

# VS&CO THIRD QUARTER 2024 EARNINGS COMMENTARY

December 5, 2024

## Introduction

- Victoria's Secret & Co. is providing this third quarter commentary ahead of its live earnings call scheduled for December 6, 2024 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 earnings release and related financial information are available on our website, [www.victoriasssecretandco.com/investors](http://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.

## Third Quarter 2024 Results

- In the third quarter, sales increased 7% with mid-single digit growth in North America and 24% growth from our International business. Our sales performance was well ahead of our expectations and our best quarterly sales growth since 2021. Our strength for the quarter was broad based across all regions, all channels, all major merchandise categories and importantly all brands - Victoria's Secret, PINK and Adore Me - were up to last year. We won the major moments during the quarter, starting with PINK back to campus in August, followed by our VSX sport launch in September and finishing the quarter with the return of the VS Fashion Show in October. We are particularly optimistic because these results were powered by emotional products she loves and clear, elevated brand marketing and storytelling. Our strength in sales and disciplined inventory management translated to strong margins which were up to last year, and our teams continue to be relentless on controlling costs in our business.
- Turning to the results for the third quarter, we reported third quarter adjusted net loss per share of \$0.50, which was better than our guidance range of adjusted net loss per share of \$0.60 to \$0.80 and compared favorably to an adjusted net loss per share of \$0.86 in the third quarter of 2023. Our adjusted third quarter 2024 operating loss of \$28 million was favorable to our previously communicated guidance of an adjusted operating loss in the range of \$40 to \$60 million, and last year's adjusted operating loss of \$60 million.

- Net sales for the third quarter 2024 were \$1.347 billion, an increase of 7% compared to sales of \$1.265 billion in the third quarter of 2023. This result was above our guidance range of a net sales increase of low-single digits in the third quarter. As previously communicated, we estimate that the retail calendar shift as a result of the extra week last year drove about 2 points of benefit to third quarter sales as compared to last year. Total comparable sales increased 3% in the quarter compared to last year.
- In North America, Victoria's Secret and PINK recorded our fifth consecutive quarter of sequential sales improvement dating back to the third quarter of 2023 and also our strongest quarterly sales growth since 2021. We achieved positive year-over-year sales growth across all of our major merchandise categories and growth in both our stores and digital channels. Delaying the sales growth, traffic was up compared to last year in both our stores and digital channels, and both our conversion and average basket leveraged the higher traffic levels. The quarter started off strong with momentum driven by our PINK back to campus event and with the celebration of National Underwear Day in early August. In September, we were encouraged by the positive customer response surrounding our VSX sport launch. October was the strongest month of the quarter led by our new holiday merchandise floorsets and the return of the VS Fashion Show which was a tremendous kickoff to the holiday season. From a market perspective, third-party market data indicates that sales in the overall intimates market in North America were down low-single digits in the quarter, though our intimates business was positive in the quarter which was encouraging.

- From a merchandise perspective for Victoria's Secret, our beauty business continues to be our best performing category with sales up mid-teens, generating growth for the fifth consecutive quarter and heading into holiday with strength. Sales in our casual sleep category were up to last year which is encouraging as this is a highly giftable category for the fourth quarter. Our intimates category was up with both bras and panties experiencing growth for the first time together since 2021, and we were particularly pleased with the VSX sport launch selling which highlighted significant newness and innovation as we rapidly expand this category to our stores and online business.
- PINK's sales trends improved significantly in the quarter with sales for the brand increasing mid-single digits compared to last year. Specifically, in apparel, we were encouraged by improving customer response to our PINK back to campus event in August and early holiday selling in October and to-date in the fourth quarter. Apparel experienced a significant trend change in the last four months and is a key opportunity to reinvigorate the PINK brand going forward. Sales for PINK intimates sequentially improved in the quarter, with bras outperforming panties.
- Outside of North America, our international business continued its strong performance with international system-wide retail sales up mid-teens in the third quarter and net sales up 24% compared to last year. Retail sales in the third quarter were driven by year-over-year growth with our franchise and

travel retail partners and in our joint venture in China as a result of the promotional period for Singles Day starting earlier than last year. Net sales in the quarter were also positively impacted as a result of a shift in timing of sourcing sales to our partners compared to last year.

