

VS&CO SECOND QUARTER 2023 EARNINGS COMMENTARY

August 30, 2023

Introduction

- Victoria's Secret & Co. is providing this second quarter commentary ahead of its live earnings call scheduled for August 31, 2023 at 8:00 a.m. EST.
- 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.victoriasssecretandco.com/investors under Financial Information, Quarterly Results. Also available on that portion of our website is an investor presentation.
- Certain results included in this commentary are adjusted results and exclude the impact of certain items as described in our press release, our SEC filings and the investor presentation posted on our website. Reconciliations of these and other non-GAAP measures to the most comparable GAAP measures are included in our press release, our SEC filings and the investor presentation posted on our website.

Second Quarter 2023 Results

- We delivered second quarter sales, adjusted operating income and adjusted diluted earnings per share results within our guidance range while the macro environment continues to put pressure on our customer base and our core intimates categories. As anticipated, and what was a continuation of the first quarter trends, sales performance in the second quarter was particularly challenging in the overall stores and digital intimates market in North America which impacted both our Victoria's Secret and PINK businesses in the quarter. In contrast, our international business experienced sales growth in excess of 25% compared to last year and strong profit flow thru, and our recently acquired Adore Me brand also grew sales during the quarter highlighting the strength of their business model and unique digital strategies. Our teams were resiliently focused on what was within our control, managing selling margins, diligently controlling costs, and delivering inventory levels at our Victoria's Secret and PINK businesses down low-double digits compared to last year.
- Turning to the results for the second quarter, we reported second quarter adjusted earnings per diluted share of \$0.24, which was near the midpoint our guidance range of \$0.10 to \$0.40 per diluted share. This result compared to adjusted earnings per diluted share of \$1.09 in the second quarter of 2022.
- Net sales for the quarter were \$1.427 billion, a decrease of 6% compared to second quarter of 2022 sales of \$1.521 billion and were at the lower-end of our guidance of down mid-single digits. In North America, sales trends from the

first quarter continued throughout the second quarter in both our stores and digital channels driven by a decline in traffic and average basket size as compared to the second quarter last year. While conversion rates and average unit retail in both channels were lower than last year, each of these key metrics continue to trend above pre-pandemic levels. Adore Me, which was acquired on December 30, 2022 and is new to our results this year, is included in our Direct sales reporting for North America in the total sales table found in our press release. Sales of the Adore Me business were up year over year again this quarter and represented about four percentage points of total sales growth for VS&Co in the second quarter.

- From a merchandising perspective, sales trends for the intimates market in North America remain challenged and decreased in the mid-single digits in the quarter compared to last year. We remain the leader in market share for the intimates category in North America, including both bras and panties. On a rolling twelve-month basis, our intimates market share declined slightly, with digital share up slightly and stores share down slightly.
- From a merchandise category perspective, starting with Victoria's Secret, our beauty business continues to be our best performing category followed by bras, sleepwear and panties. Within PINK, intimates and sleepwear outperformed apparel which had another difficult quarter. We estimate that the previously identified apparel challenges in PINK negatively impacted the second quarter sales results by approximately 2 to 3 points. Our new reimagined PINK merchandising assortment has begun to set and sell, both

online and in stores, and we are encouraged by early, positive response from our customers.

- Our international business continued its stellar performance with sales up 26% in the second quarter compared to last year. The business continues to experience momentum and provide profitable growth across stores and digital. The second quarter results were driven by significant year-over-year growth in China through our joint venture with Regina Miracle, and globally with partners in our franchise and travel retail channels. In the past twelve months, we have entered four new countries and opened nine new digital sites to increase our global footprint, and we have 25 to 35 net new stores planned to open in the fall season. We continue to be optimistic about sales, profit and store growth opportunities for all of our partners around the world.
- The adjusted gross margin rate for second quarter 2023 was slightly above the midpoint of our guidance of 34% to 35% and decreased 150 basis points to 34.6% compared to the second quarter of 2022. Our adjusted selling margin rate was relatively flat for the quarter as lower inbound freight costs, both ocean and air, were offset by higher target promotional activity given the noted traffic and conversion challenges along with higher shrink activity in our stores. Our adjusted gross margin rate for the quarter decreased by 150 basis points due to deleverage in buying and occupancy expenses on the decline in sales.

