

VS&CO FOURTH QUARTER 2023 EARNINGS COMMENTARY

March 6, 2024

Introduction

- Victoria's Secret & Co. is providing this fourth quarter commentary ahead of its live earnings call scheduled for March 7, 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 fourth 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.

Fourth Quarter 2023 Results

- In the fourth quarter, we delivered solid financial results with adjusted operating income and adjusted net income per diluted share at the high-end of our guidance and sales at the midpoint of our guidance. We are committed to providing transparent financial guidance. This marks the 10th consecutive quarter since becoming an independent, public company that we have been in-line or exceeded our quarterly adjusted operating income guidance, and nine out of ten quarters that we have been in-line or exceeded our quarterly sales and adjusted net income per diluted share guidance.
- Sales trends during the fourth quarter were volatile by week, but we were encouraged by the improving quarterly sales trend in the fourth quarter in North America. We were particularly pleased with our early holiday sales in November and during the peak days and weekends leading up to Christmas, both in our stores and through digital channels, led by strong response to our giftable merchandise assortment, improved customer experiences and marketing messages. The teams strategically managed promotional activities to amplify key moments throughout the days and weeks leading up to Christmas, and we entered the semi-annual sale period with lower inventory levels than last year which allowed us to maximize margins during the semi-annual sale period and enter the Spring season in a healthy inventory position. Our international business continued its strong performance with sales up 24% in the quarter compared to last year, igniting excitement around our aggressive growth plans to expand our footprint both in stores and online around the world. Our fourth quarter adjusted gross margin rate exceeded

our expectations and increased significantly compared to last year, a positive inflection point driven by disciplined inventory management and cost reductions related to our transform the foundation initiative to modernize our supply chain operating model.

- Turning to the results for the fourth quarter, which included an extra week this year due to the retail calendar (fourth quarter 2023 consisted of 14 weeks; fourth quarter 2022 consisted of 13 weeks), we reported fourth quarter adjusted net income per diluted share of \$2.58, which was at the high-end of our guidance range of \$2.20 to \$2.60 per diluted share. This result compared to adjusted net income per diluted share of \$2.47 in the fourth quarter of 2022.
- We estimate the extra week in the fourth quarter 2023 represented approximately \$80 million in net sales, approximately \$20 million in incremental operating income and incremental net income per diluted share of approximately \$0.20.
- Net sales for the 14-week fourth quarter 2023 were \$2.082 billion, an increase of 3% compared to sales of \$2.021 billion in 13-week fourth quarter of 2022. This result was at the midpoint of our guidance range of up 2% to 4%. Total comparable sales decreased 6% in the quarter compared to last year. In North America, sales trends improved from the third quarter to the fourth quarter driven by a sequential improvement in traffic and average unit retail in both our stores and digital channels, with traffic in our stores also increasing in the fourth quarter compared to last year. Adore Me, which 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 for the Adore Me business were up year over year again this quarter and represented about 3 to 4 points of total sales growth for VS&Co in the fourth quarter.

- From a market perspective, sales for the intimates market in North America as a whole decreased mid-single digits in the quarter compared to last year, which was the fourth consecutive quarterly year-over-year decline. We remain the leader in market share for the intimates category, including both bras and panties. Our market share in the intimates category remained at about 20%, with our digital share up slightly and our stores share down slightly. We were encouraged our market share in digital increased in both bras and panties.
- From a merchandise category perspective, starting with Victoria's Secret, our beauty business continues to be our best performing category with year-over-year growth for the second consecutive quarter, and was followed by performance in casual sleepwear, panties and bras. Within PINK, sleepwear outperformed intimates and apparel. We continued the rollout of our new reimagined PINK apparel merchandising assortment in the fourth quarter. The PINK apparel sales trend improved in the fourth quarter, and while still down compared to last year, we continue to buy the category cautiously. The impact of the PINK apparel challenges in the fourth quarter was approximately 1 to 2 points compared to last year.

