

## Bath & Body Works: This Story Is Not Over Yet

July 14, 2022 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

A year ago, in August 2021, L Brands was [separated](#) into two companies: Victoria's Secret and Bath & Body Works.

Subsequent to the spin-off, on August 3<sup>rd</sup>, 2021 shares closed at about \$65.13 per share. Since then they declined by 58% percent.

We think that the retail sector is risky and investment in a company is not without uncertainties. However, the current share price reminds us somehow of a situation in shares of Albertson's.

We wrote about Albertson's IPO two years ago in July of 2020: [Albertson's IPO: Classic Story, Classic Investment Case](#). It was very relevant back then in the ongoing covid-19 environment as food supermarkets became a "proxy of safety" from a sector and macro perspective.

Albertson's was trading at an EV/EBITDA valuation multiple of x5.6. We estimated that with an x8.5 valuation multiple, shares have a potential upside of about 163% percent over the next three years or an annual upside of 57% percent.

So far, this forecast proved correct, more or less, and since our recommendation on July 22<sup>nd</sup>, 2020 shares have returned 72% percent, versus a return of only 19% percent in the S&P 500 Index.

We recently highlighted Albertson's [again](#).

Bath & Body Works currently has a market capitalization of \$6,270 and an Enterprise Value of \$10,474 million (without leases) and is currently valued at an

EV/EBITDA multiple of approximately x4.7 (company's last fiscal year adjusted EBITDAR less total lease costs).

Free cash flow is also attractive: last year's free cash flow was \$1,122 million, and the current market price provides a FCF Yield of 19.5% percent.

The company also pays a quarterly dividend of \$0.20 per share which provides an annual dividend yield of 2.9% percent.

One of the reasons event-driven value strategy is attractive is that when there exists an event, either in hard form – for example, an announced merger or acquisition or in a certain “soft” form – if an event is expected, – market participants cannot ignore it.

The interest and focus on the company grows and investors must analyze and value the company in light of the announced or expected event.

All of this allows investors to identify the structure of the company's [story](#) and develop an investment thesis.

We think that last year's spin-off and event in shares of Bath & Body Works is still a developing [story](#) and provides investors the possibility to reap the benefits of an event-driven value strategy.

In our view, even though not without risks, Bath & Body Works' shares represent an attractive investment option.

# Bath & Body Works®

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