# VS&CO FOURTH QUARTER 2021 EARNINGS COMMENTARY

## MARCH 2, 2022

Introduction

- Victoria's Secret & Co. is providing this fourth quarter and full year 2021 commentary and an initial view of expectations for the first quarter and full year 2022 ahead of its live earnings call scheduled for March 3, 2022 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 fourth quarter and full year 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.

- Certain results included in this commentary are adjusted results and exclude the significant items as described in our press release and our SEC filings. Reconciliations of these and other non-GAAP measures to the most comparable GAAP measures are also included 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.

Fourth Quarter and Full Year 2021 Commentary

- We delivered results in the fourth quarter that were either at or slightly above the high end of our previous guidance despite challenges related to supply chain pressures and lapping federal stimulus benefits from the prior year fourth quarter. We could not have achieved these results without the hard work and dedication of our team of associates and partners. We'd like to express our deep appreciation for their efforts.

- We reported fourth quarter earnings of $2.70 per diluted share compared to earnings per share of $3.20 in 2020 and above the high end of our previous guidance range of $2.35 to $2.65. The earnings per share benefit from the previously announced Accelerated Share Repurchase (ASR) program was $0.04.

- Net sales for the quarter were $2.175 billion, an increase of 4% compared to fourth quarter of 2020 sales of $2.100 billion, and above the high end of our previous guidance range of flat to up 3%. The sales growth was driven by strength in our intimates and beauty categories, along with outsized growth in our stores and international channels.

- Fourth quarter comparable sales increased 1% from 2020 and were in line with our expectations.

- The gross margin rate decreased 370 basis points to 39.2% compared to the fourth quarter of 2020 due to supply chain cost pressures of about $110 million (or approximately 500 basis points). The gross margin rate was essentially in line with our previous guidance of about 40% as the supply chain cost pressures came in about $10 million higher (or approximately 50 basis points) than our original estimate of $100 million.

- The SG&A rate was 23.9% and leveraged by 50 basis points compared to the fourth quarter in the prior year.

- Fourth quarter operating income was $333.2 million, or 15.3% of sales, and compared favorably to our guidance of $295 million to $335 million. This result was down compared to $387.9 million in 2020 with the variance driven by the previously mentioned supply chain cost pressures and lapping federal stimulus benefits in January of last year.

- For the full year 2021, net sales were $6.785 billion, an increase of 25% from 2020, and total comparable sales increased 3%.

- The full year gross margin rate increased 840 basis points to 40.7%, driven by an increase in the merchandise margin rate and buying & occupancy expense leverage on sales growth, partially offset by approximately $160 million of supply chain cost pressures in the back half of the year.

- The full year SG&A rate was 27.9% and leveraged by 260 basis points, predominantly due to the 25% increase in sales.

- Operating income for the full year was $869.5 million compared to adjusted operating income of $97.5 million in 2020. The operating income rate was 12.8% and included the previously mentioned supply chain cost pressures of $160 million, or 230 basis points.

- EBITDA for the full year was $1.2 billion, in line with our forecast.

- Full year earnings per share were $7.18 compared to adjusted earnings per share of $0.49 in 2020.

- Turning to the balance sheet, we ended the year in a strong cash position at $490 million, which was net of our $250 million Accelerated Share Repurchase (ASR) program payment executed in December 2021.

- As a reminder, on December 29, 2021, we announced an accelerated share repurchase agreement to repurchase $250 million of the Company's common stock. Under the terms of the agreement, the Company made a payment of $250 million to Goldman Sachs and received an initial delivery of approximately 4.1 million shares of the Company's common stock on December 31, 2021, with the final number of shares repurchased based on the volume-weighted average price of the Company's common stock during the term of the ASR, less a discount. The ASR period ended on February 23, 2022, and the Company received an additional 0.3 million shares as final settlement of the agreement. In total for the ASR, the Company repurchased 4.4 million shares at an average price of $56.39 per share.

