FINAL

LB FOURTH QUARTER 2018 EARNINGS COMMENTARY
FEBRUARY 27, 2019

Introduction

- L Brands is providing this fourth quarter commentary ahead of its live earnings call scheduled for February 28th 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.

- Our fourth 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 results discussed in this commentary are adjusted results, and exclude the significant items detailed in our press release.

- Also, as you know, 2017 was a 53-week year. All of the sales dollars, margin and operating income results discussed for the quarter are on a 13-week basis this year compared to a 14-week basis last year and for the year, are on a 52-week basis this year compared to a 53-week basis last year. Comparable sales are on a comparable calendar period … 52-to-52 weeks for the year and 13-to-13 weeks for the quarter.

Fourth Quarter and Full Year Commentary

- Our fourth quarter adjusted earnings per share of $2.14 were above our initial guidance of $1.90 to $2.10, principally driven by a strong performance at Bath & Body Works.

- Our performance continues to be mixed … growth in operating income at Bath & Body Works versus last year and our forecast was more than offset by a decline at Victoria's Secret.

- Turning to our fourth quarter results …

- Net sales for the quarter were $4.852 billion, and total comps increased 3%.

- The gross margin rate decreased by 170 basis points to 40.6%, driven by a decline in the merchandise margin rate and buying and occupancy expense deleverage.

- SG&A expenses deleveraged by 20 basis points, principally driven by the reclassification of Angel credit card income resulting from the new accounting standard and the incremental investment in wage rates announced in early 2018.

- Operating income dollars declined 9% (13 weeks compared to 14 weeks), and the rate declined by 200 basis points.

- For the full year 2018, net sales were $13.237 billion, and total comps increased 3%.

- The full-year gross margin rate declined 160 basis points to 37.7%, driven principally by a decrease in the merchandise margin rate.

- SG&A expenses deleveraged by 130 basis points for the year, principally driven by the reclassification of Angel credit card income resulting from the new accounting standard and the incremental investment in wage rates.

- Adjusted operating income (52 weeks compared to 53 weeks) decreased 17% to $1.437 billion and the rate decreased by 280 basis points to 10.9%.

- Adjusted EPS for the 52-week full year decreased 12% to $2.82 versus $3.20 for the 53 weeks last year.

- Turning to the balance sheet, inventories per square foot ended the year down 4% to last year.

- We repurchased 5.4 million shares of stock in 2018 for $196.1 million. At year-end, we had $78.7 million remaining under our current $250 million program.

2019 Outlook

- Moving forward, at the end of year, we made some tough decisions that will enable us to increase our focus on our core businesses and our highest growth opportunities. These significant decisions included:

- Closing Henri Bendel;
- Selling the La Senza business; and
- Resetting our dividend and committing to balance sheet deleverage.

- These were the right choices that will strengthen our company and help us deliver positive results.

- Turning to 2019, we are very focused on improving performance in the Victoria's Secret business … staying close to our customer, improving the customer experience in stores and online and improving our assortment. We have new CEOs at Victoria's Secret Lingerie and PINK – John Mehas and Amy Hauk, respectively – who are focused on getting closer to our customers and improving our merchandise assortments. They will have an impact on our assortments toward the end of the year, and our earnings guidance assumes gradual improvement in the Victoria's Secret segment performance as we move through 2019.

- We will continue to be disciplined in the management of inventory, expenses and capital.

- We're announcing today that, consistent with retail industry practice and with input from our shareholders, we will report sales results quarterly and discontinue the reporting of monthly sales results. We believe that monthly variability in results, which can include impacts from Holiday timing, the shifts of the fiscal calendar and timing of marketing events, can lead to misinterpretations of business performance.

- Turning to the specifics of our earnings guidance, we forecast first quarter comps to be down low-single digits. The change in total sales in the first quarter will be about 1 point lower than comps, driven by the loss of La Senza and Henri Bendel sales.

- We expect the first quarter gross margin rate to be down compared to last year, driven by a decline in merchandise margin rate.

- We expect the SG&A rate to deleverage on the sales decline. We expect overall SG&A dollars to be about flat, as an increase in wage rates will be offset by the La Senza and Henri Bendel businesses.

- We expect first quarter net non-operating expense, consisting primarily of interest expense, to be about $95 million.

- In 2017, we adopted Accounting Standards Update 2016-09. This accounting pronouncement requires that income tax effects of share-based awards be recognized in the income statement when awards vest. Since our stock price has decreased over the life of the awards that are vesting in the first quarter, a portion of our share-based compensation expense previously recognized will not be tax-deductible upon vesting, resulting in a negative impact to our tax provision. Therefore, our tax rate in the first quarter will be unusually high … based on our current estimates roughly 100%. The higher tax rate is putting about 5 cents of pressure on our first quarter EPS versus 2018.

- We expect earnings per share to be about breakeven in the first quarter against last year's $0.17 result.

