



Rating  
**Buy**

North America  
United States

Consumer  
Retailing / Specialty

Company  
**L Brands, Inc.**

Reuters LB.N    Bloomberg LB US    Exchange NYS    Ticker LB

Date  
8 November 2018

Company Update

Price at 7 Nov 2018 (USD)	34.85
Price target	40.00
52-week range	62.95 - 26.13

## Strong BBW Performance Drives 3Q EPS Raise

October comp beat expectations, up 4% vs. the Street at 0.9% and DB at -1%, driven by both Victoria's Secret (VS) and Bath & Body Works (BBW). VS had its best two-year stack since December 2016 and all categories were about flat for the month. That said, management confirmed that comp performance (flat vs. the Street at -5.3%) was a function of incremental promotional activity YOY as merchandise margins at the brand were down significantly. We also note that transactions were down LSD for the month. Turning to BBW, results were once again impressive (up 11% vs. the Street at 4.7%) with store comp up 7% driven by strong product acceptance (transactions were flat and average dollar sale was up HSD). Furthermore, merchandise margins at the brand were up again (fourth month in a row) driven by lower promotional activity and favorable shrink results. Importantly, given the strong performance at BBW, the company now expects 3Q EPS to be ~\$0.15 (ex. charges) vs. prior guidance of \$0.00-\$0.05, which we believe presents less risk to 4Q EPS. Looking to November, we are now modeling total comp up 3% (VS up 1%; BBW up 8%) vs. up 2% previously. Lastly, we note that recent strategic moves (closing Henri Bendel stores and ecommerce site and pursuing all alternatives for its La Senza business) showcase LB's focus on shareholder value along with management's dedication to stabilize operating margin and look for potential announcements around the VS brand. We maintain our Buy rating with our PT going to \$40 as we remain patient around margin improvement at PINK and VS.

### Raising Estimates

We are raising our 3Q EPS forecast to \$0.15 from \$0.03 (Street \$0.05; revised guidance ~\$0.15) based on 186 bps of GPM contraction and 150 bps of SG&A deleverage. Our PT goes to \$40 from \$39 based on 14.0x our 2019 EPS estimate of \$2.83 (prior \$2.78; Street \$2.60). Downside risks include fashion miscues, execution missteps, and market share loss to new entrants.

### Total Consolidated Comp Up 4%, Above Estimates

Total October comp was up 4% vs. DB at -1%, the Street at 0.9%, and 5% in September. LB in-store comp was down -1% (vs. DB at -3%). On a two-year stack basis, October was up 6% (up 7% adjusted for category exits) vs. up 3% in September (up 5% adjusted for category exits). Total company merchandise margins were significantly down vs. last year. Inventories on a per sq. ft. basis were up 10% at month end (up 5% on a two-year basis) and in line with

### Valuation & Risks

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### Key changes

TP	39.00 to 40.00	↑	2.6%
EPS (USD)	2.55 to 2.67	↑	4.8%
Revenue (USDm)	13,321 to 13,406	↑	0.6%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	22.5	8.8	-25.8
S&P 500 INDEX	-2.5	-1.6	8.6

Source: Deutsche Bank

8 November 2018  
Retailing / Specialty  
L Brands, Inc.



expectations. The company noted that ~600 bps of the increase relates to the calendar shift caused by the extra week in 2017.

#### Victoria's Secret Comp Flat, Above Estimates

VS October comp was flat vs. DBe at -5%, the Street at -5.3%, and 1% in September. October comp reflects an in-store comp down -7% (vs. DBe at -8%) and direct sales up an estimated 27% (vs. DBe at 5%). On a two-year stack basis, October was up 1% (up 3% adjusted for category exits) vs. -4% in September (down -1% adjusted for category exits). Lingerie, PINK, and beauty were all roughly flat vs. last year. Merchandise margins were down significantly vs. last year driven by increased promotional activity.

#### Bath & Body Works Comp Up 11%, Above Estimates

BBW October comp was 11% vs. DBe at 8%, the Street at 4.7%, and vs. 13% in September. October comp reflects an in-store comp up 7% (vs. DBe at 5%) and direct sales up an estimated 37% (vs. DBe up 25%). On a two-year stack basis, October was up 16% vs. 17% in September. Merchandise margins for the month were up driven by lower promotional activity and favorable shrink results.

