

Elphinstone Research Group

Equity Research Report

**Victoria's Secret & Co  
(NYSE:VSCO)**

Q4 2025

*Consumer & Retail Deep Dive: Brand Repositioning,  
International Growth, and Margin Recovery Thesis*



VICTORIA'S SECRET

Date: 31/12/2025  
Ticker: VSCO  
Exchange: NYSE  
Sector: Consumer Cyclical

Current Price: USD 54.17  
Target Price: USD 55.55  
Recommendation: HOLD  
Risk Rating: Medium

## Executive Summary

Victoria's Secret & Co. ("VSCO") is a scaled global intimates and lifestyle platform undergoing a multi-year brand and margin recovery, supported by international expansion, omnichannel optimization, and product adjacency in beauty and lifestyle categories. The company's repositioning toward confidence-led, comfort-first branding—amplified by flagship cultural moments such as the Victoria's Secret Fashion Show—has stabilized core demand and improved digital engagement.

Our valuation implies limited near-term upside, with the stock trading near intrinsic value. A Discounted Cash Flow (DCF) analysis yields an implied share price of \$56.01, while public comparables indicate VSCO trades at a premium to peer medians on EV/EBITDA and P/E, reflecting market expectations for continued margin recovery and successful brand revitalization.

Upside is driven by sustained double-digit international growth, mix shift toward higher-margin beauty and digital channels, and continued gross margin expansion through sourcing optimization and improved full-price sell-through. However, these positives are partially offset by elevated tariff exposure, ongoing promotional intensity from digitally native competitors, and execution risk in maintaining brand relevance in a crowded, celebrity-driven category.

Given the balanced risk-reward profile and valuation that already reflects much of the turnaround narrative, we maintain a HOLD recommendation.

## Investment Thesis

Victoria's Secret & Co. is a scaled global intimates and lifestyle platform benefiting from brand-led recovery, international expansion, and margin improvement through mix shift toward higher-margin digital and beauty channels. The company's replenishment-driven demand model supports recurring revenue and customer loyalty, while capital-light international growth provides structural upside. However, the stock's premium valuation versus peers already reflects much of the turnaround narrative, limiting near-term upside amid tariff exposure, competitive pressure from digitally native brands, and execution risk in sustaining brand relevance.

## Company Overview

Victoria's Secret & Co. (NYSE: VSCO) is a specialty retailer focused on women's intimates and adjacent categories, operating a portfolio led by Victoria's Secret and PINK, alongside Adore Me (a digital-first intimates brand). The company's heritage is rooted in lingerie, but the assortment spans bras and panties into lifestyle categories including sleep, lounge, sport, swim, and beauty/fragrance, allowing VSCO to capture repeat purchasing across multiple "occasion" needs rather than a single wardrobe event.

VSCO engages customers through three core distribution channels: North American stores, digital, and international. As of the end of fiscal 2024, VSCO operated 812 stores across the U.S. and Canada (approximately 5.6 million sq. ft. of selling space) and maintained 575 international stores across Asia, Europe, the Americas, the Middle East and Africa, with international digital sites in nearly 70 countries. This physical footprint is supported by an omnichannel model designed to connect store inventory with online demand and enable seamless customer journeys across touchpoints.

Economically, VSCO's revenue base remains meaningfully tied to store performance while digital acts as a scaled second engine. In fiscal 2024, North American stores generated \$3.428bn (55%) of revenue, digital generated \$2.042bn (33%), and international contributed \$760m (12%), for total net sales of \$6.230bn. This mix highlights (i) the ongoing importance of store productivity and merchandising discipline, (ii) the strategic value of digital personalization and traffic conversion, and (iii) a long runway for international growth via a blend of partner-operated models and direct participation in key markets (including joint-venture operations in China).

