

## Victoria's Secret &amp; Co

## New bra launch timely and on-trend with current consumer tastes

Reiterate Rating: BUY | PO: 34.00 USD | Price: 29.87 USD

## View new launch as timely and on-trend

We reiterate our Buy rating on VSCO and view the launch of its New Body by Victoria with invisible lift technology as timely and on-trend. This is the first large-scale launch this year; we expect another in August (see exhibit 1 for a list of historical bra launches). Last year, VSCO delayed its spring launch to April, leading to tougher 1Q (sales were -5%) as the business lapped its February 2022 launch of Love Cloud. We expect the return to a February launch to boost 1Q sales growth (April qtr end). We currently model 1Q sales up 1% and F24 sales +2%. We are raising our PO by approximately 17% to \$34, now 6x EV/EBITDA on our F24 estimates (vs 5.5x prior) given peer multiple expansion and our expectation of the launch to aid sales growth.

## New features fit with current consumer demand

The launch features a variety of skin-color ranges, reminiscent of the popular SKIMS offerings. The new Invisible lift technology touts a LYCRA FitSense design that gives lift without padding or lining. We view this as in line with the trend of comfort and simplicity over structure and pushup. The shift to simpler t-shirt bras, bralettes, and sports bras was accelerated by the pandemic and has continued to gain traction post pandemic. We view this launch as a direct way to take back share from disruptor brands that have stood out with simplicity, skin-matching colorways, and comfort technology in recent years.

## Pricing reasonable and reflects current consumer appetite

The New Body by Victoria invisible lift unlined demi bra retails for \$44.95 (available size B and up), while the New Body by Victoria invisible lift Minimizer bra retails for \$54.95 (available size C and up). Prices are in line with recent launches with ICON (Aug 2023) at \$54.95 and Love Cloud at \$49.95. We view this as prudent given limited consumer appetite for higher prices.

## Bra trends have come full circle: from push-up to minimize

Bra trends have come full circle from the push-up innovation that added one to two cup sizes (ie, Bombshell) that was popular in the early 2010s to Minimizer bras, which reduce bust line by up to 1 inch. This is reflective of fashion trends toward a simpler silhouette.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.17	4.95	2.03	2.53	3.19
GAAP EPS	7.17	4.83	2.08	2.53	3.19
EPS Change (YoY)	NA	-31.0%	-59.0%	24.6%	26.1%
Consensus EPS (Bloomberg)			2.14	2.42	2.97
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	4.2x	6.0x	14.7x	11.8x	9.4x
GAAP P/E	4.2x	6.2x	14.4x	11.8x	9.4x
EV / EBITDA*	4.4x	6.1x	8.6x	8.0x	7.4x
Free Cash Flow Yield*	25.4%	10.2%	3.6%	10.6%	11.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

16 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	29.00	34.00
2025E EPS	2.55	2.53
2026E EPS	3.27	3.19

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## Stock Data

Price	29.87 USD
Price Objective	34.00 USD
Date Established	16-Feb-2024
Investment Opinion	C-1-9
52-Week Range	13.62 USD - 42.03 USD
Mrkt Val (mn) / Shares Out (mn)	2,688 USD / 90.0
Free Float	98.5%
Average Daily Value (mn)	55.63 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 <sup>TM</sup>	NLA

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Timestamp: 16 February 2024 10:42AM EST

# iQprofile<sup>SM</sup> Victoria's Secret & Co

## iQmethod<sup>SM</sup> – 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	96	285	318

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.0x	2.2x	2.8x	2.6x
Asset Replacement Ratio	0.6x	0.6x	0.9x	0.8x	0.8x
Tax Rate	23.4%	19.6%	22.1%	25.7%	25.7%
Net Debt-to-Equity Ratio	190.3%	220.1%	213.2%	177.5%	131.6%
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	593	643	692
% Change	NA	-28.4%	-29.3%	8.3%	7.6%
Net Interest & Other Income	(27)	(61)	(97)	(94)	(92)
<b>Net Income (Adjusted)</b>	<b>645</b>	<b>416</b>	<b>158</b>	<b>188</b>	<b>218</b>
<b>% Change</b>	<b>NA</b>	<b>-35.5%</b>	<b>-62.0%</b>	<b>18.9%</b>	<b>15.9%</b>

