VS&CO FIRST QUARTER 2023 EARNINGS COMMENTARY

May 31, 2023

Introduction

- Victoria's Secret & Co. is providing this first quarter commentary ahead of its live earnings call scheduled for June 1, 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 first quarter earnings release and related financial information are available on our website, www.victoriassecretandco.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.

First Quarter 2023 Results

- We entered the year clear about the pressure consumers across the world are feeling and prepared for the challenging macro environment. And as anticipated, the first quarter overall continued to be volatile and difficult for our customer. Sales performance was particularly challenged in our core categories where external market data indicates that the overall stores and digital intimates market in North America was down mid- to high-single digits compared to last year. As the quarter progressed, business in North America became increasingly more challenging, and, while we ended the quarter with sales in-line with our original expectations, we were more promotional than planned as we continued to pursue our share of consumer spending. As a result, the quarter ended at the lower-end of our adjusted operating income guidance.

- On a positive note for the quarter, inventory levels in our Victoria's Secret and PINK business ended the quarter down low-double digits compared to last year and we are prudently positioned as we move forward. Our international business continued its stellar growth around the globe with China a particular bright spot and Adore Me met our expectations during its first quarter as part of VS&Co.

- Turning to the results, we reported first quarter adjusted earnings per diluted share of $0.28, which was below our guidance range of $0.30 to $0.60 per diluted share. This result compared to adjusted earnings per diluted share of $1.11 in the first quarter of 2022.

- Net sales for the quarter were $1.407 billion, a decrease of 5% compared to first quarter of 2022 sales of $1.484 billion and were in-line with our guidance of down mid-single digits. Adore Me, which was acquired on December 30, 2022 and new to our results in the first quarter, represented about five percentage points of sales growth in the first quarter.

- After a strong fourth quarter, sales trends softened throughout the first quarter, particularly in North America stores, where traffic finished below last year. In contrast, traffic online was flat as compared to the first quarter last year. Conversion rates and average unit retail in both channels were lower than last year, but both remained above pre-pandemic levels.

- From a merchandising perspective, we remain the leader in domestic market share for the intimates category. On a rolling twelve-month basis, our domestic market share in bras was relatively flat to last year, while in contrast, our market share in the panties category was down year-over-year.

- From a category perspective, starting with Victoria's Secret, our beauty business continues to be our best performing category, both in stores and online, followed by bras and sleepwear. 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 first quarter sales results by approximately 2 to 3 points.

- Our international business continued its stellar performance with sales up 19% in the first quarter compared to last year. The business continues to experience momentum and provide profitable growth across stores and digital around the globe. In particular, our China business experienced outsized growth in digital and strength in our stores as they lapped COVID-related restrictions last year. We achieved profitability in our China business in the first quarter and continue to leverage the strength of our partner, Regina Miracle. 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 first quarter 2023 was below our guidance of 37% to 38% and decreased 10 basis points to 36.5% compared to the first quarter of 2022. The decrease in the adjusted gross margin rate was primarily due to positive customer response to targeted promotional activities to help mitigate pressure on a very cost-conscious consumer along with deleverage in buying and occupancy expenses on the decline in sales. Promotional pressures were almost entirely offset by continued favorable trends in supply chain related costs, particularly in lower rates and shift in modal mix to more ocean transport.

- The adjusted SG&A rate was 32.6%, consistent with our guidance of 32% to 33%. Deleverage year over year was driven by the decline in sales, the introduction of Adore Me SG&A expenses for the first time in the first quarter, and strategic investments in technology. We are investing in strategic growth initiatives related to customer engagement, including leveraging Adore Me technology. We are at the peak of activity addressing the technology separation from Bath & Body Works.

- First quarter adjusted operating income was $55 million, or 3.9% of sales, and was at the low-end of our guidance range of $55 million to $85 million. This result was lower than the $116 million in the first quarter of 2022 due to the previously mentioned decrease in sales and gross margin dollars and the increase in SG&A expense dollars.

- Our tax rate for the quarter of 25.6% was broadly consistent with our forecasted rate of approximately 25%.

- First quarter adjusted net income was $22 million compared to $97 million in 2022.

- Turning to the balance sheet, we ended the first quarter with total inventories in our core Victoria's Secret and PINK business down low-double digits compared to last year, in-line with our guidance. We are prudently positioned with our inventory levels as we move forward into the second quarter. Total VS&Co inventories including the addition of Adore Me this year were $1.041 billion as of the end of the quarter, also in line with our expectations.

- From a liquidity standpoint, we ended the first quarter with a cash balance of $132 million. We ended the first quarter consistent with where we entered the year with $295 million in outstanding borrowings on our $750 million ABL credit facility.

- Weighted average diluted shares at the end of the first quarter were approximately 80 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. Subsequent to the end of the first 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 positioning for the long-term, including:
    - We are relentlessly focused on our "Best at Bras" strategy and delivering newness, innovation, solutions and inclusivity to our customers, and recently launched our Solutions bra campaign focused on a

comprehensive collection of product solutions to cover a broad range of outfitting needs.

