

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 29, 2022

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-40515

**VICTORIA'S SECRET & CO.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**86-3167653**

(IRS Employer Identification No.)

**4 Limited Parkway East**

**Reynoldsburg, Ohio**

(Address of principal executive offices)

**43068**

(Zip Code)

**(614) 577-7000**

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 Par Value	VSCO	The New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes  No

As of November 25, 2022, the number of outstanding shares of the Registrant's common stock was 80,827,062 shares.

**VICTORIA'S SECRET & CO.**  
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\* Victoria's Secret & Co.'s fiscal year ends on the Saturday nearest to January 31. As used herein, "third quarter of 2022" and "third quarter of 2021" refer to the thirteen-week periods ended October 29, 2022 and October 30, 2021, respectively. "Year-to-date 2022" and "year-to-date 2021" refer to the thirty-nine-week periods ended October 29, 2022 and October 30, 2021, respectively.

**PART I—FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**VICTORIA'S SECRET & CO.  
CONSOLIDATED AND COMBINED STATEMENTS OF INCOME  
(in millions except per share amounts)  
(Unaudited)**

	Third Quarter		Year-to-Date	
	2022	2021	2022	2021
Net Sales	\$ 1,318	\$ 1,441	\$ 4,323	\$ 4,609
Costs of Goods Sold, Buying and Occupancy	(861)	(876)	(2,809)	(2,702)
Gross Profit	457	565	1,514	1,907
General, Administrative and Store Operating Expenses	(414)	(457)	(1,280)	(1,371)
Operating Income	43	108	234	536
Interest Expense	(15)	(12)	(41)	(16)
Other Income (Loss)	2	1	(2)	—
Income Before Income Taxes	30	97	191	520
Provision for Income Taxes	8	22	25	120
Net Income	22	75	166	400
Less: Net Loss Attributable to Noncontrolling Interest	(2)	—	(9)	—
Net Income Attributable to Victoria's Secret & Co.	\$ 24	\$ 75	\$ 175	\$ 400
Net Income Per Basic Share Attributable to Victoria's Secret & Co.	\$ 0.30	\$ 0.85	\$ 2.12	\$ 4.53
Net Income Per Diluted Share Attributable to Victoria's Secret & Co.	\$ 0.29	\$ 0.81	\$ 2.07	\$ 4.46

**VICTORIA'S SECRET & CO.  
CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME  
(in millions)  
(Unaudited)**

	Third Quarter		Year-to-Date	
	2022	2021	2022	2021
Net Income	\$ 22	\$ 75	\$ 166	\$ 400
Other Comprehensive Income (Loss), Net of Tax:				
Foreign Currency Translation	(9)	(1)	(10)	3
Amounts Reclassified from Accumulated Other Comprehensive Income to Paid-in Capital	—	—	3	—
Total Other Comprehensive Income (Loss), Net of Tax	(9)	(1)	(7)	3
Total Comprehensive Income	13	74	159	403
Less: Net Loss Attributable to Noncontrolling Interest	(2)	—	(9)	—
Less: Foreign Currency Translation Attributable to Noncontrolling Interest	(3)	—	(2)	—
Comprehensive Income Attributable to Victoria's Secret & Co.	\$ 18	\$ 74	\$ 170	\$ 403

The accompanying Notes are an integral part of these Consolidated and Combined Financial Statements.

**VICTORIA'S SECRET & CO.**  
**CONSOLIDATED BALANCE SHEETS**  
(in millions except par value amounts)

	October 29, 2022 (Unaudited)	January 29, 2022	October 30, 2021 (Unaudited)
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 126	\$ 490	\$ 331
Accounts Receivable, Net	184	162	145
Inventories	1,242	949	1,019
Other	157	90	114
<b>Total Current Assets</b>	<b>1,709</b>	<b>1,691</b>	<b>1,609</b>
Property and Equipment, Net	855	957	976
Operating Lease Assets	1,228	1,369	1,448
Trade Name	246	246	246
Deferred Income Taxes	20	17	10
Other Assets	84	64	80
<b>Total Assets</b>	<b>\$ 4,142</b>	<b>\$ 4,344</b>	<b>\$ 4,369</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 397	\$ 538	\$ 560
Accrued Expenses and Other	618	714	696
Current Debt	4	4	4
Current Operating Lease Liabilities	305	340	320
Income Taxes	8	102	18
<b>Total Current Liabilities</b>	<b>1,332</b>	<b>1,698</b>	<b>1,598</b>
Deferred Income Taxes	59	58	107
Long-term Debt	1,244	978	978
Long-term Operating Lease Liabilities	1,207	1,314	1,391
Other Long-term Liabilities	48	39	43
<b>Total Liabilities</b>	<b>3,890</b>	<b>4,087</b>	<b>4,117</b>
<b>Shareholders' Equity:</b>			
Preferred Stock — \$0.01 par value; 10 shares authorized; 0 shares issued and outstanding	—	—	—
Common Stock — \$0.01 par value; 1,000 shares authorized; 81, 85, and 89 shares issued and outstanding, respectively	1	1	1
Paid-in Capital	187	125	172
Accumulated Other Comprehensive Income	—	5	7
Retained Earnings	47	126	72
<b>Total Victoria's Secret &amp; Co. Shareholders' Equity</b>	<b>235</b>	<b>257</b>	<b>252</b>
Noncontrolling Interest	17	—	—
<b>Total Equity</b>	<b>252</b>	<b>257</b>	<b>252</b>
<b>Total Liabilities and Equity</b>	<b>\$ 4,142</b>	<b>\$ 4,344</b>	<b>\$ 4,369</b>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

**VICTORIA'S SECRET & CO.**  
**CONSOLIDATED AND COMBINED STATEMENTS OF EQUITY**  
(in millions)  
(Unaudited)

**Third Quarter 2022**

	Common Stock			Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock, at Average Cost	Total Victoria's Secret & Co. Equity	Noncontrolling Interest	Total Equity
	Shares Outstanding	Par Value	Paid-in Capital						
<b>Balance, July 30, 2022</b>	82	\$ 1	\$ 177	\$ 6	\$ 65	\$ (2)	\$ 247	\$ 22	\$ 269
Net Income (Loss)	—	—	—	—	24	—	24	(2)	22
Other Comprehensive Loss	—	—	—	(6)	—	—	(6)	(3)	(9)
Total Comprehensive Income (Loss)	—	—	—	(6)	24	—	18	(5)	13
Repurchases of Common Stock	(1)	—	—	—	—	(43)	(43)	—	(43)
Treasury Share Retirements	—	—	(3)	—	(42)	45	—	—	—
Share-based Compensation Expense	—	—	12	—	—	—	12	—	12
Tax Payments related to Share-based Awards	—	—	(1)	—	—	—	(1)	—	(1)
Other	—	—	2	—	—	—	2	—	2
<b>Balance, October 29, 2022</b>	<u>81</u>	<u>\$ 1</u>	<u>\$ 187</u>	<u>\$ —</u>	<u>\$ 47</u>	<u>\$ —</u>	<u>\$ 235</u>	<u>\$ 17</u>	<u>\$ 252</u>

**Third Quarter 2021**

	Common Stock			Net Investment by Former Parent	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Victoria's Secret & Co. Equity	Noncontrolling Interest	Total Equity
	Shares Outstanding	Par Value	Paid-in Capital						
<b>Balance, July 31, 2021</b>	—	\$ —	\$ —	\$ 876	\$ 8	\$ —	\$ 884	\$ —	\$ 884
Net Income	—	—	—	3	—	72	75	—	75
Other Comprehensive Loss	—	—	—	—	(1)	—	(1)	—	(1)
Total Comprehensive Income (Loss)	—	—	—	3	(1)	72	74	—	74
Net Transfers to Former Parent	—	—	—	(717)	—	—	(717)	—	(717)
Transfer of Former Parent Investment to Additional Paid-in Capital	—	—	162	(162)	—	—	—	—	—
Issuance of Common Stock	88	1	—	—	—	—	1	—	1
Share-based Compensation and Other	1	—	10	—	—	—	10	—	10
<b>Balance, October 30, 2021</b>	<u>89</u>	<u>\$ 1</u>	<u>\$ 172</u>	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ 72</u>	<u>\$ 252</u>	<u>\$ —</u>	<u>\$ 252</u>

The accompanying Notes are an integral part of these Consolidated and Combined Financial Statements.

**VICTORIA'S SECRET & CO.**  
**CONSOLIDATED AND COMBINED STATEMENTS OF EQUITY**  
(in millions)  
(Unaudited)

**Year-to-Date 2022**

	Common Stock			Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock, at Average Cost	Total Victoria's Secret & Co. Equity	Noncontrolling Interest	Total Equity
	Shares Outstanding	Par Value	Paid-in Capital						
<b>Balance, January 29, 2022</b>	85	\$ 1	\$ 125	\$ 5	\$ 126	\$ —	\$ 257	\$ —	\$ 257
Net Income (Loss)	—	—	—	—	175	—	175	(9)	166
Other Comprehensive Loss	—	—	—	(5)	—	—	(5)	(2)	(7)
Total Comprehensive Income (Loss)	—	—	—	(5)	175	—	170	(11)	159
Sale of Noncontrolling Interest	—	—	17	—	—	—	17	28	45
Repurchases of Common Stock	(5)	—	50	—	—	(264)	(214)	—	(214)
Treasury Share Retirements	—	—	(10)	—	(254)	264	—	—	—
Share-based Compensation Expense	—	—	38	—	—	—	38	—	38
Tax Payments related to Share-based Awards	(1)	—	(40)	—	—	—	(40)	—	(40)
Other	2	—	7	—	—	—	7	—	7
<b>Balance, October 29, 2022</b>	<b>81</b>	<b>\$ 1</b>	<b>\$ 187</b>	<b>\$ —</b>	<b>\$ 47</b>	<b>\$ —</b>	<b>\$ 235</b>	<b>\$ 17</b>	<b>\$ 252</b>

**Year-to-Date 2021**

	Common Stock			Net Investment by Former Parent	Accumulated Other Comprehensive Income	Retained Earnings	Total Victoria's Secret & Co. Equity	Noncontrolling Interest	Total Equity
	Shares Outstanding	Par Value	Paid-in Capital						
<b>Balance, January 30, 2021</b>	—	\$ —	\$ —	\$ 887	\$ 4	\$ —	\$ 891	\$ —	\$ 891
Net Income	—	—	—	328	—	72	400	—	400
Other Comprehensive Income	—	—	—	—	3	—	3	—	3
Total Comprehensive Income	—	—	—	328	3	72	403	—	403
Net Transfers to Former Parent	—	—	—	(1,053)	—	—	(1,053)	—	(1,053)
Transfer of Former Parent Investment to Additional Paid-in Capital	—	—	162	(162)	—	—	—	—	—
Issuance of Common Stock	88	1	—	—	—	—	1	—	1
Share-based Compensation and Other	1	—	10	—	—	—	10	—	10
<b>Balance, October 30, 2021</b>	<b>89</b>	<b>\$ 1</b>	<b>\$ 172</b>	<b>\$ —</b>	<b>\$ 7</b>	<b>\$ 72</b>	<b>\$ 252</b>	<b>\$ —</b>	<b>\$ 252</b>

The accompanying Notes are an integral part of these Consolidated and Combined Financial Statements.

**VICTORIA'S SECRET & CO.**  
**CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**  
(in millions)  
(Unaudited)

	Year-to-Date	
	2022	2021
<b>Operating Activities:</b>		
Net Income	\$ 166	\$ 400
Adjustments to Reconcile Net Income to Net Cash Provided by (Used for) Operating Activities:		
Depreciation of Long-lived Assets	208	233
Share-based Compensation Expense	38	24
Deferred Income Taxes	(3)	58
Changes in Assets and Liabilities:		
Accounts Receivable	(23)	(4)
Inventories	(298)	(318)
Accounts Payable, Accrued Expenses and Other	(229)	163
Income Taxes	(131)	29
Other Assets and Liabilities	(7)	(207)
Net Cash Provided by (Used for) Operating Activities	(279)	378
<b>Investing Activities:</b>		
Capital Expenditures	(125)	(117)
Investment in Frankies Bikinis, LLC	(18)	—
Other Investing Activities	(7)	—
Net Cash Used for Investing Activities	(150)	(117)
<b>Financing Activities:</b>		
Borrowings from Asset-based Revolving Credit Facility	267	—
Repurchases of Common Stock	(214)	—
Cash Received from Noncontrolling Interest Partner	55	—
Tax Payments related to Share-based Awards	(40)	(3)
Proceeds from Stock Option Exercises	4	3
Payments of Long-term Debt	(3)	—
Proceeds from Issuance of Long-term Debt, net of Issuance Costs and Discounts	—	982
Net Transfers to Former Parent	—	(1,253)
Other Financing Activities	(2)	5
Net Cash Provided by (Used for) Financing Activities	67	(266)
Effects of Exchange Rate Changes on Cash and Cash Equivalents	(2)	1
Net Decrease in Cash and Cash Equivalents	(364)	(4)
Cash and Cash Equivalents, Beginning of Period	490	335
Cash and Cash Equivalents, End of Period	\$ 126	\$ 331

The accompanying Notes are an integral part of these Consolidated and Combined Financial Statements.

