VS&CO THIRD QUARTER 2021 EARNINGS COMMENTARY
NOVEMBER 17, 2021

Introduction

- Victoria's Secret & Co. is providing this third quarter 2021 commentary ahead of its live earnings call scheduled for November 18, 2021 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 third quarter financial results release and related financial information are available on our website, www.victoriassecretandco.com/investors. Also available on our website is an investor presentation.

- All of the results included in this commentary are adjusted results and exclude the significant items as described in our press release and our SEC filings.

- As a reminder, results prior to the separation from L Brands in August 2021 are on a carve-out basis and include the Victoria's Secret Segment and a portion of the unallocated overhead costs as part of L Brands.

Third Quarter Results

- We delivered solid results in the third quarter, and we could not have done so without the hard work and dedication of our team of associates and partners. We'd like to express our deep appreciation for their efforts.

- Our results in the third quarter show broad-based growth across all core categories. These results are particularly meaningful, as they are against a strong result last year and in the wake of significant supply chain pressures this year.

- All three lines of business, Lingerie, Pink and Beauty, had positive sales and margin comps for the quarter and each had its margin dollar comps outpace sales comps.

- We reported third quarter earnings of $0.81 per share compared to adjusted earnings per share of $0.82 last year. Earnings per share results were similar year-over-year as the impact of operating income dollars growing 11% was offset by the interest costs associated with debt from our public company spin-off from L Brands ($0.09).

- Net sales for the quarter were $1.441 billion, an increase of 7% compared to third quarter of 2020 sales of $1.353 billion, and in-line with previous guidance. We estimate sales growth was potentially impacted by approximately 1-2% due to supply chain disruption and corresponding impacts on inventory receipts.

- Third quarter comparable sales were flat compared to 2020 and increased 4% compared to 2019. The Q3 comp result compared to 2019 was in line with Q1 and Q2 after normalizing for the estimated stimulus benefit in Q1 of this year.

- The gross margin rate increased 250 basis points to 39.2% compared to 2020. Compared to 2019, the gross margin rate increased by 900 basis points. These improvements were driven by significant merchandise margin rate improvement and buying and occupancy expense leverage. The merchandise margin rate improvement was driven by improved response to our merchandise assortments, disciplined inventory management, as well as strong selling execution in stores and online. We estimate gross margin dollars were negatively impacted by approximately $50 million due to supply chain cost pressures, some of which were one-time in nature and some of which reflect the inflationary nature of the environment.

- The SG&A rate deleveraged by 220 basis points compared to last year due largely to store selling and marketing investments. Compared to 2019, the SG&A rate leveraged by 450 basis points and expense dollars decreased by 20%, driven by our profit improvement plan and permanent store closures.

- Third quarter operating income was $107.9 million, an increase of nearly $11 million, or 11%, compared to last year, and the operating income rate was 7.5%. Compared to 2019, operating income increased by $204 million.

- Turning to the balance sheet, we ended the quarter in a strong cash position at $330.5 million, and as expected, we have begun to build cash in the holiday season. We did not experience any borrowing needs through our ABL facility in Q3.

- Total inventories ended the quarter up 4% compared to last year and down 16% compared to 2019. Stores and digital inventories combined were down high-single digits compared to last year while in-transit inventory levels were up significantly to last year driven by delays from supply chain disruptions.

- We were also pleased with our brand transformation, which highlights diversity and inclusion, and our advocacy progress. Our models are increasingly representing the diversity of our customer population; we continue to rollout size inclusive mannequins to all stores; and we entered into a new exclusive partnership with MINDD, the first bra company engineered for the D+ woman. We also launched the VS Voices Podcast, our new maternity bra, and our first ever Breast Cancer Awareness Month campaign featuring a partnership with Stella McCartney and our new Body by Victoria Mastectomy Bra. We donated sales of the mastectomy bra for the month of October to the Victoria's Secret Global Fund for Women's Cancers to accelerate innovation in cancer research for women, by women.

