BBWI SECOND QUARTER 2022 EARNINGS COMMENTARY
AUGUST 17, 2022

Introduction

- Bath & Body Works, Inc. is providing this second quarter commentary ahead of its live earnings call scheduled for Aug. 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.

- Our second quarter earnings release and related financial information are available on our website, www.bbwinc.com. Also available on our website is an investor presentation.

- The results included in this commentary represent results from continuing operations and exclude the discontinued operations related to Victoria's Secret.

<u>Second Quarter Overview and Business Update</u>

- We are pleased to have exceeded our most recent second quarter earnings from continuing operations per diluted share guidance of $0.40 to $0.42, reporting $0.52. Our Semi-Annual Sale delivered results below expectations. However, our customer clearly responded to newness during the month of July. Results for the quarter were better than our most recently provided guidance primarily due to some improvement in sales in the latter half of July combined with expense favorability.

- We drove better trends in July with the launch of our new Poppy floorset which quickly became the bestselling fragrance for the month and was the most successful July single fragrance launch in our history. The customer responded well to the multiple forms, our packaging innovation and the collection's happy, bright fragrance. As with our previous single fragrance launch of Butterfly, Poppy sold cross-category and was #1 across all categories in its launch week. Bringing fragrances to life in multiple categories and forms is a unique point of differentiation for the brand.

- In addition, we listened to our customers and leveraged the agility of our business to accelerate our iconic Halloween collection that our customers love. Our predominantly North American supply chain continues to be an important strength and provides us with the ability to quickly respond to customer demand as well as chase into key winners during the season.

- Because we quickly read and reacted to the changing business trends during the quarter, we are starting the Fall season with clean and forward-facing inventory. Looking forward to the second half of the year, we are leveraging our differentiated product development capabilities, and we expect to continue to emphasize innovation, new launches and gifting. We believe that our accessible price points and our product assortments are well-positioned to resonate with our customers as they look to celebrate the Fall and Holiday seasons. We are dedicated to delivering a full product pipeline by launching new fragrances and products every 4 to 6 weeks with constant flow of newness nearly every week.

- As previously communicated, in this dynamic business environment, we recognize the potential to take action to capture new opportunities and drive future growth – and we are leaning in. We are taking rigorous and meaningful actions to improve profitability. Our efforts include revisiting promotions and pricing as well as product costing to improve merchandise margin. We are also pursuing aggressive options to reduce costs, streamline our operations and combat inflationary pressures, including driving continued operating efficiencies and reducing expenses across the business.

- More specifically regarding our merchandise margin, we will remain agile for the Fall and Holiday selling seasons seeking to ensure we appropriately pulse promotional activity to drive maximum margin dollars. Looking out further, we are also actively reviewing ticket prices and deal pricing as an opportunity in 2023 and beyond. Our sourcing team is also working closely with our raw material suppliers on raw material prices and other programs to minimize costs.

- As part of our efforts to better position the organization for long-term growth as well as reduce costs, we have re-examined the business and identified areas for improvement in our store operating model and associated labor hours, our home office organizational structure and our direct fulfillment network.

- More specifically regarding our home office organization, we recently took actions to simplify and realign our leadership and operating structure which will enable us to operate more effectively as a global omni brand, in addition to enhancing efficiencies. These actions included shifting areas of responsibility and organizing our merchandise, marketing, planning and channel teams as omni and customer-first teams. This resulted in the elimination of about 130 roles, the majority of which were leadership positions.

- Implementing these organizational changes, along with certain other cost control actions and margin improvement actions, is expected to result in an estimated benefit of approximately $15 million in third quarter 2022 and an estimated total benefit of approximately $30 million in the second half of the year. These benefits exclude estimated severance and related charges.

- In addition to improving how we operate, we continue to focus on investments in the customer experience that we believe will contribute to future growth. One important near-term initiative is our loyalty program, and we are excited to launch this program throughout the U.S. next week, beginning August 22. We have a comprehensive launch plan that will utilize incremental marketing and elevated communications from our store associates with the goal of enrolling a significant amount of our approximately 60 million customers in the first year. Our loyalty members in our test markets have higher spend and retention rates than our average customer, and we expect that the program will deepen our relationships with our existing customers and attract new customers, enabling us to drive sales and customer retention and growth over the long term. Equally as important, we believe that, over time, our loyalty program will further increase data-driven analytics and marketing, which will support personalized communications and offers.

Second Quarter Results

- We reported second quarter earnings from continuing operations per diluted share of $0.52 compared to $0.77 last year. The increase as compared to our most recent guidance of $0.40 to $0.42 per diluted share was driven primarily by improved sales in the latter half of July, as well as some expense favorability.

- Net sales for the quarter were $1.618 billion, down 5% compared to 2021 and up 45% to 2019.