**VICTORIA'S SECRET & CO.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies**

***Description of Business***

Victoria's Secret & Co. (together with its subsidiaries unless the context otherwise requires, the "Company") is a specialty retailer of women's intimate and other apparel and beauty products marketed under the Victoria's Secret and PINK brand names. The Company has approximately 900 Victoria's Secret and PINK stores in the U.S., Canada and China as well as online at [www.VictoriasSecret.com](http://www.VictoriasSecret.com) and [www.PINK.com](http://www.PINK.com) and other online channels worldwide. Additionally, Victoria's Secret and PINK have more than 450 stores in approximately 70 countries operating under franchise, license and wholesale arrangements. The Company also includes the Victoria's Secret and PINK merchandise sourcing and production function serving the Company and its international partners. The Company operates as a single segment designed to serve customers worldwide seamlessly through stores and online channels.

In July 2022, the Company announced a new, simplified corporate leadership structure designed to unite the Company's brands, better align its teams with a shifting consumer landscape and enable better execution of its strategy. The restructuring eliminated approximately 160 management roles, or approximately 5% of the Company's home office headcount. For additional information, see Note 4, "Restructuring Activities."

***Victoria's Secret & Co. Spin-Off***

On July 9, 2021, L Brands, Inc. ("L Brands" or the "Former Parent") announced that its Board of Directors approved the previously announced separation of the Victoria's Secret business, including PINK, into an independent, publicly traded company (the "Separation"). Prior to the Separation, L Brands operated the Bath & Body Works, Victoria's Secret and PINK retail brands.

On August 2, 2021 (the "Distribution Date"), after the New York Stock Exchange ("NYSE") market closing, the Separation of the Victoria's Secret business was completed. On August 3, 2021, Victoria's Secret & Co. became an independent, publicly traded company trading on the NYSE under the stock symbol "VSCO."

The Separation was achieved through the Former Parent's distribution of 100% of the shares of the Company's common stock to holders of the Former Parent's common stock as of the close of business on the record date of July 22, 2021. The Former Parent's stockholders of record received one share of the Company's common stock for every three shares of the Former Parent's common stock. In connection with the Separation, the Company made a cash payment of approximately \$976 million to the Former Parent on August 2, 2021 using cash proceeds from the issuances of certain debt (discussed in Note 10, "Long-term Debt and Borrowing Facilities"). The Former Parent retained no ownership interest in the Company following the Separation.

The Company entered into several agreements with the Former Parent that, among other things, effect the Separation and govern the relationship of the parties following the Separation, including a Separation and Distribution Agreement, a Tax Matters Agreement, an L Brands to VS Transition Services Agreement, a VS to L Brands Transition Services Agreement, an Employee Matters Agreement and a Domestic Transportation Services Agreement. For additional information, see Note 2, "Transactions with Former Parent."

***Fiscal Year***

The Company's fiscal year ends on the Saturday nearest to January 31. As used herein, "third quarter of 2022" and "third quarter of 2021" refer to the thirteen-week periods ended October 29, 2022 and October 30, 2021, respectively. "Year-to-date 2022" and "year-to-date 2021" refer to the thirty-nine-week periods ended October 29, 2022 and October 30, 2021, respectively.

***Basis of Presentation - Unaudited Consolidated and Combined Financial Statements***

The Company's financial statements for periods through the Separation date of August 2, 2021 are combined financial statements prepared on a carve-out basis as discussed below. The Company's financial statements for the period from August 3, 2021 through October 29, 2022 are consolidated financial statements based on the reported results of Victoria's Secret & Co. as a standalone company.

The Consolidated and Combined Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The Consolidated and Combined Financial Statements may not be indicative of the Company's future performance and do not necessarily reflect what the financial position, results of operations, and cash flows would have been had it operated as an independent company during all of the periods presented.

### ***Basis of Presentation - Prior to Separation***

Through the Separation date, the Company's combined financial statements are prepared on a "carve-out" basis. The Combined Financial Statements have been derived from the consolidated financial statements and accounting records of the Former Parent in conformity with GAAP.

Intracompany transactions have been eliminated. Transactions between the Company and the Former Parent have been included in these financial statements.

For the periods prior to the Separation, certain of the Former Parent's assets and liabilities that were specifically identifiable or otherwise attributable to the Company were included in the Company's balance sheets. For the periods prior to the Separation, the Former Parent utilized a centralized approach to cash management and financing its operations. The cash and cash equivalents held by the Former Parent at the corporate level were not specifically identifiable to the Company and, therefore, were not reflected in the Company's balance sheets. Cash transfers between the Former Parent and the Company were accounted for through Net Investment by Former Parent. Cash and cash equivalents that are included in the Company's balance sheets for the periods prior to the Separation represent cash and cash equivalents held by the Company prior to any potential transfer to the centralized cash management pool of the Former Parent.

For the periods prior to the Separation, the Consolidated and Combined Statements of Income include costs for certain functions, including information technology, human resources and store design and construction, that historically were provided and administered on a centralized basis by the Former Parent. Starting in the third quarter of 2020, as part of the steps to prepare the Company to operate as a separate, standalone company, these functions were transitioned to the business and began to be operated and administered as part of Victoria's Secret & Co. Costs applicable to the Company related to these functions are included in the Consolidated and Combined Statements of Income for all periods presented. Prior to the transition of these functions, these costs were directly charged to the Company by the Former Parent.

In addition, for purposes of preparing the combined financial statements on a "carve-out" basis prior to the Separation, a portion of the Former Parent's corporate expenses were allocated to the Company. These expense allocations include the cost of corporate functions and resources provided by, or administered by, the Former Parent including, but not limited to, executive management and other corporate and governance functions, such as corporate finance, internal audit, tax and treasury. The related employee payroll and benefit costs associated with such functions, such as share-based compensation, were included in the expense allocations. For year-to-date 2021, corporate expenses of \$49 million were allocated and included within General, Administrative and Store Operating Expenses in the Consolidated and Combined Statement of Income.

Costs were allocated to the Company based on direct usage when identifiable or, when not directly identifiable, on the basis of proportional net sales. Management considers the basis on which the expenses have been allocated to reasonably reflect the utilization of services provided to, or the benefit received by, the Company during the periods presented. However, the allocations may not reflect the expenses the Company would have incurred if the Company had been a standalone company for the periods presented. Actual costs that may have been incurred if the Company had been a standalone company would depend on a number of factors, including the organizational structure, whether functions were outsourced or performed by employees, and strategic or capital decisions. Going forward, the Company may perform these functions using its own resources or outsourced services. For a period following the Separation, however, some of these functions will continue to be provided by the Former Parent under a transition services agreement, and the Company will provide some services to the Former Parent under a transition services agreement. The Company has also entered into certain commercial arrangements with the Former Parent in connection with the Separation. For more information, see Note 2, "Transactions with Former Parent."

During the periods prior to the Separation that are presented in these Consolidated and Combined Financial Statements, the Company's income tax expense (benefit) and deferred tax balances were included in the Former Parent's income tax returns. Income tax expense (benefit) and deferred tax balances contained in these Consolidated and Combined Financial Statements for periods prior to the Separation are presented on a separate return basis, as if the Company had filed its own income tax returns. As a result, actual tax transactions included in the consolidated financial statements of the Former Parent may or may not be included in the Consolidated and Combined Financial Statements of the Company. Similarly, the tax treatment of certain items reflected in the Consolidated and Combined Financial Statements of the Company may or may not be reflected in the consolidated financial statements and income tax returns of the Former Parent. The taxes recorded in the Consolidated and Combined Statements of Income for periods prior to the Separation are not necessarily representative of the taxes that may arise in the future when the Company files its income tax returns independent from the Former Parent's returns.

### ***Interim Financial Statements***

The Consolidated and Combined Financial Statements as of and for the periods ended October 29, 2022 and October 30, 2021 are unaudited. These Consolidated and Combined Financial Statements should be read in conjunction with the audited Consolidated and Combined Financial Statements and Notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 18, 2022.

In the opinion of management, the accompanying Consolidated and Combined Financial Statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods.

### ***Seasonality of Business***

Due to the seasonal variations in the retail industry, the results of operations for the thirteen-week and thirty-nine-week periods ended October 29, 2022 are not necessarily indicative of the results expected for any other interim period or the full fiscal year ending January 28, 2023.

### ***Equity Method Investments***

The Company accounts for investments in unconsolidated entities where it exercises significant influence, but does not have control, using the equity method. Under the equity method of accounting, the Company recognizes its share of the investee's net income or loss. Losses are only recognized to the extent the Company has positive carrying value related to the investee. Carrying values are only reduced below zero if the Company has an obligation to provide funding to the investee. The Company's share of net income or loss of unconsolidated entities from which the Company purchases merchandise or merchandise components is included in Costs of Goods Sold, Buying and Occupancy in the Consolidated and Combined Statements of Income, and the Company's share of net income or loss from all other unconsolidated entities is included in General, Administrative and Store Operating Expenses in the Consolidated and Combined Statements of Income. The Company's equity method investments are required to be reviewed for impairment when it is determined there may be an other-than-temporary loss in value.

In March 2022, the Company acquired a minority interest in swimwear brand Frankies Bikinis, LLC ("Frankies Bikinis") in exchange for \$18 million. The investment in Frankies Bikinis is accounted for using the equity method of accounting.

The carrying values of equity method investments were \$52 million as of October 29, 2022, \$35 million as of January 29, 2022 and \$32 million as of October 30, 2021. These investments are recorded in Other Assets on the Consolidated Balance Sheets.

### ***Noncontrolling Interest***

The Company accounts for investments in entities where it has control over the entity by consolidating the entities' assets, liabilities and results of operations and including them in the Company's Consolidated and Combined Financial Statements. The share of the investment not owned by the Company is reflected in Noncontrolling Interest in the Consolidated Balance Sheets. The Company recognizes the share of net income or loss not attributable to the Company in Net Loss Attributable to Noncontrolling Interest in the Consolidated and Combined Statements of Income. Noncontrolling interest represents the portion of equity interests in a joint venture in China that is not owned by the Company. For additional information, see Note 4, "Restructuring Activities."

### ***Net Investment by Former Parent***

Net Investment by Former Parent represents the Former Parent's historical investment in the Company, the accumulated net earnings after taxes and the net effect of the transactions with and allocations from the Former Parent. All transactions reflected in Net Investment by Former Parent have been considered as financing activities for purposes of the Consolidated and Combined Statements of Cash Flows.

For additional information, see Basis of Presentation above and Note 2, "Transactions with Former Parent."

### ***Derivative Financial Instruments***

The Company from time to time uses derivative financial instruments to manage exposure to foreign currency exchange rates. The Company does not use derivative instruments for trading purposes. All derivative instruments are recorded on the Consolidated Balance Sheets at fair value.

The earnings of the Company's foreign operations are subject to exchange rate risk as substantially all the merchandise is sourced through U.S. dollar transactions. The Company from time to time utilizes foreign currency forward contracts designated as cash flow hedges to mitigate this foreign currency exposure. Amounts for these designated cash flow hedges are reclassified from Accumulated Other Comprehensive Income (Loss) upon sale of the hedged merchandise to the customer. These gains and losses are recognized in Costs of Goods Sold, Buying and Occupancy in the Consolidated and Combined Statements of Income. During the second quarter of 2021, the Company terminated its foreign currency forward contracts designated as cash flow hedges that were used to mitigate foreign currency exposure for its Canadian operations. The fair value of designated cash flow hedges is not significant for any period presented.

**Concentration of Credit Risk**

The Company maintains cash and cash equivalents with various major financial institutions. The Company monitors the relative credit standing of financial institutions with whom the Company transacts with and limits the amount of credit exposure with any one entity. As of October 29, 2022, the Company's investment portfolio is primarily comprised of bank deposits. Prior to the Separation, cash generated by the Company was invested by the Former Parent in U.S. government obligations and U.S. Treasury and AAA-rated money market funds.

The Company also periodically reviews the relative credit standing of franchise, license and wholesale partners and other entities to which the Company grants credit terms in the normal course of business. The Company determines the required allowance for expected credit losses using information such as customer credit history and financial condition. Amounts are recorded to the allowance when it is determined that expected credit losses may occur.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates, and the Company revises its estimates and assumptions as new information becomes available.

**Recently Issued Accounting Pronouncements**

The Company did not adopt any new accounting standards during the third quarter of 2022 that had a material impact on the Company's results of operations, financial position or cash flows. In addition, there are no new accounting standards not yet adopted that are expected to have a material impact on the Company's results of operations, financial position or cash flows.

**2. Transactions with Former Parent**

Prior to the Separation, the Company's financial statements were prepared on a "carve-out" basis and were derived from the consolidated financial statements and accounting records of the Former Parent. The following discussion summarizes activity between the Company and the Former Parent.

**Allocation of General Corporate Expenses**

Prior to the Separation, for purposes of preparing the financial statements on a "carve-out" basis, the Company was allocated a portion of the Former Parent's total corporate expenses. See Note 1 for a discussion of the methodology used to allocate corporate-related costs for purposes of preparing the financial statements on a "carve-out" basis.

**Long-term Debt due to Former Parent**

Prior to the Separation, during 2020, the Company borrowed \$97 million from the Former Parent to pay down outstanding debt with external parties. This borrowing was due in September 2025 and had a variable interest rate based on the China Loan Prime Rate. As a result of the Separation, the Company no longer has this Long-term Debt due to Former Parent. Prior to the Separation, the Company recognized \$2 million of interest expense year-to-date 2021 related to this borrowing.

**Net Transfers from (to) Former Parent**

The following table presents the components of Net Transfers from (to) Former Parent prior to the Separation in the third quarter and year-to-date 2021 Consolidated and Combined Statements of Equity:

	<u>Third Quarter</u>	<u>Year-to-Date</u>
	<u>2021</u>	<u>2021</u>
Cash Pooling and General Financing Activities, Net	\$ 259	\$ (172)
Long-lived Assets (a)	—	16
Corporate Expense Allocations	—	49
Share-based Compensation Expense	—	15
Assumed Income Tax Payments	—	15
Cash Payment to Former Parent	(976)	(976)
<b>Total Net Transfers to Former Parent</b>	<b>\$ (717)</b>	<b>\$ (1,053)</b>

(a) Represents long-lived assets transferred between the Company and the Former Parent as a result of asset allocation decisions made during the period.

