



Rating  
**Buy**

North America  
United States

Consumer  
Retailing / Specialty

Company  
**L Brands, Inc.**

Reuters LB.N    Bloomberg LB US    Exchange NYS    Ticker LB

Date  
23 August 2018

**Results**

Price at 22 Aug 2018 (USD)	31.89
Price target	39.00
52-week range	62.95 - 30.77

## Lack of Strategic Overhaul Raises Concerns

### Our Top Takeaway from the Print

While investors were expecting a downward earnings revision, we don't think it was to this magnitude (down ~28c at the midpoint), and on top of that, we believe the retirement of PINK CEO Denise Landman will likely spark questions around whether or not issues at the segment could linger for quarters to come (comps were down MSD in 2Q). Furthermore, while there are some green shoots at Victoria's Secret (strong customer reception to recent bra launches), it is not enough to offset weak trends in legacy styles. In addition, management's narrative on the conference call lacked meaningful changes to the company's strategy, which raises concerns given further declines in EBIT dollars. On a positive note, performance at Bath & Body Works and VS beauty remains strong, and the company sees opportunities to integrate beauty and lingerie to drive a larger basket. We remain patient and look for product improvement at PINK and Victoria's Secret and also point to LB's attractive 8.5% dividend yield, the highest in our coverage group.

### Impact to Sentiment & the Stock

Sentiment is likely to remain negative as the company lowered full year EPS guidance again, which now implies EBIT dollars down ~22% vs. down 14% in 2017. Furthermore, revised guidance suggests EBIT dollars down ~55% in 3Q (the worst performance of the year), but down only ~12% in 4Q. We believe the level of implied improvement will likely keep investors cautious until LB can demonstrate a sequential improvement in overall margins and better comp trends at Victoria's Secret.

### Valuation

Our PT goes to \$39 from \$44 based on 14.0x (down a turn to account for further EBIT margin erosion) our revised 2019 EPS forecast of \$2.78 (vs. prior \$2.92 and the Street at \$2.82). Our multiple is below the three-year average of 16.3x, but above peers as we believe LB has differentiated brands with plenty of runway left abroad for growth. That said, we acknowledge weak trends at Victoria's Secret, but see opportunities for improvement as the company resets the brand's franchises.

### Estimate Changes

Our 3Q EPS forecast goes to \$0.03 from \$0.14 (Street \$0.16; guidance of \$0.00-\$0.05) based on a 1% comp (guidance up LSD), GPM down 206 bps, and SG&A deleverage of 279 bps, equating to EBIT down 484 bps. Looking at the full year, we are now modeling \$2.55 in EPS (vs. prior \$2.75, the Street at \$2.77, and lowered

### Valuation & Risks

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### Key changes

TP	44.00 to 39.00	↓	-11.4%
EPS (USD)	2.75 to 2.55	↓	-7.3%
Revenue (USDm)	13,124 to 13,280	↑	1.2%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.5	-4.4	-11.6
S&P 500 INDEX	2.1	5.0	16.7

Source: Deutsche Bank

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guidance of \$2.45-\$2.70) based on a 2% comp and EBIT contraction of 360 bps. Turning to August, we are forecasting total comp up 1% based on a -3% comp at Victoria's Secret and a 9% comp at Bath & Body Works.

#### Other Notable Tidbits

2Q comps for the lingerie business were down LSD, driven by a decline in bras, partially offset by growth in panties and sleepwear. That said, the company continues to see strong customer reception to recent bra launches which include Sexy Illusions and the T-shirt bra. At LB's PINK brand, comps were down MSD, driven by declines in lingerie and loungewear, while the exit of swim negatively impacted comp by ~200 bps. Furthermore, the company noted that August-to-date performance at PINK has been soft driven by loungewear. On the flip side, beauty was strong with comps up high-teens. At Bath & Body Works, comps were up 10% for the quarter with growth in body care, home fragrance, and soaps and sanitizers. While promotional levels at Bath & Body Works were similar YOY, the brand's EBIT margin declined 70 bps due to a decrease in the overall merchandise margin rate, driven by both channel mix and somewhat higher transportation and supply chain costs.