- We expect to end the first quarter with inventory per square foot about flat to last year.

- For the full year 2019, we are projecting comps to be up low-single digits. Total sales growth will be about 2 points lower than comps due to the loss of La Senza and Henri Bendel sales.

- We expect our full-year gross margin rate to be down to last year, driven principally by a decline in the merchandise margin rate.

- We expect the full year SG&A rate to increase and dollars to increase in the low-single digit percentage range, as wage rate and inflation pressures will be partially offset by the La Senza and Henri Bendel businesses.

- Non-operating expenses, consisting principally of interest expense, are projected to be about $375 million.

- We estimate our tax rate will be approximately 30% compared to 25.6% in 2018, with the increase principally driven by the previously mentioned share-based compensation expense accounting, which will impact primarily the first and second quarters. The higher tax rate is driving a negative impact of about 14 cents to 2019 earnings per share versus last year.

- We are forecasting weighted average shares of about 279 million in the first quarter and full year.

- Assuming all of these inputs, we expect earnings per share for the full year 2019 to be between $2.20 and $2.60.

- We are projecting 2019 capex of about $575 to $600 million, versus $629 million in 2018.

- We will continue to actively manage our real estate portfolio … we have opened 820 stores, closed 673 stores and sold 130 stores over the last 10 years, and as a result we have high profitability across all mall types, with about a third of our stores in non-mall venues.

- Given the decline in performance at Victoria's Secret, we have substantially pulled back on capital investment in that business versus our history. We are also closing more stores in North America … 30 in 2018 and an estimated 53 in 2019, versus an average of 15 stores per year historically.

- At Bath & Body Works, we will continue to invest in the White Barn concept in 2019, which continues to yield strong returns. Consistent with the last 3 years, we have about 200 White Barn projects planned for 2019.

- Our overall spending on stores and real estate will decline from about 75% of total capex in 2018 to roughly 55% in 2019.

- Victoria's Secret square footage in North America is projected to decline by about 3%, and Bath & Body Works square footage in North America will increase by about 3%, yielding a total company square footage decrease of about 1%.

- Our investment in technology and logistics will increase substantially in 2019, for initiatives supporting our digital business and other retail capabilities.

- Turning to liquidity, we expect 2019 free cash flow of about $700 million.

- Our free cash flow and strong year-end cash balance of $1.4 billion, along with the additional availability under our revolving credit facility, result in very strong liquidity, which is more than sufficient to fund our working capital, capital expenditures, dividends and any other foreseeable needs.

<u>Victoria's Secret</u>

- Fourth quarter results at Victoria's Secret were below our expectations. Comps decreased, and the merchandise margin rate was down significantly across all major merchandise categories as we increased promotional activity to drive traffic and successfully clear inventory.

- Fourth quarter sales for the Victoria's Secret segment were $2.532 billion, and comp sales decreased 3%, including a 7% decline in store comps. Total digital sales increased by 8%.

- The total segment gross margin rate decreased significantly, primarily driven by a decline in the merchandise margin rate as mentioned above.

- SG&A expense deleveraged, driven principally by the reclassification of Angel credit card income and incremental wage investments.

- Fourth quarter operating income (13 weeks compared to 14 weeks) declined by $155.8 million to $300.7 million, and the rate decreased by 520 basis points.

- In the lingerie business, fourth quarter comps were about flat, and the merchandise margin rate decreased significantly. Substantial growth in sleepwear was offset by a decline in intimate apparel.

- Turning to PINK, comps decreased in the low-double digit range for the fourth quarter, with the most significant dollar decline in the loungewear category. The total PINK merchandise margin rate was down significantly to last year.

- Victoria's Secret Beauty comps increased in the mid-single digit range. Holiday performance was below our expectations. The merchandise margin rate was down significantly, driven by incremental promotions and higher levels of clearance in the semi-annual sale.

- For the full year 2018 (52 weeks compared to 53 weeks), sales for the Victoria's Secret segment were $7.375 billion, about flat to last year, and comps decreased 2%. Sales in the direct channel increased 16% (52 to 53 weeks) to $1.747 billion.

- Operating income (52 weeks to 53 weeks) declined 45% to $512.4 million. The operating income rate declined 570 basis points.

- As mentioned earlier, our new CEOs in Lingerie and PINK are most focused on our product assortments, where we believe we have clear opportunities to improve. We have new product launches throughout Spring in Lingerie, PINK and Beauty, including a limited, curated digital-only Swim assortment in March, and we will continue to leverage the speed we have in our supply chain to test, read and react.

<u>Bath & Body Works</u>

- At Bath & Body Works, we are pleased that our fourth quarter results built upon last year's record performance, exceeding our expectations.

- Total Bath & Body Works segment sales for the 13-week quarter were $1.951 billion. Comps increased 12%; store-only comps increased 8%.

- Sales across the quarter were driven by strong growth in all three of our main categories of body care, home fragrance and soaps.

