

VS&CO FIRST QUARTER 2022 EARNINGS COMMENTARY

May 31, 2022

Introduction

- Victoria's Secret & Co. is providing this first quarter commentary ahead of its live earnings call scheduled for June 1, 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 first quarter 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.

First Quarter Results

- We delivered net sales in the first quarter at the high end of our guidance and adjusted earnings per share results in the first quarter above our previous guidance, despite a challenging operating environment. We navigated significant supply chain headwinds and lapped federal stimulus benefits in the prior year. 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.
- This was our third consecutive quarter since the separation that we delivered adjusted operating income results in line or above our guidance, which reflects our work to stabilize the business. For the trailing twelve month period, we delivered over \$1 billion in EBITDA.
- We reported first quarter adjusted earnings per diluted share of \$1.11 compared to earnings per share of \$1.97 in 2021, and above our guidance range of \$0.70 to \$0.95.
- Net sales for the quarter were \$1.484 billion, a decrease of 4.5% compared to first quarter of 2021 sales of \$1.554 billion, and at the high end of our guidance for a decrease of 4% to 8%. We saw momentum in our bras and beauty businesses and also in our international business as it recovered from prior year COVID-related restrictions. Our stores and digital channels faced significant headwinds from last year's federal stimulus benefits, which we estimate resulted in a first quarter sales benefit of \$75 million last year.

Adjusted for the stimulus benefit, total sales were essentially flat to the prior year's first quarter.

- First quarter comparable sales decreased 8% from 2021 and were in line with our expectations. Adjusting for the stimulus benefit last year, comparable sales were down 3%.
- The adjusted gross margin rate decreased 660 basis points to 36.6% compared to the first quarter of 2021 due to supply chain cost pressures of about \$80 million, or approximately 550 basis points, and higher margin sales connected with the stimulus benefit last year.
- The SG&A rate was 28.8% and deleveraged by 10 basis points compared to the first quarter last year. Total SG&A expense dollars in the first quarter decreased 4%, or \$19 million compared to last year, driven by our disciplined expense management.
- First quarter adjusted operating income was \$115.8 million, or 7.8% of sales, and was above our guidance of \$80 million to \$110 million. This result was down compared to \$225.7 million in 2021, with the variance driven by the previously mentioned supply chain cost pressures and lapping federal stimulus benefits last year. Of the \$75 million estimated sales stimulus, about \$50 million flowed down to operating income in the first quarter of last year.

- First quarter adjusted net income was \$97.0 million compared to \$174.0 million in 2021.
- Turning to the balance sheet, we ended the first quarter with a cash balance of \$204 million.
- Weighted average diluted shares at the end of the first quarter were about 87 million. During the quarter, we invested approximately \$110 million to repurchase approximately 2.2 million shares. We are currently more than halfway through the share repurchase authorization program announced on March 2, 2022. We expect to complete the repurchase by the end of the fiscal year.
- We ended the quarter with total inventories up 37% compared to last year. The increase was primarily driven by longer in-transit times as we began shifting modal mix back to ocean, higher cost of goods due to inflation, and our strategic assortment investment decisions.
- All in all, during the first quarter we successfully navigated a challenging macro environment and executed a number of key strategic actions to support future growth:
 - We continued repositioning the brand, celebrating all women throughout every phase of their life journey and our creative and marketing reflects and celebrates the diversity of our customer;

- We had several successful launches, including Love Cloud, which was our largest bra collection launch in six years;
 - We successfully completed the China JV with Regina Miracle;
 - We launched a new co-brand credit card to expand our offering and attract new customers;
 - We made a minority investment in Frankies Bikinis;
 - We launched Happy Nation, a new digital-first brand for tweens;
 - We started selling Victoria's Secret and Pink Beauty in Amazon's store;
 - And, we are investing in women entrepreneurs identified by venture capital firm Amplifyher Ventures.
- Our ability to successfully execute on these initiatives is evidence of a new era for our business. We remain steadfast in our vision to become the world's leading advocate for women and create positive change through the power of our products and platform. This starts with putting our associates and customers at the heart of all we do. Our commitment to representing the interests, perspectives, desires and aspirations of women across every part of our organization is embedded in our culture. This commitment shows up in how we apply care, craft, ingenuity and skill to deliver beauty, performance, comfort and value in our products. It's reflected in every creative decision we make as we push the boundaries of how women are represented and celebrated. And it's in each interaction with our customers and how we listen to, connect with, and care for them.

Second Quarter Outlook

- We believe the macroeconomic challenges that we experienced in the first quarter will continue throughout the second quarter. We are projecting second quarter sales to be up low-single digits to down low-single digits versus sales of \$1.614 billion in the second quarter of last year. The midpoint of the forecast of about flat is in line with the first quarter result adjusted for stimulus.
- We are forecasting second quarter earnings per diluted share in the range of \$0.95 to \$1.25 compared to \$1.71 per share last year.
- Operating income is expected to be in a range of \$125 million to \$155 million compared to last year's result of \$203 million. We are estimating incremental supply chain costs to be approximately \$60 million compared to last year.
- We expect the second quarter gross margin rate to be about 37%, down compared to last year's rate of 41.5%, driven by merchandise margin declines due to the pressures mentioned above (approximately 370 basis points).
- We expect the SG&A rate to be about 28%, down compared to last year's rate of 28.9% due to disciplined expense management. SG&A dollars in the second quarter are forecasted down low-single digits compared to last year.
- We anticipate net non-operating expense of approximately \$14 million in the second quarter.

- We estimate a tax rate of about 25% for the second quarter.
- We estimate shares outstanding of approximately 85 million for the second quarter.
- We are confident with our ability to manage inventory throughout 2022 and expect inventory growth at the end of the second quarter to be similar to Q1 and to begin moderating through the back half of the year.

Full Year Outlook

- Turning to the full fiscal year 2022 forecast, we believe the environment will continue to be challenging into the second half of the year. Notwithstanding that industry backdrop, we remain focused on delivering sales that are flat to up low-single digits compared to last year. We have plans in place that we believe will enable us to manage through the dynamic macro environment to deliver full year operating income directionally in line with last year.
- We also see a number of factors and opportunities in the back half of the year that are projected to improve trends, including:
 - Lapping inventory disruptions that we experienced in the back half of last year, which will result in improved in stock levels and inventory positioning;
 - New launches, including bras at both VS and Pink, size expansions and Beauty;

- New initiatives, including the Store of the Future, expanded Beauty distribution, the launch of VS&Co-Lab, and our planned loyalty pilot program; and
- International recovery from COVID-related restrictions last year.
- Additionally, we have been developing a profit improvement plan to increase margin dollars and lower the expense run rate of the business. We expect these initiatives will become more meaningful over the course of the year and help offset headwinds. In short, we have proactively anticipated and are managing supply chain and inflationary pressures.
- However, we understand there could be volatility in our results this year. If the first quarter sales trends adjusted for stimulus were to continue for the balance of the year, it could challenge our ability to deliver full year operating income in line with last year. Although, we do believe we could maintain an operating income rate in the low-double digits as a percent of sales and remain on track to achieve our mid-teens operating income rate target over time.
- We have stabilized the business and are committed to optimizing our performance in the current challenging environment by focusing on our brand transformation, being best at bras, and enhancing the customer experience.
- We are confident in our ability to do this while delivering long-term sustainable value for our shareholders.

- And in October, we plan to hold an Investor Day in Chicago to reflect back on our first year as a stand-alone company and to provide an update on our longer-term strategy. We will provide more details as we get closer to the event.
- 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.