



Retail

# ELEVATOR PITCH

Presented by Hedgeye Retail Sector

Long

Bath &amp; Body Works

Ticker	BBWI		2023A	2024E	2025E	2026E	2027E
Price	\$50	Hedgeye EPS	\$ 3.26	\$ 3.52	\$ 4.01	\$ 4.62	\$ 5.30
Market Cap	11.2 bn	Street EPS		\$ 3.29	\$ 3.72	\$ 4.22	
Enterprise Value	14.8 bn	Variance		7%	8%	9%	
Short Interest	2.2%	P/E		14.2x	12.5x	10.8x	9.4x
Debt/EBITDA	2.3x	Target P/E		17.0x	17.0x	16.0x	16.0x
Sell Side Target	\$49	Implied Price		\$60	\$68	\$74	\$85
Return to SS Tgt	-1%	Price Variance %		20%	36%	48%	69%

## HEDGEYE EDGE | Stable Compounding Business at a Discounted Valuation

BBWI carries a truly unique business model for what has traditionally been a B&M mall retailer. It carries its own brands and products giving it control over content and pricing and less direct competition. It is also vertically integrated, giving it flexibility in margin levers throughout the supply chain. It has an excellent store experience, service, and assortment within fragrance, soaps, body care, sanitizers, and more. This enabled Bath & Body Works to deliver outstanding comparable store performance and profitability despite a persistently negative mall traffic environment over the last decade plus. More recently it has invested in its ecommerce and IT operations post separation from Victoria's Secret, which should drive improved top line and margin performance, while also scaling up a reward program that now has 37mm active members comprising 80% of sales in 2023. This program can be leveraged to drive targeted marketing and promotions for better sales and margin performance. BBWI has diversified its revenue base from just malls to include online and off mall stores with LSD unit growth, and it has predominantly domestic product manufacturing making it insulated from tariff risks around the election. The result is a company with consistent demand, high margins, high cash generation, strong control over its business trajectory, and a track record of cash return to shareholders. The business performance in the coming years makes for a premium 'B&M retailer' multiple on a growing earnings stream. 50% to 75% upside over 2-3 years with limited downside risk.

## NEAR-TERM (TREND) | Trends to Accelerate In 2024 For Earnings And Multiple Upside

We think earnings estimates have troughed and comps are likely to accelerate through 2024. That means margins march higher as the company continues its cost savings initiatives post the LB separation with \$100mm in savings expected this year. Lower costs in the supply chain should drive some near term gross margin upside, albeit with inflation rallying in recent months. We get to a beat in 2024 with accelerating trend through the year we think takes estimates and the multiple higher.

## KEY RISKS TO THE CALL | Forced Leadership = Potential Execution Risk, Inflation Margin Risk

CEO Andrew Meslow had to step down due to health issues in Feb 2022, and since the company was starting the Covid demand boom reversion around then the perception is that perhaps he was key to business execution. We think the current team will succeed, but there is a different leader in place vs the prior decade of top performance. Persistent commodity inflation can also create a temporary margin headwind as the company likely won't instantly raise prices on rising costs.

### COMPANY DESCRIPTION

Bath & Body Works is a retail banner of the old Limited Brands (LB) that separated from Victoria's Secret in 2021. It operates 1850 stores in the US and Canada plus an international presence through partnered stores selling bath, beauty, skincare, and fragrance products with domestic, vertically integrated manufacturing.

### KEY MODELING ASSUMPTIONS

	2023A	2024E	2025E	2026E	2027E
Revenue	\$ 7,429	\$ 7,496	\$ 7,828	\$ 8,194	\$ 8,552
YY % Change	-1.7%	0.9%	4.4%	4.7%	4.4%
Gross Margin %	43.6%	44.1%	44.6%	44.8%	45.1%
EBIT Margin %	17.3%	18.0%	18.8%	19.4%	20.0%
EBITDA	\$ 1,597	\$ 1,625	\$ 1,769	\$ 1,909	\$ 2,022
Net Debt	\$ 3,304	\$ 3,704	\$ 3,686	\$ 3,613	\$ 3,504
Net Debt/EBITDA	2.1x	2.3x	2.1x	1.9x	1.7x
FCF/Share	\$ 2.86	\$ 2.93	\$ 3.39	\$ 4.21	\$ 4.62