

COMPANY PROFILE

L Brands Inc

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COMPANY OVERVIEW

L Brands, Inc. (L Brands), formerly Limited Brands, Inc, is a specialty retailer based in the US. The company is a retailer of women's intimate and other apparel, jewelry, body and bath products, personal care and beauty products, and accessories. It offers lingerie, cosmetics, fragrances, lotions, shower gels, bracelets, earring, rings, accessories and antibacterial soaps. L Brands markets its products through various brands including Victoria's Secret, Pink, Bath and Body Works, La Senza and Henri Bendel, which are sold in the company-owned and franchised locations globally. It sells its merchandise through specialty retail stores, catalogues, websites, and franchise, license and wholesale partners. The company's operations are spread across the US, the UK and Canada. L Brands is headquartered in Columbus, Ohio, the US.

The company reported revenues of (US Dollars) US\$12,632 million for the fiscal year ended February 2018 (FY2018), an increase of 0.5% over FY2017. In FY2018, the company's operating margin was 13.7%, compared to an operating margin of 15.9% in FY2017. In FY2018, the company recorded a net margin of 7.8%, compared to a net margin of 9.2% in FY2017.

KEY FACTS

Head Office	L Brands Inc Three Limited Parkway Columbus Ohio Columbus Ohio USA
Phone	1 614 4157000
Fax	
Web Address	www.lb.com
Revenue / turnover (USD Mn)	12,632.0
Financial Year End	February
Employees	25,200
New York Stock Exchange Ticker	LB

SWOT ANALYSIS

L Brands, Inc. (L Brands) is a specialty retailer of women’s lingerie, beauty and personal care products and accessories. Revenue growth, inventory turnover ratio and multi channel retailing are the company’s main strengths, whereas profitability and lawsuits remain major areas of concern. In the future, expansion by competitors, increase in manpower costs and foreign exchange risks could affect its growth. However, expanding retail market in the US, international expansion and growing demand for private label products are likely to provide growth opportunities to the company.

<p>Strength</p> <p>Revenue Growth Multi Channel Retailing Inventory Turnover Ratio</p>	<p>Weakness</p> <p>Lawsuits Profitability</p>
<p>Opportunity</p> <p>Expanding Retail Market in the US International Expansion Growing Demand for Private Label Products</p>	<p>Threat</p> <p>Increase in Manpower Costs Expansion by Competitors Foreign Exchange Risks</p>

Strength

Revenue Growth

The company exhibited an increase in the revenue during the financial period. In FY2017, the company generated revenues of USD12,574 million as compared to USD12,154 million, at an overall increase of 3.5% in FY2017. The increase in revenue was primarily due to expansion of the company-owned Victoria’s Secret and PINK stores in the U.S., Canada, and U.K. and company-owned Bath & Body Works stores in the U.S. and Canada. The increase in revenue was also due to 1.4% increases in the Victoria’s Secret sales, 7.4% increase in the Bath and Body Works sales and 9.9% increase in Victoria's Secret and Bath and Body Works International.

Multi Channel Retailing

L Brands sale of merchandise through multiple channels increases the company’s direct-to-consumer business. Diverse retail and marketing channels helps the company to increase brand awareness, store traffic and sales. As of January 2017, the company operated 3,074 specialty stores in the US, Canada and the UK. L Brands offers broad array of products ranging from personal care and apparel products to home fragrance products under Victoria’s Secret, Victoria’s Secret Pink, Bath & Body Works, C.O. Bigelow, White Barn Candle Company, La Senza and Henri Bendel brands. All these products are sold through the company-owned and franchised stores and through online retailing globally. The company also offers its products through e-commerce websites: www.VictoriasSecret.com, www.HenriBendel.com,

www.BathandBodyWorks.com and www.LaSenza.com which are continually upgraded. L Brands advertises through social media websites. In FY2017, the company spent US\$325 million in producing and distributing its catalogues and for other promotional activities.

Inventory Turnover Ratio

The company reported an increase in the inventory turnover ratio during the review year. Improving inventory turnover ratio and lower inventory turnover days signify that the company incurs low inventory carrying costs, which help improve its operating performance. In FY2017, L Brands reported inventory turnover ratio of 6.8, which was higher than that of two of its major competitors, J. C. Penney Company, Inc (J. C. Penney) and The Cato Corporation (The Cato) which reported inventory turnover of 2.8 and 4.1 in FY2017. With the given turnover ratio, L Brands takes 54 days to sale its inventory compared to 129 days taken by J. C. Penney and 88 days by The Cato. Higher inventory turnover than competitors indicates that the company takes less number of days to clear its inventory in comparison with competitors.

Weakness

Lawsuits

Product recalls would not only have an impact on the company's projected sales and profits, but also could result in its negative publicity. Product recalls represent those products which the regulatory authorities determine to be harmful to patients and consequently require to be recalled from all customers to which they were supplied. In May 2016, L Brands was sued for copyright infringement by Debra MacKinnon, the principal of intimate apparel company Zephyrs. The lawsuit claims that the company copied the invention of kidney-shaped silicone bra insert from Zephyrs. In April 2016, a class action lawsuit was filed against Victoria's Secret for alleged violations of New Jersey consumer protection laws. The lawsuit asserts that the company imposes involuntary, illegal, and unenforceable limitations of consumer rights through site terms, conditions and notices. The company has to incur significant expenses owing to the regulations and non-compliance could result in fines and penalties, which increase its operating costs.

