

Bath & Body Works Inc

Many strategies in place to stabilize sales and grow margins

Reiterate Rating: BUY | PO: 54.00 USD | Price: 45.70 USD

Outlook looks conservative, reiterate Buy rating

BBWI [reported a strong 4Q beat](#) (see report), driven by better holiday revenues and gross margin expansion. We reiterate our Buy rating based on improving sales, margin recapture opportunity, and free cash flow generation. Mgmt initiated 1Q guidance of sales down (4.5%)-(2%), but reiterated its expectation for a sales inflection in 2H fueled by the broader rollout of new categories and SKUs. We are modeling F24E sales +0.4%. We are lowering our F24/F25 EPS estimates by 1% to \$3.35/\$4.00 but see upside potential to both sales and margins.

AUR beat expectations on strategic pricing and bundling

AUR increased 2%, exceeding expectations, driven by strategic pricing and strong customer reception to newness and holiday assortments. BBWI held promotions vs LY, offering a similar number of key events over a longer period but at shallower discounts. Going forward, mgmt intends to remain agile on pricing and leverage its fast read and react model to adjust prices as needed to attract a price-conscious customer and guided to flat AUR 1Q and modest increases for the year.

Category growth on track and loyalty program robust

New adjacencies are on track to grow nicely as BBWI continues the roll out and expand SKUs of Men's, hair care, laundry, and lip care in 2024 (see exhibit 1 for summary of timing). Home fragrance declined LSD as the category continues to normalize post pandemic outperformance, although wallflowers were up LSD on increased units. Active loyalty members also grew 30% to 37mn, and now account for 80% of sales.

Cost saves to offset reinvestments

GM increased 270bp to 45.9%, benefitting from higher AUR and 210bp of deflation benefits, partly offset by reinvestment in product. We expect continued reinvestments in product through 2024 but at a lower amount vs 2023 as BBWI laps the rollout of paraffin-free hand soaps in July and upgraded body care formulas later in the year. We model GM +30bp to 43.9% in F24E. BBWI has raised its cost savings target, with the remaining \$100m of cost savings to benefit F24 across GM and SG&A through lower transport costs, store labor and selling efficiencies, call center optimization, and lower home office expense and indirect spend.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	3.41	3.27	3.35	4.00	4.74
GAAP EPS	3.41	3.85	3.35	4.00	4.74
EPS Change (YoY)	-24.4%	-4.1%	2.4%	19.4%	18.5%
Consensus EPS (Bloomberg)			3.35	3.93	NA
DPS	0.80	0.80	0.80	0.80	0.80
Valuation (Jan)					
P/E	13.4x	14.0x	13.6x	11.4x	9.6x
GAAP P/E	13.4x	11.9x	13.6x	11.4x	9.6x
Dividend Yield	1.8%	1.8%	1.8%	1.8%	1.8%
EV / EBITDA*	10.7x	11.1x	10.9x	10.1x	9.4x
Free Cash Flow Yield*	6.5%	5.3%	5.5%	6.6%	7.4%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 01 March 2024 12:01AM EST

01 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2025E Rev (m)	7,415.3	7,455.4
2026E Rev (m)	7,757.7	7,777.0
2027E Rev (m)	NA	8,125.0
2025E EPS	3.38	3.35
2026E EPS	4.07	4.00
2027E EPS	NA	4.74

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Stock Data

Price	45.70 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
Mkt Val (mn) / Shares Out	12,476 USD / 273.0 (mn)
Free Float	99.5%
Average Daily Value (mn)	111.99 USD
BofA Ticker / Exchange	BBWI / NYS
Bloomberg / Reuters	BBWI US / BBWI.N
ROE (2025E)	NA
Net Dbt to Eqty (Jan-2024A)	NA
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

AUR: average unit retail

LSD: low single digit

iQprofileSM Bath & Body Works Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	23.6%	23.0%	21.7%	23.4%	25.4%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	18.2%	17.1%	17.3%	18.2%	19.1%
Free Cash Flow	816	656	683	820	917

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	1.4x	1.3x	1.4x	1.3x	1.3x
Asset Replacement Ratio	1.5x	1.1x	1.2x	1.2x	1.2x
Tax Rate	24.0%	24.9%	27.1%	25.0%	25.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	3.9x	3.7x	4.1x	4.7x	5.1x

