

Lbrands (LB) 1Q17 Results: Beats on EPS Despite Victoria's Secret's Sales Slump

Figure 1. L Brands 1Q17 Key Metrics

	1Q17	1Q16	YoY Change
Revenues (USD Bil.)	\$2.44	\$2.61	(6.8)%
Gross Margin	37.1%	39.9%	(285) bps
SG&A/Sales	28.4%	27.5%	90 bps
Adjusted Operating Margin	8.6%	13.7%	(510) bps
Adjusted EPS (USD)	\$0.33	\$0.59	(44.1)%

Source: Company reports/Fung Global Retail & Technology

- L Brands reported 1Q17 adjusted EPS of \$0.33, down 44.1% from the year-ago quarter, but above the \$0.29 consensus estimate. Total revenues were \$2.44 billion versus expectations of \$2.46 billion, and were down 6.8% year over year.
- Total comps declined by 9% for the quarter. Victoria's Secret comps declined by 14% versus a 2% increase in the year-ago period. Bath & Body Works comps increased by 2% versus a 6% increase in the year-ago quarter.
- The company raised its FY17 EPS guidance to \$3.10–\$3.40 from \$3.05–\$3.35, citing a lower tax rate; consensus calls for full-year EPS of \$3.22. L Brands expects 2Q17 EPS of \$0.40–\$0.45, slightly below the \$0.46 consensus estimate. The company expects May comps to decrease by mid- to high-single digits.

1Q17 Results

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Total comps declined by 9% from the year-ago quarter. Management noted that the exit from the swim and apparel categories had a negative impact of six percentage points on total company sales and a negative impact of nine percentage points on Victoria's Secret comparable sales. Accounting for only in-store sales, comps at Victoria's Secret declined by 12% and comps at Bath & Body Works declined by 1%.

Victoria's Secret comps declined by 14% versus a 2% increase in the year-ago period. Strength in the PINK business was offset by a decline in the lingerie business and the exiting of swim and apparel. The company decided to exit those categories largely so it could focus on more profitable segments and push harder into lower-priced sports bras and unstructured bralettes. Bath & Body Works comps increased by 2%, driven by growth in the e-commerce channel, compared with a 6% increase in the year-ago quarter.



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FY17 Outlook

The company raised its FY17 EPS guidance to \$3.10–\$3.40 from \$3.05–\$3.35, citing a lower tax rate; consensus calls for full-year EPS of \$3.22. The company expects comps to decrease by low-single digits. L Brands expects 2Q17 EPS of \$0.40–\$0.45, slightly below the \$0.46 consensus estimate. The company expects May comps to decrease by mid- to high-single digits.

L Brands plans to continue to revamp its business by improving the store experience, localizing assortments and enhancing its e-commerce business.



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Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Steven Winnick
Research Associate

Hong Kong:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com