

Victoria's Secret & Co

Reiterate Buy as trends continue to improve sequentially

Reiterate Rating: BUY | PO: 29.00 USD | Price: 26.95 USD

Sequential monthly improvement an encouraging trend

We reiterate our Buy rating on VSCO given improving trends and prudent expense mgmt. Oct was the strongest month of 3Q and 4QTD trends have continued to improve sequentially, with Nov stronger than Oct. Basket size, traffic, and digital conversion rates all sequentially improved. Mgmt reiterated its F23 guidance and guided 4Q sales up 2-4%; we model 4Q sales +2%, inclusive of a 4% benefit from the 53rd week. We are raising our PO by 16% to \$29, which reflects 5.5x our F24E EV/EBITDA (was 5x) to reflect peer multiple expansion and progress of the turnaround indicated by the improving trends.

Core lingerie held share in declining NA market

3Q adj. EPS of \$(0.86) missed our/Visible Alpha consensus ests of \$(0.81)/\$(0.79) on sales and opex despite a gross margin (GM) beat, although was in line with the guided range of \$(0.70)-\$(0.90). Comps declined 7%. We are encouraged to hear that VSCO maintained market share in the NA intimates market (-MSD). Store-only comps were -11%, although traffic outpaced mall average. We also expect continued renovations/new stores in Store of the Future (SOTF) format to aid traffic and engagement as SOTF continues to offer a LDD sales boost to stores. 8% of VSCO's NA fleet are in SOTF mode with 10% (85 stores) targeted by end of year.

International, beauty, Adore Me, Sports opportunities

Mgmt continues to expect international to grow double digits (1% growth contribution in 4Q). Beauty was the best performing category, and is accretive to company margins. Sports continues to be an area of opportunity as mgmt plans to expand colorways and size offerings of bestsellers in January and a bigger launch for 2H24.

GM healthy given flowthrough of initiatives

GM declined 40bp to 34.3%, driven by deleverage in fixed costs (120bp) from lower sales and higher targeted promotions, despite better merchandise margin from favorable mix and lower freight. VSCO held 3Q promotions in line vs LY and mgmt expects continued merch margin improvement from cost initiatives. Inventories were down 2.5% (-9% at core VS/PINK) into holiday with agility to chase. We are modeling 4Q GM +60bp to 38.5% to reflect cost initiative benefits and continued inventory management and freight cost benefit.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.17	4.95	2.03	2.55	3.27
GAAP EPS	7.17	4.83	2.08	2.55	3.27
EPS Change (YoY)	NA	-31.0%	-59.0%	25.6%	28.2%
Consensus EPS (Bloomberg)			2.21	2.52	NA
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	3.8x	5.4x	13.3x	10.6x	8.2x
GAAP P/E	3.8x	5.6x	13.0x	10.6x	8.2x
EV / EBITDA*	4.2x	5.8x	8.6x	8.0x	7.4x
Free Cash Flow Yield*	28.1%	11.3%	2.5%	10.6%	11.9%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 01 December 2023 12:01AM EST

01 December 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	25.00	29.00
2024E Rev (m)	6,185.2	6,168.0
2025E Rev (m)	6,297.2	6,312.7
2026E Rev (m)	6,518.9	6,540.2
2026E EPS	3.24	3.27

Alice Xiao

Research Analyst
BofAS
+1 646 743 0227
alice.xiao@bofa.com

Lorraine Hutchinson, CFA

Research Analyst
BofAS
+1 646 855 0951
lorraine.hutchinson@bofa.com

Stock Data

Price	26.95 USD
Price Objective	29.00 USD
Date Established	01-Dec-2023
Investment Opinion	C-1-9
52-Week Range	13.62 USD - 47.22 USD
Mrkt Val (mn) / Shares Out (mn)	2,426 USD / 90.0
Free Float	98.5%
Average Daily Value (mn)	59.72 USD
BofA Ticker / Exchange	VSCO / NYS
Bloomberg / Reuters	VSCO US / VSCO.N
ROE (2024E)	39.6%
Net Dbt to Eqty (Jan-2023A)	220.1%
ESGMeter™	NLA

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"](#).

GM: gross margin

LSD: low single digits

HSD: high single digits

QTD: quarter to date

NA: North America

SOTF: store of the future

iQprofileSM Victoria's Secret & Co

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	NA	15.7%	7.4%	7.9%	8.6%
Return on Equity	503.3%	130.1%	39.6%	43.5%	45.1%
Operating Margin	12.8%	8.9%	4.9%	5.5%	5.9%
Free Cash Flow	683	273	61	257	289

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.0x	2.0x	2.7x	2.5x
Asset Replacement Ratio	0.6x	0.6x	1.0x	0.9x	0.9x
Tax Rate	23.4%	19.6%	22.1%	25.7%	25.7%
Net Debt-to-Equity Ratio	190.3%	220.1%	220.6%	190.5%	148.5%
Interest Cover	31.7x	9.4x	3.2x	3.7x	4.2x

