the second quarter.

- In terms of category performance during the quarter, we experienced the following:

- In fragrant body care, customers responded positively to our March Tropicals floorset, led by the Pink Pineapple Sunrise fragrance.

- Our first quarter single-fragrance launch, Butterfly, was a resounding success. It was our largest ever Spring season cross-category launch, across body and home. Butterfly was the number one fragrance for the total company in April and was the number one fragrance in all forms the week it launched. We also launched the fragrance in a small group of stores early, which allowed us to read, react and chase into additional units.

- In addition to the cross-category fragrance launch, we re-packaged our most beloved fragrance, Japanese Cherry Blossom, in the first quarter. Japanese Cherry Blossom was recognized in March by Women's Wear Daily as one of the top 100 fragrances of all time.

- Men's continues to represent a strong growth driver for the Bath & Body Works brand. The addition of the Clear Horizon fragrance and the repackaging of the customer favorites, Clean Slate and Freshwater, fueled solid first quarter performance. Looking forward, we are focusing on increasing assortment breadth and customer awareness to drive what we believe is a significant growth opportunity.

- Performance in the home fragrance category was driven by our Wallflowers product line which benefited from our recent innovations including high-intensity formula for Wallflower bulbs and Scent Control Wallflower heaters with three settings (low, medium and high).

- Soaps regained a stronger inventory position and sales increased in the first quarter.

- As expected, the sanitizer category was down significantly to last year, as customer mindset and needs have shifted coming out of the pandemic.

- The first quarter gross margin rate was 46.1%, a decrease of 440 basis points compared to last year.

- The gross margin rate decline was driven by a significant decline in the merchandise margin rate, with the remainder driven by buying and occupancy expense deleverage. The merchandise margin rate decline compared to 2021 was driven by increased inflationary costs, which were in-line with our first quarter forecast of about $50 million. The merchandise margin rate was higher than our initial forecast as some international wholesale sales shifted out of our first quarter into the second quarter. As planned, we were more promotional than last year as we responded to the challenging macro environment, and to help offset the 2021 stimulus benefit. Our average unit retail declined by about 4% in the quarter, but was up significantly as compared to pre-pandemic levels.

- SG&A expense of $388.6 million decreased about 4% compared to the prior year and the rate decreased by 70 basis points. Both the dollar decline and the leverage are primarily driven by charitable contributions made in the first quarter of 2021.

- Operating income in the first quarter was $280.0 million, a decrease of 17% compared to last year. Our operating income rate for the quarter of 19.3% decreased 360 basis points compared to the prior year, driven by the previously described inflationary impact of approximately 350 basis points.

- First quarter net income from continuing operations was $154.9 million, a decrease of 9% compared to last year.

- We reported first quarter earnings from continuing operations per diluted share of $0.64 compared to adjusted earnings from continuing operations per diluted share of $0.60 in the prior year, an increase of 7%. A lower tax rate and lower shares outstanding contributed twelve cents of EPS growth.

- Turning to the balance sheet, total inventory ended the quarter up 29% compared to last year, consistent with plan. Finished goods retail inventory is up 18% compared to 2021 on a dollar basis and up 8% on a unit basis, and we are well positioned to support future sales. Component and in-transit inventory is contributing roughly one third of the total inventory growth, driven by proactively pulling forward delivery of items such as candle lids, accessories and soap pumps from Asia to mitigate against global supply chain and distribution network disruptions; increased in-transit times; and higher costs due to inflation.

- The Company's strong balance sheet provides ample capacity to return capital directly to our shareholders while also continuing to execute on our strategic objectives. In February, the Board was pleased to authorize a new $1.5 billion share repurchase program, $1 billion of which was deployed in the quarter through an accelerated repurchase program, along with a 33% increase in the Company's annual dividend.

- Through the accelerated share repurchase program, we retired 13.6 million shares in the first quarter. We will receive the benefit of the remaining shares that will be retired under the accelerated repurchase program when we settle with our bank in the second quarter. We also repurchased and retired 4.7 million shares at a total cost of $235.2 million under the remaining $500 million of share repurchase authorization.

Outlook for the Remainder of 2022

- As we look forward to the remainder of the year and beyond, we are confident the Bath & Body Works brand is strong, with opportunities for continued growth.

- As we discussed last quarter, we have established a separate and dedicated team focused on innovating into new categories and businesses and we are pleased with the team's continued progress. As part of their efforts, we continue to explore and test new and next product ideas. We plan to test a new personal care line, including face care and hair care, in the back half of year.

- While we are excited about our ability to innovate and introduce new products, our results this year will be impacted by incremental macro headwinds as well as the rollout of our new customer loyalty program, an acceleration of some of our technology investments and other transition expenses.

- We, like many other companies, are continuing to experience increased costs in raw materials, transportation and wage rates. We had previously estimated that these incremental costs could range between $150 million and $175 million throughout 2022, with approximately $50 million of pressure in the first quarter. We are forecasting incremental pressure versus our initial estimate, and we now estimate that our full year inflation impact could range between $225 million and $250 million, or about $75 million higher than our initial estimate. We are strategically raising prices and carefully managing promotional activity to maximize margin dollars. In this environment, we continue to be thoughtful about customer response to additional price increases.

- We continue to invest in the customer experience and have been piloting our customer loyalty program. Based on encouraging results we have decided to accelerate the rollout of the program to August. Our loyalty members have higher spend and retention rates than our average customer. We expect that the loyalty program will drive sales and customer retention, deepening our relationships with customers over the long-term. Importantly, the program will also provide us with in-depth customer data that will enable us to further enhance the effectiveness of our marketing. The accounting impact of the rollout of the program is expected to result in an estimated $50 million initial revenue deferral this year as we defer our customers' accumulated points until they are used.