#### Stock option liquidity data

Market Cap (USD)	9,699.4
Shares outstanding (m)	278.3
Free float (%)	100
Volume (7 Nov 2018)	801,626
Option volume (und. shrs., 1M avg.)	-

Source: Deutsche Bank

#### Forecasts and ratios

Year End Jan 31	2018A	2019E	2020E
1Q EPS	0.33	0.17A	0.12
2Q EPS	0.48	0.36A	0.38
3Q EPS	0.30	0.15	0.15
4Q EPS	2.11	1.99	2.18
FY EPS (USD)	3.20	2.67	2.83
P/E (x)	15.2	13.1	12.3

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	34.85 (USD) 7 Nov 2018	NA

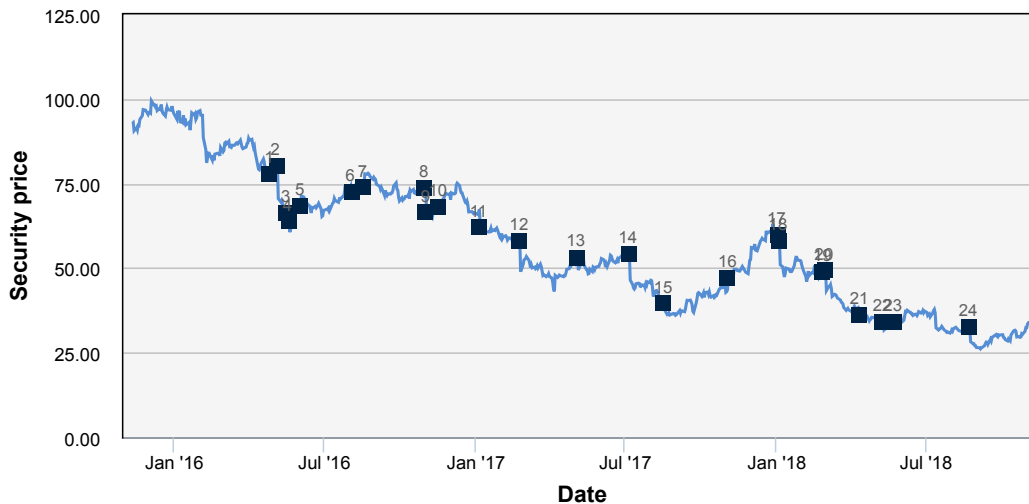
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## Historical recommendations and target price. L Brands, Inc. (LB.N)

(as of 11/07/2018)



### 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
3.	05/17/2016	Buy, Target Price Change USD 84.00 Paul Trussell	15.	08/17/2017	Buy, Target Price Change USD 56.00 Paul Trussell
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
7.	08/18/2016	Buy, Target Price Change USD 82.00 Paul Trussell	19.	02/26/2018	Buy, Target Price Change USD 65.00 Paul Trussell
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
12.	02/23/2017	Buy, Target Price Change USD 62.00 Paul Trussell	24.	08/23/2018	Buy, Target Price Change USD 39.00 Paul Trussell

8 November 2018  
Retailing / Specialty  
L Brands, Inc.



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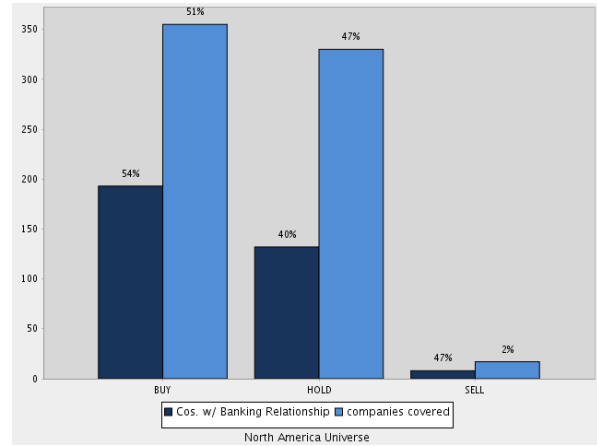
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8 November 2018

Retailing / Specialty

L Brands, Inc.



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8 November 2018  
Retailing / Specialty  
L Brands, Inc.



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8 November 2018

Retailing / Specialty

L Brands, Inc.



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8 November 2018  
Retailing / Specialty  
L Brands, Inc.



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8 November 2018

Retailing / Specialty

L Brands, Inc.



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