- The adjusted SG&A rate was 31.2% compared to our guidance of 30% to 31%. Deleverage year-over-year was driven by the decline in sales, Adore Me SG&A expenses which are new to our results this year and strategic investments in technology. In terms of technology spend, we are investing in strategic growth initiatives related to customer engagement while also addressing the technology separation from Bath & Body Works. Compared to last year, adjusted SG&A expense dollars in the second quarter decreased when excluding Adore Me expenses which are new this year. On a two-year basis, adjusted SG&A expense dollars are down 5%, or \$22 million.
- Second quarter adjusted operating income was \$49 million, or 3.4% of sales, and near the midpoint of our guidance range of \$35 million to \$65 million. This result was lower than the \$127 million in the second quarter of 2022 due to the previously mentioned decrease in sales and gross margin dollars in North America, partially offset by growth in international and including our profitable Adore Me business in results for the first time.
- Adjusted non-operating expenses, consisting principally of interest expense, of \$23 million and our tax rate for the quarter of 24.5% were broadly consistent with our forecast.
- Second quarter adjusted net income was \$19 million compared to \$92 million in 2022.
- Turning to the balance sheet, we ended the second quarter with total

inventories in our core Victoria's Secret and PINK business down low double-digits compared to last year, which is prudent and positioned lower than current and expected sales trends as we move forward into the third quarter. Total VS&Co inventories, including the addition of Adore Me this year, were \$1.040 billion as of the end of the quarter.

- From a liquidity standpoint, we ended the second quarter with a cash balance of \$131 million, a strong balance sheet, and ample liquidity to execute our strategic plans. Our free cash outflow for the year-to-date period is \$163 million compared to \$109 million last year with the increase directly related to higher capex to expand our store of the future concept and enhance our technology capabilities aimed at customer engagement, partially offset by disciplined inventory management and improved accounts payable leverage. We ended the second quarter with \$295 million in outstanding borrowings on our \$750 million ABL credit facility, which is unchanged from the beginning of the year or the end of the first quarter.
- Weighted average diluted shares at the end of the second quarter were approximately 78 million. In January 2023 we announced a new share repurchase program providing for the repurchase of up to \$250 million of the Company's common stock through the end of fiscal year 2023. In February 2023, as a component of the broader share repurchase program, we entered into an accelerated share repurchase agreement ("ASR") with Goldman Sachs to repurchase \$125 million of the Company's common stock. Under the terms of the ASR, the Company made a payment of \$125 million on February 2, 2023

and received an initial delivery of approximately 2.4 million shares of the Company's common stock. In the second quarter, the ASR was completed and we received an additional approximately 1.3 million shares of the Company's common stock. The total approximately 3.7 million shares repurchased under the ASR was based on the volume-weighted average price of the Company's common stock during the term of the ASR, less a discount and subject to certain adjustments.

- Aside from the financials, over the last 90 days, we have executed several key actions in support of our strategy and brand positioning for the long-term, including:
 - We announced the premier of the *Victoria's Secret World Tour*, streaming September 26th on Amazon Prime Video. Part spectacular fashion event, part documentary, the one-of-a kind show promises an unrivaled viewing experience that celebrates the mission of Victoria's Secret – to uplift and champion women – on a global scale. *The Tour* will be headlined by GRAMMY award-winning artist, Doja Cat.
 - With a relentless focus on our “Best at Bras” strategy and delivering newness, innovation and fashion to our customers, we debuted the *Icon by Victoria's Secret*, a new collection of bras, panties and lingerie centered around the new Icon by Victoria's Secret Push-Up Demi Bra, and featuring an all-star cast of talent including the return of Gisele Bündchen, Naomi Campbell, Adriana Lima and Candice Swanepoel to the VS family. We also introduced the *Featherweight Max* sports bra

featuring a revolutionary super light shape designed for the gym and your everyday.