- Within the quarter, we saw strong product acceptance in both our Fall and Holiday assortments. Holiday performance was strong across all key timeframes throughout the season. Lower comp performance in January was the result of a shorter sale period due to less distressed inventory which negated the need for deep promotions.

- The merchandise margin rate for the quarter was up to last year, and the business was less promotional than last year.

- For the quarter, operating income was $607.2 million. Our operating income rate for the quarter was up 10 basis points to last year at 31.1% as the higher merchandise margin rate was partially offset by continued investments in direct channel fulfillment, our store real estate initiative and higher store wage rates.

- During the quarter, we continued our real estate initiative by opening or remodeling 30 additional stores in our fleet, bringing the number of new concept stores to 637 at the end of the year. We continue to be pleased with the overall results of these stores, both in a shop-in-shop or side-by-side format.

- We continue to see strong performance in our BBW direct channel, which grew sales by 30% for the 13 weeks of the fourth quarter versus the 14 weeks last year.

- Inventories were well-managed through the quarter and ended down to last year on a per-selling-square-foot basis.

- For fiscal 2018, total sales (52 weeks versus 53 weeks) grew by 12% versus last year's reported result, and comps increased 11%; store-only comps increased 8%, and our direct channel grew comparable sales by 31%. The 52-week operating income was $1.077 billion, up 13% versus last year's 53 weeks. Our operating income rate increased by 30 basis points to 23.3%, driven mainly by growth in the merchandise margin rate.

- In 2018, BBW achieved a significant milestone as we surpassed $1 billion in operating income for the segment. We built off key learnings from our 2017 performance, executed against our fundamentals of read and react as well as speed and delivered a great result.

- Looking toward 2019, we will continue to see pressure on occupancy costs with the impacts of our continued real estate initiative and our expansion of direct channel capacity and capability. Additionally, we expect some margin rate pressure from ongoing supply chain impacts specifically related to global trade tariffs and sourcing costs.

- As always, we remain focused on staying close to our customer and their needs while delivering compelling products. We will remain disciplined in expense and inventory management, and we will continue to make appropriate investments to drive sustained growth in the business.

International

- We ended the year with 753 stores in the International Segment, delivering 2018 retail sales of about $1.5 billion, up 16% to last year. We now have stores in 73 countries around the world.

- About 25% of retail sales and 60% of our recorded revenue come from our wholly owned stores in the U.K., Ireland and Greater China. Roughly 55% of retail sales and 20% of recorded revenue comes from our franchise business, which is a royalty-based business. The balance comes from our presence in Travel Retail.

- Our international business is made up of four main components:

    - 83 Victoria's Secret full assortment and 14 PINK freestanding stores. We added 29 new stores in 2018 with notable openings in Hong Kong, Australia, Costa Rica, Indonesia, Italy, Malaysia and Thailand.

    - Victoria's Secret Beauty and Accessories (VSBA) stores in local markets. We opened 19 stores and closed 32 stores, primarily due to full-assortment stores opening in the same center, to end the year with 257 locations.

    - Victoria's Secret Beauty and Accessories stores and counters in Travel

Retail and military installations. We added 8 net new stores this year, ending the year with 164 stores and about 380 counters.

- And finally, we added 50 net new Bath & Body Works stores this year to end the year with 235.

- As we look back on 2018 at a high level:
  - The partner-based businesses are doing well, with good operating income growth for the quarter and the year at a high operating income rate.
  - We continue to invest in China, which is a significant growth opportunity. VSBA stores and ecommerce, through the TMall platform, are doing well. We now have 15 full assortment stores open. We have tested and will continue to open smaller-sized mall-based stores, and we are optimistic about the opportunity for further growth in that format.
  - The U.K. business continued to be challenged in 2018. Operating losses moderated in the back half of the year, and we are very focused on improving performance in that market.

- Fourth quarter revenue in the international segment increased by 12% (13 weeks versus 14 weeks) to $190.7 million, driven by growth in sales in both Victoria's Secret and Bath & Body Works.

- Fourth quarter operating income (13 weeks versus 14 weeks) increased by $14.7 million, driven by lower pre-opening rent expense in China and growth in our franchise business.

- For the full year (52 weeks versus 53 weeks), revenue increased 20% to $605.3 million, driven primarily by growth in China and the Victoria's Secret and Bath & Body Works franchise businesses.

- Full-year operating income (52 weeks versus 53 weeks) declined $11.6 million to a loss of $6.6 million, driven by our investment in China and the decline in the U.K., partially offset by growth in our franchise business.

- In 2019, we expect to open around 50-75 net new stores.

- We continue to be confident about our prospects for growth in international markets… and of course, we remain focused on the fundamentals: great execution of our brands wherever we go.

- We invite you to join us for our live earnings call tomorrow morning at 9 a.m. Eastern by dialing 1-866-363-4673 (international dial-in number: 1-973-200-3978).