BBWI FIRST QUARTER 2023 EARNINGS COMMENTARY

MAY 18, 2023

Introduction

- Bath & Body Works, Inc. is providing this first quarter commentary ahead of its live earnings call scheduled for May 18 at 9:00 a.m. Eastern.

- 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.

- This commentary includes certain non-GAAP financial measures. Please refer to our first quarter earnings release and supplemental materials for important disclosures regarding such non-GAAP financial measures, including reconciliations to the most comparable GAAP financial measure.

- Our first quarter earnings release, supplemental materials and related financial information are available on our website, www.bbwinc.com.

First Quarter Overview

- For the first quarter, we reported adjusted diluted earnings per share of $0.33, exceeding our guidance of $0.17 to $0.27 per diluted share. Our adjusted results exclude the gain on the early extinguishment of debt associated with debt repurchases in the first quarter.
- We were pleased to deliver this outperformance which was driven by better-than-expected merchandise margin rate and store selling expenses during the quarter. We expect to realize increased savings from our cost optimization initiatives as we move through the year including savings in freight and store selling expenses, as well as in home office and indirect spend.
- We are on track to achieve our savings target of over $100 million in 2023 and we expect that the savings will be fairly balanced between gross profit and SG&A.
- Net sales for the first quarter were $1.4 billion, a decline of 4% compared to last year reflecting a decrease in both transactions and average dollar sale. When looking at our first quarter net sales compared to the same period in 2019, our top line grew 46%.
- First quarter sales were in line with our expectations. The quarter began as expected before sales softened in mid-March,

amidst a weaker macro backdrop. Sales improved in late April as our customers responded to traffic-driving events.

- In U.S. and Canadian stores, first quarter sales totaled $1 billion, a decrease of 2% versus the prior year. Store sales increased 45% compared to 2019.
- First quarter Direct sales of $280 million decreased 12% compared to last year. Adjusted for Buy Online Pickup In Store, or BOPIS, Direct demand decreased 4% in the first quarter. As a reminder, BOPIS sales are recognized as store sales. We fully completed our rollout of BOPIS capabilities to U.S. stores this quarter.
- For the first quarter, international sales were $82 million and grew 13% versus last year, with all of our partners posting positive retail sales growth. Our international operations are conducted through franchise, license, and wholesale partners, and our recognized sales include royalties and wholesale product sales. Our international business continues to provide healthy and margin-accretive growth, and we are forecasting double digit international net sales growth in 2023.
- Our gross profit rate for the first quarter decreased by 340 basis points to 43%. Roughly half of the decline was driven by buying and occupancy expense deleverage, due primarily to lower sales, costs associated with our new direct to consumer fulfillment

center as it ramps up operations in the Spring season, and increased occupancy expense from new store growth.

- Gross profit was also pressured by a decline in the merchandise margin rate, primarily driven by continued inflationary pressure in raw materials and investment in product formulations and packaging innovation. Inflationary pressures totaled approximately $13 million in the first quarter, with the greatest pressure coming from raw materials.
- Our mix-adjusted Average Unit Retails, or AUR, was flat, better than expected, and an improvement versus what we experienced in the fourth quarter. Though we added select promotions to drive traffic, we balanced AURs by increasing prices in other areas, such as our everyday deals.
- Given sales trends and macroeconomic uncertainty, we continued to focus on disciplined expense management, which resulted in SG&A expenses below our expectations for the quarter. Total SG&A deleveraged by 290 basis points, with technology accounting for approximately half of the pressure. The remaining deleverage resulted from lower sales, combined with store wage rate increases and other corporate expenses, partially offset by efficiency in store labor hours.
- Taking all of this into consideration, first quarter total company operating income was $181 million, or 13% of net sales.

- Turning to the balance sheet, we repurchased $84 million principal amount of our senior notes for $76 million, in the quarter.
- With our disciplined inventory management, we ended the quarter with inventory levels below last year.