- The sales decline in the quarter compared to 2021 was driven by both a decrease in transactions and lower average dollar sale. Our data indicates that customers, particularly lower income customers, have become more cost conscious and are limiting purchases and/or seeking out lower-priced sale merchandise as they are being impacted by the overall inflationary environment. As a reminder, the company's customer base is generally in line with the U.S. population across income levels.

- As we progressed through June and the first part of July, we experienced declines in traffic trends compared to what we experienced in the first quarter of 2022. Sales trends did improve in the latter half of July due to customer response to newness, although traffic trends remained below first quarter trends.

- In U.S. and Canada stores, second quarter sales were $1.16 billion, a decrease of $69 million, or 6%, compared to last year. Sales were up $278 million, or 31%, compared to 2019.

- Second quarter Direct sales of $367 million decreased by $40 million, or 10%, compared to 2021. Sales were up $189 million, or 106%, compared to 2019. The decline to last year is partially due to last year's strong results as well as our customers continuing to take advantage of our omni-focused option of buy online-pick up in store (BOPIS). We ended the second quarter with BOPIS availability in more than 1,200 stores. During the second quarter, BOPISfulfilled sales represented approximately 10% of online demand. As a reminder, BOPIS sales are recognized as store sales.

- International sales for the second quarter were $90 million and increased 35% compared to last year. All franchise partners had positive growth in the quarter compared to last year.

- In terms of category performance during the quarter, we experienced the following:
    - Our major categories including Body Care, Home Fragrance and Soaps & Sanitizers performed generally in line with the total shop performance.
    - Men's continued to outpace shop, and our Father's Day collection of Hero, Sport and Legend exceeded our expectations.
    - Soaps continued to perform well and benefitted from a July launch of our Cleansing Gel formula, which is formulated without parabens, sulfates or dyes. We also saw an anticipated shift out of our sanitizer business, which had been accelerated during the pandemic.
    - Gifting continued to be very successful. It is a key component of our strategy, and we will be investing in it based on customers' excitement to both use and gift Bath & Body Works products.

- The gross margin rate for the second quarter decreased by approximately 780 basis points compared to 2021 and improved by approximately 30 basis points compared to 2019 to 40.8%. Compared to 2021, the gross margin rate decrease was driven by a significant decrease in the merchandise margin rate and buying and occupancy expense deleverage due to the sales decline. The decline in the merchandise margin rate was driven by our average unit retail (AUR) being down mid-single digits to last year as well as continued inflationary pressure. As a reminder, our AUR is still significantly higher than pre-pandemic levels.

- The SG&A rate for the second quarter leveraged by approximately 30 basis points compared to 2021, and SG&A dollars decreased by about 6%. SG&A benefitted from lower home office and stores bonus expense due to business performance as well as certain legal fees and other discrete items totaling approximately $20 million that were incurred in 2021.

- Taking into consideration the above factors as well as incremental inflationary cost pressures as compared to 2021 totaling approximately $65 million, second quarter total company operating income was $241.8 million compared to $384.2 million in 2021. The second quarter operating income rate was 15.0% compared to 22.5% in 2021 and 12.5% in 2019.

- Second quarter net income from continuing operations was $120.0 million, a decrease of $95.3 million compared to 2021.

- Second quarter earnings from continuing operations per diluted share of $0.52 compared to earnings from continuing operations per diluted share of $0.77 in the prior year. Lower shares outstanding and a lower tax rate contributed 10 cents of EPS growth.

- Turning to the balance sheet, total inventories ended the quarter up 33% compared to last year, in line with expectations. Finished good retail units were up 13% compared to last year. The difference between dollar growth and unit growth is due primarily to inflationary pressures in product cost. Approximately one third of the unit growth represents planned, accelerated receipts to generate capacity during the third quarter peak period, enabling agility in the back half. The balance of the unit increase relates to certain categories, including Body Care and Soaps, which were lean in the prior year, and a strategic investment in gifting and accessories.

- The company's accelerated share repurchase program (ASR) was completed in the second quarter. In addition to the 13.6 million shares retired in the first quarter, we retired 6.7 million shares as final settlement of the ASR in the second quarter. In total for the ASR, the company repurchased 20.3 million shares at an average price of $49.27 per share. We also repurchased and retired an additional 1.7 million shares through open market purchases at a total cost of $77.1 million in the second quarter. We have $187.8 million remaining under our authorized share repurchase program.

- We completed 33 North American real estate projects in the second quarter – 23 new off-mall stores and 10 remodels. Year-to-date, we have permanently closed 17 stores and anticipate about 40 to 50 closures for the full year 2022, principally in malls. We are forecasting approximately 100 new off-mall North

American stores, resulting in net square footage growth of about 6% for the full year. Based on these assumptions, 51% of our stores at year end will be off-mall, and about 60% will be in the White Barn store design.

