FINAL

LB THIRD QUARTER 2018 EARNINGS COMMENTARY

NOVEMBER 19, 2018

INTRODUCTION

- L Brands is providing this third quarter commentary ahead of its live earnings call scheduled for November 20th at 9:00 a.m.

- We remind you that any forward-looking statements made in this commentary are subject to our safe harbor statement found in our SEC filings.

- Our third quarter earnings release and related financial information are available on our website, www.LB.com. Also available on our website is an investor presentation.

- As you know, 2017 was a 53-week year. All of the sales dollars, margin and operating income results discussed in this commentary are on a reported basis (quarter ending November 3, 2018 versus October 28, 2017). Comparable sales are on a comparable calendar period (quarter ending November 3, 2018, versus 13-week period ended November 4, 2017). Additionally, all the results discussed in this commentary are adjusted results and exclude the charges related to the closure of the Henri Bendel business and store impairments described in our press release.

Commentary

- As we report on our third-quarter results, we want to provide an update on recent developments and put into perspective where we *were*, where we *are* and where we *will be* in the future. We have incredible brands and amazing people, and while we have a lot of work ahead, we know that we will achieve our goals.

Where We Were

- L Brands had record results in 2015 – in earnings per share and operating income margin. In Victoria's Secret, most of the growth had been driven by PINK … we were not meeting our growth goals in Lingerie and Beauty. So in 2016, we made a number of changes at Victoria's Secret to better streamline the business and focus our resources on core categories to accelerate growth, including:

    - The reorganization of the business into 3 separate business units for greater accountability: Victoria's Secret Lingerie (VSL), PINK and Victoria's Secret Beauty (VSB);
    - The exit of the non-core categories of swim and apparel to increase focus on our core merchandise categories;
    - The discontinuation of the old catalogue to focus on digital;
    - The substantial reduction of direct mail bra and panty promotional offers; and

  - Organizational changes, including the integration of the direct business into VSL, PINK and VSB and a significant reduction in home office workforce.

- Each one of these changes on its own was significant, and together they were even more substantial. The cumulative impact of the exit of swim and apparel and the discontinuation of promotional offers and the catalogue did result in a reduction in customer traffic, and the organizational changes were disruptive. As a result, performance has not met our expectations. But, with these important changes behind us, and with the additional steps we're taking which we'll speak to in more detail later, we believe we are now better positioned to give our customers what they want.

Where We Are

- Today, our global brands have leading market share in attractive categories with high emotional content, strong customer engagement through social media and in-store experiences, and a large and growing digital business and customer file. We also have opportunities to improve.

Bath & Body Works

- At Bath & Body Works, an aligned, experienced leadership team and strong customer response to our merchandise assortments are contributing to another solid year. We will end this year with more than 600 newly remodeled stores, which include the White Barn store design. While the investment in these stores has resulted in some financial pressure, they continue to drive significant sales growth and, importantly, present a new, compelling store experience for the brand and customers alike.

Victoria's Secret

- Victoria's Secret is underperforming – a poor assortment has reduced traffic, resulting in increased promotion which has negatively impacted margin rates. Our team is working hard to improve the bra and panty assortment, which must lead the business.

    - In Victoria's Secret Lingerie, we are seeing better performance in our newer bra launches, panties and sleepwear. With the Holiday season fast approaching, we have made a substantial investment in the sleepwear category, and customers are responding positively.
    - Today we announced that John Mehas will be joining Victoria's Secret Lingerie in early 2019 as CEO, replacing Jan Singer, who has resigned. He currently serves as president of Tory Burch and previously led Club Monaco – a Polo Ralph Lauren business – for 13 years as President and CEO.
    - In PINK, fashion errors in loungewear have driven a recent deceleration in performance. We have been adjusting our assortment based on real-time feedback. Our new PINK CEO Amy Hauk has been getting to

really know the PINK customer and plans to bring fresh merchandise ideas in 2019.

- Victoria’s Secret Beauty, under the leadership of Greg Unis, is more focused, with improved sourcing speed and fashion, resulting in positive comps and margin dollar growth.

International

- Outside North America, we have opened more than 500 net new stores in the past five years. Our franchise business – in Victoria’s Secret full assortment (VSFA), PINK, Victoria’s Secret Beauty and Accessories (VSBA) and Bath & Body Works stores – continues to grow at a high profit rate.

- We are investing in China and have a strong leadership team with considerable experience to draw upon as we grow. China is an extremely important market, and we have received positive responses to the Victoria’s Secret brand and experienced rapid online growth.

