VS&CO SECOND QUARTER 2022 EARNINGS COMMENTARY

August 24, 2022

Introduction

- Victoria's Secret & Co. is providing this second quarter commentary ahead of its live earnings call scheduled for August 25, 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 second 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 special 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 also included in our press release, our SEC filings and the investor presentation posted on our website.

- 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.

Second Quarter Results

- We delivered adjusted operating income and adjusted earnings per share results in the second quarter in-line with our guidance despite a challenging operating and macroeconomic environment. As we celebrate our first year as an independent, publicly-traded company, today's announced results represent our fourth consecutive quarter since the separation that we delivered adjusted operating income and adjusted earnings per share results within or above our guidance range. For the trailing twelve-month period, we delivered nearly $1 billion in adjusted EBITDA. We believe this type of performance demonstrates the strength of our brand repositioning, our domestic market share leadership and growth in our share of the intimates category, and our team's relentless focus on execution in a difficult supply chain, inflationary and consumer spending environment.

- We reported second quarter adjusted earnings per diluted share of $1.09, which was near the midpoint of our guidance range of $0.95 to $1.25. This result compared to earnings per share of $1.71 in the second quarter of 2021.

- Net sales for the quarter were $1.521 billion, a decrease of 6% compared to second quarter of 2021 sales of $1.614 billion. This result was below our expectation of up low single digits to down low single digits. We experienced slowing customer traffic sequentially throughout the quarter as our customers and the broader retail environment struggled with rising inflationary pressures and volatility along with the spiking of gas prices. These challenges were most notable at the store level in traffic results. Sales in our digital channel generally performed as expected, down low double digits in the quarter compared to last year. From a merchandise category perspective, bras was our best performing business. In fact, we have seen growth in our domestic market share for the intimates category for the past two quarters.

- Our international business continues to be a bright spot with sales up nearly 30% compared to last year as we continued to experience momentum in our business recovering from prior year COVID-related restrictions. We returned the business to profitability in the last two quarters, and we continue to be optimistic about growth for all of our partners around the world.

- The adjusted gross margin rate decreased 540 basis points to 36.1% compared to the second quarter of 2021 due to 1) incremental supply chain and raw material cost pressures, 2) our incremental semi-annual sale activity year over year, and 3) an uptick in promotional activity given the noted challenges in store traffic.

- Adjusted SG&A expense dollars in the second quarter decreased 10%, or $45 million, compared to last year driven by lower management compensation expense and our disciplined and proactive expense management initiatives introduced last year designed to partially offset the impacts of continued supply chain and inflationary cost pressures. The adjusted SG&A rate was

27.7% and leveraged by 120 basis points compared to the second quarter last year.

- Second quarter adjusted operating income was $126.9 million, or 8.3% of sales, and was at the low-end of our guidance range of $125 million to $155 million. This result was down compared to $202.7 million in the second quarter of 2021 due to the previously mentioned decrease in sales and gross margin dollars, partially offset by a decrease in SG&A expense dollars.

- Our tax rate for the quarter was 20.7% and was favorable to our forecasted rate of 25%.

- Second quarter adjusted net income was $92.0 million compared to $151.1 million in 2021.

- Turning to the balance sheet, we ended the quarter with total inventories of $1.086 billion, or up 46% compared to last year. As referenced in prior quarters, the majority of the increase is related to supply chain impacts and strategic decisions to support our identified growth initiatives. We estimate supply chain impacts (modal mix changes, cost increases and delivery slide impacts from last year) represent approximately 80% of the dollar increase year over year. We estimate strategic decisions (International growth, size expansions, Beauty on Amazon and Happy Nation) represent approximately 10% of the dollar increase year over year. Inventory carryover season to season represents another approximately 10% of inventory growth.

- From a liquidity standpoint, we ended the second quarter with a cash balance of $201 million with no borrowings on our $750 million ABL credit facility.

- Weighted average diluted shares at the end of the second quarter were about 84 million. During the second quarter, we invested $62 million to repurchase 1.7 million shares under our share repurchase program we announced in March 2022. At quarter-end, we had $79 million remaining under the program. We continue to expect to complete the repurchase program by the end of the fiscal year.