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	7,560	7,429	7,455	7,777	8,125
% Change	-4.1%	-1.7%	0.4%	4.3%	4.5%
Gross Profit	3,255	3,237	3,274	3,446	3,633
% Change	-15.8%	-0.6%	1.1%	5.3%	5.4%
EBITDA	1,597	1,536	1,562	1,685	1,817
% Change	-28.2%	-3.8%	1.7%	7.9%	7.9%
Net Interest & Other Income	(332)	(274)	(270)	(282)	(287)
Net Income (Adjusted)	793	746	746	851	946
% Change	-35.5%	-6.0%	0%	14.1%	11.2%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	793	746	746	851	946
Depreciation & Amortization	221	269	269	269	269
Change in Working Capital	68	(82)	(6)	25	27
Deferred Taxation Charge	17	(128)	0	0	0
Other Adjustments, Net	45	149	0	0	0
Capital Expenditure	(328)	(298)	(325)	(325)	(325)
Free Cash Flow	816	656	683	820	917
% Change	-23.3%	-19.6%	4.1%	20.0%	11.9%
Share / Issue Repurchase	(1,312)	(148)	(300)	(600)	(740)
Cost of Dividends Paid	(186)	(182)	(179)	(172)	(162)
Change in Debt	0	(447)	109	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	1,232	1,084	1,366	1,381	1,365
Trade Receivables	226	224	228	238	248
Other Current Assets	808	807	807	807	807
Property, Plant & Equipment	1,193	1,220	1,276	1,332	1,388
Other Non-Current Assets	2,035	2,128	2,128	2,128	2,128
Total Assets	5,494	5,463	5,804	5,886	5,936
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,379	1,289	1,287	1,322	1,360
Long-Term Debt	4,862	4,388	4,497	4,497	4,497
Other Non-Current Liabilities	1,458	1,412	1,412	1,412	1,412
Total Liabilities	7,699	7,089	7,196	7,231	7,269
Total Equity	(2,205)	(1,626)	(1,391)	(1,345)	(1,333)
Total Equity & Liabilities	5,494	5,463	5,804	5,886	5,936

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Retailing-Specialty

Company Description

Bath & Body Works International is a retailer of personal care products. It specializes in candles, soaps, and lotions. The company distributes its products through retail stores, websites and partner locations. Most of its operations are in the US, with growing Canadian and international businesses.

Investment Rationale

We rate Bath & Body Works at Buy. We think inexpensive valuation, a strong and growing business given secular tailwinds (increased sanitizer/home/personal care products usage), and strong brand equity make BBWI a compelling investment.

Stock Data

Average Daily Volume

2,450,496

Quarterly Earnings Estimates

	2024	2025
Q1	0.33A	0.33E
Q2	0.40A	0.34E
Q3	0.48A	0.48E
Q4	2.06A	2.20E

Exhibit 1: New category rollouts continue to be well received; we expect broader rollout and new SKUs in 2024 to drive sales, especially in 2H
BBWI new category rollout timeline (as of February 2024)

Category	Current	Broader rollout timing
Hair Care	Completed rollout in all North America stores	New SKUs coming in 2024
Men's	Jan 2024: introduced antiperspirant. 2023: introduced face and beard before Father's Day, introduced hair and shave in September 2023	New SKUs and influencer marketing events coming in 2024
Lip Care	In 380 stores	Rollout to rest of US stores by July 2024
Laundry	In 200 stores	Planned for half of fleet by mid-2024/Fall

Source: company filings and management commentary, BofA Global Research

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Exhibit 2: BBWI Income Statement

We reiterate our Buy rating based on improving sales, margin recapture opportunity, and free cash flow generation.