- In the U.K., we continue to face challenges, influenced by the same issues as our North American business, as well as macro issues specific to the U.K. We are focused on making the necessary changes to improve the business.

Where We’re Going

- As a world-class specialty retailer, we can never stand still. That's why we recently made some tough decisions that are enabling us to increase our focus on our core businesses and our highest growth opportunities. These significant decisions include:

    - Closing of Henri Bendel;
    - Pursuing alternatives for La Senza; and
    - Resetting of L Brand's dividend and committing to deleverage.

- As discussed in more detail later, the Board's decision to reduce the dividend resets our yield and payout ratio to appropriate levels and will give us additional cash to contribute to the deleveraging of our balance sheet over time.

- These were the right choices that will strengthen our company and help us deliver positive results.

- Our recent overall performance has been unacceptable. However, there is no group of people more capable of overcoming the challenges we face and accomplishing our goals than the L Brands team. By executing against our strategy and focusing on the fundamentals, staying close to our customers and leveraging the strength of our brands, we will deliver on our commitments for our stakeholders – customers, associates and shareholders.

- As we look to the next year:

- Our number one priority is improving performance at Victoria's Secret Lingerie and PINK. In doing so, our new leaders are coming in with a fresh perspective and looking at *everything* … our marketing, brand positioning, internal talent, real estate portfolio and cost structure. *Most important* is improving our merchandise assortments … it all starts with the customer saying, "I'll take it." Over the last few years, in both Victoria's Secret Lingerie and PINK, we have lost our close connection to our customer … we are getting that back … by traveling, spending more time in stores and getting to know her like we'd know our best friend. We have significant opportunities to improve our merchandise … making sure we have a robust product pipeline, fashion that our customers really want and the right emotional content. We will also be expanding our assortment to include new and previously exited categories, with new licensing opportunities in eyewear, footwear and swimwear.
- We have a highly productive store base that provides us with the opportunity to personally interact with customers through nearly <u>one billion visits</u> to our stores every year … a key competitive advantage. Nonetheless, we will continue to rigorously review our real estate portfolio and we will continue to close stores when it makes sense to do so financially.
- We continue to invest in a more experienced and qualified sales team that understands our assortment and can engage with our customers and build real relationships.

- We also interact with customers through one billion visits a year to our digital platforms. Our Victoria's Secret and Bath & Body Works direct businesses, with $2 billion in sales at 20%+ operating margin, are growing rapidly at a mid- to high-teens rate. We will continue to invest in talent and technical capabilities to support this growth.
- Over the last 10 years, we have significantly reduced our lead times and increased our agility, enabling us to TEST, READ and REACT to customer preferences … speed is a key competitive advantage.
- We have a significant opportunity for growth in our international business and will focus on China, the Middle East, Southeast Asia and Europe. We'll be conducting a targeted review of our international real estate with the objective of improving profitability.

Third quarter results

- Turning to third quarter results, adjusted earnings per share of 16 cents in the quarter exceeded our initial earnings guidance of 0 to 5 cents, driven by outperformance at Bath & Body Works.

- Net sales for the quarter increased 6% to $2.775 billion, and total comps increased 4%. The 2-point spread between comps and total sales was driven by square footage and international growth and the adoption of the new accounting standard for revenue recognition, partially offset by the negative impact of the calendar shift resulting from the extra week last year. The calendar shift negatively impacted the third quarter by about $24 million in sales and about 3 cents in EPS.

- The gross margin rate decreased by 90 basis points to 36.9%, driven by a decrease in the merchandise margin rate partially offset by slight leverage in buying and occupancy expense.

- SG&A expenses deleveraged by 240 basis points, principally driven by the reclassification of Angel card income resulting from the new accounting standard and the incremental investment in wage rates announced earlier this year.

- Adjusted operating income dollars decreased by $76.1 million, or 33%.

- Inventories per square foot ended the quarter up 10% versus last year, up 5% on a 2-year basis, in line with expectations. About 6 points of the increase relates to the calendar shift caused by the 53-week year in 2017.

- We repurchased 0.3 million shares of stock in the third quarter for $10.0 million. At quarter-end, we had $78.7 million remaining under our current $250 million share repurchase program.

<u>Victoria's Secret</u>

- Third quarter results at Victoria's Secret were at the low end of our expectations. Comps decreased and the merchandise margin rate was down significantly across all major merchandise categories as we increased promotional activity to drive traffic and successfully clear inventory.

- Third quarter sales for the Victoria's Secret segment were $1.529 billion, and comp sales decreased 2%, including a 6% decline in store comps. Total digital sales increased by 19%.