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,785	6,344	6,168	6,313	6,540
% Change	NA	-6.5%	-2.8%	2.3%	3.6%
Gross Profit	2,760	2,314	2,235	2,331	2,415
% Change	NA	-16.2%	-3.4%	4.3%	3.6%
EBITDA	1,172	840	566	615	663
% Change	NA	-28.4%	-32.6%	8.7%	7.8%
Net Interest & Other Income	(27)	(61)	(97)	(94)	(92)
Net Income (Adjusted)	645	416	158	188	218
% Change	NA	-35.5%	-62.0%	18.9%	15.9%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	645	406	162	188	218
Depreciation & Amortization	303	274	261	268	278
Change in Working Capital	24	(195)	(134)	2	(8)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(121)	(48)	30	48	49
Capital Expenditure	(168)	(164)	(259)	(248)	(248)
Free Cash Flow	683	273	61	257	289
% Change	NA	-60.0%	-77.6%	320.6%	12.5%
Share / Issue Repurchase	(250)	(250)	(125)	(200)	(200)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	981	295	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	490	427	355	412	501
Trade Receivables	162	141	139	139	139
Other Current Assets	1,038	1,169	1,087	1,106	1,153
Property, Plant & Equipment	957	846	861	841	811
Other Non-Current Assets	1,696	2,128	2,180	2,180	2,180
Total Assets	4,344	4,711	4,622	4,677	4,784
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,700	1,579	1,369	1,390	1,429
Long-Term Debt	978	1,271	1,269	1,269	1,269
Other Non-Current Liabilities	1,409	1,460	1,550	1,550	1,550
Total Liabilities	4,087	4,310	4,189	4,209	4,249
Total Equity	256	384	414	450	517
Total Equity & Liabilities	4,344	4,694	4,603	4,659	4,766

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Specialty

Company Description

Victoria's Secret & Co (VSCO) is a retailer of apparel and intimates and beauty/personal care products based primarily in the US, with a growing presence internationally. Its brands include VS Lingerie, PINK, and VS Beauty. As of Jan 2023, VSCO operates approximately 812 locations in North America, 70 Joint Ventures, and 470 franchisee locations globally.

Investment Rationale

Our rating on VSCO is Buy. We think it is a promising retail turnaround in its early stages and that cost cuts, leaner inventory management, and continued fleet optimization will allow VSCO to maintain progress on margins while rebuilding sales. Management is making the right changes to change the brand image to align more with current consumer tastes, in our view.

Stock Data

Average Daily Volume 2216,101

Quarterly Earnings Estimates

	2023	2024
Q1	1.11A	0.28A
Q2	1.09A	0.24A
Q3	0.29A	-0.86A
Q4	2.47A	2.38E



Exhibit 1: VSCO Income Statement

3Q adj. EPS of \$(0.86) missed our/Visible Alpha consensus ests of \$(0.81)/\$(0.79) on sales and opex despite a gross margin (GM) beat, although was in line with the guided range of \$(0.70)-\$(0.90).