### Agreements with Former Parent

The Company entered into several agreements with the Former Parent that, among other things, effect the Separation and govern the relationship of the parties following the Separation, including a Separation and Distribution Agreement, a Tax Matters Agreement, an L Brands to VS Transition Services Agreement, a VS to L Brands Transition Services Agreement, an Employee Matters Agreement and a Domestic Transportation Services Agreement.

Under the terms of the transition services agreements, as amended, the Company provides its Former Parent, on a transitional basis, certain services or functions, including information technology, certain logistics functions and customer marketing services. Additionally, the Former Parent provides to the Company various services or functions, many of which currently use a shared technology platform, including human resources, payroll and certain logistics functions. Generally, these services will be provided for a period of up to two years following the Separation, except for information technology services, which will be provided for a period of up to three years following the Separation and may be extended for a maximum of two additional one-year periods subject to increased administrative charges. Consideration and costs for the transition services will be determined using several billing methodologies as described in the agreements, including customary billing, pass-through billing, percent of sales billing or fixed fee billing. Costs for transition services provided by the Former Parent are recorded within the Consolidated and Combined Statements of Income based on the nature of the services. Consideration for transition services provided to the Former Parent are recorded within the Consolidated and Combined Statements of Income based on the nature of the services and as an offset to expenses incurred to provide the services.

The following table summarizes the recognized consideration and costs pursuant to the transition services agreements for the third quarter and year-to-date 2022 and 2021:

	Third Quarter		Year-to-Date	
	2022	2021	2022	2021
	(in millions)			
Consideration Received	\$ 16	\$ 24	\$ 56	\$ 24
Costs Recognized	17	20	55	20

Under the terms of the Domestic Transportation Services Agreement, the Former Parent will continue to provide transportation services to the Company for certain beauty and apparel merchandise in the United States and Canada for an initial term of three years following the Separation, which term will thereafter continuously renew unless and until either party elects to terminate the arrangement upon written prior notice. Costs for the transportation services will be determined using customary billing and fixed billing methodologies, which are described in the agreement, and are subject to an administrative charge. Costs for transition services are recorded within Costs of Goods Sold, Buying and Occupancy in the Consolidated and Combined Statements of Income.

The following table summarizes the recognized costs pursuant to the Domestic Transportation Services Agreement for the third quarter and year-to-date 2022 and 2021:

	Third Quarter		Year-to-Date	
	2022	2021	2022	2021
	(in millions)			
Costs Recognized	\$ 23	\$ 18	\$ 62	\$ 18

Prior to the Separation, certain Company employees participated in the stock option and performance incentive plan of the Former Parent. Under the terms of the Employee Matters Agreement, in connection with the Separation, restricted stock and stock option equity awards held by Company employees were converted to awards representing approximately 6.0 million shares of the Company's common stock under the Company's 2021 Stock Option and Performance Incentive Plan.

### 3. Revenue Recognition

Accounts receivable, net from revenue-generating activities were \$133 million as of October 29, 2022, \$101 million as of January 29, 2022 and \$86 million as of October 30, 2021. Accounts receivable primarily relate to amounts due from the Company's franchise, license and wholesale partners. Under these arrangements, payment terms are typically 60 to 90 days.

The Company records deferred revenue when cash payments are received in advance of transfer of control of goods or services. Deferred revenue primarily relates to gift cards, loyalty and credit card programs and direct channel shipments, which are all impacted by seasonal and holiday-related sales patterns. Deferred revenue was \$229 million as of October 29, 2022, \$258 million as of January 29, 2022 and \$214 million as of October 30, 2021. The Company recognized \$117 million as revenue year-to-date 2022 from amounts recorded as deferred revenue at the beginning of the year. As of October 29, 2022, the Company recorded deferred revenue of \$210 million within Accrued Expenses and Other, and \$19 million within Other Long-term Liabilities on the Consolidated Balance Sheet.

The following table provides a disaggregation of Net Sales for the third quarter and year-to-date 2022 and 2021:

	Third Quarter		Year-to-Date	
	2022	2021	2022	2021
	(in millions)			
Stores – North America	\$ 813	\$ 920	\$ 2,712	\$ 2,890
Direct	342	406	1,176	1,396
International (a)	163	115	435	323
<b>Total Net Sales</b>	<b>\$ 1,318</b>	<b>\$ 1,441</b>	<b>\$ 4,323</b>	<b>\$ 4,609</b>

(a) Results include consolidated joint venture sales in China, royalties associated with franchised stores and wholesale sales.

In April 2022, the Company launched a new co-branded credit card through which customers can earn points on purchases of Company product as well as on purchases outside of the Company. The co-branded credit card is in addition to the Company's existing U.S. private label credit card.

The Company recognized Net Sales of \$29 million and \$30 million for the third quarter of 2022 and 2021, respectively, related to revenue earned in connection with its credit card arrangements. The Company recognized Net Sales of \$85 million and \$89 million year-to-date 2022 and 2021, respectively, related to revenue earned in connection with its credit card arrangements.

The Company's international net sales include sales from Company-operated stores, royalty revenue from franchise and license arrangements, wholesale revenues and direct sales shipped internationally. Certain of these sales are subject to the impact of fluctuations in foreign currency. The Company's net sales outside of the U.S. totaled \$211 million and \$170 million for the third quarter of 2022 and 2021, respectively. The Company's net sales outside of the U.S. totaled \$594 million and \$500 million year-to-date 2022 and 2021, respectively.

#### 4. Restructuring Activities

##### *Victoria's Secret China*

In April 2022, the Company announced the completion of the joint venture agreement with Regina Miracle International (Holdings) Limited ("Regina Miracle"), a company listed on the Hong Kong Stock Exchange, related to its existing Company-owned business in China. The Company and Regina Miracle formed a joint venture to operate Victoria's Secret stores and the related online business in China. Under the terms of the agreement, the Company owns 51% of the joint venture and Regina Miracle owns the remaining 49%. The Company received \$45 million in cash from Regina Miracle during the first quarter of 2022 as consideration for its investment in the joint venture. In connection with the execution of the agreement, the Company and Regina Miracle each contributed \$10 million in cash to the joint venture. The cash received from Regina Miracle is reflected within Cash Received from Noncontrolling Interest Partner in the 2022 Consolidated and Combined Statement of Cash Flows.

Since the Company has retained control over the joint venture, the joint venture's assets, liabilities and results of operations will continue to be consolidated in the Company's consolidated financial statements. Regina Miracle's interest in the joint venture is now reflected in Noncontrolling Interest in the October 29, 2022 Consolidated Balance Sheet and in Net Loss Attributable to Noncontrolling Interest in the 2022 third quarter and year-to-date Consolidated Statements of Income.

##### *Corporate Leadership Restructuring*

In July 2022, the Company announced a new, simplified corporate leadership structure designed to unite the Company's brands, better align its teams with a shifting consumer landscape and enable better execution of its strategy. As a result of the restructuring, pre-tax severance and related costs of \$29 million, of which \$16 million are included in General, Administrative and Store Operating Expenses and \$13 million are included in Costs of Goods Sold, Buying and Occupancy, are included in the 2022 Year-to-Date Consolidated Statement of Income.

During year-to-date 2022, the Company made payments of \$12 million related to severance and related costs associated with these reductions. As of October 29, 2022, liabilities related to the restructuring of \$17 million are included in the October 29, 2022 Consolidated Balance Sheet.

#### 5. Earnings Per Share and Shareholders' Equity

##### *Earnings Per Share*

Earnings per basic share is computed based on the weighted-average number of common shares outstanding. Earnings per diluted share include the weighted-average effect of dilutive restricted stock units, performance share units and options (collectively, "Dilutive Awards") on the weighted-average shares outstanding.

On August 2, 2021, the Separation was achieved through the Former Parent's distribution of 100% of the shares of the Company's common stock to holders of the Former Parent's common stock as of the close of business on the record date of July 22, 2021. The Former Parent's stockholders of record received one share of the Company's common stock for every three shares of the Former Parent's common stock. As a result, on August 3, 2021, the Company had 88 million shares of common stock outstanding. This share amount is being utilized for the calculation of basic and diluted earnings per share for all periods presented prior to the Separation. After the Separation, actual outstanding shares are used to calculate both basic and diluted weighted-average number of common shares outstanding.

The following table provides the weighted-average shares utilized for the calculation of basic and diluted earnings per share for the third quarter and year-to-date 2022 and 2021:

	Third Quarter		Year-to-Date	
	2022	2021	2022	2021
	(in millions)			
Common Shares	81	88	83	88
Treasury Shares	—	—	—	—
<b>Basic Shares</b>	<b>81</b>	<b>88</b>	<b>83</b>	<b>88</b>
Effect of Dilutive Awards	2	4	2	2
<b>Diluted Shares</b>	<b>83</b>	<b>92</b>	<b>85</b>	<b>90</b>
Anti-dilutive Awards (a)	2	—	1	—

(a) Shares underlying certain options, restricted stock units and performance share units were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

### Shareholders' Equity

#### Common Stock Share Repurchases & Treasury Stock Retirements

In February 2022, upon final settlement of the Company's December 2021 accelerated share repurchase agreement ("ASR Agreement") with Goldman Sachs & Co. LLC ("Goldman Sachs"), the Company received an additional 0.3 million shares of the Company's common stock from Goldman Sachs. The delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share. In connection with the settlement of the ASR Agreement, \$50 million previously recorded in Paid-in Capital as of January 29, 2022, was reclassified to Treasury Stock in the first quarter of 2022. In February 2022, the Company immediately retired the additional 0.3 million shares repurchased in connection with the settlement of the ASR Agreement. The retirement resulted in a reduction of \$50 million in Treasury Stock, less than \$1 million in the par value of Common Stock, less than \$1 million in Paid-in Capital and nearly \$50 million in Retained Earnings.

In March 2022, the Company's Board of Directors approved a new share repurchase program ("March 2022 Share Repurchase Program"), providing for the repurchase of up to \$250 million of the Company's common stock. The \$250 million authorization is expected to be utilized to repurchase shares in the open market, subject to market conditions and other factors. The March 2022 Share Repurchase Program will continue until exhausted, but no later than January 28, 2023.

The Company repurchased the following shares of its common stock under the March 2022 Share Repurchase Program during year-to-date 2022:

	Amount Authorized	Shares Repurchased	Amount Repurchased	Average Stock Price
	(in millions)	(in thousands)	(in millions)	
March 2022 Share Repurchase Program	\$ 250	5,104	\$ 214	\$ 41.91

The Company has \$36 million remaining under the March 2022 Share Repurchase Program as of October 29, 2022.

In accordance with the Board of Directors' resolution, shares of the Company's common stock repurchased under the March 2022 Share Repurchase Program will be retired upon repurchase. As a result, year-to-date 2022 the Company retired 5.1 million shares repurchased under the March 2022 Share Repurchase Program, which resulted in reductions of less than \$1 million in the par value of Common Stock, \$10 million in Paid-in Capital and \$204 million in Retained Earnings.

## 6. Inventories

The following table provides details of Inventories as of October 29, 2022, January 29, 2022 and October 30, 2021:

	October 29, 2022	January 29, 2022	October 30, 2021
	(in millions)		
Finished Goods Merchandise	\$ 1,186	\$ 898	\$ 971
Raw Materials and Merchandise Components	56	51	48
<b>Total Inventories</b>	<b>\$ 1,242</b>	<b>\$ 949</b>	<b>\$ 1,019</b>

Inventories are principally valued at the lower of cost or net realizable value, on an average cost basis. The above amounts are net of valuation adjustments for inventory where the cost exceeds the amount the Company expects to realize from the ultimate sale or disposal of the inventory and net of loss adjustments for estimated physical inventory losses that have occurred since the date of the last physical inventory.

## 7. Long-Lived Assets

The following table provides details of Property and Equipment, Net as of October 29, 2022, January 29, 2022 and October 30, 2021:

	October 29, 2022	January 29, 2022	October 30, 2021
	(in millions)		
Property and Equipment, at Cost	\$ 3,684	\$ 3,795	\$ 3,782
Accumulated Depreciation and Amortization	(2,829)	(2,838)	(2,806)
<b>Property and Equipment, Net</b>	<b>\$ 855</b>	<b>\$ 957</b>	<b>\$ 976</b>

Depreciation expense was \$68 million and \$75 million for the third quarter of 2022 and 2021, respectively. Depreciation expense was \$208 million and \$233 million for year-to-date 2022 and 2021, respectively.

## 8. Accrued Expenses and Other

The following table provides additional information about the composition of Accrued Expenses and Other as of October 29, 2022, January 29, 2022 and October 30, 2021:

	October 29, 2022	January 29, 2022	October 30, 2021
	(in millions)		
Deferred Revenue on Gift Cards	\$ 168	\$ 198	\$ 158
Compensation, Payroll Taxes and Benefits	112	152	124
Rent	62	45	81
Accrued Marketing	38	36	39
Deferred Revenue on Loyalty and Credit Card Programs	30	36	35
Accrued Freight and Other Logistics	23	62	51
Taxes, Other than Income	21	24	27
Returns Reserve	15	23	18
Accrued Interest	13	5	13
Deferred Revenue on Direct Shipments not yet Delivered	12	16	12
Accrued Claims on Self-insured Activities	6	4	2
Other	118	113	136
<b>Total Accrued Expenses and Other</b>	<b>\$ 618</b>	<b>\$ 714</b>	<b>\$ 696</b>

## 9. Income Taxes

Prior to the Separation, the Company's U.S. operations and certain of its non-U.S. operations were historically included in the income tax returns of the Former Parent or its subsidiaries that may not be part of the Company. For the periods prior to the Separation, the income tax expense (benefit) and all tax liabilities that are presented in these financial statements were calculated on a "carve-out" basis, which applied the accounting guidance as if we filed income tax returns for the Company on a standalone, separate return basis. The Company believes the assumptions supporting its allocation and presentation of income taxes on a separate return basis are reasonable. However, the Company's tax results, as presented in these financial statements for periods prior to the Separation, may not be reflective of the results that the Company expects to generate in the future.

