BBWI FOURTH QUARTER 2022 EARNINGS COMMENTARY

FEBRUARY 23, 2023

Introduction

- Bath & Body Works, Inc. is providing this fourth quarter commentary ahead of its live earnings call scheduled for Feb. 23 at 8:30 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.

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

- All of the results included in this commentary are adjusted results and exclude the significant items 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 in 2021.

Fourth Quarter Overview and Business Update

- We were pleased to have exceeded our beginning of quarter guidance. We generated earnings from continuing operations per diluted share of $1.86. The results exceeded our guidance of $1.45 to $1.65 per diluted share.
- This was primarily driven by a better-than-expected margin rate due principally to transportation cost improvement and a favorable inventory position leading to less clearance activity as well as lower SG&A expense compared to our expectations.
- Net sales for the quarter were $2.9 billion, a decline of 5% compared to last year, driven by a decrease in both transactions and average dollar sale. Our customers continued to be price sensitive given the macroeconomic pressures. Fourth quarter net sales were up 29% compared to 2019.
- In U.S. and Canadian stores, fourth quarter sales were $2.08 billion, a decrease of 5% versus the prior year. Store sales increased 19% compared to 2019.
- Fourth quarter Direct sales of $716 million decreased 6% compared to last year but increased 66%, compared to 2019. Our customers continue to take advantage of our omni-focused option of buy online-pick up in store, or BOPIS, and frequently add to their purchase in store. As a reminder, BOPIS sales are recognized as store sales. We have rolled BOPIS capabilities to

over 800 stores in 2022, and currently have BOPIS availability in more than 1,300 stores overall.

- For the fourth quarter, international sales were $95 million and grew 30% versus last year. As a reminder, our international operations are primarily conducted through franchise, license, and wholesale partners, and our recognized sales include royalties and wholesale product sales. Total international system-wide retail sales were approximately $250 million in the fourth quarter and $700 million in the full year 2022.
- The gross margin rate for the fourth quarter decreased by 480 basis points to 43%. This was driven by a significant decline in the merchandise margin rate and buying and occupancy expense deleverage due primarily to lower sales and increased labor costs in our distribution and fulfillment network.
- The merchandise margin rate decline was primarily driven by increased product cost due to continued inflationary pressure in raw materials, transportation, and labor as well as incremental promotions to drive sales. Inflationary pressures totaled approximately $60 million in the fourth quarter.
- Our average unit retail, or AUR, was down low-single digits, and slightly better than expectations and what we experienced in the third quarter.

- We continue to focus on disciplined expense management given sales trends and macroeconomic uncertainty. This resulted in better-than-expected SG&A expenses for the quarter. Total SG&A deleveraged by 190 basis points, with technology expense accounting for approximately 100 basis points of pressure.
- We are making important strategic investments to enable future growth, and this includes investing in technology as part of our IT separation. Store wage rates also drove an additional 70 basis points of deleverage as we increase customer-facing associate wages to stay competitive, while ensuring that we manage labor hours in line with sales expectations.
- Taking all of this into consideration, fourth quarter total company operating income was $653 million, or 22.6% of net sales.
- Turning to the balance sheet, total inventories ended the quarter flat compared to last year, better than our expectations, due to disciplined inventory management.

Fiscal Year 2023 Outlook

- We are providing our 2023 outlook with comparisons to 2022. Please note that fiscal 2023 will include 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 forecast takes into consideration ongoing macroeconomic uncertainty and expected customer sentiment. For the full year, we are forecasting flat sales to mid-single digit sales declines. Our range assumes a continuation of fourth quarter sales trends for the first half of 2023 and a moderate improvement in the back half of the year as we anniversary softening sales trends.
- Quickly reading and reacting to changing business trends is part of our DNA. We will leverage our vertically integrated supply chain and industry-leading agility to chase demand and maximize sales. We will also work to drive growth through our loyalty program, as these customers make more visits and have higher spend than other customers. Our current customer segmentation work is also designed to lead to more efficient and effective marketing.
- Our international business continues to provide healthy and margin-accretive growth to our business. We are forecasting double digit international net sales growth in 2023.

- We expect full year gross margin rate to be approximately 42%. We expect inflationary costs will continue in the first quarter, and begin to moderate as we move through the year. We are forecasting AURs roughly flat but will continue to test for opportunities to increase AURs and expand margin through more data-driven, targeted marketing efforts.
- We also expect buying and occupancy expense to deleverage, driven by lower sales and our investments in direct fulfillment capabilities to drive future omnichannel growth, partially offset by the benefits of our profit optimization work.
- Our plan assumes a full year SG&A rate of approximately 26%, with deleverage primarily driven by increased store wage rates, technology, and transportation, partially offset by the benefits of our cost optimization work.
- We expect full-year net non-operating expense of approximately $320 million, an effective tax rate of approximately 26%, and weighted average diluted shares outstanding of approximately 231 million.
- Considering all these inputs, we are forecasting full-year earnings from continuing operations per diluted share to be between $2.50 and $3.00.
- We are planning for approximately $300 to $350 million of capital expenditures in 2023. The majority of our capital is

focused on investments to support future growth. We are planning for continued investments in select remodels and new off-mall store openings.

- We are also investing in our technology, distribution, and logistics capabilities to support our long-term growth. Approximately $35 million of planned capital expenditures relate to payments which shifted out of 2022 into 2023. We are planning approximately 115 total real estate projects in 2023, consisting of approximately 90 new off-mall stores and 25 remodels to the White Barn store design, offset by about 50 mall closures. In all, this yields square footage growth of approximately 4%.
- We expect to generate free cash flow of $600 to $700 million in fiscal 2023.

First Quarter 2023 Outlook

- For the first quarter, we are forecasting low to mid-single digit sales declines.
- We expect the first quarter gross margin rate to be approximately 41%. The decline versus last year is principally driven by an expected lower merchandise margin rate and deleverage in buying and occupancy.

- We are forecasting slight AUR declines adjusted for mix, as we anticipate continued customer price sensitivity. Our forecast includes approximately $20 million of incremental inflationary cost increases in the first quarter related to raw materials, wages, and transportation.
- Buying and occupancy expenses are also forecasted to deleverage driven by the sales decline and our new direct to consumer fulfillment center as it ramps up operations in the Spring season.
- We expect our first quarter SG&A rate to be approximately 30% of sales, with the rate increase driven largely by investments in technology, and increased store associate wages.
- We expect first quarter net non-operating expense of approximately $80 million, a tax rate of approximately 27%, and weighted average diluted shares outstanding of approximately 230 million.
- Considering all these inputs, we are forecasting first quarter earnings from continuing operations per diluted share of $0.17 to $0.27.
- Our forecast for the first quarter of 2023 assumes a continuation of current softer demand trends and elevated inflation and wage pressures. However, this is not reflective of our expectations for the full fiscal year because we anticipate that certain headwinds

such as inflation and wage pressure will moderate in the second half of the year.

- Turning to inventory, we have entered 2023 with a very clean inventory position and expect to end the first quarter with a slight decrease in both inventory dollars and units compared to the first quarter of 2022.

Enterprise Efficiency

- We've increased revenue 40% since 2019 and while our team has done an excellent job accommodating that growth while separating from Victoria's Secret, we now have an opportunity to position the business for margin expansion and efficiency. To that end, we are targeting $200 million of annual cost savings across the company. We expect to realize over half of those savings in 2023, and a substantial portion of the remaining savings in 2024. We have engaged external advisors to assist in a top to bottom review of the business.