#### Stock & option liquidity data

Market Cap (USD)	8,881.6
Shares outstanding (m)	278.5
Free float (%)	100
Volume (22 Aug 2018)	1,136,290
Option volume (und. shrs., 1M avg.)	-
<i>Source: Deutsche Bank</i>	

#### Forecasts and ratios

Year End Jan 31	2018A	2019E	2020E
1Q EPS	0.33	0.17A	-
2Q EPS	0.48	0.36A	-
3Q EPS	0.30	0.03	-
4Q EPS	2.11	1.99	-
FY EPS (USD)	3.20	2.55	2.78
P/E (x)	15.2	12.5	11.5

*Source: Deutsche Bank estimates, company data*



# Appendix 1

## Important Disclosures

\*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
L Brands, Inc.	LB.N	32.49 (USD) 22 Aug 2018	NA

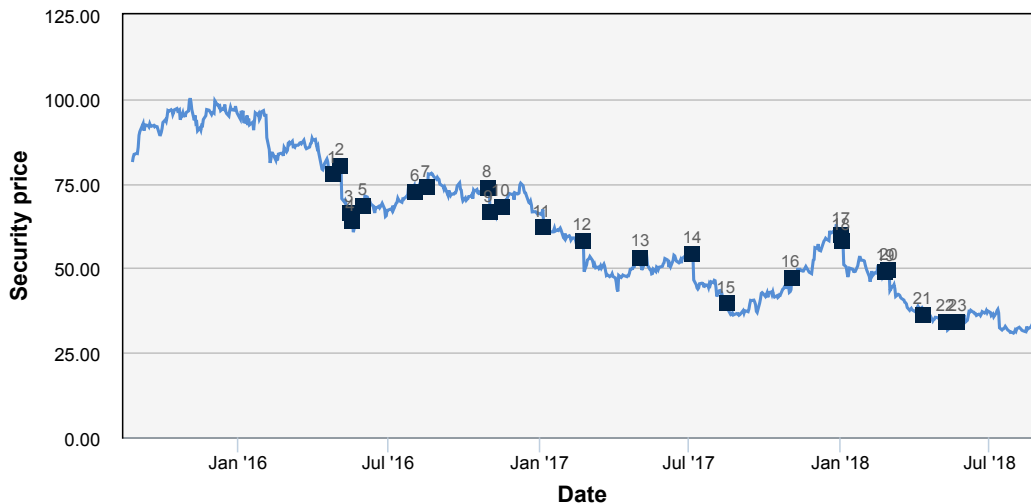
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## Historical recommendations and target price. L Brands, Inc. (LB.N)

(as of 08/22/2018)



### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	04/26/2016	Buy, Target Price Change USD 94.00 Paul Trussell	13.	05/04/2017	Buy, Target Price Change USD 61.00 Paul Trussell
2.	05/05/2016	Buy, Target Price Change USD 93.00 Paul Trussell	14.	07/06/2017	Buy, Target Price Change USD 60.00 Paul Trussell
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4.	05/19/2016	Buy, Target Price Change USD 76.00 Paul Trussell	16.	11/03/2017	Buy, Target Price Change USD 57.00 Paul Trussell
5.	06/02/2016	Buy, Target Price Change USD 77.00 Paul Trussell	17.	01/03/2018	Buy, Target Price Change USD 71.00 Paul Trussell
6.	08/04/2016	Buy, Target Price Change USD 79.00 Paul Trussell	18.	01/04/2018	Buy, Target Price Change USD 67.00 Paul Trussell
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8.	10/31/2016	Buy, Target Price Change USD 81.00 Paul Trussell	20.	03/01/2018	Buy, Target Price Change USD 60.00 Paul Trussell
9.	11/02/2016	Buy, Target Price Change USD 78.00 Paul Trussell	21.	04/12/2018	Buy, Target Price Change USD 53.00 Paul Trussell
10.	11/17/2016	Buy, Target Price Change USD 76.00 Paul Trussell	22.	05/10/2018	Buy, Target Price Change USD 50.00 Paul Trussell
11.	01/06/2017	Buy, Target Price Change USD 71.00 Paul Trussell	23.	05/24/2018	Buy, Target Price Change USD 44.00 Paul Trussell
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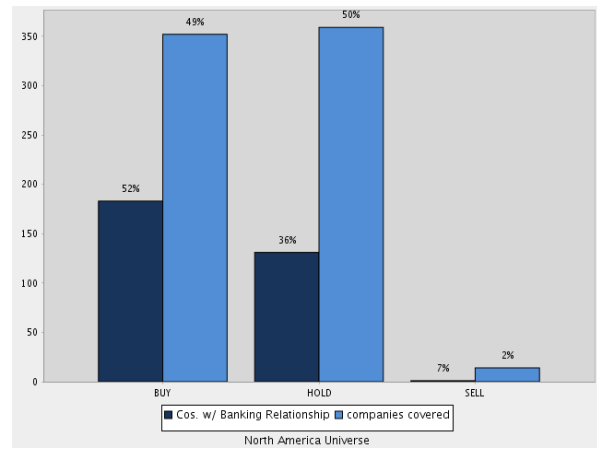
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