Bath & Body Works	FY 2022	1Q 23	2Q 23	3Q 23	4Q 23	FY 2023	1Q 24E	2Q 24E	3Q 24E	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E
Income Statement		Apr	Jul	Oct	Jan		Apr	Jul	Oct	Jan		Apr	Jul	Oct	Jan	
Bath & Body Works	5,476.1	1,034.0	1,144.0	1,168.0	2,162.0	5,508.0	1,014.6	1,117.2	1,179.7	2,222.4	5,533.9	1,050.4	1,155.6	1,219.1	2,294.6	5,719.7
Bath & Body Works Direct	1,745.4	280.0	329.0	317.0	656.0	1,582.0	271.6	319.1	323.3	651.1	1,565.2	285.2	335.1	339.5	683.6	1,643.4
Bath & Body Works International	338.9	82.0	86.0	77.0	94.0	339.0	81.4	86.1	82.4	106.5	356.3	94.9	100.2	95.6	123.2	413.8
Net sales	7,560.4	1,396.0	1,559.0	1,562.0	2,912.0	7,429.0	1,367.5	1,522.4	1,585.5	2,980.0	7,455.4	1,430.5	1,590.8	1,654.3	3,101.4	7,777.0
<u>COGS & occupancy</u>	4,305.3	800.0	937.0	880.0	1,575.0	4,192.0	776.9	911.2	889.3	1,604.3	4,181.6	809.1	948.2	919.6	1,654.2	4,331.0
Gross Profit	3,255.1	596.0	622.0	682.0	1,337.0	3,237.0	590.7	611.2	696.2	1,375.7	3,273.8	621.5	642.7	734.7	1,447.2	3,446.0
<u>SG&A expense</u>	1,878.9	422.0	434.0	473.0	641.0	1,970.0	417.8	441.8	480.1	641.0	1,980.7	430.3	455.1	492.1	652.5	2,030.0
Operating Profit	1,376.1	174.0	188.0	209.0	696.0	1,267.0	172.9	169.4	216.1	734.7	1,293.1	191.2	187.6	242.6	794.7	1,416.0
Interest expense/(inc)	348.6	89.0	86.0	84.0	86.0	345.0	77.1	78.2	78.8	80.1	314.2	74.1	74.7	75.3	76.9	301.0
Other income/(expense)	16.6	20.0	16.0	22.0	13.0	71.0	7.0	14.0	10.0	13.0	44.0	(2.0)	(2.0)	10.0	13.0	19.0
Pretax Income	1,044.2	105.0	118.0	147.0	623.0	993.0	102.8	105.2	147.3	667.6	1,022.9	115.1	110.9	177.3	730.7	1,134.0
Taxes	250.7	30.0	26.0	37.0	154.0	247.0	28.8	28.4	39.8	180.3	277.2	28.8	27.7	44.3	182.7	283.5
Tax rate	24%	29%	26%	26%	26%	25%	28%	27%	27%	27%	27%	25%	25%	25%	25%	25%
Net Income from Continuing Operations	793.5	75.0	92.0	110.0	469.0	746.0	74.0	76.8	107.5	487.4	745.7	86.3	83.2	133.0	548.1	850.5
Earnings per share	\$3.41	\$0.33	\$0.40	\$0.48	\$2.06	\$3.27	\$0.33	\$0.34	\$0.48	\$2.20	\$3.35	\$0.39	\$0.38	\$0.62	\$2.60	\$4.00
Average basic shares outs.	230.6	228.0	227.1	226.2	227.0	227.0	225.6	224.2	222.8	221.4	222.3	218.7	215.9	213.1	210.3	212.2
Average diluted shares outs.	232.6	230.0	229.0	228.1	227.4	228.0	226.0	224.6	223.2	221.8	222.7	219.1	216.3	213.5	210.7	212.6
		0.0093		0.026												
Margins																
Gross profit margin	43.05%	42.7%	39.9%	43.7%	45.9%	43.6%	43.2%	40.1%	43.9%	46.2%	43.9%	43.4%	40.4%	44.4%	46.7%	44.3%
bp change y/y	(598)	(342)	(87)	143	266	52	50	25	25	25	34	25	25	50	50	40
GM vs. 2019	(111)	126	(62)	(15)	(142)	(59)	176	(37)	10	(117)	(25)	201	(12)	60	(67)	15
SG&A expense	24.9%	30.2%	27.8%	30.3%	22.0%	26.5%	30.5%	29.0%	30.3%	21.5%	26.6%	30.1%	28.6%	29.7%	21.0%	26.1%
bp change y/y	143	343	202	63	134	167	32	118	(0)	(50)	5	(47)	(42)	(53)	(47)	(46)
SG&A dollar growth	2%	9%	4%	-1%	7%	5%	-1%	2%	2%	0%	1%	3%	3%	3%	2%	2%
Operating income	18.2%	12.5%	12.1%	13.4%	23.9%	17.1%	12.6%	11.1%	13.6%	24.7%	17.3%	13.4%	11.8%	14.7%	25.6%	18.2%
bp change y/y	(741)	(685)	(289)	80	131	(115)	18	(93)	25	75	29	72	67	103	97	86
% change y/y																
Sales	-4%	-4%	-4%	-3%	1%	-2%	-2%	-2%	2%	2%	0.4%	5%	4%	4%	4%	4%
EBIT	-32%	-38%	-22%	4%	7%	-8%	-1%	-10%	3%	6%	2%	11%	11%	12%	8%	10%
EPS	-24%	-49%	-23%	21%	11%	-4%	0%	-15%	0%	7%	2%	20%	12%	29%	18%	20%

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH



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.

Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
RSTR				
	Macy's	M	M US	Lorraine Hutchinson, CFA



US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

Important Disclosures

Bath & Body Works (BBWI) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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