- The total segment gross margin rate decreased significantly, driven by a decline in the merchandise margin rate as mentioned above. The merchandise margin dollar decline in the quarter was principally driven by PINK.

- SG&A expense deleveraged, driven principally by the reclassification of Angel card income and incremental wage investments.

- Operating income declined to $14.2 million from $134.1 million last year, and the rate decreased by 780 basis points.

- In the lingerie business, third quarter comps were about flat, and the merchandise margin rate decreased significantly. Growth in sleepwear and panties was offset by a slight decline in bras.

- We continue to see strong customer response to our Sexy Illusions and the T-shirt bra collections. Core lingerie bra comps were up slightly, and were offset by a decline in sport bras. We are in the process of resetting the Sport business.

- Customers have been responding well to our sleepwear assortment, and we have invested in an expanded assortment for Holiday.

- Turning to PINK, comps decreased in the mid-single digit range for the third quarter, principally driven by a decline in loungewear. The total PINK merchandise margin rate was down significantly to last year, driven by unplanned promotions to keep inventory fresh and an assortment mix into higher cost embellishment and bling.

- PINK third quarter performance was disappointing, as customers did not respond well to fashion in the loungewear business. Amy Hauk recently joined the team, and she has focused on getting to know the customer to understand the business. The PINK team is leveraging the speed in the business and has made adjustments for Holiday based on what is and is not working. We expect to see the full impact of Amy's actions on the assortment in late Spring.

- Victoria's Secret Beauty delivered a solid third quarter performance in sales and margin dollar growth … comps increased in the high-single digit range. The customer responded to fashion and newness in the assortment and we remained agile, chasing into what's working.

- For Holiday, the Beauty team has developed a thoughtfully conceived, fashion-first assortment. We build upon our customer favorites in fragrance, mist, accessories and PINK Beauty with the addition of great gift sets and a variety of price points to create a unique gifting experience.

<u>Bath & Body Works</u>

- Third quarter sales for the Bath & Body Works segment were $956.2 million, up 17% or $140.4 million to last year, and comps increased 13%; store only comps increased 10%.

- Sales performance was strong across the quarter and driven by growth in both channels. We were able to reduce promotional activity relative to last year. Product acceptance was strong across all product categories, led by good response to our seasonal product assortment.

- For the quarter, operating income was $177.8 million, up 29% to last year. Our operating income rate was 18.6%, increasing 170 basis points to last year. Our gross margin rate increased, driven primarily by the leveraging of increased occupancy costs on the higher sales result, lower promotional activity and a favorable shrink result.

- We continue to see strong performance in our Bath & Body Works Direct channel, which grew sales by 31% in the third quarter versus 27% last year.

- Inventories were well managed through the quarter and ended up to last year on a dollar-per-selling-square-foot basis, in line with expectations.

- During the quarter, we continued our real estate initiative by opening or remodeling 83 additional stores in our fleet, bringing the number of new concept stores to 607 at the end of the quarter. The overall results of these stores continue to deliver on our expectations. Our plans assume that we will finish the year with approximately 635 stores in our new concept, either in a shop-in-shop or side-by-side format.

- Merchandise acceptance and newness helped us achieve a strong third quarter outcome, and we are pleased that the merchandise learnings we have had over the last year are leading to our results. We are confident in our Christmas and fourth quarter product assortment and our continued strong execution in stores and online.

- Occupancy costs, from both our real estate initiative and direct fulfillment, as well as sourcing costs will place pressure on gross margin in the fourth quarter and the foreseeable future.

- We are planning promotional levels about flat to last year for the quarter. We will continue to focus on our strength around our speed and agility and will continue to test into pricing and promotion strategies, react to customer preferences and chase into proven product winners as necessary to drive results.

- We remain focused on disciplined expense management, and we will continue to make appropriate investments to drive growth in the business.

- As we start the fourth quarter and the Christmas season, we are well positioned in our merchandise assortment, pleased with the trend of our business and confident in our plans. We continue to drive results in both the stores and direct channel. We understand we need to keep getting better and remain close to our customer to win in a competitive retail landscape. We will continue to distort to product winners while providing a world-class in-store and on-line experience.

International

- In our international business, we delivered sales growth in all segments of the business except for the U.K. and travel retail. Net sales increased by 17% to $134.0 million. We opened 13 net new stores in the quarter, ending with 732 in total.

- Operating income declined by $11 million, as increases in all of our franchise businesses were offset by a decline in profitability of our travel retail business, continued investment in China and losses in U.K.