Post-Separation, the Company files a consolidated U.S. federal income tax return as well as separate and combined income tax returns in numerous state, local and international jurisdictions. Income tax expense (benefit) for the period prior to the Separation is based on the combined financial statements prepared on a "carve-out" basis. Income tax expense (benefit) for the period after the Separation is based on the consolidated results of the Company on a standalone basis.

The provision for income taxes is based on the current estimate of the annual effective tax rate and adjusted as necessary for quarterly events.

For the third quarter of 2022, the Company's effective tax rate was 25.0% compared to 22.2% in the third quarter of 2021. The third quarter of 2022 rate was consistent with the Company's combined estimated federal and state statutory rate. The third quarter of 2021 rate was lower than the Company's combined estimated federal and state statutory rate primarily due to the recognition of excess tax benefits related to share-based compensation awards that vested in the quarter.

For year-to-date 2022, the Company's effective tax rate was 13.2% compared to 23.0% for year-to-date 2021. Both rates were lower than the Company's combined estimated federal and state statutory rate primarily due to the recognition of excess tax benefits related to share-based compensation awards that vested in the respective period.

The Company paid income taxes in the amount of \$18 million and \$6 million for the third quarter of 2022 and 2021, respectively. Year-to-date income taxes paid were \$158 million and \$21 million for 2022 and 2021, respectively.

On August 2, 2021, in connection with the Separation, the Company and the Former Parent entered into a Tax Matters Agreement. Under the agreement, the Former Parent will generally be responsible for all U.S. federal, state, local and non-U.S. income taxes of the Company for any taxable period, or portion of such period, ending on or before the Distribution Date. As such, the net liabilities associated with uncertain tax positions that were presented in the financial statements in prior periods on a carve-out basis were not transferred to the Company as part of the Separation.

## 10. Long-term Debt and Borrowing Facilities

The following table provides the Company's outstanding debt balance, net of unamortized debt issuance costs and discounts, as of October 29, 2022, January 29, 2022 and October 30, 2021:

	October 29, 2022	January 29, 2022	October 30, 2021
	(in millions)		
<b>Senior Secured Debt with Subsidiary Guarantee</b>			
\$396 million Term Loan due August 2028 ("Term Loan Facility")	\$ 388	\$ 390	\$ 390
Asset-based Revolving Credit Facility due August 2026 ("ABL Facility")	267	—	—
Total Senior Secured Debt with Subsidiary Guarantee	655	390	390
<b>Senior Debt with Subsidiary Guarantee</b>			
\$600 million, 4.625% Fixed Interest Rate Notes due July 2029 ("2029 Notes")	593	592	592
Total Senior Debt with Subsidiary Guarantee	593	592	592
Total	1,248	982	982
Current Debt	(4)	(4)	(4)
Total Long-term Debt, Net of Current Portion	\$ 1,244	\$ 978	\$ 978

Cash paid for interest was \$29 million year-to-date 2022. There was no cash paid for interest year-to-date 2021.

### Issuance of Notes

In July 2021, the Company issued \$600 million of 4.625% notes due in July 2029 in a transaction exempt from registration under the Securities Act of 1933, as amended. The obligation to pay principal and interest on the 2029 Notes is jointly and severally guaranteed on a full and unconditional basis by certain of the Company's wholly-owned subsidiaries. The proceeds were held in escrow for release to the Company upon satisfaction of certain conditions, including completion of the Separation.

On August 2, 2021, the Company used cash proceeds of \$592 million, which were net of issuance costs of \$8 million, from the 2029 Notes, to partially fund the approximately \$976 million cash payment to the Former Parent in connection with the Separation. The issuance costs are being amortized through the maturity date and are included within Long-term Debt on the Consolidated Balance Sheets.

### ***Credit Facilities***

On August 2, 2021, the Company entered into a term loan B credit facility in an aggregate principal amount of \$400 million, which will mature in August 2028. Commencing in December 2021, the Company is required to make quarterly principal payments on the Term Loan Facility in an amount equal to 0.25% of the original principal amount of \$400 million. The Company made principal payments of \$1 million and \$3 million for the Term Loan Facility during the third quarter of 2022 and year-to-date 2022, respectively.

Interest under the Term Loan Facility is calculated by reference to the London Interbank Offered Rate (“LIBOR”) or an alternative base rate, plus an interest rate margin equal to (i) in the case of LIBOR loans, 3.25% and (ii) in the case of alternate base rate loans, 2.25%. The LIBOR rate applicable to the Term Loan Facility will be subject to a floor of 0.50%. The obligation to pay principal and interest on the loans under the Term Loan Facility is jointly and severally guaranteed on a full and unconditional basis by certain of the Company’s wholly-owned domestic subsidiaries. The loans under the Term Loan Facility are secured on a first-priority lien basis by certain assets of the Company and guarantors that do not constitute priority collateral of the asset-based revolving credit facility and on a second-priority lien basis by priority collateral of the asset-based revolving credit facility, subject to customary exceptions.

On August 2, 2021, the Company also entered into a senior secured asset-based revolving credit facility. The ABL Facility allows for borrowings and letters of credit in U.S. dollars or Canadian dollars and has aggregate commitments of \$750 million and an expiration date of August 2026. The availability under the ABL Facility is the lesser of (i) the borrowing base, determined primarily based on the Company’s eligible U.S. and Canadian credit card receivables, eligible accounts receivable, eligible inventory and eligible real property, and (ii) the aggregate commitment. Interest on the loans under the ABL Facility is calculated by reference to (i) LIBOR or an alternative base rate and (ii) in the case of loans denominated in Canadian dollars, Canadian Dollar Offered Rate (“CDOR”) or a Canadian base rate, plus an interest rate margin based on average daily excess availability ranging from (x) in the case of LIBOR and CDOR loans, 1.50% to 2.00% and (y) in the case of alternate base rate loans and Canadian base rate loans, 0.50% to 1.00%. Unused commitments under the ABL Facility accrue an unused commitment fee ranging from 0.25% to 0.30%. The obligation to pay principal and interest on the loans under the ABL Facility is jointly and severally guaranteed on a full and unconditional basis by certain of the Company’s wholly-owned domestic and Canadian subsidiaries. The loans under the ABL Facility are secured on a first-priority lien basis by the Company’s eligible U.S. and Canadian credit card receivables, eligible accounts receivable, eligible inventory and eligible real property and on a second-priority lien basis on substantially all other assets of the Company, subject to customary exceptions.

During the third quarter of 2022, the Company borrowed \$267 million from the ABL Facility, all of which remains outstanding as of October 29, 2022. The Company had \$42 million of outstanding letters of credit as of October 29, 2022 that further reduced its availability under the ABL Facility. As of October 29, 2022, the Company’s remaining availability under the ABL Facility was \$441 million.

On August 2, 2021, the Company used the net cash proceeds from the credit facilities of \$384 million, which were net of issuance and financing costs of \$10 million for the Term Loan Facility and \$6 million for the ABL Facility, to partially fund the approximately \$976 million cash payment to the Former Parent in connection with the Separation. The discounts and issuance costs from the Term Loan Facility are being amortized through the maturity date and are included within Long-term Debt on the Consolidated Balance Sheets.

The Company’s long-term debt and borrowing facilities contain certain financial and other covenants, including, but not limited to, the maintenance of financial ratios. The 2029 Notes and the Term Loan Facility include the maintenance of a consolidated coverage ratio and a consolidated total leverage ratio, and the ABL Facility includes the maintenance of a fixed charge coverage ratio and a debt to earnings before interest, income taxes, depreciation, amortization and rent (“EBITDAR”) ratio. The financial covenants could, within specific predefined circumstances, limit the Company’s ability to incur additional indebtedness, make certain investments, pay dividends or repurchase shares. As of October 29, 2022, the Company was in compliance with all covenants under its long-term debt and borrowing facilities.

### ***Long-term Debt due to Former Parent***

During 2020, the Company borrowed \$97 million from the Former Parent to pay down outstanding debt with external parties. This borrowing was due in September 2025 and had a variable interest rate based on the China Loan Prime Rate. As a result of the Separation, the Company no longer has this Long-term Debt due to Former Parent. Prior to the Separation, the Company recognized \$2 million of interest expense year-to-date 2021 related to this borrowing.

## 11. Fair Value of Financial Instruments

Cash and Cash Equivalents include cash on hand, deposits with financial institutions and highly liquid investments with original maturities of 90 days or less. The Company's Cash and Cash Equivalents are considered Level 1 fair value measurements as they are valued using unadjusted quoted prices in active markets for identical assets.

The following table provides a summary of the principal value and estimated fair value of the Company's outstanding publicly traded debt as of October 29, 2022, January 29, 2022 and October 30, 2021:

	October 29, 2022	January 29, 2022	October 30, 2021
	(in millions)		
Principal Value	\$ 996	\$ 999	\$ 1,000
Fair Value, Estimated (a)	870	975	1,003

(a) The estimated fair value of the Company's publicly traded debt is based on reported transaction prices which are considered Level 2 inputs in accordance with ASC 820, *Fair Value Measurement*. The estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Management believes that the carrying values of accounts receivable, accounts payable and accrued expenses approximate fair value because of their short maturity. Management further believes the principal value of the outstanding debt under the ABL Facility approximates its fair value as of October 29, 2022 based on the terms of the borrowings from the ABL Facility.

## 12. Comprehensive Income (Loss)

The following table provides the rollforward of accumulated other comprehensive income attributable to Victoria's Secret & Co. for year-to-date 2022:

	Foreign Currency Translation	Accumulated Other Comprehensive Income (Loss)
	(in millions)	
<b>Balance as of January 29, 2022</b>	\$ 5	\$ 5
Other Comprehensive Income (Loss) Before Reclassifications	(8)	(8)
Amounts Reclassified from Accumulated Other Comprehensive Income to Paid-in Capital	3	3
Tax Effect	—	—
Current-period Other Comprehensive Loss	(5)	(5)
<b>Balance as of October 29, 2022</b>	<u>\$ —</u>	<u>\$ —</u>

As a result of the China joint venture agreement completed in April 2022, the Company reclassified \$3 million of accumulated foreign currency translation adjustments related to the joint venture out of Accumulated Other Comprehensive Income and into Paid-in Capital in the first quarter of 2022 in order to reflect the amount attributable to the noncontrolling interest partner. For additional information see Note 4, "Restructuring Activities."

The following table provides the rollforward of accumulated other comprehensive income attributable to Victoria's Secret & Co. for year-to-date 2021:

	Foreign Currency Translation	Accumulated Other Comprehensive Income
	(in millions)	
<b>Balance as of January 30, 2021</b>	\$ 4	\$ 4
Other Comprehensive Income Before Reclassifications	3	3
Tax Effect	—	—
Current-period Other Comprehensive Income	3	3
<b>Balance as of October 30, 2021</b>	<u>\$ 7</u>	<u>\$ 7</u>

### **13. Retirement Benefits**

The Company sponsors a tax-qualified defined contribution retirement plan for employees who meet certain age and service requirements. The qualified plan permits participating associates to elect contributions up to the maximum limits allowable under the Internal Revenue Code. The Company matches associate contributions according to a predetermined formula and contributes additional amounts based on a percentage of the associates' eligible annual compensation and years of service. Associate contributions and Company matching contributions vest immediately. Additional Company contributions and the related investment earnings are subject to vesting based on years of service. Total expense recognized related to the qualified plan was \$9 million and \$11 million for the third quarter of 2022 and 2021, respectively. Total expense recognized related to the qualified plan was \$32 million and \$31 million for year-to-date 2022 and 2021, respectively.

### **14. Commitments and Contingencies**

The Company is subject to various claims and contingencies related to lawsuits, taxes, insurance and other matters arising out of the normal course of business. Actions filed against the Company from time to time include commercial, tort, intellectual property, customer, employment, data privacy and other claims, including purported class action lawsuits. Management believes that the ultimate liability arising from such claims and contingencies, if any, is not likely to have a material adverse effect on the Company's results of operations, financial condition or cash flows.

#### ***Former Parent Derivative Lawsuits***

As previously disclosed by the Former Parent, on May 19, 2020 and January 12, 2021, the Former Parent's shareholders filed derivative lawsuits in the Court of Common Pleas for Franklin County, Ohio (subsequently removed to the United States District Court for the Southern District of Ohio) and the Delaware Court of Chancery, respectively, naming as defendants certain current and former directors and officers of the Former Parent and alleging, among other things, breaches of fiduciary duty through asserted violations of law and failures to monitor workplace conduct (the "Lawsuits"). In addition, the Former Parent also received litigation and books-and-records demands from other shareholders related to the same matters (together with the Lawsuits, the "Actions").

