BBWI SECOND QUARTER 2023 EARNINGS COMMENTARY

AUGUST 23, 2023

Introduction

- Bath & Body Works, Inc. is providing this second quarter commentary ahead of its live earnings call scheduled for August 23 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 second 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 second quarter earnings release, supplemental materials and related financial information are available on our website, www.bbwinc.com.

Second Quarter Overview

- For the second quarter, we generated adjusted diluted earnings per share of $0.40, exceeding our guidance of $0.27 to $0.32 per diluted share. Our adjusted results exclude the gain on the early extinguishment of debt associated with debt repurchases in the second quarter.
- We were pleased with our second quarter operational outperformance, resulting from the benefits of our cost optimization initiatives, increased Average Unit Retails (AURs), and improved merchandise margin. EPS also benefitted from interest expense favorability in part associated with the repurchase and retirement of debt in the second quarter, and tax rate favorability resulting from the resolution of certain discrete tax matters related to the Victoria's Secret spinoff.
- Net sales for the second quarter were $1.6 billion, in line with our expectations. The year over year decline of 3.6% was driven by a decrease in both transactions and average dollar sale.
- In U.S. and Canadian stores, second quarter sales totaled $1.1 billion, a decrease of 1% versus the prior year.
- Second quarter Direct sales of $329 million decreased 10% compared to last year. Adjusted for BOPIS, Direct demand decreased 6% in the second quarter. As a reminder, BOPIS sales

are recognized as store sales and we completed the BOPIS rollout to U.S. stores in the first quarter.

- International sales were $86 million and declined 4% versus last year. Note, on a year-to-date basis, international sales increased 4%.
- There are two components to our international net sales:
    - Royalties collected off franchise retail sales, and
    - Wholesale revenue generated by the product we sell to our franchise partners.
- While wholesale revenue declined in the second quarter due to lower orders and shipments, total international system-wide retail sales posted a double-digit increase, propelled by new store openings and strong sales for the June Semi-Annual Sale events.
- Our guidance for the back half of the year assumes that our international net sales return to growth.
- Our gross profit rate for the second quarter decreased by 90 basis points compared to prior year Q2, representing a year over year sequential improvement of 255 basis points from the first quarter.
- Merchandise margin rate improved modestly year over year, for the first time in 9 quarters. This improvement was driven by deflation benefit, increased AUR, and reduced transportation

cost, and partially offset by continued investment in product formulations and packaging innovation.

- Improvements in merchandise margin were offset by buying and occupancy expense deleverage, primarily due to lower sales and increased occupancy expense from new store growth.
- Total SG&A deleveraged by 200 basis points, representing a year over year sequential improvement of 90 basis points from the first quarter. Technology expense was the biggest driver of deleverage, reflecting our IT separation costs as well as strategic investments to drive future growth. As expected, we partially mitigated the impact of the technology investments with our cost optimization work, which produced efficiency in store labor hours and home office expense.
- All said, our cost optimization work produced benefits of approximately $30 million in the quarter across gross profit and SG&A. Second quarter total company operating income was $188 million, or 12% of net sales.
- Turning to the balance sheet, we repurchased $115 million senior notes principal for $106 million, in the quarter.
- We remained focused on disciplined inventory management and ended the second quarter with total inventory dollars down 16% compared to last year. Heading into the second half of the year, our inventory levels are well-positioned.

- Our overall real estate portfolio remains very healthy with 99% of the fleet profitable and stores significantly outperforming pre-pandemic levels.
- In the second quarter, we continued to increase our off-mall penetration, opening 30 new off-mall North American stores and permanently closing 17 stores, principally in malls.
- In our International business, our partners opened 16 new stores in the second quarter, ending the quarter with 444 stores.

Fiscal 2023 Outlook

- We are providing our 2023 guidance with comparisons to 2022.
- Fiscal 2023 includes a 53rd week, so the fourth quarter of fiscal 2023 will consist of 14 weeks. The impact of the 53rd week reflected in our guidance is estimated at 7 cents per diluted share.
- Our guidance excludes the impact of any future debt or share repurchase activity.
- We are updating our fiscal year guidance to reflect Q2 performance, narrow our sales range, raise our gross profit expectations, and factor in the benefits of debt and share repurchases through the second quarter, resulting in an increase to our EPS guidance.

- For the full year, we now expect sales declines of 1.5% to 3.5% reflecting our year-to-date performance, continued macroeconomic uncertainty, judicious consumer spending, and post-pandemic category normalization across the industry. For the first two quarters of the year, our sales were in line with the midpoint of our projections. Factoring in year-to-date performance and improved visibility, we are narrowing our sales range around the midpoint of our prior guidance.
- The company is very adept at quickly reading and reacting to changing business trends and we plan to leverage that agility to chase demand and maximize sales.
- We are enhancing our operational excellence and efficiency and plan to deliver approximately $100 million in cost savings in the second half of the year. Approximately 30% of the savings are related to reduced transportation expense, with the remainder reflecting the other benefits of our program, including:
    - Efficiency in store labor and selling productivity as we better align staffing hours to traffic,
    - Reduced expense as we optimize our call center,
    - Home office expense efficiency, and
    - Decreased indirect spend.

- Gross margin exceeded our expectations in the first half of the year and we are now raising our forecast for the full-year gross margin rate to 43%.
- We continue to expect year over year merchandise margin rate to improve in the second half of the year, supported by greater deflation benefits and efficiency produced by our cost optimization work. These benefits are partially offset by investments in formulation and packaging upgrades to reinforce our competitive position.
- 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 improved 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, with less buying and occupancy deleverage for the remainder of the year, as our new direct to consumer fulfillment center ramps.
- Our guidance still assumes a full-year SG&A rate of approximately 26%, with deleverage driven by lower sales levels, technology expense, and increased store wage rates, partially offset by the expected benefits of our cost optimization work.

- We now expect full year adjusted net non-operating expense of approximately $295 million, reflecting interest expense favorability from debt repurchases through the end of the second quarter.
- We still expect an effective tax rate of approximately 26% and weighted average diluted shares outstanding of approximately 230 million.
- For fiscal year 2023, we are increasing our adjusted earnings per diluted share guidance range to $2.80 to $3.10.
- We continue to plan for $300 to $350 million of capital expenditures in 2023.
- We now expect to generate free cash flow of $675 to $725 million in fiscal 2023.

Third Quarter 2023 Outlook

- We are forecasting sales declines of 2.5% to 4.0% versus the prior year.
- We expect gross profit rate of approximately 42% and SG&A rate of approximately 31% of sales.
- We expect net non-operating expense of approximately $75 million, a tax rate of approximately 26%, and weighted average diluted shares outstanding of approximately 229 million.

- Considering all these factors, we are forecasting third quarter earnings per diluted share of $0.30 to $0.40.