LB FIRST QUARTER 2021 EARNINGS COMMENTARY

MAY 19, 2021

Introduction

- L Brands is providing this first quarter commentary ahead of its live earnings call scheduled for May 20th 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.LB.com. Also available on our website is an investor presentation.

- All of the results included in this commentary are adjusted results, and exclude the significant items as described in our press release.

First Quarter Results

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

- Turning to a review of our first quarter performance, we reported record adjusted first quarter earnings of $1.25 per share compared to a loss of $0.99 last year.

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

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

- Net sales for the quarter were $3.024 billion. First quarter 2020 sales were negatively impacted by the COVID-19 related store closures for roughly half the quarter. Net sales for the first quarter of 2021 increased 15% compared to sales of $2.629 billion in the first quarter of 2019.

- Sales were strong throughout the quarter, which benefitted from government stimulus payments and the relaxation of pandemic-related restrictions. The quarter ended with strong Mother's Day holiday performance at both businesses.

- While it is difficult to quantify the benefit of stimulus payments, we estimate that sales were positively impacted by approximately $125 million ($50 million at Bath & Body Works and $75 million at Victoria's Secret), with a positive impact to operating income of approximately $80 million ($30 million at Bath & Body Works and $50 million at Victoria's Secret).

- The gross margin rate increased by 2,350 basis points to 46.8% compared to 2020. The merchandise margin rate increased by nearly 800 basis points, driven by the reduction in promotional activity mentioned above. The remaining gross margin rate improvement was driven by buying and occupancy expense leverage on the significant increase in sales. Compared to 2019, the gross margin rate increased by 1,130 basis points.

- The SG&A rate leveraged by 890 basis points on the significant increase in sales. Compared to 2019, SG&A dollars increased by about 8%, and leveraged by 190 basis points on the 15% sales increase.

- L Brands has a long history of giving back to its communities. Since the establishment of the L Brands Foundation in 1993, we have donated more than $300 million … supporting thousands of organizations with a focus on health and empowerment of women, nurturing and mentoring children, improving education and enriching the cultural arts. Embedded in our efforts is a commitment to diversity, equity and inclusion.

- As we work to complete the separation of Bath & Body Works and Victoria's Secret, each business is committed to continuing to make a positive impact in the world and our communities and are establishing separate philanthropic funds. In the first quarter we contributed $35 million, included in SG&A

expense, to these funds because we believe it's important to do good when we are doing well. The $35 million expense consists of $10 million in the Bath & Body Works segment, $10 million in the Victoria's Secret segment and $15 million in the Other segment.

- Operating income increased by $792.9 million to $572.1 million and the operating income rate was 18.9%. First quarter operating income increased by $304.2 million to $379.9 million, a 25.9% rate, at Bath & Body Works and increased by $501.5 million to $244.5 million, a 15.7% rate, at Victoria's Secret.

- Turning to the balance sheet, total inventories ended the quarter down 6% compared to last year, in line with expectations. Inventories are up at Bath & Body Works, supporting their sales trend, and remain down compared to last year at Victoria's Secret.

- We repurchased 2.6 million shares during the first quarter for $165.1 million. We have $334.9 million remaining under our $500 million share repurchase program.

<u>Bath & Body Works</u>

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

- First quarter sales for the Bath & Body Works segment were $1.469 billion, an increase of $708.9 million, or 93%, compared to last year and an increase of $551 million, or 60%, compared to 2019.

- Growth in the quarter compared to 2019 was driven by both an increase in transactions and strength in the average dollar sale for both Stores and Direct.

- Performance was strong across all months as we saw good customer response to our Spring merchandise, beginning with our Tropical Paradise launch. Sunshine Mimosa, our single-fragrance launch leading into the Mother's Day gifting timeframe, led the way as a cross-category fragrance and produced a strong front-of-shop (in stores and online) presence with bright, eye-catching marketing. Our Mother's Day messaging and product assortment resonated with our customers.

- We achieved strong balanced growth in all merchandise categories. Fragrant body care, home fragrance and soaps and sanitizers experienced significant growth versus last year and all categories grew at least 45% compared to 2019.

- In U.S. and Canada stores, first quarter sales were $1.050 billion, an increase of $626.7 million or 148% compared to last year and $336.2 million or 47% compared to 2019. Dollars per footstep (the combination of conversion and average dollar sale) in stores increased 71% compared to 2019.

- First quarter direct sales increased by 21%, or $60.3 million, compared to 2020, and by 123%, or $192.8 million, compared to 2019. In the first quarter last year, we experienced longer delivery times, due to unexpected high demand, which benefitted first quarter sales growth this year compared to 2020 but will negatively impact year-over-year sales comparisons in the second quarter this year. Comparisons to 2019 are not impacted.

- The merchandise margin rate for the first quarter was up significantly compared to last year and up compared to 2019, driven by strong customer response to our merchandise assortment, which allowed us to reduce our promotional activity, similar to the back half of 2020.