Profitability

Though the company's revenue increased in FY2017 from last fiscal, its profitability declined during the same period. Declining profitability decreases the company's ability to provide higher returns to its shareholders, thereby gaining their confidence. The company's operating margin decreased from 18% in FY2016 to 15.9% in FY2017. Weak operating performance indicates the company's efficiency in cost management. Its operating cost as a percentage of sales increased from 81.9% in FY2016 to 84% in FY2017. The company's net profit margin decreased from 10.3% in FY2016 to 9.2% in FY2017.

Opportunity

Expanding Retail Market in the US

The company offers women's intimate and other apparel, jewelry, body and bath products, personal care and beauty products, and accessories through its retail stores in the US. In FY2017, the company invested US\$990 million including US\$460 million in Victoria's Secret and US\$250 million in Bath & Body Works for opening of new stores and remodeling and improving of existing stores. The company opened 23 stores of Victoria's Secret stores in the US, 30 stores of Bath & Body Works in the US and five stores of Bath & Body Works in Canada. In FY2018, the company planned to invest US\$800 million to US\$900 million for the opening of 70 new company owned stores. These investments could enhance the company's capabilities to explore expanding US retail market. According to in-house research, the retail sales in the US grew by 3.2% in 2015 and are expected to reach US\$3,722.4 billion in 2020 growing at a CAGR of 3.1% during 2015-2020. Food and grocery is expected to lead with a share of 47.7% of overall retail sales, followed by apparel, accessories, luggage and leather goods (15.9%), home and garden products (14.9%), electrical and electronics (9.3%), furniture and floor coverings (3.6%), Books, news and stationery (2.6%), Sports and leisure equipment (2.7%), health and beauty (2.5%), and Music, video and entertainment software (0.8%) in 2020.

International Expansion

L Brands intends to expand its retail network through the opening of stores in international markets. The rising store numbers could increase the visibility of the company that would encourage more customers to visit its stores. In FY2017, the company invested US\$68 million in its Victoria's Secret and Bath & Body Works International segment. In FY2017, the partners operating along with L Brands opened 44 net new Victoria's Secret Beauty and Accessories stores of which 26 stores are acquired from a partner in Greater China. In FY2018 its partners also plan to open 45-60 net new stores under Victoria's Secret Beauty and Accessories stores of which six Victoria's Secret full-assortment stores in Greater China, two additional Victoria's Secret full-assortment stores and one PINK store in the U.K and one Victoria's Secret full-assortment store in Ireland. In FY2018, the company opened seven Victoria's Secret full-assortment stores and two PINK stores in Russia, Mexico and Singapore of which two Victoria's Secret stores and one Pink store in the UK. The partners operating along with the company opened 34 Bath & Body Works stores during the review year in the Middle East, Latin America, Southeast Asia and Europe. In FY2018, its partners plan to open 45-55 stores under the Bath & Body Works banner.

Growing Demand for Private Label Products

The company stands to benefit from the increasing demand for private label products. L Brands offers its products under various private label brands including Victoria's Secret, Victoria's Secret Pink, Bath and Body Works La Senza and Henri Bendel. L Brands has a strong opportunity to increase its profit margins in the future. Following a period of slow and negative economic growth, private label sales have been rising as consumers increasingly shop to a budget. While price is a prime factor driving private label sales, improvements in packaging and quality have helped remove the stigma attached to buying store brands.

Threat

Increase in Manpower Costs

Labor costs in the US have been increasing in the recent past. In FY2017, the company employed 93,600 associates as compared to 87,900 people. The company has taken several initiatives to expand its stores, which requires increasing its employee base. Therefore rising manpower cost could impact its stability and operational efficiency of the company. The tight labor markets, government mandated increase in minimum wages and a higher proportion of full-time employees result an increase in labor costs. The federal minimum wage provisions are contained in the Fair Labor Standards Act (FLSA). The minimum wage rate in the US remained at US\$7.3 per hour in August 2016. Also, 29 states and the District of Columbia have minimum wages more than federal rate. These wages range from US\$7.5 per hour in Maine, and New Mexico to US\$11.5 per hour in District of Columbia, and US\$10 per hour in California and Massachusetts.

Expansion by Competitors

L Brands faces intense competition from both domestic and international companies in the retail market, which is based on design, price, marketing, brand image, service, assortment and quality. The company faces competition from national, regional and local operators of department stores, individual and chain specialty stores, and discount retailers. Its major competitors include The Gap, Inc., Chico's FAS, Inc., J.Crew Group, Inc., Triumph International AG, LVMH Moët Hennessy Louis Vuitton SA and J. C. Penney Company, Inc.. While its major competitors have undertaken expansion programs to match the growth rate, the market also recorded consolidation involving mergers and acquisitions, and expansion.

In April 2016, J. Crew Group, Inc. (J. Crew) entered into a partnership with Nordstrom, to sell the J.Crew collections on selected Nordstrom's stores and Nordstrom.com. By this partnership J. Crew expands its operations and can increase its sales.

Foreign Exchange Risks

L Brands operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in the US dollar and therefore its revenue is exposed to volatility of the US dollar against other functional currencies such as Canadian dollar and British pound. Major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2017, the company reported a loss of US\$19 million from foreign currency translation adjustments as compared to a loss of US\$19 million in FY2016 and a gain of US\$21 million in FY2015. To minimize risks from currency fluctuations, the company could involve in foreign exchange hedging activities by entering into foreign exchange forward contracts. However, there could be no assurance that such hedging activities or measures would limit the impact of movements in exchange rates on the company's results of operations.

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