BBWI THIRD QUARTER 2023 EARNINGS COMMENTARY

NOVEMBER 16, 2023

Introduction

- Bath & Body Works, Inc. is providing this third quarter commentary ahead of its live earnings call scheduled for November 16 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 third 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 third quarter earnings release, supplemental materials and related financial information are available on our website, www.bbwinc.com.

Third Quarter Overview

- For the third quarter, we reported adjusted diluted earnings per share of $0.48, exceeding our guidance of $0.30 to $0.40 per diluted share. Our adjusted results exclude the $12 million pre-tax gain on the early extinguishment of debt associated with the repurchases in the third quarter.
- We were pleased with our ability to leverage both gross profit and SG&A this quarter. EPS also benefitted from interest expense favorability associated with the repurchase and retirement of debt.
- Net sales for the third quarter were $1.6 billion, in line with the high end of our expectations. The year over year decline of 2.6% was driven by a decrease in both average dollar sale and transactions. AUR's were flat in the quarter, as expected.
- In U.S. and Canadian stores, third quarter net sales totaled $1.2 billion, a decrease of approximately 1% versus the prior year.
- Third quarter Direct net sales were $317 million, a decrease of 8% compared to last year. Adjusted for BOPIS, Direct demand decreased 5% in the third 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 of 2023.

- International net sales were $77 million and declined 5% versus last year. On a year-to-date basis, international net sales increased 1%.
- As a reminder, there are two components to our international net sales:
  - Royalties collected from franchise retail sales, and
  - Wholesale revenue generated by the product we sell to our franchise partners.
- Our total international system-wide retail sales again posted double digit growth in the third quarter. However, wholesale revenue declined as our partners managed their inventory levels. Also, since the conflict in the Middle East began in October, sales for certain franchise partners have been pressured. We continue to monitor events and consumer sentiment in the region and support our partners accordingly.
- Third quarter gross profit rate increased 140 basis points compared to the prior year, a sequential improvement of 230 basis points from the second quarter. This represents our first gross profit rate expansion in nine quarters.
- Merchandise margin rate improved 200 basis points year over year, driven by $40 million of deflation benefits, lower product cost, and reduced transportation cost. This margin expansion

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

- Improvements in merchandise margin were partially offset by buying and occupancy expense deleverage, primarily due to lower sales and increased occupancy expense from new store growth.
- Total third quarter SG&A leveraged by 20 basis points versus last year and represented a sequential improvement of 220 basis points from the second quarter.
- SG&A expense leverage was driven by the benefits of our cost optimization initiatives as well as approximately $10 million of marketing and technology investments shifting to the fourth quarter.
- Our cost optimization work across both gross profit and SG&A delivered benefits of approximately $45 million in the quarter.
- Taking all of this into consideration, third quarter total operating income was $221 million, or 14.1% of net sales.
- Turning to the balance sheet, we repurchased $174 million senior notes principal for $161 million in the quarter.
- We remain disciplined with inventory management and ended the third quarter with total inventory dollars down 5% compared to last year. Heading into the holiday season, our inventory levels are well-positioned.

- Turning to real estate, our overall portfolio, the majority of which is off-mall, remains very healthy with 99% of the fleet profitable and stores significantly outperforming pre-pandemic levels.
- We made additional progress increasing our off-mall penetration, opening 25 new off-mall North American stores and permanently closing 6 mall stores in the quarter.
- And Internationally, our partners opened 16 new stores in the third quarter, ending the quarter with 458 stores.

Fourth Quarter 2023 Outlook

- We are providing our 2023 guidance 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. The impact of the 53rd week reflected in our guidance is estimated at approximately $85 million of sales and 5 cents of earnings per diluted share.
- Our guidance excludes the impact of any future debt or share repurchase activity.
- For the fourth quarter, we expect sales declines of 1% to 5%, reflecting continued soft consumer spending and post-pandemic category normalization across the industry.

- The company is very adept at quickly reading and reacting and we will leverage our vertically integrated supply chain and outstanding agility to chase demand and maximize sales.
- We remain focused on enhancing our operational excellence and efficiency and plan to deliver approximately $50 million in cost savings in the fourth quarter. Approximately 35% of the savings are related to reduced transportation expense, with the remainder coming from other elements 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.
- Our fourth quarter gross profit rate is expected to be approximately 44%, and we continue to expect about 100 basis points of year over year merchandise margin rate improvement. Our forecast includes approximately $55 million of deflation benefits, as well as efficiency produced by our cost optimization work. We anticipate that these benefits will be partially offset by investments in formulation and packaging upgrades to reinforce our competitive position.

- We expect roughly flat buying and occupancy expense as a percent of sales in the fourth quarter as we realize the benefits of our new direct to consumer fulfillment center ramping.
- Our fourth quarter guidance assumes an SG&A rate of approximately 22%, with deleverage driven by higher marketing spending as we activate new programs to drive customer acquisition and technology investment to drive future growth. As a reminder, approximately $10 million of marketing and technology investment shifted from the third quarter to the fourth quarter.
- We expect net non-operating expense of approximately $75 million, reflecting interest expense favorability from debt repurchases through the end of the third quarter.
- We are forecasting an effective tax rate of approximately 26% and weighted average diluted shares outstanding of approximately 228 million.
- For the fourth quarter, our earnings per diluted share guidance is $1.70 to $1.90.

Revisions to Fiscal Year 2023 Outlook

- We are now forecasting sales declines of 2.5% to 4% versus the prior year.

- We now expect full year adjusted net non-operating expense of approximately $290 million and weighted average diluted shares outstanding of approximately 229 million.
- We are revising our adjusted earnings per diluted share guidance for fiscal year 2023 to $2.90 to $3.10, increasing the midpoint of our prior guidance.
- Additionally, we anticipate ending the year with slightly elevated inventory levels, compared to the prior year, as we prepare to expand new product launches to additional stores.
- We continue to expect free cash flow of $675 to $725 million in fiscal 2023.