- Adjusted gross margin dollars of \$468 million in the third quarter were up \$34 million, or 8%, year-over-year. The adjusted gross margin rate for the third quarter 2024 was 34.8%, an increase of 50 basis points compared to last year, and near the high-end of our guidance range of 34.3% to 35.0%. Our adjusted gross margin rate was up in the quarter compared to last year driven by lower cost of goods related to our transform the foundation initiative and buying and occupancy leverage as expense dollars were relatively flat on a growing sales base. These benefits were partially offset by targeted traffic-driving promotional activity and higher transportation costs, both ocean and air. While the types and breadth of traffic-driving promotional activities in the quarter were in-line with our expectations, the customer response to our key promotional activities during the quarter exceeded our expectations. Additionally, transportation rates, both ocean and air, are up significantly compared to last year's relatively trough level of pricing.
- Adjusted SG&A dollars of \$496 million in the third quarter were up \$2 million, or less than 1% year-over-year. The adjusted SG&A rate for the third quarter 2024 was 36.8%, better than our guidance of approximately 38.0% to 39.0%, leveraging 230 basis points compared to 39.1% in the third quarter last year. Our adjusted SG&A rate was better than last year due to the increase in

sales in the quarter, a decrease in marketing spend along with continued disciplined and proactive expense management initiatives, which were only partially offset by normal wage rate increases and an increase in incentive compensation expense related to the improved forecasted results for the fall season.

- Adjusted operating loss for the third quarter 2024 was \$28 million which was better than our guidance range of an operating loss of \$40 million to \$60 million. This result was better than adjusted operating loss in the third quarter 2023 of \$60 million due to the increase in sales and gross margin dollars.
- Adjusted non-operating expenses, consisting principally of interest expense, were \$21 million in the third quarter 2024 and our tax rate in the third quarter was 23.0%, both in-line with our guidance.
- Adjusted net loss for the third quarter 2024 was \$39 million compared to adjusted net loss of \$66 million in the third quarter 2023.
- Turning to the balance sheet, total inventories ended the third quarter up 7% compared to last year, as anticipated and in-line with our guidance driven by the earlier receipt of holiday shipments this year and the aforementioned calendar shift year over year.
- From a liquidity standpoint, we ended the third quarter with a cash balance of

\$161 million, a strong balance sheet and ample liquidity to execute our strategic plans. At the end of the third quarter, our outstanding balance was \$440 million under our \$750 million ABL credit facility, which includes net borrowings of \$295 million in the third quarter as a result of the peak in working capital needs leading into the holiday season. As planned, we began paying down our ABL balance in November and our ABL outstanding balance today (December 5) sits at \$230 million. We plan to payoff our ABL balance entirely by the end of fiscal 2024.

- Weighted average shares, which were based on basic shares outstanding given the loss in the third quarter, were approximately 79 million. In March 2024, we announced that the Company's Board of Directors approved a new share repurchase program ("March 2024 Share Repurchase Program") authorizing the repurchase of up to \$250 million of the Company's common stock. Share repurchases under the March 2024 Share Repurchase Program will be made at management's discretion and from time to time, subject to market conditions and other factors, through open market, accelerated share repurchase or privately negotiated transactions. The March 2024 Share Repurchase Program is open-ended in term and will continue until exhausted. No shares have been repurchased under the program to-date.
- Our sales and financial performance over the last 90 days was driven by several key initiatives aimed at repositioning the business for success in holiday and beyond, including:

- We continued to create meaningful and memorable connections with our customers, including the return of PINK Friday the last weekend of July as our collegiate customers headed back to campus, and with the celebration of National Underwear Day in early August.
- In September, we launched VSX: sport done in a uniquely Victoria's Secret way combining performance, comfort and fashion, with innovative designs that leverage body mapping and superior fabrics. VSX is not a collection, it's a lifestyle with adjacent apparel categories that will drive higher shopping frequency and engagement.
- We kicked off this holiday season with the return of the VS Fashion Show in October, bringing fashion to the screens of millions of viewers around the world. For the first time ever, every look in the show was shoppable, allowing customers to purchase their favorite runway looks from our holiday assortment. In addition to driving brand awareness leading into holiday, the show drove brand relevance, putting Victoria's Secret at the center of culture and fashion conversations with about 34 billion media impressions, 4 billion social media impressions and an increase of more than 4 million followers on TikTok.
- Beauty is critical to our holiday success and we started the season strong with compelling, unique giftables like the Bombshell Advent Calendar and limited-edition Bombshell Midnight holiday fragrance to ensure VS Beauty is at the top of everyone's holiday wish lists.
- Finally, we continue to further develop our understanding of our Victoria's Secret and PINK customer through our multi-tender loyalty



program which now has approximately 35 million members who drive about 80% of our sales on a weekly basis.

### Outlook for Remainder of 2024

- As we look forward, we are excited to see that our momentum from the third quarter continued through Black Friday and Cyber Monday. Our merchandise offerings and giftable product assortments are resonating with the customer and driving traffic both in stores and online. The strong product acceptance supported by our best-in-mall store experience and dozens of digital enhancements are driving solid conversion and basket size.
- We recognize that we have several large volume days and weeks in front of us in December, but we are encouraged by the positive sales trends quarter-to-date and remain focused on winning each moment in the days ahead.
- For the 13-week fourth quarter 2024, we are forecasting net sales to increase 2% to 4% to a comparative 13-weeks from the fourth quarter of 2023.
- Forecasted sales for the fourth quarter of 2024 assumes our sales trends in North America remain relatively consistent with the third quarter, adjusted for the timing impact as a result of the retail calendar shift. We estimate the retail calendar shift as a result of the extra week last year will drive about 2 points of pressure to fourth quarter sales as compared to a comparative 13-weeks from last year.

- For our international business, forecasted net sales for the fourth quarter assumes net sales will increase mid-single digits to a comparative 13-weeks from the fourth quarter of 2023. Net sales in the fourth quarter will be negatively impacted by the timing shifts that positively impacted the third quarter which included a shift in timing in China as a result of the promotional period for Singles Day starting earlier than last year and a shift in timing of sourcing sales to our partners. International system-wide retail sales are forecasted similar to Q3 and are expected to increase double digits in the fourth quarter to a comparative 13-weeks from the fourth quarter of 2023.
- As a reminder, the fourth quarter of 2023 included an extra week due to the retail calendar (fourth quarter 2023 consisted of 14 weeks; fiscal year 2023 consisted of 53 weeks). Net sales for the 14-week fourth quarter 2023 were \$2.082 billion, and we estimate the extra week in the fourth quarter last year represented approximately \$80 million in net sales, or approximately 4 points of sales growth last year.
- At this forecasted level of sales, fourth quarter 2024 adjusted operating income is expected to be in the range of \$240 million to \$270 million. Adjusted operating income for the 14-week fourth quarter 2023 was \$283 million, and we estimate the extra week in the fourth quarter last year represented approximately \$20 million in incremental operating income.
- We are forecasting fourth quarter 2024 adjusted net income per diluted share to be in the range of \$2.00 to \$2.30. Adjusted net income per diluted share for

the 14-week fourth quarter 2023 was \$2.58, and we estimate the extra week in the fourth quarter last year represented approximately \$0.20 in incremental net income per diluted share.

