

Lbrands (LB) 4Q16 Results: Beats Expectations, Comps Flat

Figure 1. L Brands 4Q16 Key Metrics

	4Q16	4Q15	YoY Change
Revenues (USD Mil.)	\$4,489.5	\$4,395.0	2.2%
Gross Margin	43.2%	45.6%	(240) bps
SG&A/Sales	21.3%	21.0%	30 bps
Operating Margin	22.0%	24.5%	(250) bps
Adjusted EPS (USD)	\$2.03	\$2.15	(5.6)%

Source: Company reports/Fung Global Retail & Technology

- L Brands reported 4Q16 revenue of \$4.5 billion, up 2.2% from last year's \$4.4 billion and beating the consensus estimate of \$4.4 billion. Adjusted EPS was \$2.03, beating the consensus estimate of \$1.90.
- Total comps were flat for the quarter. Including in-store and e-commerce sales, Victoria's Secret comps declined by 3%, versus a 7% increase in the year-ago period, while Bath & Body Works comps increased by 5%, also versus a 7% increase in the year-ago quarter.
- The company expects FY17 adjusted EPS of \$3.05–\$3.35, including adjustments. For 1Q17, the company expects EPS of \$0.20–\$0.25. L Brands now expects February comps to decrease by a mid-teens percentage; the company had previously guided for a mid-single-digit decrease for the month.

4Q16 Results

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By business segment, total revenue at Victoria's Secret declined by 1%, while revenue at Bath & Body Works grew by 7%. Including in-store and e-commerce sales, Victoria's Secret comps declined by 3%, versus an increase of 7% in the year-ago period, while Bath & Body Works comps increased by 5%, also versus a 7% increase in the year-ago quarter. Accounting for only in-store sales, comps at Victoria's Secret declined by 2% and comps at Bath & Body Works grew by 2%.

FY16 Results

For the full year, adjusted EPS was \$3.74, compared with \$3.99 for the previous year. Net sales were \$12.6 billion, up 3% from the previous year's \$12.2 billion. Adjusted full-year operating income was \$1.09 billion, versus \$1.18 billion the prior year. The company's exit from the swim and apparel categories had a negative impact of 2% on total revenues and a negative impact of 3% on Victoria's Secret revenues.

Total comps including in-store and e-commerce sales grew by 2% for the year. Total in-store comps grew by 1% for the year.



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FY17 Outlook

The company expects FY17 adjusted EPS of \$3.05–\$3.35, including adjustments from the exit of the swim and apparel categories at Victoria’s Secret, continued investment in China and real estate investments in different business areas. Consensus calls for full-year adjusted EPS of \$3.68.

For 1Q17, the company expects EPS of \$0.20–\$0.25, versus consensus of \$0.49.

The company now expects February comps to decrease by a mid-teens percentage; it had previously guided for a mid-single-digit decrease for the month. The exit of swim and apparel at Victoria’s Secret is expected to negatively impact total company comps by 6%.



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