- Operating income in the first quarter was $379.9 million, an increase of 402%, or $304.2 million, compared to last year and up 127%, or $212 million compared to 2019. Our operating income rate for the quarter of 25.9% increased 1,590 basis points compared to last year and 760 basis points compared to 2019, driven by merchandise margin rate expansion and leverage in both buying and occupancy and SG&A on the high sales growth.

- Total inventory ended the quarter up and in line with expectations. We are focused on maintaining a strong sales trend while leveraging our production partners to increase capacity.

- We completed 31 North American real estate projects in the first quarter – 21 new off-mall stores and 10 remodels. We continue to closely evaluate all locations, especially more vulnerable centers, for risk of closure. This year, we are forecasting approximately 50 new almost entirely off-mall North American stores, partially offset by 20 to 40 closures, principally in malls, resulting in net square footage growth of about 3%. At these assumptions, about 47% of our stores at year-end will be off-mall.

- For Bath & Body Works international, we currently operate 299 stores and 23 online sites across 35 countries through our franchise partners. We opened 14 new international stores and closed three in the first quarter. Additionally, we opened two new international digital sites. First quarter results were strong with double-digit growth in sales and operating income. This year, we expect our partners to open another 60 to 70 new international stores, increasing our store count by about 20% to 25%.

- We remain disciplined in expense and inventory management, and focused on staying close to our customer, while delivering compelling products.

- At the same time, we continue to make strategic investments in our business, such as BOPIS, which we believe will continue to fuel our company's growth. We are also investing in a new company owned fulfillment center for our direct channel, which will complement and support our existing four third-party fulfillment centers. In addition, we plan to open a fifth third-party center this year.

- Bath & Body Works continues to perform strongly, however, we remain cautious as we are lapping extraordinary results from last year in the second and third quarters and we expect continued pressure from inflation and macroeconomic costing increases as well as potential supply chain disruptions. We also see COVID related risks of closure or operating restrictions outside the U.S. We will continue to operate both of our channels in a safe manner for our customers and associates. And we remain focused on maximizing results both near- and longer-term.

Victoria's Secret

- At Victoria's Secret, first quarter comparable sales increased 9% compared to 2019. Direct sales increased 44% to $520.9 million, offset by a 3% decrease in comparable U.S. and Canada store sales. First quarter 2021 total sales of $1.554 billion decreased 7% compared to the first quarter of 2019, reflecting the net closure of 233 (20%) company-operated stores since the first quarter of 2019.

- Dollars per footstep in stores in the first quarter (the combination of conversion and average dollar sale) were up about 80% compared to 2019.

- Customers are responding positively to our merchandise assortments. In our North American business, comparable sales for Lingerie, PINK and Beauty all increased compared to 2019, and margin rates increased significantly in all categories. Highlights include:

- In the Lingerie business, customers are responding positively to glamour and fashion. We are beginning to tell the story of our brand repositioning through our marketing, including the highly emotional and first of its kind Mother's Day campaign with 9-month pregnant model Grace Elizabeth, which received substantial media impressions, the launch of Victoria's Secret TikTok and Instagram Influencer campaigns.
- In PINK, brand health is strong as demonstrated by significant sales and margin growth in our PINK logo shop, which represents about half of our apparel assortment. Bra and panty performance is also solid. Our customers continue to respond to fashion … tie dye, fleece and shorts are all standouts.
- In Beauty, our best-selling Bombshell franchise continues to grow, supported by the launch of Bombshell Beach and the "Bombshell Because" marketing campaign. We successfully launched Natural Beauty, a new daily use body care line, as well as the new Water collection in PINK Beauty. Digital penetration increased significantly, nearly doubling compared to two years ago.

- In Victoria's Secret international, first quarter sales increased by $28.4 million compared to 2020, or 39%, driven by lapping pandemic related store closures last year. The operating loss declined by approximately $40 million to about breakeven.

- The total Victoria's Secret segment gross margin rate increased over 1,100 basis points compared to 2019, principally driven by a significant increase in the merchandise margin rate. The increase in merchandise margin rate and AUR was driven by improved response to our merchandise assortments, the disciplined management of inventory, as well as strong selling execution in stores and online, which enabled us to reduce promotional activity during the quarter.

- Buying and occupancy expense leveraged compared to 2019, driven primarily by the higher penetration of direct sales.

- Compared to 2019, SG&A expense dollars decreased by about 15%, driven by our profit improvement plan and permanent store closures, and leveraged by more than 250 basis points.

- First quarter operating income was $244.5 million, an increase of $501.5 million compared to last year, and the operating income rate was 15.7%. Compared to 2019, operating income increased $213 million, or 665%.

- We are excited about the momentum we have in the business, and the work that we are doing to continue to reposition the Victoria's Secret brand.

Outlook for Remainder of 2021

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

- However, we will provide guidance for the second quarter of 2021 and offer additional qualitative color regarding the remainder of the year.