## 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	288	296	306
Change in Working Capital	24	(195)	(132)	2	(8)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(121)	(48)	32	48	49
Capital Expenditure	(168)	(164)	(255)	(248)	(248)
<b>Free Cash Flow</b>	<b>683</b>	<b>273</b>	<b>96</b>	<b>285</b>	<b>318</b>
<b>% Change</b>	<b>NA</b>	<b>-60.0%</b>	<b>-64.9%</b>	<b>197.6%</b>	<b>11.6%</b>
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	386	471	588
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	830	782	724
Other Non-Current Assets	1,696	2,128	2,179	2,179	2,179
<b>Total Assets</b>	<b>4,344</b>	<b>4,711</b>	<b>4,621</b>	<b>4,677</b>	<b>4,783</b>
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
<b>Total Liabilities</b>	<b>4,087</b>	<b>4,310</b>	<b>4,189</b>	<b>4,209</b>	<b>4,249</b>
<b>Total Equity</b>	<b>256</b>	<b>384</b>	<b>414</b>	<b>450</b>	<b>517</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,344</b>	<b>4,694</b>	<b>4,603</b>	<b>4,659</b>	<b>4,766</b>

\* For full definitions of iQmethod<sup>SM</sup> 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 1,862,384

## 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: We expect the return to a February launch to boost 1Q sales growth (April qtr end)**

## VSCO bra launch summary

Materiality	Bra Franchise	Launched	Specialty
Big	NEW Body by Victoria	Feb-2024	non-padded support
small	VS Adaptive	Oct-2023	Easy closure
Big	The ICON (push-up demi bra)	Aug-2023	Luxury aesthetic
Big	Bare Every-Way Strapless Bra	Apr-2023	Versatility
	Plunge Low-Back Bra		Low neckline
small	The Forever Bra	Feb-2023	Recycled bra
Big	So Obsessed Wireless pushup	Aug-2022	Wireless
collab	Elomi	Aug-2022	Plus size
Big	Love Cloud Collection	Feb-2022	All day comfort
small	Mastectomy Bra (within Body by Victoria)	Oct-2021	Mastectomy
Big	Bare Infinity Flex Bra	Aug-2021	Size inclusivity/Fit

Source: Company filings, BofA Global Research

BofA GLOBAL RESEARCH



## Price objective basis & risk

### Victoria's Secret & Co (VSCO)

Our \$34 PO is based on 6x our F24E EV/EBITDA, which is in line with specialty apparel peers (5-8x). 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
<b>BUY</b>				
	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
<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
	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
<b>RSTR</b>				
	Macy's	M	M US	Lorraine Hutchinson, CFA

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst

iQmethod<sup>SM</sup> Measures Definitions

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>	<b>Numerator</b>	<b>Denominator</b>
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>	<b>Numerator</b>	<b>Denominator</b>
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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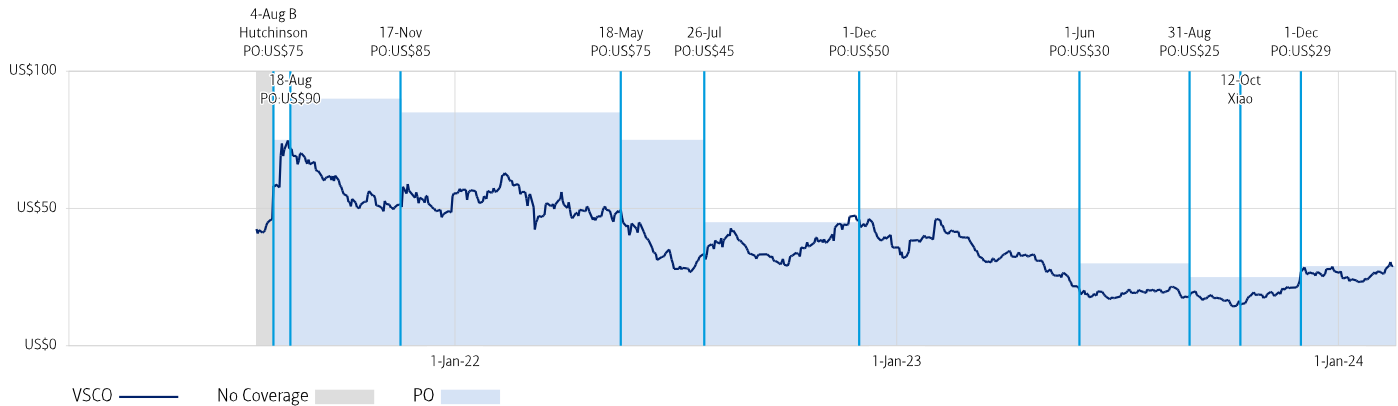
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### Victoria's Secret (VSCO) Price Chart



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 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%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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