- We expanded our channels of distribution with the launch of Victoria's Secret lingerie and apparel in the official Victoria's Secret Amazon Fashion storefront.
- In June, we enhanced the Victoria's Secret and PINK customer experience and rolled out our new multi-tender loyalty program to all customers. In just three short months, we already have over 16 million members who are currently accounting for over 70% of our weekly sales and trending higher.
- We launched Adore Me merchandise available for sale on www.victoriasssecret.com during the quarter, and we continue to leverage Adore Me's expertise and technology to improve the customer experience by further developing our launch plans for Try-on at Home and VIP membership services for the Victoria's Secret and PINK customer.
- And, we evolved our leadership structure to advance our strategic priorities with the appointment of Greg Unis as Brand President, Victoria's Secret & PINK along with welcoming back to the brand Anne Stephenson as our new Chief Merchandising Officer.

Outlook for Third Quarter and Full Year 2023

- We are focused on changing the trajectory of our sales trends and our teams have been working tirelessly on multiple growth initiatives designed to impact the third quarter and the all-important holiday season. We are

encouraged by August sales trends which were better than July, second quarter and the entirety of the spring season, and believe there are early signs that our growth initiatives are beginning to be noticed by our customers.

- For the third quarter of 2023, our guidance reflects an improvement in our sales trend in North America based on August results, the phased rollout of new digital technology capabilities, the Victoria's Secret World Tour premiering September 26th and our new reimagined PINK merchandising assortment which begins to deliver at the end of August.
- We are forecasting sales in the third quarter of 2023 to decrease in the low- to mid-single digit range compared to sales of \$1.318 billion in the third quarter of 2022. Comparable sales in the third quarter of 2023 are forecasted to decrease high-single to low-double digits compared to last year.
- At this forecasted level of sales, third quarter 2023 adjusted operating loss is expected to be in the range of \$45 million to \$75 million compared to operating income of \$43 million in the third quarter of 2022.
- We are forecasting third quarter 2023 adjusted loss per diluted share to be in the range of \$0.70 to \$1.00 compared to earnings per diluted share of \$0.29 in the third quarter of 2022.
- We expect the third quarter 2023 adjusted gross margin rate to be approximately 33.5% to 34.5%, or down slightly compared to last year's rate of

34.7%. We are forecasting our selling margin rate to be up to prior year with the gross margin rate decrease directly attributable to buying and occupancy expense deleverage on the forecasted sales decline of low- to mid-single digits.

- We expect the third quarter 2023 adjusted SG&A rate to be approximately 38% to 39%, compared to the third quarter of 2022's rate of 31.5%. The rate deleverage is attributable to key strategic investments to produce the Victoria's Secret World Tour, deleverage on the forecasted low- to mid-single digit decline in sales and new technologies related to our growth strategies and new customer experiences. Specifically related to the World Tour, the costs associated with the strategy, creation and production of the event have been incurred over the last several months and maintained as a prepaid asset on our balance sheet. Accounting rules require that we expense the totality of the cost in the period the event launches, or September and the third quarter. Additionally, the technology investment impact is a continuation of second quarter trends and work to support our customer engagement initiatives and central to our expectation for improving digital sales trends as we move through the fall season.
- We anticipate adjusted net non-operating expense of approximately \$26 million in the third quarter of 2023.
- We estimate a tax rate of approximately 24% to 25% for the third quarter of 2023.