- Our international business continues to have momentum, with net sales up 24% in the fourth quarter compared to last year. The increase in international system-wide retail sales in the fourth quarter was in-line with the increase in net sales, and we continued to deliver profitable growth across stores and digital as compared to last year. Sales in the fourth quarter were driven by significant year-over-year growth in China and globally with our franchise and travel retail partners. We are optimistic about sales, profit and growth opportunities for all of our partners around the world and remain on track with our growth plans discussed at our Investor Day in October 2023.
- The adjusted gross margin rate for the fourth quarter 2023 was 40.0%, an increase of 240 basis points compared to last year, which exceeded our guidance of 38.5% to 39.5%. Our adjusted merchandise margin rate was up significantly in the quarter primarily as the result of lower cost of goods related to our transform the foundation initiative to modernize our supply chain operating model, lower inbound freight costs, favorable merchandise mix and disciplined inventory management. Our buying and occupancy expenses deleveraged slightly in the fourth quarter compared to last year.
- The adjusted SG&A rate for the fourth quarter 2023 was 26.4%, near the midpoint of our guidance of 26% to 27%, and up compared to 23.7% in the fourth quarter last year. Adjusted SG&A dollars of \$550 million were up \$70 million year-over-year primarily driven by including Adore Me in our base for the first time this year, additional expenses relating to the extra week in

the fourth quarter this year and technology investments to enhance our digital business.

- Adjusted operating income for the 14-week fourth quarter 2023 was \$283 million and at the high-end of our guidance range of \$245 million to \$285 million. This result was higher than adjusted operating income for the 13-week fourth quarter 2022 of \$280 million due to the previously mentioned increases in sales and gross margin dollars, partially offset by the increase in SG&A expenses.
- Adjusted non-operating expenses, consisting principally of interest expense, was \$24 million and our tax rate was 20.4% in the fourth quarter 2023. Both of these metrics were slightly favorable to our forecast.
- Adjusted net income for the 14-week fourth quarter 2023 was \$204 million compared to adjusted net income of \$203 million in the 13-week fourth quarter 2022.
- Turning to the 53-week fiscal year 2023, net sales were \$6.182 billion, a 3% decrease from the 52-week fiscal year 2022, and total comparable sales decreased 9%.
- Adjusted operating income for the 53-week fiscal year 2023 was \$327 million compared to adjusted operating income of \$566 in the 52-week fiscal year 2022. The adjusted operating income rate was 5.3% in fiscal year 2023.

- Adjusted net income per diluted share for the 53-week fiscal year 2023 was \$2.27 compared to adjusted net income per diluted share of \$4.95 for the 52-week fiscal year 2022.
- Turning to the balance sheet, total VS&Co inventories ended the fourth quarter down 6% compared to last year, and in our core Victoria's Secret and PINK business inventories were down 3% compared to last year and in-line with our guidance.
- From a liquidity standpoint, we ended the year with a cash balance of \$270 million, a strong balance sheet and ample liquidity to execute our strategic plans. In the fourth quarter, we generated operating cash flow of \$589 million and paid down \$410 million on our \$750 million ABL credit facility, ending the year with an outstanding balance of \$145 million, which was down significantly from \$295 million outstanding at the end of last year. We generated free cash flow of \$133 million in fiscal year 2023, below our guidance primarily due to early Spring inventory deliveries and timing of the related payments.
- During fiscal year 2023, we invested \$256 million in capital expenditures, or about 4% of sales, in-line with our guidance and up from capital expenditures in 2022 of \$164 million. Capital investments in 2023 were 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 from our former parent company.

- Weighted average diluted shares at the end of the fourth quarter 2023 were approximately 79 million.
- Today, 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, including pursuant to one or more Rule 10b5-1 trading plans, and are expected to offset dilution under the Company's equity compensation plans and, unless retired, for general corporate purposes. The March 2024 Share Repurchase Program is open-ended in term, eligible to begin immediately and will continue until exhausted. The March 2024 Share Repurchase Program replaces the Board-authorized share repurchase program announced in January 2023 ("January 2023 Share Repurchase Program") which expired at the end of fiscal year 2023. In fiscal year 2023, we invested a total of \$125 million to repurchase 3.7 million shares under the January 2023 Share Repurchase Program.