- In China, we continue to deliver strong growth in the Direct business. We opened 4 additional full-assortment stores in the third quarter, including a large store in the best mall in Beijing. We ended the quarter with 14 VSFA stores and 30 VSBA Stores.

- We are very focused on improving performance in our U.K. stores and delivered sales growth in the quarter, driven by new store openings. Comps, while still negative, did improve in the third quarter versus the second quarter.

- We remain confident about our prospects for growth in international markets and our ability to navigate the current challenges, and of course, we remain focused on the fundamentals: great execution of our brands wherever we go.

<u>Guidance</u>

- Turning to earnings guidance, we are increasing our full-year forecast to reflect the third quarter beat. Our guidance includes identified expense and merchandise cost reductions, as well as the previously announced investment in incremental wages of approximately $100 million.

- We forecast fourth quarter comps to increase between 1% and 4%. Sales in the fourth quarter are expected to be about 1 to 2 points higher than comps, driven by square footage and international growth, the adoption of the new accounting standard for revenue recognition, offset somewhat by the loss of the extra week in 2017. As a reminder, the extra week last year was worth about 10 cents in earnings per share. There will be variability in the monthly sales to comps spreads, driven by the calendar shift.

- We expect the fourth quarter gross margin rate to be down to down significantly to last year, driven primarily by a decline in merchandise margin rate.

- We expect the SG&A rate to be up versus last year, driven by the reclassification of Angel card income and the incremental wage investments.

- We expect fourth quarter net non-operating expense, consisting primarily of interest expense, to be about $90 to $95 million and the tax rate to be about 27%.

- We expect earnings per share between $1.90 and $2.10 in the fourth quarter against last year's 14-week $2.11 result ($2.01 on a 13-week basis).

- We expect to end the fourth quarter with inventory per square foot up in the low single-digit range versus last year.

- For the full year 2018, we are projecting comps to be up low-single digits. Total sales growth is forecasted to be about 3 to 4 points higher than comps due to growth in square footage and international and the adoption of the new accounting standard for revenue recognition, offset by the extra week in 2017.

- We expect our full-year gross margin rate to be down to last year, driven by a decline in the merchandise margin rate.

- We expect the full-year SG&A rate to increase, driven principally by the impact of the incremental wage investments and the reclassification of Angel card income. Excluding these increases, the SG&A rate would be roughly flat.

- Non-operating expenses, consisting principally of interest expense, are projected to be about $380 million.

- We estimate our full-year tax rate will be approximately 26% compared to 32.3% in 2017.

- We are forecasting weighted average shares of about 278 million in the fourth quarter and about 279 million for full year.

- Assuming all of these inputs, we expect adjusted earnings per share for the full year 2018 to be between $2.60 and $2.80.

- We are projecting 2018 capex at around $625 million.

- Victoria's Secret square footage in North America will decline about 1%, and Bath & Body Works square footage in North America will increase by about 3%, yielding a total company square footage increase of about 1%.

- Turning to liquidity, we expect 2018 free cash flow of about $800 million.

- As previously mentioned, today we announced the decision by the Board of Directors to reduce the company's annual ordinary dividend to $1.20 from $2.40 currently, beginning with the quarterly dividend to be paid in March 2019. The planned reduction, which follows an extensive review by the Board with the assistance of outside advisors, will result in a dividend payout ratio that is more consistent with the company's past practice, and a dividend yield in line with relevant comparisons. The approximately $325 million in cash made available from the dividend reduction will be utilized primarily to contribute to the deleveraging of our balance sheet over time.

- Our free cash flow and projected year-end cash balance of approximately $1.4 billion, along with the additional availability under our revolving credit facility, result in substantial liquidity, which is more than sufficient to fund our working capital, capital expenditures, dividends and any other foreseeable needs.

<u>Closing</u>

- In summary, during the quarter, we made some tough decisions that have enabled us to increase our focus on our core businesses and highest growth opportunities. These actions, including the closure of the Henri Bendel business and the pursuit of alternatives for La Senza, will strengthen our company.

- Our number one priority is improving performance at Victoria's Secret Lingerie and PINK, and our new leaders will be bringing fresh perspectives. As mentioned earlier, we are looking at all aspects of the business … everything is on the table.

- Looking ahead, we remain focused on executing our strategy, sticking to the fundamentals of our business, staying close to our customers and leveraging the strength of our brands to deliver on our commitments for our customers, associates and stakeholders. We are confident that the steps we have taken and will continue to take will drive growth and create value for our shareholders.

- We invite you to join us for our live earnings call tomorrow at 9 a.m. Eastern by dialing 1-866-363-4673 (international dial-in number: 1-973-200-3978); conference ID 7298606.