- Enhancing the Victoria's Secret and PINK customer experience with the pilot launch of our new customer multi-tender loyalty program in February with a full rollout to all customers planned for later this week.
- We launched our newest Heavenly campaign with a new look and feel, featuring the return of a beloved brand icon, Adriana Lima.
- We will soon be kicking-off a test with Adore Me product on VS.com, and we continue to leverage Adore Me's expertise and technology to improve the customer experience by developing our launch plans for Try-on at Home and membership services for the Victoria's Secret and PINK customer.
- We took actions to advance the transformation of our foundation by further reorganizing and streamlining our organizational structure with a focus on efficiencies to yield more profitable growth.
- We continued to make progress on our ESG journey and published our 2022 ESG Report in April.
- And, we announced the World Tour coming later this fall which will be a reimagining of our iconic fashion show celebrating women from around the world and an ultimate expression of our brand transformation.

<u>Outlook for Second Quarter and Full Year 2023</u>

- The difficult environment and results that we experienced in the first quarter have continued into the second quarter resulting in an updated financial outlook for the second quarter and balance of the year.

- For the second quarter of 2023, we are forecasting sales to decrease in the mid-single digit range, consistent with the first quarter result, compared to sales of $1.521 billion in the second quarter of 2022. Comparable sales in the second quarter of 2023 are forecasted to decrease low-double digits compared to last year which is consistent with the first quarter result.

- At this forecasted level of sales, second quarter 2023 adjusted operating income is expected to be in the range of $35 million to $65 million compared to $127 million in the second quarter of 2022.

- We are forecasting second quarter 2023 adjusted earnings to be in the range of $0.10 to $0.40 per diluted share compared to $1.09 per diluted share in the second quarter of 2022.

- We expect the second quarter 2023 adjusted gross margin rate to be approximately 34% to 35%, down compared to last year's rate of 36.1%. We expect to continue to benefit from lower supply chain costs compared to last year. Given the challenging environment, we expect promotional activity to continue and we are forecasting deleverage in buying and occupancy expenses on the lower forecasted sales.

- We expect the second quarter 2023 adjusted SG&A rate to be approximately 30% to 31%, deleveraging compared to the second quarter of 2022's rate of

27.7% principally driven by the forecasted mid-single digit decline in sales, and as a result of investments in technology related to our strategic growth initiatives and to support the technology separation activities from Bath & Body Works. Since the spin-off, we have been working to separate the information technology capabilities in support of two independent companies. The majority of costs related to the separation will be incurred by the end of 2023.

- We anticipate net non-operating expense of approximately $22 million in the second quarter of 2023.

- We estimate a tax rate of about 25% for the second quarter of 2023.

- We expect inventory levels in our core Victoria's Secret and PINK business at the end of the second quarter of 2023 to be down mid-teens compared to last year.

- While we expect the balance of the year to be challenging, we remain focused and are taking important steps to evolve and innovate our business focused on our three key pillars, strengthen the core, ignite growth, and transform the foundation. We believe executing against our strategies in each of our three pillars will improve business trends beginning in the second half of the year:
    - **<u>Strengthen the Core</u>** - 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, full company rollout of our new loyalty program, new customer experience initiatives in our digital technology, further expansion of our successful store of the future format and the world tour coming this fall.

  - **<u>Ignite Growth</u>** - 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 starting in the third quarter and continuing through the fall season, and we are continuing to expand our channels of distribution to meet our customer where they are.
  - **<u>Transform the Foundation</u>** – In the first quarter we took additional measures to reorganize our home office and organizational structure for efficiency and 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 forecast, we are now assuming current sales trends in North America continue throughout the second quarter with moderate improvement in the second half of the year as we anniversary softer sales trends and as we begin to benefit from our new growth strategies and new customer experience initiatives being rolled out this year. For the full year

2023, we are now forecasting sales to be flat to down low-single digits compared to $6.344 billion last year. Forecasted sales for 2023 now assumes our Victoria's Secret and PINK business is down mid- to high-single digits for 52 weeks, approximately 4 to 5 points of growth from Adore Me which is new to our results in 2023 and approximately 1 to 2 points of growth due to the 53rd week in fiscal 2023 (fourth quarter 2023 will consist of 14 weeks).

- At this level of sales, we now expect our adjusted operating income rate for 2023 to be approximately 5% to 6%.

- Non-operating expenses, consisting principally of interest expense, are now projected to be about $90 million to $95 million for the year.

- We estimate our tax rate will be approximately 24% to 25% for the year.

- We estimate shares outstanding of approximately 78 million for the second quarter and approximately 79 million for the full year 2023. These estimates include the ASR activity as well as the assumed completion of the share repurchase agreement announced in January 2023.

- We continue to estimate capital expenditures of approximately $275 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 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 now 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 very strong liquidity, which we expect is more than sufficient to fund our working capital, capital expenditures and any other foreseeable needs.

- The Company's financial guidance for second 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 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.