- Total inventories ended the quarter up 35% compared to last year. The increase is primarily driven by higher cost of goods due to inflation, longer in-transit times as we began shifting modal mix back to ocean, and our focused efforts to improve merchandise availability for customers.

- Capital expenditures for the year were $169 million and in line with guidance of approximately $170 million.

- In all, 2021 was a milestone year for us and we took action to stabilize the business and establish a platform for future growth.
    - We completed our spin-off and launched as a standalone public company.
    - We delivered on our financial objectives and initiated our first share repurchase program.
    - We launched our purpose-driven brand transformation, including introduction of the VS Collective and a focus on advocacy for women.

    - We continued to invest in the omni-channel experience, including the opening of three Store of the Future concepts, expanding BOPIS and Ship from Store, and expanding personalization and other user experience capabilities.
    - We improved the health of our customer file with a recovery in the active customer count and an increase in key metrics like spend and margin per customer on a 1- and 2-year basis.
    - We completed the repositioning of our International business intended to accelerate sales and earnings growth, including entering a key partnership for our China business.
    - We made important progress on sustainability and DE&I.

- These, and many other actions, are evidence of a new era for our business.

<u>2022 Commentary</u>

- As we begin 2022, we are mindful of the ongoing supply chain uncertainty, inflationary pressures, and federal stimulus benefit headwinds.

- We believe we have sufficient visibility into current trends to estimate a potential range of financial outcomes for the first quarter and also provide guidance for the full year.

- We are forecasting first quarter earnings in the range of $0.70 to $0.95 per diluted share compared to $1.97 per share last year.

- Operating income is expected to be in a range of $80 million to $110 million compared to last year's result of $226 million. The decrease is primarily driven by incremental supply chain cost pressures of approximately $80 million and lapping estimated stimulus benefits of approximately $50 million in last year's first quarter.

- We are projecting first quarter sales to be in the range of $1.425 billion to $1.495 billion, a decrease of 4% to 8% versus last year's first quarter sales of $1.554 billion. As a reminder, the estimated federal stimulus benefit to sales in last year's result was $75 million, or about 5 points of growth. Additionally, we began this year with 899 company-operated stores compared to 933 stores in the first quarter last year, or a 4% reduction in net store count.

- We expect the first quarter gross margin rate to be about 37%, down compared to last year's rate of 43.2% driven by merchandise margin declines due to the supply chain cost pressures (approximately 550 basis points).

- We project SG&A expense to be about flat to last year, but up on a rate basis to about 31%, compared to last year's first quarter rate of 28.7% due to lower sales.

- We anticipate net non-operating expense of approximately $12 million in the first quarter.

- We estimate a tax rate of about 10% for the first quarter, which is lower than our typical base rate or annual rate expectations. The lower rate reflects a larger than normal tax deduction expected in the first quarter related to vesting of stock compensation activity.

- We are confident with our ability to manage inventory throughout 2022 and expect inventory growth rates to begin moderating in the back half of the year.

- Turning to the full fiscal year 2022 forecast, we believe the challenging environment will likely continue for at least the first half of the year, ranging from supply chain pressures to rising inflation, and the potential for consumer uncertainty with the recent global unrest. With that as a backdrop, we believe our operating income levels will be directionally in line with 2021 results, with the first half of the year below last year and the back half of the year returning to growth.

- We expect the incremental supply chain cost pressures and inflation of raw material costs in the first half of the year to total approximately $140 million, roughly similar to the back half of 2021. In addition, the first half, particularly the first quarter, will face significant sales headwinds created by the lapse in benefits of federal stimulus last year. In contrast, we expect the third quarter to be an inflection point with a return to operating profit growth in the back half of the year. We expect sales growth and operating profit rates to be more in line with the longer range targets we previously communicated.

- We are forecasting sales to be flat to up low-single digits for the year compared to $6.785 billion in 2021.