In July 2021, the Former Parent announced the global settlement resolving the Actions. The settlement resolves all derivative claims that have been or could have been asserted in the Actions or that involve in any way the allegations referred to in the Actions and releases all such claims against the Former Parent (and its subsidiaries, including the Company) and past and present employees, officers and directors, among others. As part of the settlement, the Former Parent (and its subsidiaries, including the Company) has agreed to implement certain management and governance measures, including the maintenance of a Diversity, Equity, and Inclusion Council. Following the Separation, the settlement terms apply to both the Former Parent and the Company. Each company has committed to invest \$45 million over at least five years to fund the management and governance measures. The settlement was preliminarily approved on August 25, 2021, and a fairness hearing occurred on January 18, 2022. On May 16, 2022, the United States District Court of the Southern District of Ohio granted final approval of the settlement.

#### ***Occupancy-related Legal Matter***

The Company was a tenant of portions of a building known as Two Herald Square, New York, New York (the "Premises") pursuant to an Agreement of Lease dated August 22, 2001 (the "Lease") with Herald Square Owner LLC (the "Landlord"). On February 20, 2021, the Company surrendered the Premises to the Landlord. On February 16, 2021, the Landlord filed a Motion for Partial Summary Judgment seeking treble holdover damages against the Company for the period commencing June 9, 2020 through February 20, 2021, the date on which the Company vacated and surrendered the Premises. By an order dated July 21, 2021, the court granted the Landlord's motion and awarded it damages in an amount equal to three times the aggregate of the rents and charges payable under the Lease during the last month of the term of the Lease. On August 6, 2021, judgment was entered against the Company in the amount of \$23 million. On September 15, 2021, the Landlord filed a Motion for Partial Summary Judgment seeking treble holdover damages against the Company for the period commencing February 21, 2021 through September 30, 2021. By an order dated April 22, 2022, the court granted the Landlord's motion and awarded it damages in an amount equal to three times the aggregate amount of the rents and charges payable under the Lease during the last month of the term of the Lease. On May 9, 2022, judgment was entered against the Company in the amount of \$22 million. The Company has appealed both judgments; the appeals have not yet been decided by the appellate court. As of the end of the third quarter of 2022, we remain fully accrued for both judgments.

## **15. Subsequent Events**

On November 1, 2022, the Company announced that it had signed a definitive agreement to acquire 100% of AdoreMe, Inc. (“Adore Me”), a digitally-native intimates brand. The structured transaction includes an initial upfront \$400 million cash payment (subject to adjustment as provided in the definitive agreement) and post-closing consideration of at least \$80 million and up to \$300 million, which consists of a fixed payment to be made on or prior to January 15, 2025 and contingent payments based on the achievement of certain strategic objectives and the achievement of certain EBITDA and net revenue goals within the two-year period following closing of the transaction. The transaction is expected to close by the end of calendar January 2023, subject to customary closing conditions and regulatory clearances. The Company plans to finance the transaction at closing with cash on hand.

## SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

### Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

We caution that any forward-looking statements (as such term is defined in the U.S. Private Securities Litigation Reform Act of 1995) contained in this report or made by us, our management, or our spokespeople involve risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. Accordingly, our future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. Forward-looking statements include, without limitation, statements regarding our future operating results, the implementation and impact of our strategic plans, and our ability to meet environmental, social, and governance goals. Words such as “estimate,” “commit,” “target,” “goal,” “project,” “plan,” “believe,” “seek,” “strive,” “expect,” “anticipate,” “intend,” “potential” and any similar expressions may identify forward-looking statements. Risks associated with the following factors, among others, could affect our financial performance and cause actual results to differ materially from those expressed or implied in any forward-looking statements:

- the spin-off from our Former Parent may not be tax-free for U.S. federal income tax purposes;
- we may not realize all of the expected benefits of the spin-off;
- general economic conditions, inflation, consumer confidence, consumer spending patterns and market disruptions including pandemics or significant health hazards, severe weather conditions, natural disasters, terrorist activities, financial crises, political crises or other major events, or the prospect of these events;
- the novel coronavirus (COVID-19) global pandemic has had and may continue to have an adverse effect on our business and results of operations;
- difficulties arising from turnover in company leadership or other key positions;
- our ability to attract, develop and retain qualified associates and manage labor-related costs;
- our dependence on mall traffic and the availability of suitable store locations on appropriate terms;
- our ability to successfully operate and expand internationally and related risks;
- our independent franchise, license, wholesale, and joint venture partners;
- our direct channel business;
- our ability to protect our reputation and the image of our brands;
- our ability to attract customers with marketing, advertising and promotional programs;
- the highly competitive nature of the retail industry and the segments in which we operate;
- consumer acceptance of our products and our ability to manage the life cycle of our brands, keep up with fashion trends, develop new merchandise and launch new product lines successfully;
- our ability to realize the potential benefits and synergies sought with the pending acquisition of Adore Me;
- our ability to source, distribute and sell goods and materials on a global basis, including risks related to:
  - political instability, environmental hazards or natural disasters;
  - significant health hazards or pandemics;
  - legal and regulatory matters;
  - delays or disruptions in shipping and transportation and related pricing impacts; and
  - disruption due to labor disputes;
- our geographic concentration of vendor and distribution facilities in central Ohio and Southeast Asia;
- the ability of our vendors to deliver products in a timely manner, meet quality standards and comply with applicable laws and regulations;
- fluctuations in freight, product input and energy costs, including those caused by inflation;
- our and our third-party service providers’ ability to implement and maintain information technology systems and to protect associated data and system availability;
- our ability to maintain the security of customer, associate, third-party and company information;
- stock price volatility;
- shareholder activism matters;
- our ability to maintain our credit rating;
- our ability to comply with regulatory requirements; and
- legal, tax, trade and other regulatory matters.

Except as may be required by law, we assume no obligation and do not intend to make publicly available any update or other revisions to any of the forward-looking statements contained in this report to reflect circumstances existing after the date of this report, even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Additional information regarding these and other factors can be found in “Item 1A. Risk Factors” in our Annual Report on Form 10-K filed with the SEC on March 18, 2022.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of financial condition and results of operations are based upon our Consolidated and Combined Financial Statements, which have been prepared in accordance with GAAP. The following information should be read in conjunction with our financial statements and the related notes included in Item 1. Financial Statements.

### **Executive Overview**

Victoria's Secret is an iconic global brand of women's intimate and other apparel, personal care and beauty products. We sell our products primarily through two brands, Victoria's Secret and PINK. Victoria's Secret is a category-defining global lingerie brand with a leading market position and a rich, 40-year history of serving women across the globe. PINK is a lifestyle brand for the college-oriented customer, built around a strong intimates core. We also sell beauty products under both the Victoria's Secret and PINK brands. Together, Victoria's Secret, PINK and Victoria's Secret Beauty support, inspire and celebrate women through every phase of their life.

Victoria's Secret and PINK merchandise is sold online through e-commerce platforms, through retail stores located in the U.S., Canada and China, and through international stores and websites operated by partners under franchise, license, wholesale and joint venture arrangements. We have a presence in approximately 70 countries and we believe we benefit from global brand awareness, a wide and compelling product assortment and a powerful, deep connection with our customers.

In the third quarter of 2022, our operating income was \$43 million compared to \$108 million in the third quarter of 2021, and our operating income rate (expressed as a percentage of net sales) was 3.2% compared to 7.5% last year. The operating income decrease in the third quarter of 2022 compared to the third quarter of 2021 was primarily driven by a decrease in net sales and merchandise margin. Net sales decreased \$123 million, or 9%, to \$1.318 billion compared to \$1.441 billion in the third quarter of 2021. Our North American store sales decreased \$107 million, to \$813 million compared to \$920 million in the third quarter of 2021. The increase in average unit retail (which we define as the average price per unit purchased) and customer traffic compared to the third quarter of 2021 was more than offset by lower conversion rates (which we define as the percentage of customers who visit our stores and make a purchase) and units per transaction as our customers and the broader retail environment were impacted by persistent inflationary pressures. Our direct channel sales decreased by 16%, or \$64 million, to \$342 million compared to \$406 million in the third quarter of 2021, as an increase in average unit retail was more than offset by a decrease in conversion, units per transaction and traffic.

We are committed to optimizing our performance by focusing on our brand transformation, being best at bras, enhancing the customer experience and our relentless focus on costs and inventory management. We are confident in our opportunities and remain committed to delivering long-term sustainable value for our shareholders.

For additional information related to our third quarter of 2022 financial performance, see “Results of Operations.”

### **Information Technology Impacts of the Separation**

Subsequent to the completion of the Separation, we have provided technology services and systems to the Former Parent under the transition services agreements while two independent information technology platforms are being created in support of two independent companies. We have incurred, and expect to continue to incur, costs consisting of internal and external labor, software licensing, networking, security and infrastructure required to separate the current information technology capabilities (systems and infrastructure) in support of two independent companies. We currently estimate that our total incremental expenditures could be \$100 million to \$150 million over the transition period, with the majority of costs being incurred by the end of 2023, which is when the separation of our technology systems is expected to be predominately completed. Such estimates are subject to change as our work continues.

### Basis of Presentation

Our financial statements for periods through the Separation date of August 2, 2021 are combined financial statements prepared on a “carve-out” basis, which reflects the business as historically managed within the Former Parent. The balance sheets and cash flows for the periods prior to the Separation include only those assets and liabilities directly related to the Victoria’s Secret business, and the statements of income include the historically reported results of the Victoria’s Secret business along with allocations of a portion of the Former Parent’s total corporate expenses. Our financial statements for the period from August 3, 2021 through October 29, 2022 are consolidated financial statements based on our reported results as a standalone company. For additional information on the “carve-out” basis of accounting, see Note 1, “Description of Business, Basis of Presentation and Summary of Significant Accounting Policies.”

### Non-GAAP Financial Information

In addition to our results provided in accordance with GAAP above and throughout this Form 10-Q, provided below are non-GAAP financial measures that present operating income, net income attributable to Victoria’s Secret & Co. and net income per diluted share attributable to Victoria’s Secret & Co. on an adjusted basis, which remove certain special items. We believe that these special items are not indicative of our ongoing operations due to their size and nature. We use adjusted financial information as key performance measures of results of operations for the purpose of evaluating performance internally. These non-GAAP measurements are not intended to replace the presentation of our financial results in accordance with GAAP. Instead, we believe that the presentation of adjusted financial information provides additional information to investors to facilitate the comparison of past and present operations. Further, our definition of adjusted financial information may differ from similarly titled measures used by other companies. The table below reconciles the GAAP financial measures to the non-GAAP financial measures.

(in millions, except per share amounts)	Third Quarter		Year-to-Date	
	2022	2021	2022	2021
<b>Reconciliation of Reported to Adjusted Operating Income</b>				
Reported Operating Income - GAAP	\$ 43	\$ 108	\$ 234	\$ 536
Occupancy-related Legal Matter (a)	—	—	22	—
Restructuring Charge (b)	—	—	29	—
Adjusted Operating Income	<u>\$ 43</u>	<u>\$ 108</u>	<u>\$ 285</u>	<u>\$ 536</u>
<b>Reconciliation of Reported to Adjusted Net Income Attributable to Victoria’s Secret &amp; Co.</b>				
Reported Net Income Attributable to Victoria’s Secret & Co. - GAAP	\$ 24	\$ 75	\$ 175	\$ 400
Occupancy-related Legal Matter (a)	—	—	22	—
Restructuring Charge (b)	—	—	29	—
Tax Effect of Adjusted Items	—	—	(13)	—
Adjusted Net Income Attributable to Victoria’s Secret & Co.	<u>\$ 24</u>	<u>\$ 75</u>	<u>\$ 213</u>	<u>\$ 400</u>
<b>Reconciliation of Reported to Adjusted Net Income Per Diluted Share Attributable to Victoria’s Secret &amp; Co.</b>				
Reported Net Income Per Diluted Share Attributable to Victoria’s Secret & Co. - GAAP	\$ 0.29	\$ 0.81	\$ 2.07	\$ 4.46
Occupancy-related Legal Matter (a)	—	—	0.19	—
Restructuring Charge (b)	—	—	0.26	—
Adjusted Net Income Per Diluted Share Attributable to Victoria’s Secret & Co.	<u>\$ 0.29</u>	<u>\$ 0.81</u>	<u>\$ 2.52</u>	<u>\$ 4.46</u>

- (a) In the first quarter of 2022, we recognized a pre-tax charge of \$22 million (\$16 million after-tax), included in buying and occupancy expense, related to a legal matter with a landlord regarding a high-profile store that we surrendered to the landlord prior to the Separation. For additional information see Note 14, “Commitments and Contingencies” included in Item 1. Financial Statements.
- (b) In the second quarter of 2022, we recognized a pre-tax charge of \$29 million (\$22 million after-tax), \$16 million included in general, administrative and store operating expense and \$13 million included in buying and occupancy expense, related to restructuring activities to reorganize our leadership structure. For additional information see Note 4, “Restructuring Activities” included in Item 1. Financial Statements.

## Store Data

The following table compares the third quarter of 2022 U.S. company-operated store data to the third quarter of 2021 and year-to-date 2022 to year-to-date 2021:

	Third Quarter			Year-to-Date		
	2022	2021	% Change	2022	2021	% Change
Sales per Average Selling Square Foot (a)	\$ 136	\$ 151	(10 %)	\$ 456	\$ 476	(4 %)
Sales per Average Store (in thousands) (a)	\$ 945	\$ 1,040	(9 %)	\$ 3,158	\$ 3,291	(4 %)
Average Store Size (selling square feet)	6,919	6,897	0 %			
Total Selling Square Feet (in thousands)	5,618	5,725	(2 %)			

(a) Sales per average selling square foot and sales per average store, which are indicators of store productivity, are calculated based on store sales for the period divided by the average, including the beginning and end of period, of total square footage and store count, respectively.