Victoria's Secret & Co	1Q 22	2Q 22	3Q 22	4Q 22	FY 2022	1Q 23	2Q 23	3Q 23	4Q 23E	FY 2023E	1Q 24E	2Q 24E	3Q 24E	4Q 24E	FY 2024E
	Apr	Jul	Oct	Jan		Apr	Jul	Oct	Jan		Apr	Jul	Oct	Jan	
Victoria's Secret	931	969	813	1,197	3,910	786	756	723	1,109	3,374	748	773	727	1,069	3,317
Victoria's Secret Direct	421	414	342	667	1,843	390	434	316	700	1,840	402	447	326	721	1,896
Victoria's Secret International	132	139	164	157	592	157	176	160	188	681	189	211	184	217	800
Adore Me	63	63	63	63	250	74	61	66	72	273	82	67	72	79	300
Sales	1,484	1,521	1,318	2,021	6,344	1,407	1,427	1,265	2,069	6,168	1,420	1,498	1,309	2,086	6,313
COGS & occupancy	941	973	861	1,256	4,030	895	934	831	1,273	3,933	896	969	851	1,265	3,981
Gross Profit	543	548	457	765	2,314	513	493	433	796	2,235	525	528	458	821	2,331
SG&A expense	427	421	415	485	1,748	457	445	494	535	1,930	466	471	492	556	1,984
Operating Profit	116	127	43	280	566	56	49	(61)	261	305	59	57	(34)	265	347
Interest expense/(inc)	12.4	13.0	15.3	19.7	60.4	22.5	22.9	25.2	23.3	93.8	23.5	23.5	23.5	23.5	93.8
Other income/(expense)	(3.7)	(1.3)	2.4	2.2	-0.4	0.0	(0.1)	0.3	(3.0)	-2.8	0.0	0.0	0.0	0.0	0.0
Pretax income	100	113	30	263	505	33.6	26	(86)	234.5	208	36	34	(57)	241	253
Taxes	7.4	23.3	7.4	60.9	99.0	8.6	6.3	(19.4)	50.4	45.9	9.3	8.8	(14.9)	62.0	65.1
Tax rate	7%	21%	25%	23%	20%	26%	24%	23%	21.5%	22%	26%	26%	26%	26%	26%
Less: net loss attributed to non-controlling int	(4.7)	(2.7)	(2.2)	(1.0)	(10.5)	3.1	0.6	0.5	0.0	4.2	0.0	0.0	0.0	0.0	0.0
Net Income	97.0	92.0	24.4	203.1	416.5	21.9	18.9	(66.7)	184.1	158.2	26.4	25.0	(42.5)	179.1	188.1
Earnings per share	\$1.11	\$1.09	\$0.29	\$2.47	\$4.95	\$0.28	\$0.24	(\$0.86)	\$2.38	\$2.03	\$0.35	\$0.34	(\$0.58)	\$2.52	\$2.55
Average shares outs.	87.1	84.3	82.6	82.3	84.1	79.7	77.3	77.4	77.4	77.9	76.2	74.5	72.8	71.0	73.6
EBITDA	185.795	196.9	110.6	346.5	839.7	129.1	120.7	9.6	306.3	565.8	132.9	132.8	38.9	310.4	614.9
EBITDA Margin	12.5%	12.9%	8.4%	17.1%	13.2%	9.2%	8.5%	0.8%	14.8%	9.2%	9.4%	8.9%	3.0%	14.9%	9.7%
GAAP EBITDA	165.0	158.8	110.1	291.0	725.0	117.4	113.7	29.1	249.9	510.1	123.6	124.0	53.8	248.5	549.8
GAAP EBITDA Margin	11.1%	10.4%	8.4%	14.4%	11%	8.3%	8.0%	2.3%	12.1%	8%	8.7%	8.3%	4.1%	11.9%	9%
Margins															
Gross Margin	36.6%	36.0%	34.7%	37.9%	36.5%	36.4%	34.6%	34.3%	38.5%	36.2%	36.9%	35.3%	35.0%	39.4%	36.9%
bp change y/y	(664)	(544)	(451)	(137)	(421)	(17)	(148)	(43)	60	(24)	50	70	70	90	69
vs 2019	447	645	1829	664	853	430	497	1786	724	829	480	567	1856	814	
SG&A Expense	28.8%	27.7%	31.5%	24.0%	27.6%	32.5%	31.2%	39.1%	25.9%	31.3%	32.8%	31.5%	37.6%	26.7%	31.4%
bp change y/y	8	(122)	(25)	7	(31)	365	345	760	187	374	32	30	(151)	82	14
% change y/y	-4.3%	-9.7%	-9.3%	-6.8%	-7.5%	6.9%	5.5%	19.1%	10.4%	10.4%	1.9%	6.0%	-0.5%	4.0%	2.8%
EBIT margin	7.8%	8.3%	3.2%	13.9%	8.9%	4.0%	3.4%	-4.8%	12.6%	4.9%	4.2%	3.8%	-2.6%	12.7%	5.5%
bp change y/y	(672)	(422)	(426)	(144)	(390)	(382)	(492)	(803)	(127)	(397)	18	40	221	8	55
vs 2019	589	644	1465	606	784	207	152	661	478	387					
% change y/y															
Sales	-5%	-6%	-9%	-7%	-6%	-5%	-6%	-4%	2%	-3%	1%	5%	4%	1%	2%
EBIT	-49%	-37%	-61%	-16%	-35%	-52%	-62%	-243%	-7%	-46%	5%	17%	-44%	1%	14%
EPS	-43%	-36%	-64%	-9%	-31%	-75%	-78%	-393%	-4%	-59%	26%	37%	-32%	6%	26%

Source: BofA Global Research estimates, company filings

Price objective basis & risk

Victoria's Secret & Co (VSCO)

Our \$29 PO is based on 5.5x our F24E EV/EBITDA, which is in line with specialty apparel peers (4-6x). VSCO has a similar sales growth trajectory as peers in the group, and the potential to build back margins. We view an in line valuation as appropriate as there is risk inherent in execution of the turnaround but our current model leaves room for upside if management continues on its current trajectory of inventory discipline and fleet optimization.

Risk to our PO are if the turnaround does not get executed in a timely manner as brand perceptions built up over many years can take time to overhaul, consumer resistance to brand image changes, competition from digitally native intimates retailers, and overall category deflation from shifting fashion trends.

Analyst Certification

I, Alice Xiao, 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				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	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
	Macy's	M	M 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

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

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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

Victoria's Secret (VSCO) 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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	89	53.94%	Buy	37	41.57%
Hold	34	20.61%	Hold	14	41.18%
Sell	42	25.45%	Sell	19	45.24%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{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.

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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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