

Bath & Body Works Inc

Gross margin improvement drives big beat

Maintain Rating: BUY | PO: 54.00 USD | Price: 48.33 USD

Reiterate Buy on multiple 2024 levers

We are encouraged by the strong 4Q beat, particularly the revenue beat and gross margin expansion. This momentum bodes well for a 2024 sales inflection, in our view, and makes the guidance look conservative. We maintain our Buy rating based on improving sales, margin recapture opportunity and strong free cash flow generation.

A great 4Q performance

4Q adj. EPS of \$2.06 (+11%) beat our/Visible Alpha consensus estimates of \$1.79/\$1.87 on sales and gross margin (GM). The result was above the guided range of \$1.70-\$1.90 (inclusive of 5c from 53rd week). Sales grew 0.8% to 2.9bn, aided by the 53rd week (-1.9% excluding the extra week). A strong holiday drove solid sales results as customers responded well to newness and innovation. Gross margin expanded 265bp to 45.9%, nicely exceeding the 44% guidance and laying the groundwork for continued margin recapture in 2024.

Guidance below, looks conservative

BBWI guided to \$3.00-3.35 of F24 EPS versus our \$3.38 and sales of flat to down 3% (vs. our +1%). This includes a 100bp headwind from the 53rd week, and a 1Q decline of 2-4.5%. We expect sales to inflect to positive in 2H based on a broader rollout of new products and categories, stronger marketing and better usage of loyalty program data. 1Q EPS guidance calls for \$0.28-0.33, below our \$0.38. Guidance for the first quarter and full year include share buybacks of \$75mn and \$300mn (vs. our \$150 and \$600mn), which leaves room for opportunistic debt repayment.

29 February 2024

Equity

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Stock Data

Price	48.33 USD
Price Objective	54.00 USD
Date Established	15-Feb-2024
Investment Opinion	C-1-7
52-Week Range	27.30 USD - 48.43 USD
Mrkt Val (mn) / Shares Out (mn)	13,194 USD / 273.0
Free Float	99.5%
Average Daily Value (mn)	118.22 USD
BofA Ticker / Exchange	BBWI / NYS
Bloomberg / Reuters	BBWI US / BBWI.N
ROE (2024E)	NA
Net Dbt to Eqty (Jan-2023A)	NA
ESGMeter™	High

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Timestamp: 29 February 2024 07:47AM EST

Price objective basis & risk

Bath & Body Works Inc (BBWI)

Our PO of \$54 values BBWI at 9x our F25 estimated EV/EBITDA. We expect BBWI to withstand a consumer slowdown better than peers due to its affordably luxury stance and replenishment model. This multiple reflects its history of, and our outlook for, consistent growth. It is below consistent compounder valuations and peer multiples to reflect higher leverage and risks that pandemic-era sales will not hold.

Upside risk to our price objective is if the company is able to continue to drive strong sales growth. Downside risk to our PO is if BBWI comps decelerate further than our estimates call for.

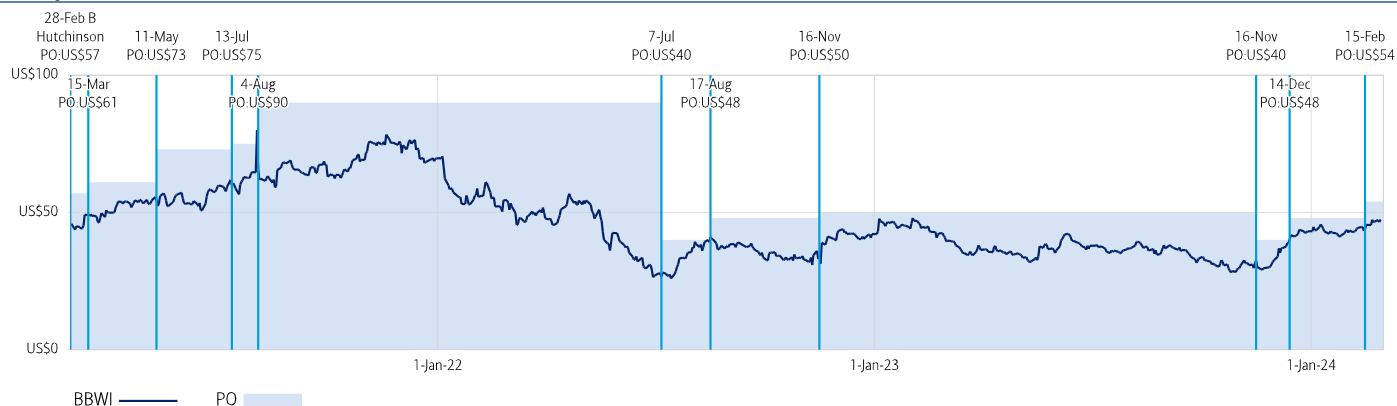
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Bath & Body Works (BBWI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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