- 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:
    - With our brand revolution well underway and gaining momentum, the timing was appropriate to simplify our corporate leadership structure to unite our brands, to better align our teams with a shifting consumer landscape, to become more efficient as an organization and to enable more nimble and agile execution of our strategy in support of our long-term growth goals. This action eliminated approximately 160 management roles, or approximately 5%, of our home office headcount;
    - We have continued to deliver newness and innovation with the launch of our So Obsessed bra campaign … evidence of our commitment to continued quality and fashion in our Best At Bras category;

- We elevated our commitment to diversity and inclusivity with our launch of the latest PINK Wear Everywhere bra franchise in collaboration with TikTok star Remi Bader;
- Newness and innovation were also evident in the quarter as we launched *BARE*, our largest fragrance in five years. *BARE* is a new scent designed to complement and adapt to each person's unique body chemistry;
- We improved our customer experience, including expanding channels of distribution. We launched our Amazon storefront at the end of April featuring a portion of our beauty assortment (both Victoria's Secret and PINK) and recently expanded the partnership to include Happy Nation. We anticipate increasing our Amazon exposure as we move through the fall season;
- We expanded our VS&Co-Lab platform and commitment to size inclusivity with a new partnership with Elomi. The partnership with Elomi lingerie will now expand the overall size offering available on VictoriasSecret.com to 100+ sizes;
- And, we published our first ESG report earlier this spring documenting our progress and commitment to conduct our business in a more environmentally, socially and ethically responsible way, and we plan to release our ESG materiality assessment and strategy this fall.

<u>Full Year Outlook</u>

- Looking to the balance of the year, we anticipate inflationary headwinds and pressure on the consumer will persist and our business will experience continued sales and margin volatility. We are confident in our ability to navigate this shifting consumer landscape by aggressively pursuing our share of customer traffic and being extremely diligent on costs and inventory management.

- With this in mind, for the full year 2022 we expect sales to decrease in the mid to high single digit range compared to $6.785 billion last year. Our sales forecast assumes the second quarter trend and the challenging broader retail environment continues for the remainder of the year.

- At this forecasted level of sales, adjusted operating income is expected to be in the range of $525 million to $575 million, or approximately 8% to 9% of sales, which is below last year's result of $870 million. Given today's challenging economic environment and cost inflation, we believe an adjusted operating income rate in the high single digits demonstrates stabilization of our business and represents a solid base to generate leverage from when more normal macro trends return.

- We have adjusted our fall inventory receipt plans in response to the challenges facing our customers and are confident in our ability to manage inventory throughout the balance of 2022 in a dynamic retail environment. We expect inventory levels to moderate with a forecast to finish the year up in the mid single digit range versus last year. We expect inventory levels will further normalize in the front half of 2023 as we anniversary the modal mix shifts and strategic merchandise assortment investments.

- We estimate capital expenditures of approximately $200 million for the year, or about 3% of sales, down from our previous guidance of $225 million. Capital investments are focused on our store capital program, along with investments in technology, distribution and logistics capabilities. Depreciation is estimated to be approximately $270 million, consistent with our previous guidance.

- We continue to closely evaluate our store real estate. In North America in 2022 we expect to open 16 new stores mostly in off-mall locations. We are estimating 10-20 closures this year in North America. We also expect about 14 renovations in the Store of the Future design this year, with more than half consisting of square footage reductions or consolidations of co-located Victoria's Secret and PINK stores. We expect square footage in our North America stores for the year to be roughly flat to last year.

- Turning to liquidity, we expect 2022 free cash flow (operating cash flow less capital expenditures) of approximately $325 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 expenditure and any other foreseeable needs.

Third Quarter Outlook

- Turning to the third quarter forecast, we are forecasting third quarter sales to decrease in the high single digit range compared to sales of $1.441 billion in the third quarter of last year.

- At this forecasted level of sales, operating income is expected to be in the range of $10 million to $40 million compared to $108 million last year.

- We are forecasting third quarter earnings to be in the range of $0.00 to $0.25 per diluted share compared to $0.81 per share last year.

- We expect the third quarter gross margin rate to be about 34%, down compared to last year's rate of 39.2%, driven by a decline in the merchandise margin rate related to targeted promotional activities to help mitigate anticipated traffic pressure, deleverage in buying and occupancy expenses on the lower sales, and we also believe it is prudent to assume shrink levels continue to normalize in the fall season now that fitting rooms and store entrances are fully open and operational. We expect the impact of incremental supply chain and raw material cost pressures to be roughly similar to last year.

- We expect the SG&A rate to be about 32%, or similar to last year's rate of 31.7%. We believe an SG&A rate similar to last year on expected sales declines in the high single digits demonstrates our proactive, planned initiatives to tighten the cost structure of our business. SG&A dollars in the third quarter are forecasted down in the high single digits compared to last year.

- We anticipate net non-operating expense of approximately $15 million in the third quarter.

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

- We estimate shares outstanding of approximately 83 million for the third quarter.

- We are committed to optimizing our performance in the current challenging environment by focusing on what's within our control … our brand transformation, being best at bras, enhancing the customer experience and a relentless focus on costs and inventory management. We also 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.

- Our focus as leaders, and as a company, is on ensuring we are a future facing business that becomes more and more culturally relevant in this shifting consumer environment. We are confident in our opportunities and remain committed to delivering long-term sustainable value for our shareholders.

- And, as a reminder, we plan to hold our Investor Day in Chicago on October 13th to reflect on our first year as an independent, publicly-traded company and to provide an update on our longer-term strategy.

- 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.