The following table represents store data for year-to-date 2022:

	Stores at January 29, 2022	Opened	Closed	Reclassified to Joint Venture	Stores at October 29, 2022
<b>Company-Operated:</b>					
U.S.	808	11	(7)	—	812
Canada	26	—	—	—	26
Subtotal Company-Operated	834	11	(7)	—	838
<b>China Joint Venture:</b>					
Beauty & Accessories (a)	35	2	(6)	8	39
Full Assortment	30	2	(1)	—	31
Subtotal China Joint Venture	65	4	(7)	8	70
<b>Partner-Operated:</b>					
Beauty & Accessories	335	10	(30)	(8)	307
Full Assortment	128	16	(8)	—	136
Subtotal Partner-Operated	463	26	(38)	(8)	443
<b>Total</b>	<b>1,362</b>	<b>41</b>	<b>(52)</b>	<b>—</b>	<b>1,351</b>

(a) Includes nine partner-operated stores.

The following table represents store data for year-to-date 2021:

	Stores at January 30, 2021	Opened	Closed	Stores at October 30, 2021
<b>Company-Operated:</b>				
U.S.	846	—	(16)	830
Canada	25	1	—	26
China - Beauty & Accessories	36	2	(2)	36
China - Full Assortment	26	1	—	27
Subtotal Company-Operated	933	4	(18)	919
<b>Partner-Operated:</b>				
Beauty & Accessories	338	10	(13)	335
Full Assortment	120	4	—	124
Subtotal Partner-Operated	458	14	(13)	459
<b>Total</b>	<b>1,391</b>	<b>18</b>	<b>(31)</b>	<b>1,378</b>

## Results of Operations

### Third Quarter of 2022 Compared to Third Quarter of 2021

#### Operating Income

For the third quarter of 2022, operating income decreased \$65 million, to \$43 million, compared to operating income of \$108 million in the third quarter of 2021, and the operating income rate (expressed as a percentage of net sales) decreased to 3.2% from 7.5%. The drivers of the operating income results are discussed in the following sections.

#### Net Sales

The following table provides net sales for the third quarter of 2022 in comparison to the third quarter of 2021:

Third Quarter	2022	2021	% Change
	(in millions)		
Stores – North America	\$ 813	\$ 920	(12 %)
Direct	342	406	(16 %)
International (a)	163	115	43 %
<b>Total Net Sales</b>	<b>\$ 1,318</b>	<b>\$ 1,441</b>	<b>(9 %)</b>

(a) Results include consolidated joint venture sales in China, royalties associated with franchised stores and wholesale sales.

The following table provides a reconciliation of net sales from the third quarter of 2021 to the third quarter of 2022:

	(in millions)
<b>2021 Net Sales</b>	<b>\$ 1,441</b>
Comparable Store Sales	(86)
Sales Associated with New, Closed and Non-comparable Remodeled Stores, Net	(21)
Direct Channels	(56)
Credit Card Programs	(1)
International Wholesale, Royalty and Other	45
Foreign Currency Translation	(4)
<b>2022 Net Sales</b>	<b>\$ 1,318</b>

The following table compares the third quarter of 2022 comparable sales to the third quarter of 2021:

	2022	2021
Comparable Sales (Stores and Direct) (a)	(11 %)	0 %
Comparable Store Sales (a)	(10 %)	7 %

(a) The percentage change in comparable sales represents direct and comparable store sales. The percentage change in comparable store sales represents the change in sales at comparable stores only and excludes the change in sales from our direct channels. The change in comparable sales provides an indication of period over period growth (decline). A store is typically included in the calculation of comparable sales when it has been open 12 months or more and it has not had a change in selling square footage of 20% or more. Closed stores are excluded from the comparable sales calculation if they have been closed for four consecutive days or more. Upon re-opening, the stores are included in the calculation. Therefore, comparable sales results exclude the closure period of stores that were closed for four consecutive days or more as a result of the COVID-19 pandemic. Additionally, stores are excluded if total selling square footage in the mall changes by 20% or more through the opening or closing of a second store. The percentage change in comparable sales is calculated on a comparable calendar period as opposed to a fiscal basis. Comparable sales attributable to our international stores are calculated on a constant currency basis.

Net sales in the third quarter of 2022 decreased \$123 million, or 9%, to \$1.318 billion compared to \$1.441 billion in the third quarter of 2021. Our average unit retail increased in our stores and direct channel and customer traffic increased in our stores as compared to the third quarter of 2021. These increases were more than offset by lower conversion rates and units per transaction as our customers and the broader retail environment were impacted by persistent inflationary pressures.

In the stores channel, our North America net sales decreased \$107 million, or 12%, to \$813 million compared to the third quarter of 2021. The increase in traffic and average unit retail in the quarter compared to last year was more than offset by a decrease in conversion and units per transaction. Net sales in stores outside of North America increased in the third quarter of 2022 compared to the third quarter of 2021 driven by fewer COVID-19-related store restrictions this year.

In the direct channel, net sales decreased \$64 million, or 16%, to \$342 million, as an increase in average unit retail was more than offset by a decrease in conversion, units per transaction and traffic.

### Gross Profit

For the third quarter of 2022, our gross profit decreased \$108 million compared to the third quarter of 2021 to \$457 million, and our gross profit rate (expressed as a percentage of net sales) decreased to 34.7% from 39.2%.

The gross profit decrease was due to the decrease in merchandise margin dollars related to the decrease in net sales, increased promotional activity and an increase in inventory shrink expense in our stores. Partially offsetting these decreases were lower buying and occupancy expenses during the third quarter of 2022 compared to the third quarter of 2021 driven primarily by lower depreciation expense due to store closures.

The gross profit rate decrease was driven by a decrease in the merchandise margin rate reflecting increased promotional activity, deleverage in buying and occupancy expenses in the quarter as a result of the decrease in sales compared to the third quarter last year and the increase in inventory shrink expense in our stores during the third quarter of 2022.

### General, Administrative and Store Operating Expenses

For the third quarter of 2022, our general, administrative and store operating expenses decreased \$43 million, or 9%, compared to the third quarter of 2021 to \$414 million. The decrease in general, administrative and store operating expenses compared to the third quarter of 2021 was due to lower store selling expenses driven by improvement in our labor model and our ongoing disciplined expense management initiatives and lower marketing expenses.

The general, administrative and store operating expense rate (expressed as a percentage of net sales) decreased slightly to 31.5% from 31.7% due to the lower selling and marketing expenses.

### Interest Expense

For the third quarter of 2022, our interest expense increased \$3 million to \$15 million compared to the third quarter of 2021, driven by a higher average borrowing rate for our Term Loan Facility and the increase in our outstanding debt due to the borrowings from the ABL Facility during the third quarter of 2022.

### Provision for Income Taxes

For the third quarter of 2022, the Company's effective tax rate was 25.0% compared to 22.2% in the third quarter of 2021. The third quarter of 2022 rate was consistent with the Company's combined estimated federal and state statutory rate. The third quarter of 2021 rate was lower than the Company's combined estimated federal and state statutory rate primarily due to the recognition of excess tax benefits related to share-based compensation awards that vested in the quarter.

## Results of Operations

### Year-to-Date 2022 Compared to Year-to-Date 2021

#### Operating Income

For year-to-date 2022, operating income decreased \$302 million, to \$234 million, from \$536 million year-to-date 2021, and the operating income rate (expressed as a percentage of net sales) decreased to 5.4% from 11.6%. The drivers of the operating income results are discussed in the following sections.

#### Net Sales

The following table provides net sales for year-to-date 2022 in comparison to year-to-date 2021:

Year-to-Date	2022	2021	% Change
	(in millions)		
Stores – North America	\$ 2,712	\$ 2,890	(6 %)
Direct	1,176	1,396	(16 %)
International (a)	435	323	35 %
<b>Total Net Sales</b>	<b>\$ 4,323</b>	<b>\$ 4,609</b>	<b>(6 %)</b>

(a) Results include consolidated joint venture sales in China, royalties associated with franchised stores and wholesale sales.

The following table provides a reconciliation of net sales from year-to-date 2021 to year-to-date 2022:

	(in millions)
<b>2021 Net Sales</b>	<b>\$ 4,609</b>
Comparable Store Sales	(185)
Sales Associated with New, Closed and Non-comparable Remodeled Stores, Net	(6)
Direct Channels	(196)
Credit Card Programs	(4)
International Wholesale, Royalty and Other	111
Foreign Currency Translation	(6)
<b>2022 Net Sales</b>	<b>\$ 4,323</b>

The following table compares year-to-date 2022 comparable sales to year-to-date 2021:

	2022	2021
Comparable Sales (Stores and Direct) (a)	(9 %)	3 %
Comparable Store Sales (a)	(7 %)	8 %

(a) The percentage change in comparable sales represents direct and comparable store sales. The percentage change in comparable store sales represents the change in sales at comparable stores only and excludes the change in sales from our direct channels. The change in comparable sales provides an indication of period over period growth (decline). A store is typically included in the calculation of comparable sales when it has been open 12 months or more and it has not had a change in selling square footage of 20% or more. Closed stores are excluded from the comparable sales calculation if they have been closed for four consecutive days or more. Upon re-opening, the stores are included in the calculation. Therefore, comparable sales results exclude the closure period of stores that were closed for four consecutive days or more as a result of the COVID-19 pandemic. Additionally, stores are excluded if total selling square footage in the mall changes by 20% or more through the opening or closing of a second store. The percentage change in comparable sales is calculated on a comparable calendar period as opposed to a fiscal basis. Comparable sales attributable to our international stores are calculated on a constant currency basis.

Net sales year-to-date 2022 decreased \$286 million, or 6%, to \$4.323 billion compared to \$4.609 billion year-to-date 2021.

In the stores channel year-to-date 2022, our North America net sales decreased \$178 million, or 6%, to \$2.712 billion, compared to year-to-date 2021 as an increase in traffic was more than offset by a decrease in conversion and average unit retail. Net sales in stores outside of North America increased year-to-date 2022 compared to year-to-date 2021 driven by fewer COVID-19-related store restrictions this year.

In the direct channel, net sales decreased \$220 million, or 16%, to \$1.176 billion, primarily due to a decrease in traffic, average unit retail and conversion.

Additionally, net sales year-to-date 2022 as compared to year-to-date 2021 were impacted by incremental net sales recognized in the first quarter of 2021 as a result of federal stimulus benefits.

### Gross Profit

For year-to-date 2022, our gross profit decreased \$393 million to \$1.514 billion, and our gross profit rate (expressed as a percentage of net sales) decreased to 35.0% from 41.4%.

The gross profit decrease was primarily due to the decrease in merchandise margin dollars related to the decrease in net sales, incremental supply chain and inflationary cost pressures in the first and second quarter of 2022 compared to last year of approximately \$140 million and increased promotional activity this year. Additionally, the decrease in net sales and merchandise margin was due to incremental net sales and merchandise margin recognized in the first quarter last year as a result of federal stimulus benefits. Partially offsetting these decreases was lower buying and occupancy expenses this year compared to last year driven by lower landlord-related expenses, lower management compensation expense and lower depreciation expense due to store closures.

The gross profit rate decrease was primarily driven by a decrease in the merchandise margin rate reflecting the increased supply chain and inflationary cost pressures and increased promotional activity, partially offset by buying and occupancy leverage driven by the lower landlord-related expenses, lower management compensation expense and lower depreciation expense.

## **General, Administrative and Store Operating Expenses**

For year-to-date 2022, our general, administrative and store operating expenses decreased \$91 million, or 7%, to \$1.280 billion primarily due to lower store selling expenses driven by improvement in our labor model and our ongoing disciplined expense management initiatives, as well as lower management compensation expense.

The general, administrative and store operating expense rate (expressed as a percentage of net sales) decreased slightly to 29.6% from 29.7% due to the lower selling and management compensation expenses.

## **Interest Expense**

For year-to-date 2022, our interest expense increased \$25 million to \$41 million compared to year-to-date 2021, primarily driven by the increase in our outstanding debt due to the issuance of the 2029 Notes and the Term Loan Facility that we entered into upon the Separation in August 2021.

## **Provision for Income Taxes**

For year-to-date 2022, the Company's effective tax rate was 13.2% compared to 23.0% year-to-date 2021. The effective tax rate for both years was lower than the Company's combined estimated federal and state statutory rate primarily due to the recognition of excess tax benefits related to share-based compensation awards that vested in the respective periods.

## **FINANCIAL CONDITION**

### **Liquidity and Capital Resources**

Liquidity, or access to cash, is an important factor in determining our financial stability. We are committed to maintaining adequate liquidity. Cash generated from our operating activities provides the primary resources to support current operations, growth initiatives, seasonal funding requirements and capital expenditures. Our cash provided from operations is impacted by our net income and working capital changes. Our net income is impacted by, among other things, sales volume, seasonal sales patterns, success of new product introductions, profit margins and income taxes. Historically, sales are higher during the fourth quarter of the fiscal year due to seasonal and holiday-related sales patterns. Generally, our need for working capital peaks during the summer and fall months as inventory builds in anticipation of the holiday period.

Prior to the Separation, we generated annual cash flow from operating activities. However, we were operating within the Former Parent's cash management structure, which used a centralized approach to cash management and financing of our operations. As a result, a substantial portion of our cash was transferred to the Former Parent. This arrangement was not reflective of the manner in which we would have financed our operations had we been an independent, publicly traded company during the periods prior to the Separation.

The cash and cash equivalents held by the Former Parent at the corporate level prior to the Separation were not specifically identifiable to us and, therefore, were not reflected in the Consolidated Balance Sheets. The Former Parent's third-party long-term debt and the related interest expense were not allocated to us for any of the periods presented prior to the Separation as we were not the legal obligor of such debt.