- For International, our franchise partners operate 369 stores and 28 online sites across 41 countries. Our partners opened 14 new stores – including our first store in Hong Kong – and closed 1 in the second quarter. For the balance of the year, we expect our partners to open another 37 to 63 new stores and close an additional 3 to 6 stores. This would be the largest store growth year for our international business, ending the year with approximately 400 to 430 stores.

Outlook for the Third Quarter of Fiscal 2022

- Our third quarter sales forecast reflects a decrease between mid- to high-single digits compared to 2021 sales of $1.681 billion. Our August month to date performance is consistent with this outlook.

- We expect the gross margin rate to decrease by about 950 basis points compared to 2021's rate of 49.9%, principally driven by a significantly lower merchandise margin. Our average unit retail is expected to decline mid-single digits versus last year. Our forecast includes approximately $50 to $55 million of incremental inflationary cost increases in the third quarter related to raw materials, wages and transportation. Buying and occupancy expenses are also forecasted to deleverage driven by the sales decline. The third quarter gross margin rate will also be impacted by the rollout of our loyalty program in

August, resulting in increased pressure as revenues related to accumulated points are deferred.

- We expect third quarter SG&A expense dollars to be up in the low to mid-teens compared to $430 million last year. As discussed in our first quarter earnings call, the increase as compared to prior year is principally driven by the investments in technology and CEO transition and key talent retention costs. Our third quarter guidance also includes assumed increases in store wage rates and approximately $6 million in severance costs related to the previously discussed headcount changes.

- We expect third quarter net non-operating expense, principally interest, to be approximately $85 million and the tax rate to be about 25%.

- We project our weighted average diluted shares outstanding for the quarter to be approximately 229 million, which reflects the benefit of 8.4 million shares retired in the second quarter.

- Considering all these inputs, we are forecasting third quarter earnings from continuing operations per diluted share to be between $0.10 and $0.20.

<u>Outlook for Full Year Fiscal 2022</u>

- For the full year, we are forecasting sales to be down mid- to high-single digits compared to $7.9 billion in 2021.

- We expect the full-year gross margin rate to be approximately 42%. The decline to last year is primarily driven by an expected decline in the merchandise margin rate related to incremental promotional plans given the current macro-environment, expected incremental inflationary costs totaling $230 to $240 million and the estimated revenue deferral totaling approximately $40 million from the loyalty program rollout. We also expect buying and occupancy expense to deleverage, driven by lower sales and our continued investments in direct fulfillment capabilities.

- We expect the full-year SG&A rate to increase about 200 basis points compared to 23.4% in 2021, principally driven by the previously mentioned investments in IT, store wage rates, CEO transition and other people-related costs.

- We expect full-year net non-operating expense of approximately $340 million, a tax rate of about 24% and weighted average diluted shares outstanding of approximately 233 million.

- We forecast full-year earnings from continuing operations per diluted share to be between $2.70 and $3.00.

- We are forecasting ending our third quarter with total inventory up approximately 20% with units up mid- to high-single digits compared to the prior year. For the end of 2022, we are forecasting ending inventory of finished goods units approximately flat with the prior year.

- We are estimating 2022 capital expenditures to be approximately $400 million. We are continuing our investments in the remodeling and opening of new off-mall stores. Additionally, we are investing in technology, distribution and logistics capabilities to support our growth.

- We expect 2022 free cash flow to be between $400 million and $500 million.

- With our updated guidance, we are forecasting ending the year with our debt leverage ratio (defined as gross adjusted debt, including balance sheet lease liabilities, over EBITDAR) in the low to mid-3x's range. Over the longer term, we continue to target a debt leverage in the mid-2x's range. Our minimum targeted year-end cash balance is approximately $500 million.

- Our plans for use of cash are as follows:
    - First, we will continue to invest in the business to significantly improve customer experience and support growth and innovation: in existing and new categories, new off-mall stores and remodels and fulfillment capabilities, as well as our IT separation and transformation and pursuing any potential acquisition opportunities.

    - Next, we will continue to pay the annual dividend of $0.80 per share; with an intention to increase the dividend over time as earnings increase.

- o And, finally, any remaining excess cash generated through operations or through raising debt is expected to be returned to shareholders through share repurchases.

Conclusion:

- As we look forward to the remainder of 2022, we are confident in our future. Our seasonal and Halloween assortments are already resonating with our customers, and we are optimistic about our Holiday product assortments and our continued ability to execute against our long-term growth strategy in stores and online. We remain disciplined in our expense and inventory management and are focused on staying close to our customer.

- We invite you to join us for our live earnings call tomorrow morning at 9:00 a.m. Eastern by dialing 1-888-946-7609 (international dial-in number: 1-517-308-9411). The conference ID is 6362067.