- We estimate shares outstanding of approximately 78 million for the third quarter of 2023.
- We expect inventory levels in our core Victoria's Secret and PINK business at the end of the third quarter of 2023 to be down mid- to high-single digits compared to last year.
- We remain focused and continue to take important steps to evolve and innovate our business focused on our three key pillars, strengthen the core, ignite growth, and transform the foundation. We continue to believe executing against our strategies in each of our three pillars will improve business trends beginning in the third quarter and accelerating for the all-important holiday fourth quarter:
 - **Strengthen the Core** - We have growth strategies and new customer experiences that we believe are opportunities, including new bra launches and innovation, reimagining our merchandise positioning and strategy for PINK, our new multi-tender loyalty program, new customer experience initiatives in our digital technology, further expansion of our successful store of the future format and the Victoria's Secret World Tour coming in September which will be our largest marketing investment in the last five years.
 - **Ignite Growth** - Our international business has momentum with partner expansion plans for more than 100 new stores and several new markets planned out through the next two years. We also plan to leverage

Adore Me's technology on our scaled platforms in the fall season, and we are continuing to expand our channels of distribution to meet our customer where they are.

- **Transform the Foundation** – We continue to take steps to drive operating margin expansion by modernizing the operating model. These initiatives are well under way and we remain committed to the total \$250 million opportunity identified at our October Investor Day. We have begun to realize benefits related to these initiatives in 2023, with more than two-thirds of the total savings expected to be realized in 2024 and 2025.

- For the full year 2023, we are forecasting sales to decrease in the low-single digit range compared to last year and we expect the adjusted operating income rate to be in the range of 5% to 6%, compared to the current analyst consensus estimate which reflects sales down approximately 2% compared to last year's net sales of \$6.344 billion and an adjusted operating income rate of approximately 5.5% of sales.
- We are assuming sales trends in North America show moderate improvement throughout the second half of the year as we begin to benefit from our new growth strategies and new customer experience initiatives designed to strengthen the core while we anniversary softer sales trends from a year ago. Forecasted sales for 2023 assumes our Victoria's Secret and PINK business is down high-single digits for 52 weeks, approximately 4 to 5 points of growth from Adore Me which is new to our results in 2023, approximately 1 point of

growth due to our international business continuing to grow double digits, and approximately 1 to 2 points of growth due to the 53rd week in fiscal 2023 (fourth quarter 2023 will consist of 14 weeks).

- We now estimate capital expenditures of approximately \$255 million for the year, or about 4% of sales. Capital investments will be focused on our store capital program along with investments in technology related to our strategic initiatives to drive growth and technology investments relating to the separation activities. Depreciation is estimated to be approximately \$260 million for the year.
- We continue to closely evaluate our store real estate. In North America in 2023, we continue to plan to open approximately 15 to 20 new stores, mostly in off-mall locations and in the Store of the Future design, and estimate approximately 15 to 20 store closures. We also expect about 50 renovations in the Store of the Future design in 2023, with more than half consisting of square footage reductions or consolidations of co-located Victoria's Secret and PINK stores. Square footage in our North America stores in 2023 is expected to decrease approximately 1% to 2% compared to 2022.
- Turning to liquidity, we continue to expect 2023 free cash flow (operating cash flow less capital expenditures) of approximately \$150 million to \$200 million. This level of cash flow coupled with availability under our ABL credit facility results in sufficient liquidity to fund our working capital, capital expenditures and any other foreseeable needs.

- The Company's financial guidance for third quarter and full year 2023 excludes the financial impact of purchase accounting items related to the Adore Me acquisition as described in our press release.
- Our focus as leaders, and as a company, is on ensuring we continue to be a future facing business that becomes more and more culturally relevant in this shifting consumer environment. We recognize we're on a journey and our brand repositioning efforts will take time, but we remain confident in our repositioning efforts and our strategic plans for growth. We understand there could be volatility in our results this year, however we remain committed to delivering our long-term financial targets and returning value to our shareholders.
- We plan to hold an Investor Day in our office in New York City on October 12th to reflect on the past year and provide an update on our longer-term strategy.
- We invite you to join us for our live earnings call tomorrow morning at 8:00 a.m. Eastern by dialing 1-800-619-9066 (international dial-in number: 1-212-519-0836). The conference ID is 5358727.