

## Bath &amp; Body Works Inc

## Conference Takeaways: see continued opportunity for margin expansion

Maintain Rating: BUY | PO: 54.00 USD | Price: 45.67 USD

## Maintain Buy; progress on track

We hosted meetings with Eva Boratto, CFO at our Conference in Miami. We reiterate our Buy rating based on improving sales, margin recapture opportunity, and free cash flow generation. Management struck a positive tone on its ability to quickly react to customer feedback and clearly laid out opportunities for a 2H sales inflection. After 2% average unit retail (AUR) growth in 4Q23, the company expects flattish AUR in 1Q24, with slight growth as the year progresses due to mix shift to new, higher priced categories. It announced a new line of products in partnership with hit series Bridgerton, which should engage the customer in a new way.

## 2H sales inflection components

Management continues to work towards driving 2H sales growth. Categories that should help drive this inflection include men's (low awareness, primarily women shopping for men), fragrant hair care (new customer opportunity), lip (small fixture requires no store disruption) and laundry (small test slowly building). In addition, BBWI began to spend on brand marketing and broadened its reach to new social venues. We expect 100bp of incremental marketing in 1Q-3Q24 before lapping 4Q23's 100bp investment. Enhanced loyalty benefits and personalized offers are other sales drivers. Management has assumed continued candle normalization in its F24 sales guidance of flat to down 3%.

## GM guidance has upside opportunities

We see room for merchandise margin expansion driven by commodities, transportation and cost savings, offset by investment in product formulation (soaps will lap in July, body care throughout 2H ending in November with shower gel). These factors contribute 50bp, offset by buying and occupancy deleverage on the sales decline. We continue to see upside opportunity to gross margin from further cost recapture and stronger sales.

## IT spending moving from defense to offense

In 2023, BBWI spent an incremental \$100mn on IT to complete its separation from Victoria's Secret. We expect a similar level of IT spending in F24, but for this spending to be on growth programs like the loyalty program, customer data and analytics, personalization and the fragrance finder.

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)			3.29	3.70	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*<sup>SM</sup> measures, see page 4.

14 March 2024

## Equity

**Lorraine Hutchinson, CFA**  
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## Stock Data

Price	45.67 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 (mn)	12,468 USD / 273.0
Free Float	99.5%
Average Daily Value (mn)	128.91 USD
BofA Ticker / Exchange	BBWI / NYS
Bloomberg / Reuters	BBWI US / BBWI.N
ROE (2025E)	NA
Net Dbt to Eqty (Jan-2024A)	NA
ESGMeter™	High

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AUR: average unit retail

GM: gross margin

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# iQprofile<sup>SM</sup> Bath & Body Works Inc

## iQmethod<sup>SM</sup> – 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

## iQmethod<sup>SM</sup> – 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)
<b>Net Income (Adjusted)</b>	<b>793</b>	<b>746</b>	<b>746</b>	<b>851</b>	<b>946</b>
% 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)
<b>Free Cash Flow</b>	<b>816</b>	<b>656</b>	<b>683</b>	<b>820</b>	<b>917</b>
% 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
<b>Total Assets</b>	<b>5,494</b>	<b>5,463</b>	<b>5,804</b>	<b>5,886</b>	<b>5,936</b>
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
<b>Total Liabilities</b>	<b>7,699</b>	<b>7,089</b>	<b>7,196</b>	<b>7,231</b>	<b>7,269</b>
<b>Total Equity</b>	<b>(2,205)</b>	<b>(1,626)</b>	<b>(1,391)</b>	<b>(1,345)</b>	<b>(1,333)</b>
<b>Total Equity &amp; Liabilities</b>	<b>5,494</b>	<b>5,463</b>	<b>5,804</b>	<b>5,886</b>	<b>5,936</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## 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 2,785,138

## 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

## 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
	Skechers USA Inc	SKX	SKX US	Christopher Nardone
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
<b>UNDERPERFORM</b>				
	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
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
<b>RSTR</b>				
	Macy's	M	M US	Lorraine Hutchinson, CFA



## US - Softline Retailing and Dept Stores Coverage Cluster

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**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**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

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**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**

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

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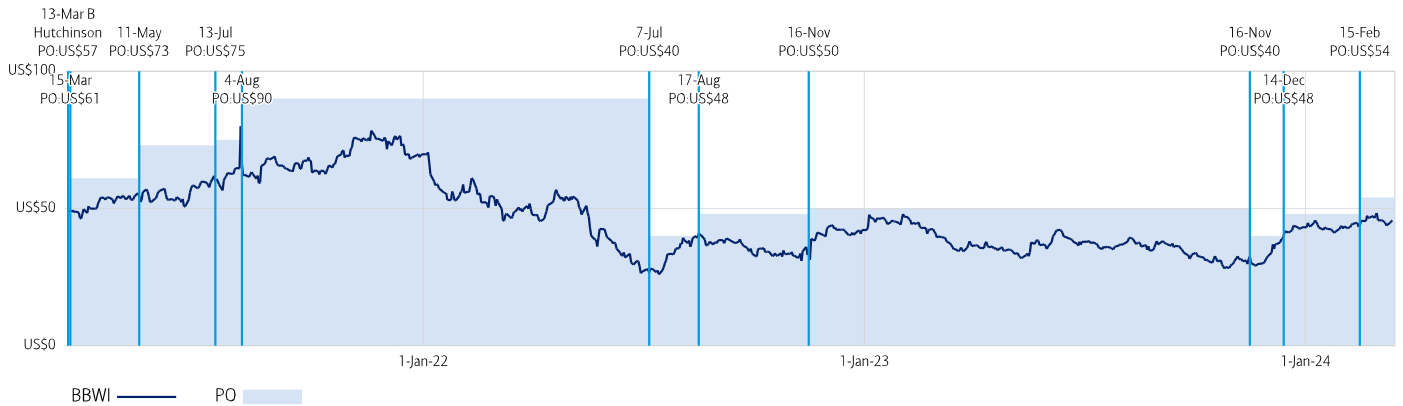
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### Bath & Body Works (BBWI) Price Chart



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

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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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.

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

<sup>R2</sup> 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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