- We expect the fourth quarter 2024 adjusted gross margin rate to be approximately 38.5% to 39.5%, compared to the 14-week fourth quarter 2023 adjusted rate of 40.0%. We are forecasting that our promotional activity in North America will be flat to down slightly compared to last year, but we will continue to look for strategic opportunities to further reduce levels as the business shows strength. This will also be our fifth consecutive quarter of positive margin impact from our cost of goods initiative, although the incremental benefit will be smaller in the quarter as we anniversary the program's initiation in the fourth quarter of 2023. We are forecasting these benefits to be more than offset by higher transportation costs, buying and occupancy expense de-leverage related to the extra week of sales last year and increased incentive compensation expense related to the forecasted above plan results for the fourth quarter.
- We expect the fourth quarter 2024 adjusted SG&A rate to be approximately 26.5%, relatively flat compared to the 14-week fourth quarter of 2023's adjusted rate of 26.4%. Continued disciplined and proactive expense management initiatives are expected to be offset by an increase in incentive compensation expense related to the forecasted above plan results for Q4 and the fall season and normal wage rate increases.

- We anticipate net adjusted non-operating expense, consisting principally of interest expense, of approximately \$18 million in the fourth quarter of 2024. We expect lower interest expense based on an approximate low-teens reduction in weighted average borrowings along with lower interest rates.
- We estimate diluted shares outstanding of approximately 83 million for the fourth quarter of 2024. This estimate does not include potential share repurchase activity related to the March 2024 Share Repurchase Program.
- We estimate a tax rate of approximately 24% for the fourth quarter of 2024.
- Turning to the full year, we are increasing our sales and profit forecast for the 52-week fiscal year 2024 to reflect third quarter outperformance to our original expectations and the positive start to the holiday season in November and early December. We now expect sales for the 52-week fiscal year 2024 to be up approximately 1% to 2%, versus prior guidance of down approximately 1%, to a comparative 52-weeks from fiscal year 2023. Net sales for the 53-week fiscal year 2023 were \$6.182 billion.
- At this forecasted level of sales, we now expect fiscal year 2024 adjusted operating income to be in the range of \$315 million to \$345 million, compared to prior guidance of \$275 million to \$300 million. Adjusted operating income for the 53-week fiscal year 2023 was \$327 million.

- We are forecasting fiscal year 2024 adjusted net income per diluted share to be in the range of \$2.05 to \$2.35. Adjusted net income per diluted share for the 53-week fiscal year 2023 was \$2.27.
- We estimate weighted average diluted shares outstanding of approximately 81 million for fiscal year 2024.
- We expect total inventories to end the fourth quarter of 2024 flat to up low-single digits compared to last year.
- We now estimate capital expenditures of approximately \$190 million in fiscal year 2024, or approximately 3% of sales. Capital investments this year are focused on our store capital program along with investments in technology related to our strategic initiatives to drive growth. Depreciation expense (excluding intangible asset amortization expense related to the acquisition of Adore Me which is adjusted for non-GAAP purposes) is estimated to be approximately \$230 million in fiscal year 2024.
- Turning to liquidity, we now expect 2024 adjusted free cash flow of approximately \$250 million to \$280 million, compared to prior guidance of \$200 million to \$225 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.

- In 2024, we plan to open 17 new stores in North America, mostly in the Store of the Future design in off-mall locations. We estimate 42 store closures which will mostly be consolidations of co-located Victoria's Secret and PINK stores. We also expect about 35 renovations in the Store of the Future design in 2024, with approximately 90% consisting of square footage reductions or consolidations of co-located Victoria's Secret and PINK stores. Square footage in our North America stores in 2024 is expected to decrease approximately 2% to 3% compared to 2023. At the end of 2024, our Store of the Future presence will be approximately 135 stores (or approximately 17% of the fleet) in North America. Internationally, our Store of the Future presence at the end of 2024 is expected to be approximately 155 to 165 stores (or approximately 30% of the international fleet).
- The Company's financial guidance for fourth quarter and fiscal year 2024 excludes the financial impact of purchase accounting items related to the Adore Me acquisition as described in our press release, our SEC filings and our investor presentation on our website.
- 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.