Following the Separation from the Former Parent, our capital structure and sources of liquidity changed from the historical capital structure because we no longer participate in the Former Parent's centralized cash management program. Our ability to fund our operating needs is primarily dependent upon our ability to continue to generate positive cash flow from operations, as well as borrowing capacity under our ABL Facility, which we rely on to supplement cash generated by our operating activities, particularly when our need for working capital peaks in the summer and fall months as discussed above. Management believes that our cash balances and funds provided by operating activities, along with the borrowing capacity under our ABL Facility, taken as a whole, provide (i) adequate liquidity to meet all of our current and long-term obligations when due, including third-party debt that we incurred in connection with the Separation, (ii) adequate liquidity to fund capital expenditures, and (iii) flexibility to consider investment opportunities that may arise. However, certain investment opportunities may require us to seek additional debt or equity financing, and there can be no assurances that we will be able to obtain additional debt or equity financing on acceptable terms, if at all, in the future.

We expect to utilize our cash flows to continue to invest in our brands, talent and capabilities, and growth strategies as well as to repay our indebtedness over time. We also plan to finance the Adore Me transaction at closing with cash on hand. We believe that our available short-term and long-term capital resources are sufficient to fund requirements over the next 12 months.

### Working Capital and Capitalization

Prior to the Separation, we generated annual cash flow from operating activities to support our working capital needs. However, we were operating within the Former Parent's cash management structure, which used a centralized approach to cash management and financing of our operations. As a result, a substantial portion of our cash was transferred to the Former Parent. This arrangement was not reflective of the manner in which we would have financed our operations had we been an independent, publicly traded company during the periods presented prior to the Separation. Based upon our cash balances and funds provided by operating activities, along with the borrowing capacity under our ABL Facility, we believe we will be able to continue to meet our working capital needs.

The following table provides a summary of our working capital position and capitalization as of October 29, 2022, January 29, 2022 and October 30, 2021:

	October 29, 2022	January 29, 2022	October 30, 2021
	(in millions)		
Net Cash Provided by (Used for) Operating Activities (a)	\$ (279)	\$ 851	\$ 378
Capital Expenditures (a)	125	169	117
Working Capital	377	(7)	11
Capitalization:			
Long-term Debt	1,244	978	978
Victoria's Secret & Co. Shareholders' Equity	235	257	252
Total Capitalization	\$ 1,479	\$ 1,235	\$ 1,230
Amounts Available Under the ABL Facility (b)	\$ 441	\$ 523	\$ 701

- (a) The October 29, 2022 and October 30, 2021 amounts represent thirty-nine-week periods and the January 29, 2022 amounts represent a fifty-two-week period.
- (b) For the reporting period ended October 29, 2022, the availability under the ABL Facility was limited to the maximum aggregate commitment amount of \$750 million, less outstanding borrowings of \$267 million and letters of credit of \$42 million. For the reporting periods ended January 29, 2022 and October 30, 2021, the availability was limited by our borrowing base of \$564 million and \$742 million, respectively. We had outstanding letters of credit, which further reduced our availability under the ABL Facility, of \$41 million as of both January 29, 2022 and October 30, 2021. There were no borrowings outstanding under the ABL Facility as of January 29, 2022 and October 30, 2021.

### Cash Flow

The following table provides a summary of our cash flow activity for year-to-date 2022 and 2021:

	Year-to-Date	
	2022	2021
	(in millions)	
Cash and Cash Equivalents, Beginning of Period	\$ 490	\$ 335
Net Cash Flows Provided by (Used for) Operating Activities	(279)	378
Net Cash Flows Used for Investing Activities	(150)	(117)
Net Cash Flows Provided by (Used for) Financing Activities	67	(266)
Effects of Exchange Rate Changes on Cash and Cash Equivalents	(2)	1
Net Decrease in Cash and Cash Equivalents	(364)	(4)
Cash and Cash Equivalents, End of Period	\$ 126	\$ 331

**Operating Activities**

Net cash provided by (used for) operating activities reflects net income adjusted for non-cash items, including depreciation, share-based compensation expense and deferred tax expense, as well as changes in working capital. Net cash used for operating activities year-to-date 2022 was \$279 million, a decrease in net cash flows from operating activities of \$657 million compared to year-to-date 2021. The decrease in net cash from operating activities year-to-date 2022 was primarily driven by higher cash outflows associated with working capital changes and lower net income. The most significant working capital driver resulting in the decrease in operating cash flows this year compared to last year is driven by payments related to the increased inventory levels throughout this year compared to last year. The increased inventory levels this year were primarily driven by modal mix changes and longer in-transit shipment times which we began to experience in the third and fourth quarter of 2021. The other significant working capital driver resulting in the decrease in operating cash flows this year is related to income taxes paid of \$158 million year-to-date 2022 as compared to \$21 million paid year-to-date 2021. In 2021, the income tax provision assumed the utilization of certain tax benefits that only existed on a “carve-out” basis from the Former Parent.

**Investing Activities**

Net cash used for investing activities year-to-date 2022 was \$150 million, consisting primarily of capital expenditures of \$125 million and our \$18 million investment in Frankies Bikinis. The capital expenditures were primarily related to our store capital program, along with investments in technology, distribution and logistics to support our retail capabilities.

Net cash used for investing activities for year-to-date 2021 was \$117 million for capital expenditures. The capital expenditures were primarily related to our store refresh program, and technology and logistics to support our digital business and other retail capabilities.

We estimate 2022 capital expenditures of approximately \$200 million for the year. Capital investments during 2022 are focused on our store capital program, along with investments in technology, distribution and logistics capabilities.

**Financing Activities**

Net cash provided by financing activities year-to-date 2022 was \$67 million, consisting primarily of borrowings of \$267 million from the ABL Facility and \$55 million of cash received from Regina Miracle in connection with the joint venture agreement completed in the first quarter of 2022. Those proceeds were partially offset by \$214 million of share repurchases and \$40 million of payments for taxes on share-based compensation awards issued.

Net cash used for financing activities year-to-date 2021 was \$266 million, consisting primarily of net transfers to the Former Parent of \$1.253 billion, partially offset by \$982 million in proceeds from the issuance of long-term debt.

**Common Stock Share Repurchases & Treasury Stock Retirements**

Our Board of Directors will determine share repurchase authorizations, giving consideration to our levels of profit and cash flow, capital requirements, current and forecasted liquidity, the restrictions placed upon us by our borrowing arrangements and the Tax Matters Agreement with the Former Parent, as well as financial and other conditions existing at the time. We use cash flow generated from operating activities to fund our share repurchase programs. The timing and amount of any repurchases will be made at our discretion, taking into account a number of factors, including market conditions.

In February 2022, upon final settlement of our December 2021 ASR Agreement with Goldman Sachs, we received an additional 0.3 million shares of our common stock from Goldman Sachs. The delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share. In connection with the settlement of the ASR Agreement, \$50 million previously recorded in Paid-in Capital as of January 29, 2022, was reclassified to Treasury Stock in the first quarter of 2022. In February 2022, we immediately retired the additional 0.3 million shares repurchased in connection with the settlement of the ASR Agreement. The retirement resulted in a reduction of \$50 million in Treasury Stock, less than \$1 million in the par value of Common Stock, less than \$1 million in Paid-in Capital and nearly \$50 million in Retained Earnings.

In March 2022, our Board of Directors approved a new share repurchase program, providing for the repurchase of up to \$250 million of our common stock. The \$250 million authorization is expected to be utilized to repurchase shares in the open market, subject to market conditions and other factors. The March 2022 Share Repurchase Program will continue until exhausted, but no later than January 28, 2023.

We repurchased the following shares of our common stock under the March 2022 Share Repurchase Program during year-to-date 2022:

	<u>Amount Authorized</u> (in millions)	<u>Shares Repurchased</u> (in thousands)	<u>Amount Repurchased</u> (in millions)	<u>Average Stock Price</u>
March 2022 Share Repurchase Program	\$ 250	5,104	\$ 214	\$ 41.91

We have \$36 million remaining under the March 2022 Share Repurchase Program as of October 29, 2022.

In accordance with the Board of Directors' resolution, shares of our common stock repurchased under the March 2022 Share Repurchase Program will be retired upon repurchase. As a result, year-to-date 2022 we retired 5.1 million shares repurchased under the March 2022 Share Repurchase Program, which resulted in reductions of less than \$1 million in the par value of Common Stock, \$10 million in Paid-in Capital and \$204 million in Retained Earnings.

### Dividend Policy and Procedures

We have not paid any cash dividends since the Separation. We cannot guarantee that we will pay a dividend in the future or continue to pay any dividends if and when we commence paying dividends. The declaration and amount of any dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, cash flows, capital requirements of our business, covenants associated with our debt obligations, legal requirements, regulatory constraints, industry practice and any other factors the Board of Directors deems relevant. We would use cash flow generated from operating and financing activities to fund our dividends.

### Long-term Debt and Borrowing Facilities

The following table provides our outstanding debt balance, net of unamortized debt issuance costs and discounts, as of October 29, 2022, January 29, 2022 and October 30, 2021:

	<u>October 29,</u> <u>2022</u>	<u>January 29,</u> <u>2022</u>	<u>October 30,</u> <u>2021</u>
	(in millions)		
<b>Senior Secured Debt with Subsidiary Guarantee</b>			
\$396 million Term Loan due August 2028 ("Term Loan Facility")	\$ 388	\$ 390	\$ 390
Asset-based Revolving Credit Facility due August 2026 ("ABL Facility")	267	—	—
Total Senior Secured Debt with Subsidiary Guarantee	655	390	390
<b>Senior Debt with Subsidiary Guarantee</b>			
\$600 million, 4.625% Fixed Interest Rate Notes due July 2029 ("2029 Notes")	593	592	592
Total Senior Debt with Subsidiary Guarantee	593	592	592
Total	1,248	982	982
Current Debt	(4)	(4)	(4)
Total Long-term Debt, Net of Current Portion	<u>\$ 1,244</u>	<u>\$ 978</u>	<u>\$ 978</u>

Cash paid for interest was \$29 million year-to-date 2022. There was no cash paid for interest year-to-date 2021.

### Issuance of Notes

In July 2021, we issued \$600 million of 4.625% notes due in July 2029 in a transaction exempt from registration under the Securities Act of 1933, as amended. The obligation to pay principal and interest on the 2029 Notes is jointly and severally guaranteed on a full and unconditional basis by certain of our wholly-owned subsidiaries. The proceeds were held in escrow for release to us upon satisfaction of certain conditions, including completion of the Separation.

On August 2, 2021, we used cash proceeds of \$592 million, which were net of issuance costs of \$8 million, from the 2029 Notes, to partially fund the approximately \$976 million cash payment to the Former Parent in connection with the Separation. The issuance costs are being amortized through the maturity date and are included within Long-term Debt on the Consolidated Balance Sheets.

### Credit Facilities

On August 2, 2021, we entered into a term loan B credit facility in an aggregate principal amount of \$400 million, which will mature in August 2028. Commencing in December 2021, we are required to make quarterly principal payments on the Term Loan Facility in an amount equal to 0.25% of the original principal amount of \$400 million. We made principal payments of \$1 million and \$3 million for the Term Loan Facility during the third quarter of 2022 and year-to-date 2022, respectively.

Interest under the Term Loan Facility is calculated by reference to the LIBOR or an alternative base rate, plus an interest rate margin equal to (i) in the case of LIBOR loans, 3.25% and (ii) in the case of alternate base rate loans, 2.25%. The LIBOR rate applicable to the Term Loan Facility will be subject to a floor of 0.50%. The obligation to pay principal and interest on the loans under the Term Loan Facility is jointly and severally guaranteed on a full and unconditional basis by certain of our wholly-owned domestic subsidiaries. The loans under the Term Loan Facility are secured on a first-priority lien basis by certain assets of ours and guarantors that do not constitute priority collateral of the asset-based revolving credit facility and on a second-priority lien basis by priority collateral of the asset-based revolving credit facility, subject to customary exceptions.

On August 2, 2021, we also entered into a senior secured asset-based revolving credit facility. The ABL Facility allows for borrowings and letters of credit in U.S. dollars or Canadian dollars and has aggregate commitments of \$750 million and an expiration date of August 2026. The availability under the ABL Facility is the lesser of (i) the borrowing base, determined primarily based on our eligible U.S. and Canadian credit card receivables, eligible accounts receivable, eligible inventory and eligible real property, and (ii) the aggregate commitment. Interest on the loans under the ABL Facility is calculated by reference to (i) LIBOR or an alternative base rate and (ii) in the case of loans denominated in Canadian dollars, CDOR or a Canadian base rate, plus an interest rate margin based on average daily excess availability ranging from (x) in the case of LIBOR and CDOR loans, 1.50% to 2.00% and (y) in the case of alternate base rate loans and Canadian base rate loans, 0.50% to 1.00%. Unused commitments under the ABL Facility accrue an unused commitment fee ranging from 0.25% to 0.30%. The obligation to pay principal and interest on the loans under the ABL Facility is jointly and severally guaranteed on a full and unconditional basis by certain of our wholly-owned domestic and Canadian subsidiaries. The loans under the ABL Facility are secured on a first-priority lien basis by our eligible U.S. and Canadian credit card receivables, eligible accounts receivable, eligible inventory and eligible real property and on a second-priority lien basis on substantially all other assets of ours, subject to customary exceptions.