<u>Outlook for Remainder of 2021</u>

- While we feel very positive about our brand transformation, our merchandising assortments, and our marketing and store execution plans for the all-important holiday quarter, we are mindful of the uncertainty around COVID-19 related challenges in our base of supply and the impact on our ability to receive merchandise in a timely manner. Our teams around the world are working diligently to mitigate the potential effect of these challenges by repositioning deliveries, expediting deliveries, and in certain situations, cancelling deliveries. We estimate the COVID-19 related disruption to our base of supply will increase our freight and product costs by as much as an incremental $100 million in Q4 (or $150 million in total for Q3/Q4 combined vs. our previous guidance of a total $100 million). In addition to higher costs, we know these challenges will minimize our flexibility to chase winners and deliver increased sales versus our forecast, which in turn may inhibit our ability to accelerate sales growth year-over-year beyond what we are forecasting for the quarter.

- With these challenges as a backdrop, we believe we have sufficient visibility into current trends and can estimate a potential range of financial outcomes for the fourth quarter.

- We are forecasting fourth quarter earnings in the range of $2.35 to $2.65 per diluted share compared to $3.20 per share last year.

- Operating income is expected to be in a range of $295 million to $335 million, compared to last year's result of $388 million. The decrease is primarily driven by this year's incremental supply chain cost pressures of $100 million and lapping one-time rent abatements of approximately $65 million in last year's Q4.

- We are projecting fourth quarter sales to be in the range of flat to up 3% versus last year's fourth quarter sales of $2.1 billion and decrease in the low- to mid-double digits compared to 2019 sales of $2.5 billion. Our sales forecast is generally consistent with our first three quarterly results this year compared to 2019 when considering the estimated stimulus impact starting in Q4 last year and the negative supply chain impacts this year.

- We expect the fourth quarter gross margin rate to be about 40%, down compared to last year's rate of 42.9%, driven by merchandise margin declines due to the supply chain cost pressures and lapping one-time rent abatements last year.

- We expect the SG&A rate to be about 24%, about flat compared to last year's fourth quarter rate of 24.4%.

- We expect net non-operating interest expense of approximately $12 million, a tax rate of approximately 24%, and weighted average diluted shares outstanding of approximately 93 million for the fourth quarter.

- Turning to the full fiscal year 2021 forecast, based on the actual results for the first three quarters and our fourth quarter guidance, we expect sales of about $6.7 billion to about $6.8 billion, an increase of approximately 25% to 2020 and down about 10% to 2019 driven by the net closure of about 260 stores.

- We are projecting operating income of about $830 million to about $870 million for the year, compared to operating income of $98 million in 2020 and $81 million in 2019. The operating income rate for 2021 is expected to be in the range of about 12.5% to 13%, which includes the aforementioned incremental supply chain cost pressures in the second half of this year. We are projecting EBITDA of approximately $1.2 billion.

- We are projecting earnings per share in the range of about $6.85 to $7.15 per diluted share.

- We continue to estimate capital expenditures of approximately $170 million.

- We continue to closely evaluate our store real estate, especially more vulnerable centers, for risk of closure. We anticipate about 35 net company-operated closures for the full year 2021.

- Despite the current supply chain and inflationary challenges, the leadership team remains focused on our longer-term operating margin rate target of mid-teens. We expect these cost challenges will persist and pressure 2022 results. However, over the longer-term and in more normalized economic environments, a mid-teens rate target is appropriate for our Company, reflects the right value and quality proposition for our customers, and allows for an appropriate level of investment in merchandise product innovation, digital capabilities, and best-in-class store and online experiences.

- Looking ahead, we continue to focus on maximizing our performance and leveraging the strength of our brand and connection to our customers. We are confident in our growth opportunities and remain committed to delivering long-term sustainable value for our shareholders.

- 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.