- We are forecasting second quarter earnings per share between $0.80 and $1.00, excluding one-time costs related to the Victoria's Secret spin-off, as described later.

- We are projecting second quarter sales to increase between 10 and 15% compared to 2019 second quarter sales of $2.9 billion, similar to our 15% growth rate in the first quarter of 2021 (10% excluding the estimated benefit of the stimulus). We are pleased with May results to date, which include strong customer response to spring products at both businesses. The May results have been incorporated into our second quarter guidance.

- We expect the gross margin rate to be in the low 40s, up significantly to 2020 and 2019, driven by an increase in the merchandise margin rate and buying and occupancy expense leverage.

- We expect the SG&A rate to be about flat to 2019's 27.8%.

- We expect net non-operating expense of approximately $100 million and a tax rate between 25% and 26%.

- As we look out to the Fall season of 2021 (third and fourth quarters), we expect to see headwinds in the form of inflationary cost pressures in the supply chain and the transportation network. We also expect potential disruptions in the supply chain, which could result in increased costs, as well as inventory delays. We are working hard to manage and mitigate these headwinds.

- We are estimating 2021 capital expenditures to be between $400 million and $450 million, $50 million higher than our previous forecast, driven principally by the new Bath & Body Works direct channel fulfillment center mentioned earlier. Roughly 60% of the forecasted capex relates to Bath & Body Works, with the remaining 40% related to Victoria's Secret. Bath & Body Works, while not fully returning to its pre-pandemic levels, is resuming its investment in the remodeling and opening of new stores and Victoria's Secret is also investing in a store "refresh" program. Additionally, we will be investing in technology, distribution and logistics capabilities for both businesses in 2021.

- At Bath & Body Works, we are optimistic about our Spring product assortment and our continued ability to execute against our plans in stores and online.

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

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

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

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

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

Spin-off of Victoria's Secret

- As we announced last week, our Board unanimously approved a plan to separate the company into two independent, public companies: Bath & Body Works, one of the world's leading bath, body and home fragrance retailers, and Victoria's Secret, including Victoria's Secret Lingerie, PINK and Victoria's Secret Beauty, a leading retailer of intimates and beauty products. We expect to create these companies through a tax-free spin-off of Victoria's Secret to L Brands' shareholders. We believe the spin-off will enable each company to maximize management focus and financial flexibility to thrive in an evolving retail environment and deliver profitable growth.

- The Board evaluated the possibility of either a spin-off or sale of Victoria's Secret with input from its financial advisors, Goldman Sachs and JP Morgan. Throughout the review process, the company received significant interest from and held substantive discussions with multiple potential buyers.

- Ultimately, the Board concluded that the spin-off of Victoria's Secret into a separate, public company would provide shareholders with more value than a sale.

- This decision follows the significant progress we have made over the last ten months in the turnaround of the Victoria's Secret business, implementing merchandise and marketing initiatives to drive top line growth, as well as executing on a series of cost reduction actions, which together have dramatically increased profitability. As a result of these efforts, Victoria's Secret is now well-positioned to operate as a standalone, public company.

- The benefits of separating these Bath & Body Works and Victoria's Secret include:
  - Distinct strategic and management focus on specific operational and growth priorities,
  - Tailored capital deployment strategies based on each company's operating and financial model, and
  - The ability for the investment community to value each business independently and create significant value and certainty for our customers, associates and shareholders.

- In connection with the spin-off of Victoria's Secret, we expect to incur additional costs. These costs include:
  - One-time costs related to professional and deal-related fees totaling approximately $70 million. We expect to recognize the majority of these costs upon completion of the spin-off.
  - We expect that on a consolidated L Brands basis, we will incur approximately $80 million of incremental overhead costs annually related to technology expenses and other additional headcount to support two separate public companies. We expect that this incremental $80 million will be split between Bath & Body Works and Victoria's Secret. The combination of these costs, plus the allocation of corporate

overhead which is currently reported in the Other segment, will result in approximately $100 million of additional post-separation annual cost for each Bath & Body Works and Victoria's Secret, compared to what is currently reported in their segment results.

  - We expect future capital and expense related to the implementation of new information technology platforms. We expect that these costs will be incurred by both Bath & Body Works and Victoria's Secret over a period of time following the spin-off. Although our work is in the early stages and our estimates are preliminary, we do expect that total expenditures could be $200 to $300 million. Such estimates are subject to change as our work continues. After the spin-off, Victoria's Secret will provide technology services to Bath & Body Works under a Transition Services Agreement while we create independent systems environments, which we believe will help to minimize dis-synergies.

- Given all of the work we have already completed to position Bath & Body Works and Victoria's Secret as standalone businesses, we are targeting August 2021 to complete the spin-off. Over the next few months, the Board will be evaluating the appropriate capital structures for each business. We are excited to share our vision for each business as we get closer to August.

- 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.