- As we discussed last quarter, we are investing to establish separate IT capabilities for the Bath & Body Works business. We recently decided to accelerate this work, hiring Accenture to assist us, and we now expect the separation component of the project to predominantly be completed next year. Completing separation on this accelerated basis will, in turn, enable us to more quickly build additional technology capabilities to support long-term growth. We are excited to work with Accenture to not only complete our IT separation but also to truly transform into a data-driven organization which will allow us to further strengthen our customer connection and capture new market opportunities. This change in approach, while not expected to drive an increase in costs over the total project, will pull additional expenses forward into this year. We now expect an incremental cost of approximately $100 million in 2022 versus our previous estimate for $75 million.

- And finally, we expect to incur additional SG&A costs related to our CEO transition, including severance and retention for key talent and other associated expenses.

<u>2022 Financial Guidance</u>

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

- Specifically, for the second quarter of 2022, we expect sales to be up in the low-single digit range compared to $1.704 billion in 2021, consistent with our first quarter trend excluding the stimulus benefit from last year.

- We expect our gross margin rate for the second quarter of 2022 to decline significantly, to about 43% compared to 48.6% in 2021. This decline is primarily the result of an estimated $70 million in increased inflationary costs as compared to last year. We expect second quarter promotional activity to be slightly higher compared to last year, but down slightly to first quarter. We will continue to leverage our test, read and react capabilities, our ability to make rapid, tactical shifts based upon consumer preferences and our continual flows of newness. Our forecasted average unit retails remain significantly above pre-pandemic levels.

- We expect buying and occupancy expense to deleverage in the second quarter as we continue to invest in fulfillment capabilities for our direct channel.

- We expect second quarter SG&A dollars will increase in the low-single digit range compared to the prior year, principally driven by the incremental IT and transition expenses previously mentioned.

- We expect second quarter net non-operating expense, principally interest, to be approximately $90 million and the tax rate to be about 25%.

- We project our weighted average diluted shares outstanding for the quarter to be approximately 234 million, which reflects the benefit of 13.6 million shares retired at the beginning of the first quarter through our $1 billion accelerated share repurchase program, our current estimate of shares that will be retired in the second quarter when the program is completed and an estimate of additional shares to be repurchased and retired under the additional $500 million of share repurchase authority.

- We are forecasting second quarter earnings from continuing operations per diluted share between $0.60 and $0.65 compared to $0.77 in 2021.

- We expect to end the second quarter with total inventory up approximately 30% compared to last year and finished goods retail inventory up in the high-20s and units up in the low double-digit range. This includes a strategic pull forward of certain production in order to increase supply chain agility during our key Holiday period.

- For the full year, we are forecasting sales to be up low-single digits compared to $7.9 billion in 2021.

- We expect the full year gross margin rate to be approximately 44%. The decline is primarily driven by an expected decline in the merchandise margin rate related to incremental inflationary costs and the estimated revenue deferral from the loyalty program rollout. We also expect buying and occupancy expense to deleverage, driven by our continued investments in direct fulfillment capabilities.

- We expect the full year SG&A rate to increase about 100 basis points compared to 23.4% in 2021, principally driven by the previously mentioned investments in IT and CEO transition and key talent retention costs.

- We expect full year net non-operating expense of approximately $360 million, a tax rate of about 24.5% and weighted average diluted shares outstanding of approximately 233 million.

- We forecast full year earnings from continuing operations per diluted share to be between $3.80 and $4.15 compared to $4.51 adjusted earnings from continuing operations per diluted share in 2021 and our previous guidance of $4.30 to $4.70.

- We estimate 2022 capital expenditures to be approximately $400 million. We are planning about 150 total real estate projects in 2022, consisting of approximately 100 new off-mall stores and 50 remodels to the White Barn store design, offset by about 40 to 50 mall closures, yielding square footage growth of approximately 6%. The remaining capex forecast is principally related to our IT investments and our new direct fulfillment center.

- Internationally, we expect our franchise partners to open approximately 70 to 95 gross new stores, for store count growth of approximately 20% to 30%.

- We expect 2022 free cash flow to be between $700 and $800 million.

- We continue to target a debt leverage ratio (defined as gross adjusted debt, including balance sheet lease liabilities, over EBITDAR) in the mid-2x's range. Our minimum targeted year-end cash balance is approximately $500 million.

- Our plans for use of cash are as follows:
    - First, we will continue to invest in the business to support growth: in existing and new categories, new off-mall stores and remodels, customer-facing technology and fulfillment capabilities, as well as our

IT separation and transformation and pursuing any potential acquisition opportunities.

  - Continue to pay the annual dividend of $0.80 a share; with an intention to consistently increase the dividend as earnings increase.

  - Any remaining excess cash generated through operations or through raising debt to maintain our mid-2s leverage ratio is expected to be returned to shareholders through share repurchases. We estimate our share repurchase activity, over the long-term, could contribute mid-single digit growth to earnings per share.

<u>Conclusion</u>

- As we look forward to the remainder of 2022, we are confident in our future. We have had extraordinary growth in the business for the last two years, with 2021 sales increasing by 46% and 2021 adjusted operating income increasing by 94% as compared to full year 2019. Along with lapping this growth, we anticipate that the significant investments we are making in the business and macro pressures such as inflation, may lead to our results this year varying from our 3- to 5-year growth algorithm that we communicated at our investor day last July. However, we remain committed to achieving our long-term targets.

- In closing, we continue to focus on maximizing our performance by leveraging the strength of our brand, maintaining close connections to our customers and delivering compelling products and experiences at a great value.

- We invite you to join us for our live earnings call tomorrow morning at 9 a.m. Eastern by dialing 1.888.946.7609 (international dial-in number: 1.517.308.9411). The conference ID is 6362067.