- At this level of sales, we are projecting operating income for the year to be directionally in line with 2021 results.

- Non-operating expenses, consisting principally of interest expense, are projected to be about $48 million for the year.

- We estimate our tax rate will be approximately 23% for the year.

- We are forecasting weighted average shares of about 91 million for the first quarter and the full year. This estimate does not reflect any impact from the new $250 million March 2022 Share Repurchase Program approved by our Board of Directors on March 2, 2022.

- We estimate capital expenditures of approximately $225 million for the year, or about 3% of sales, versus $169 million in 2021. The increase is primarily driven by real estate and store capital activity. Depreciation is estimated to be approximately $270 million.

- We also continue to closely evaluate our store real estate. In North America, we expect to open 15 new stores, all in off-mall locations, and mostly in the store of the future design. We are estimating 10-30 closures for 2022. We also expect about 20 renovations in the store of the future design with nearly half consisting of square footage reductions or consolidations of co-located stores.

- Turning to liquidity, we expect 2022 free cash flow (operating cash flow less capital expenditures) of about $640 million.

- Our free cash flow generation, strong 2021 year-end cash balance of $490 million, and additional availability under our ABL credit facility result in very strong liquidity, which is more than sufficient to fund our working capital, capital expenditure, and any other foreseeable needs.

- We remain committed to our brand transformation, to being best at bras, and to enhancing the customer experience.
  - For Lingerie – we will continue to lead with innovation, fit, and quality with at least two bra launches a year.
    - Our recent introduction of Love Cloud was the biggest bra collection launch in six years with a powerful, first of its kind campaign focused on everyday comfort and featuring 18 dynamic women. We are very pleased with the performance of this launch over its first two weeks.
    - We continue to see positive response to newness and being able to sustain a lower level of promotional activity.
  - At PINK – we will continue to drive a focused strategy rooted in our core values:
    - People - We announced our partnership with Remi Bader as we further our size expansion journey with apparel and swim. We will continue to focus on logo shop evolution and gender free apparel growth going into the back half of the year.

        - Purpose - We continue to elevate our community's voices with the return of the PINK with Purpose Project and focus on May Mental Health Awareness Month – aligning our brand with relevant, Gen Z causes.
        - Planet - Our recent swim drop was partially made from recycled materials and the momentum will continue into the second quarter with our Wear Everywhere Bra franchise relaunching in a sustainable fabric.
    - In Beauty – In addition to growing the Bombshell franchise, the #1 fragrance in America, we will continue to lead with three fragrance launches planned for the first half of the year. We are also looking to capitalize on our strong customer loyalty and recognition – piloting some expanded distribution opportunities.
    - For Stores and Digital – we are continuing to enhance omni capabilities and personalization while, as mentioned previously, increasing our Store of the Future footprint.
    - And in International – we are continuing to expand into new markets while also growing our digital presence.

- Our focus as leaders, and as a company, is on ensuring we are a future facing business that increases in relevance.

- We will continue to mine for growth vehicles to help us attract new customers and better meet the needs of existing ones, including developing new brands as well as pursuing partnerships with existing brands. This will include continuing to partner with and invest in women-led companies that are potential sources of growth, either in revenue or in customer goodwill, or both.

  - A few examples to highlight:
    - We will launch a new digital-first brand, Happy Nation. This optimistic and inclusive brand will fill a void in the Tween market – bringing undies, first bras, comfy clothing, and body care that parents and tweens can feel good about. Expect to hear more from us in April.
    - We recently announced an investment in women entrepreneurs identified by venture capital firm Amplifyher Ventures.
    - And, later this year we are launching a partnership with Elomi, a pioneer in the plus size intimates space.

- We continue to focus on maximizing our performance and leveraging the strength of our brand and connection to our customers to build a business that is sustainable in every sense of the word. We are confident in our opportunities and remain committed to delivering long-term 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.