Fiscal 2023 Outlook

- We are providing our 2023 outlook with comparisons to 2022. As a reminder, fiscal 2023 includes a 53rd week, so the fourth quarter of fiscal 2023 will consist of 14 weeks. Our outlook includes the impact of the 53rd week, estimated at 7 cents per diluted share.
- Our second quarter and full-year outlook exclude the impact of any future debt or share repurchase activity.
- For the full year, we are reaffirming our topline outlook for flat sales to mid-single digit sales declines. Our forecast contemplates continued macroeconomic uncertainty and a continuation of first quarter sales trends in the second quarter of 2023, with a moderate improvement in the back half of the year as we anniversary softer sales trends experienced in the back half of 2022.

- To the extent that demand is higher than forecasted as we move through the year, we will leverage our vertically integrated supply chain and industry-leading agility to respond to that demand.
- We continue to expect the full-year gross profit rate to be approximately 42%.
- We are forecasting AURs roughly flat for the year.
- We still expect merchandise margin to improve sequentially as we move through the year, supported by modest cost deflation benefits in the second quarter, and increasing deflation benefits in the second half of the year, partially offset by investments in formulation and packaging upgrades to reinforce our position as a market leader.
- Overall, we expect merchandise margin rate to expand by approximately 100 basis points in the second half of the year versus the prior year, resulting in roughly flat merchandise margin rate for the full year.
- We still expect buying and occupancy expense to deleverage for the year, driven by sales levels and increased expense from new store growth. We expect less buying and occupancy deleverage for the remainder of the year, versus the first quarter, as our new direct to consumer fulfillment center is fully ramped up.

- Our plan still assumes a full-year SG&A rate of approximately 26%, with the deleverage driven by lower sales levels, technology expense, and increased store wage rates. We expect these pressures to be partially offset by the benefits of our cost optimization work, including efficiencies in store labor hours, indirect spend, and home office expense. As benefits from the cost optimization work build, we expect less SG&A deleverage in the second half of the year.
- We now expect full-year adjusted net non-operating expense of approximately $310 million, reflecting interest expense favorability from debt repurchases in the first quarter.
- We continue to expect an effective tax rate of approximately 26%, and weighted average diluted shares outstanding of approximately 230 million.
- Considering all these inputs, we are updating our full-year EPS outlook to reflect better-than-expected first quarter EPS results, while holding assumptions for the second quarter and the rest of the year consistent with our previous guidance. For fiscal 2023, we now expect adjusted earnings per diluted share to be between $2.68 and $3.08.
- We continue to plan for $300 to $350 million of capital expenditures in 2023, focused on investments to support long-term growth. We are prioritizing investments in select remodels

and new off-mall store openings, including approximately 90 new off-mall stores and 30 remodels to the White Barn store design, offset by about 50 closures, mostly in malls. In all, this results in square footage growth of approximately 4%.

- We are also investing in our technology, distribution, and logistics capabilities to better serve our customers.
- We expect to generate free cash flow of $650 to $725 million in fiscal 2023.

Second Quarter 2023 Outlook

- For the second quarter, we are forecasting low to mid-single digit sales declines, a continuation of trends in the first quarter.
- We expect the second quarter gross profit rate to be approximately 39%. The decrease versus last year is principally driven by deleverage in buying and occupancy, driven by the sales decline and increased occupancy expense from new store growth.
- We are forecasting roughly flat AUR adjusted for mix.
- Our forecast includes modest cost deflation benefits in the second quarter, offset by investment in our product formulations and packaging innovation.
- We expect our second quarter SG&A rate to be approximately 28% of sales, with the rate increase versus the prior year driven

largely by investments in technology and increased store associate wages, partially offset by the benefits of our cost optimization work.

- We expect second quarter net non-operating expense of approximately $75 million, a tax rate of approximately 26%, and weighted average diluted shares outstanding of approximately 230 million.
- Considering all these inputs, we are forecasting second quarter earnings per diluted share of $0.27 to $0.32.
- We entered the second quarter with a very clean inventory position and expect to end the quarter with a high-single digit decrease in inventory dollars and units compared to the second quarter of 2022.