- 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 continue to further develop our understanding of our Victoria's Secret and PINK customer through our multi-tender loyalty program which now has more than 26 million members who drive more than 75% of our sales on a weekly basis. Through insights and data, we are focused on turning our understanding of her into world-class seamless customer experiences.
 - With a relentless focus on creating brand heat, amplifying cultural connection and expanding reach through product launches and frequency of newness, we kicked-off the holiday season with new product arrivals and a powerful holiday campaign featuring Mariah Carey, the queen of Christmas.
 - In January, our customer was ready for newness and we delivered with an expansive V-Day assortment inclusive of provocative and sexy product that is our signature for the holiday, as well as more fun, casual, and flirty styles which included a new PINK "Wink" bra.
 - In February, we relaunched our #1 bra collection, Body By Victoria, with all-new styles and our latest innovation. The popularity for unlined bras continues to increase, and our newest Invisible Lift Technology offers lightweight design that smooths, shapes and supports without an ounce of padding.
 - In February, we also released our PINK apparel Spring campaign, Going Places, featuring Natalia Bryant with new PINK styles and comfy fits.

- As part our commitment to expand our categories, we debuted swim product under our new swim collaborative label PINK by Frankies Bikinis that celebrates the iconic PINK brand reimaged through the lens of founder and creative director of Frankies Bikinis, Francesca Aiello. This is our first-ever collaborative label with Francesca Aiello.
- We began piloting Try-on at Home services for a small portion of our digital file in February, offering a new buying experience for the Victoria's Secret and PINK customer.
- From a technology perspective, we entered into a multi-year partnership with Google Cloud to embark on VS&Co's AI journey to focus on improving the customer shopping experience online and on our mobile apps, improving the associate experience and improving operational efficiency across the enterprise. Adore Me already leverages Google Cloud's platforms for generative AI efforts, which allows us to more easily and quickly integrate large language models created and used by Adore Me for the Victoria's Secret customer.
- And, we expanded our Store of the Future fleet to 83 stores (or approximately 10% of the fleet) in North America and continued to expand our store and digital footprint internationally.

Outlook for First Quarter and Fiscal Year 2024

- As we look into the new year, we recognize the broader intimates market in North America has decreased year-over-year for four consecutive quarters, and the macro environment remains challenged putting pressure on the consumer. As such, we are planning the business conservatively in the near-

term and maintaining open-to-buy to capitalize on any changes in trend. At the same time, we remain focused on delivering on multiple initiatives to drive growth in our business over the longer-term, including: our multi-tender loyalty program, new customer experience enhancements in our digital business, and product improvements and launches to enhance the Victoria's Secret brand and a reimagined merchandise strategy for PINK.

- Looking ahead, our forecast assumes the broader intimates market in North America will remain pressured throughout the first and second quarter, with sales trends improving throughout the back half of 2024 as we continue the rollout of our growth strategies and new customer experience initiatives. For the 52-week fiscal year 2024, we are forecasting sales to be about \$6.0 billion, or down low-single digits to a comparative 52-weeks from fiscal year 2023.
- At this forecasted level of sales, we expect our adjusted operating income for the 52-week fiscal year 2024 to be about \$250 million to \$275 million.
- At our Investor Day in October 2023, we discussed an opportunity to drive operating margin expansion through our initiatives to transform the foundation of the company by modernizing the operating model. We remain on track and committed to the total \$250 million three-year goal that we established at our Investor Day in October 2022. We realized approximately \$90 million of savings in 2023 and expect to realize approximately \$120 million of savings in 2024, primarily in gross margin.