During the third quarter of 2022, we borrowed \$267 million from the ABL Facility, all of which remains outstanding as of October 29, 2022. We had \$42 million of outstanding letters of credit as of October 29, 2022 that further reduced our availability under the ABL Facility. As of October 29, 2022, our remaining availability under the ABL Facility was \$441 million.

On August 2, 2021, we used the net cash proceeds from the credit facilities of \$384 million, which were net of issuance and financing costs of \$10 million for the Term Loan Facility and \$6 million for the ABL Facility, to partially fund the approximately \$976 million cash payment to the Former Parent in connection with the Separation. The discounts and issuance costs from the Term Loan Facility are being amortized through the maturity date and are included within Long-term Debt on the Consolidated Balance Sheets.

Our long-term debt and borrowing facilities contain certain financial and other covenants, including, but not limited to, the maintenance of financial ratios. The 2029 Notes and the Term Loan Facility include the maintenance of a consolidated coverage ratio and a consolidated total leverage ratio, and the ABL Facility includes the maintenance of a fixed charge coverage ratio and a debt to EBITDAR ratio. The financial covenants could, within specific predefined circumstances, limit our ability to incur additional indebtedness, make certain investments, pay dividends or repurchase shares. As of October 29, 2022, we were in compliance with all covenants under our long-term debt and borrowing facilities.

#### ***Long-term Debt due to Former Parent***

During 2020, we borrowed \$97 million from the Former Parent to pay down outstanding debt with external parties. This borrowing was due in September 2025 and had a variable interest rate based on the China Loan Prime Rate. As a result of the Separation, we no longer have this Long-term Debt due to Former Parent. Prior to the Separation, we recognized \$2 million of interest expense year-to-date 2021 related to this borrowing.

#### **Credit Ratings**

The following table provides our credit ratings as of October 29, 2022:

	<b>Moody's</b>	<b>S&amp;P</b>
Corporate	Ba3	BB-
Senior Secured Debt with Subsidiary Guarantee	Ba2	BB+
Senior Unsecured Debt with Subsidiary Guarantee	B1	BB-
Outlook	Stable	Stable

## **Contingent Liabilities and Contractual Obligations**

### *Contractual Obligations*

Our contractual obligations primarily consist of long-term debt and the related interest payments, operating leases, purchase orders for merchandise inventory and other long-term obligations. These contractual obligations impact our short-term and long-term liquidity and capital resource needs. There have been no material changes in our contractual obligations since January 29, 2022, as discussed in “Contingent Liabilities and Contractual Obligations” in our Annual Report on Form 10-K filed with the SEC on March 18, 2022, other than the \$267 million of borrowings under the ABL Facility. Certain of our contractual obligations may fluctuate during the normal course of business (primarily changes in our merchandise inventory-related purchase obligations, which fluctuate throughout the year as a result of the seasonal nature of our operations).

## **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

We did not adopt any new accounting standards during the third quarter of 2022 that had a material impact on our results of operations, financial position or cash flows. In addition, there are no new accounting standards not yet adopted that are expected to have a material impact on our results of operations, financial position or cash flows.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies related to estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management evaluates its accounting policies, estimates and judgments, including those related to inventories, long-lived assets, claims and contingencies, income taxes and revenue recognition. Management bases our estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

There have been no material changes to the critical accounting policies and estimates disclosed in our Annual Report on Form 10-K filed with the SEC on March 18, 2022.

## **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Market Risk**

The market risk inherent in our financial instruments represents the potential loss in fair value, earnings or cash flows arising from adverse changes in foreign currency exchange rates or interest rates. We may use derivative financial instruments like foreign currency forward contracts, cross-currency swaps and interest rate swap arrangements to manage exposure to market risks. We do not use derivative financial instruments for trading purposes.

### *Foreign Exchange Rate Risk*

We have operations and investments in unconsolidated entities in foreign countries which expose us to market risk associated with foreign currency exchange rate fluctuations. Our Canadian dollar and Chinese Yuan denominated earnings are subject to exchange rate risk as substantially all our merchandise sold in Canada and China is sourced through U.S. dollar transactions. From time to time we may adjust our exposure to foreign exchange rate risk by entering into foreign currency forward contracts, however, these measures may not succeed in offsetting all the short-term impact of foreign currency rate movements and generally may not be effective in offsetting the long-term impact of sustained shifts in foreign currency rates.

Further, although our royalty arrangements with our international partners are denominated in U.S. dollars, the royalties we receive in U.S. dollars are calculated based on sales in the local currency. As a result, our royalties in these arrangements are exposed to foreign currency exchange rate fluctuations.

### *Interest Rate Risk*

Our investment portfolio primarily consists of interest-bearing instruments that are classified as cash and cash equivalents based on their original maturities. Our investment portfolio is maintained in accordance with our investment policy, which specifies permitted types of investments, specifies credit quality standards and maturity profiles and limits credit exposure to any single issuer. The primary objective of our investment activities is the preservation of principal, the maintenance of liquidity and the maximization of interest income while minimizing risk. As of October 29, 2022, our investment portfolio is primarily comprised of bank deposits. Prior to the Separation, cash generated by us was invested by the Former Parent in U.S. government obligations and U.S. Treasury and AAA-rated money market funds. Given the short-term nature and quality of investments in our portfolio, we do not believe there is any material risk to principal associated with increases or decreases in interest rates.

Our long-term debt as of October 29, 2022 consists of the 2029 Notes, which have a fixed interest rate, the \$396 million in outstanding borrowing under the Term Loan Facility, which has a variable interest rate based on either the LIBOR or an alternate base rate, and the \$267 million in outstanding borrowing under the ABL Facility, which has a variable interest rate based on either the LIBOR, CDOR, a Canadian base rate or an alternate base rate. Our exposure to interest rate changes is limited to the fair value of the debt issued as well as the interest we pay on the Term Loan Facility and ABL Facility, which would not have a material impact on our earnings or cash flows.

#### **Fair Value of Financial Instruments**

The following table provides a summary of the principal value and estimated fair value of our outstanding publicly traded debt as of October 29, 2022, January 29, 2022 and October 30, 2021:

	October 29, 2022	January 29, 2022	October 30, 2021
	(in millions)		
Principal Value	\$ 996	\$ 999	\$ 1,000
Fair Value, Estimated (a)	870	975	1,003

(a) The estimated fair value of our publicly traded debt is based on reported transaction prices which are considered Level 2 inputs in accordance with ASC 820, *Fair Value Measurement*. The estimates presented are not necessarily indicative of the amounts that we could realize in a current market exchange.

As of October 29, 2022, we believe that the carrying values of accounts receivable, accounts payable and accrued expenses approximate fair value because of their short maturity. We further believe the principal value of the outstanding debt under the ABL Facility approximates its fair value as of October 29, 2022 based on the terms of the borrowings from the ABL Facility.

#### **Concentration of Credit Risk**

We maintain cash and cash equivalents with various major financial institutions. We monitor the relative credit standing of financial institutions with whom we transact and limit the amount of credit exposure with any one entity. As of October 29, 2022, our investment portfolio is primarily comprised of bank deposits. Prior to the Separation, cash generated by us was invested by the Former Parent in U.S. government obligations and U.S. Treasury and AAA-rated money market funds. We also periodically review the relative credit standing of franchise, license and wholesale partners and other entities to which we grant credit terms in the normal course of business.

#### **Item 4. CONTROLS AND PROCEDURES**

*Evaluation of disclosure controls and procedures.* As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective and designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

*Changes in internal control over financial reporting.* There were no changes in our internal control over financial reporting that occurred during the third quarter of 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

We are a defendant in a variety of lawsuits arising in the ordinary course of business. Actions filed against us from time to time include commercial, tort, intellectual property, customer, employment, data privacy, securities and other claims, including purported class action lawsuits. Although it is not possible to predict with certainty the eventual outcome of any litigation, in the opinion of management, our current legal proceedings are not expected to have a material adverse effect on our financial position or results of operations.

### Item 1A. RISK FACTORS

The risk factors that affect our business and financial results are set forth under “Item 1A. Risk Factors” in our 2021 Annual Report on Form 10-K filed with the SEC on March 18, 2022. Except as set forth below, there have been no material changes to the risk factors from those described in the 2021 Annual Report on Form 10-K. We wish to caution the reader that the risk factors discussed in “Item 1A. Risk Factors” in our 2021 Annual Report on Form 10-K and those described in this report or other SEC filings could cause actual results to differ materially from those stated in any forward-looking statements.

***Our pending acquisition of Adore Me remains subject to certain transaction-related and other risks, and we may not realize the potential benefits and synergies sought with the acquisition of Adore Me.***

The completion of the acquisition of Adore Me is subject to the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, as amended, and the satisfaction of other conditions specified in the definitive agreement, some of which are beyond our control. Although we anticipate closing the acquisition by the end of calendar January 2023, there is no assurance that regulatory clearance and the other conditions to the completion of the acquisition will be obtained or take place in a timely manner. A delay in completing the acquisition could cause us to realize some or all of the benefits later than we otherwise expected to realize them which, in turn, could result in additional transaction costs or cause other negative effects associated with uncertainty about the completion of the acquisition.

Until the completion of the acquisition, Adore Me will continue to operate independently. The success of the acquisition, including anticipated benefits and synergies, will depend in part on our ability to successfully integrate Adore Me’s business following the completion of the acquisition. We believe that there are significant benefits and synergies that may be realized, including as a result of leveraging Adore Me’s expertise and technology to improve our customer shopping experience and accelerate the modernization of the Company’s digital platform. However, we may fail to realize these benefits and synergies for a variety of reasons, including:

- failure to successfully manage relationships with customers, distributors and suppliers;
- failure of Adore Me’s customers to continue as customers of the combined company;
- potential incompatibility or difficulties integrating and harmonizing technologies, including financial reporting systems;
- costs of integrating exceeding original estimates;
- the loss of key employees; and
- failure to combine product offerings and purchase experiences efficiently and effectively.

Further, our integration efforts could disrupt both companies’ existing operations and also divert management attention and resources. If we experience difficulties with the integration process, the anticipated benefits of the acquisition, including anticipated sales and growth opportunities, may not be realized fully, or at all, and may take longer to realize than expected. Failure to achieve the anticipated benefits of the acquisition could adversely affect our results of operations, financial condition and cash flows, decrease or delay the accretive effect of the acquisition and negatively impact the price of our common stock.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table provides our repurchases of our common stock during the third quarter of 2022:

<b>Period</b>	<b>Total Number of Shares Purchased (a)</b>	<b>Average Price Paid per Share (b)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs</b>	<b>Maximum Number of Shares (or Approximate Dollar Value) that May Yet be Purchased Under the Program (c)</b>
	<b>(in thousands)</b>			<b>(in thousands)</b>
August 2022	528	\$ 38.68	516	\$ 59,130
September 2022	712	32.49	709	36,106
October 2022	15	33.36	—	36,106
<b>Total</b>	<b>1,255</b>		<b>1,225</b>	

- (a) The total number of shares repurchased includes shares repurchased as part of publicly announced programs, with the remainder relating to shares repurchased in connection with tax payments due upon vesting of employee restricted stock awards and the use of our stock to pay the exercise price on employee stock options.
- (b) The average price paid per share includes any broker commissions.
- (c) The March 2022 Share Repurchase Program authorizes the purchase of up to \$250 million of our common stock in open market transactions, subject to market conditions and other factors. The March 2022 Share Repurchase Program will continue until exhausted, but no later than January 28, 2023.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

None.

## Item 6. EXHIBITS

### Exhibits

<a href="#">2.1*</a>	Agreement and Plan of Merger, dated as of November 1, 2022, by and among Victoria's Secret & Co., Fashion Holding Group, Inc., AdoreMe, Inc. and Fortis Advisors LLC (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on November 1, 2022).**
<a href="#">3.1*</a>	Amended and Restated Certificate of Incorporation of Victoria's Secret & Co. (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on August 3, 2021).
<a href="#">3.2*</a>	Amended and Restated Bylaws of Victoria's Secret & Co. (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed on August 3, 2021).
<a href="#">31.1</a>	Section 302 Certification of CEO.
<a href="#">31.2</a>	Section 302 Certification of CFO.
<a href="#">32</a>	Section 906 Certification (by CEO and CFO).
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

\* Previously filed.

\*\* Certain exhibits and schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant hereby undertakes to furnish supplementally a copy of any omitted exhibit or schedule upon request by the Securities and Exchange Commission.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VICTORIA'S SECRET & CO.

(Registrant)

By: /s/ Timothy Johnson

Timothy Johnson

Chief Financial and Administrative Officer \*

Date: December 2, 2022

\* Mr. Johnson is the principal financial officer and the principal accounting officer and has been duly authorized to sign on behalf of the Registrant.

**Section 302 Certification**

I, Martin Waters, certify that:

1. I have reviewed this report on Form 10-Q of Victoria's Secret & Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Martin Waters

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Martin Waters  
Chief Executive Officer

Date: December 2, 2022

**Section 302 Certification**

I, Timothy Johnson, certify that:

1. I have reviewed this report on Form 10-Q of Victoria's Secret & Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Timothy Johnson

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Timothy Johnson

Chief Financial and Administrative Officer

Date: December 2, 2022

**Section 906 Certification**

Martin Waters, the Chief Executive Officer, and Timothy Johnson, the Chief Financial and Administrative Officer, of Victoria's Secret & Co. (the "Company"), each certifies that, to the best of his knowledge:

- (i) the Quarterly Report of the Company on Form 10-Q dated December 2, 2022 for the period ending October 29, 2022 (the "Form 10-Q"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Martin Waters

Martin Waters

Chief Executive Officer

/s/ Timothy Johnson

Timothy Johnson

Chief Financial and Administrative Officer

Date: December 2, 2022