- Adjusted non-operating expenses, consisting principally of interest expense, are projected to be about \$85 million for fiscal year 2024.
- We estimate our tax rate will be approximately 25% to 26% for fiscal year 2024.
- We estimate shares outstanding of approximately 80 million for the first quarter and approximately 81 million for fiscal year 2024. These estimates do not include potential share repurchase activity related to the March 2024 Share Repurchase Program announced today.
- We estimate capital expenditures of approximately \$230 million in fiscal year 2024, or slightly less than 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. 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 \$240 million in fiscal year 2024.
- In 2023, we opened 15 new stores in North America, mostly in off-mall locations and in the Store of the Future design, and closed 21 stores which were mostly the consolidation of co-located Victoria's Secret and PINK stores. We also completed the renovation of 45 stores 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. At the end of

2023, we had 83 stores (or approximately 10% of the fleet) in the Store of the Future format in North America. Square footage in our North America stores in 2023 decreased approximately 2% compared to 2022.

- In 2024, we plan to open approximately 15 new stores in North America, in the Store of the Future design mostly in off-mall locations. We estimate approximately 35 store closures which will be mostly the consolidation of co-located Victoria's Secret and PINK stores. We also expect about 45 renovations in the Store of the Future design in 2024, with approximately 75% 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 1 to 2% compared to 2023. In 2024, our Store of the Future presence will be approximately 145 stores (or approximately 18% of the fleet) in North America.
- Turning to liquidity, we expect 2024 free cash flow (operating cash flow less capital expenditures) of approximately \$175 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.
- For the first quarter of 2024, we are forecasting sales to decrease in the mid-single digit range, compared to sales of \$1.407 billion in the first quarter of 2023. This forecast reflects our expectation that the domestic intimates market will remain challenged and our core customer will be cautious in this

environment. These challenges will be partially offset by the continued strength in our international business.

- At this forecasted level of sales, first quarter 2024 adjusted operating income is expected to be in the range of \$10 million to \$35 million compared to adjusted operating income of \$55 million in the first quarter of 2023.
- We are forecasting first quarter 2024 adjusted net income (loss) per diluted share to be in the range of (\$0.15) to \$0.10 compared to adjusted net income per diluted share of \$0.28 in the first quarter of 2023.
- We expect the first quarter 2024 adjusted gross margin rate to be approximately 36.5% to 37.5%, flat to up 100 basis points compared to first quarter of 2023's adjusted rate of 36.5%. We are forecasting our adjusted merchandise margin rate to be up more than 150 basis points compared to last year primarily as the result of lower cost of goods related to our transform the foundation initiative to modernize our supply chain operating model and lower inbound freight costs. We are forecasting deleverage in buying and occupancy expenses on the lower forecasted sales.
- We expect the first quarter 2024 adjusted SG&A rate to be approximately 35.0% to 36.0%, deleveraging compared to the first quarter of 2023's adjusted rate of 32.6% principally driven by the mid-single digit decrease in sales, investments in technology to enhance our digital business, forecasted higher

merit costs, and the timing of marketing spend compared to the first quarter of 2023.

- We anticipate net adjusted non-operating expense, consisting principally of interest expense, of approximately \$20 million in the first quarter of 2024.
- We estimate tax expense in the first quarter of 2024 will be approximately \$5 million. We are forecasting our tax provision in the first quarter 2024 to include a negative impact from the accounting for share-based awards which requires that income tax effects of share-based awards be recognized in the income statement when awards vest. Since our stock price has decreased over the life of the awards that are vesting in the first quarter, the tax effect of this difference results in a negative impact to our tax provision. As a result, and given our first quarter forecasted profitability levels, our forecasted income tax rate is unusually volatile in the first quarter.
- We expect inventory levels in our core Victoria's Secret and PINK business to end the first quarter of 2024 down mid-single digits compared to last year.
- The Company's financial guidance for first 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.
- At our Investor Day in October 2023, we discussed our strategic plan to accelerate our core, leverage our market leadership position and unlock our

opportunity to convert our significant cultural influence into long-term financial growth. Our message about our brand is clear. Victoria's Secret & Co.'s commitment to diversity, equity and inclusion is at the core of who we are and how we operate. We provide the best products to help women express their confidence, sexiness and power and we use our platform to honor the extraordinary diversity of their experiences. We believe our strategies will position the business to deliver the potential of our category-defining brands. We remain confident and are 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.