Operationally, VSCO emphasizes a flexible sourcing model built for speed and brand consistency, leveraging global supplier partnerships for intimates/apparel and a more localized beauty manufacturing base (notably centered in Ohio) to support faster development cycles and margin opportunities in beauty. Strategically, management has been investing in a "store of the future" approach, smaller, more flexible formats and layouts intended to meet customers where traffic is moving (including off-mall) while reinforcing the brand experience. The combination of (a) omnichannel capability, (b) a large installed store base, and (c) globally recognized brands provides meaningful scale advantages; however, execution risk sits in maintaining relevance (brand heat), reducing reliance on promotions, and converting social engagement into profitable repeat purchasing.

VSCO's profit model is anchored in high-frequency replenishment categories (bras, panties, and fragrance), which drive recurring traffic and stable customer lifetime value. Core margin expansion is supported by a mix shift toward higher-margin beauty and digital channels, where attachment rates and personalization increase basket size and reduce return rates.

International growth is pursued through a capital-light, partner-led and joint-venture model, generating structurally higher ROIC by limiting owned-store capex while scaling brand reach. Physical stores function as both revenue centers and customer acquisition hubs, monetizing traffic through omnichannel halo effects that lift digital conversion and lifetime value rather than standalone store profitability alone.

## **Brand & Marketing**

VSCO's brand heritage is anchored in Victoria's Secret as a culturally iconic intimates brand, historically built on high-glamour imagery, aspirational storytelling, and mass awareness. A central pillar of this strategy was the Victoria's Secret Fashion Show, which for decades functioned as a flagship marketing event, generating global earned media, cultural relevance, and brand salience well beyond its direct commercial impact. The runway was not a conversion tool, but a brand-heat and awareness engine, reinforcing Victoria's Secret's position at the center of the intimates category.

In recent years, VSCO has actively repositioned the brand toward a broader, more modern definition of confidence and inclusivity, explicitly framing its purpose around representing and empowering women while aligning product and messaging with what consumers "want and need" today. This repositioning reflects both shifting consumer values and intensifying competition from digitally native intimates brands emphasizing comfort, representation, and authenticity. Importantly, the reintroduction and evolution of the Victoria's Secret Fashion Show signals a strategic recalibration rather than a return to legacy positioning: the runway is now intended to support cultural visibility and storytelling while aligning with updated brand values, rather than defining the brand through a narrow aesthetic.

### **Brand identity & promise**

VSCO's current brand identity centers on confidence on the customer's terms, product-led comfort and fit credibility, and lifestyle relevance. At the holding-company level, VSCO positions its brands around celebrating and supporting women across life stages, creating a unifying promise across Victoria's Secret and PINK. Within this framework, the runway functions as a high-impact narrative moment, reinforcing confidence and visibility while feeding content into broader digital and social ecosystems.

**Vision Statement:** Captivating customer experiences that drive long- term loyalty and deliver sustained growth for our shareholders

### **Core consumer (demographic + psychographic)**

- Victoria's Secret: Adult women purchasing everyday essentials alongside occasion-based intimates; motivated by fit, comfort, quality, and brand trust.
- PINK: Gen Z and young millennials; lifestyle-driven, price-accessible, trend-led, and highly social-media engaged, with strong demand for lounge and casual wear.

Across both brands, VSCO's most attractive customer segments are replenishment-oriented shoppers with high purchase frequency, responsiveness to newness and drops, and a discovery journey that increasingly begins on social and digital platforms, even when final conversion occurs in-store.

# **Brand & Marketing**

## **Channel strategy**

- Instagram serves as the primary aspirational and storytelling channel, supporting campaign launches, curated visuals, runway-adjacent imagery, and product drops that reinforce brand identity and guide consumers toward commerce.
- TikTok functions as a relevance and conversion accelerant, emphasizing creator-led try-ons, fit education, behind-the-scenes content (including runway extensions), and authentic user-generated reviews. The objective is credibility and social proof rather than polish.

## **Core content themes**

- Fit & confidence: sizing guidance, support claims, and real-world wearability.
- Everyday essentials: replenishment logic and daily-wear positioning.
- Lifestyle layering (PINK-led): lounge and casual styling through creator content.
- Seasonal moments: Valentine's Day, gifting, weddings, swim, and holiday.
- Beauty adjacency: fragrance and body care as basket-building categories.
- Flagship brand moments: runway shows and campaign events as awareness catalysts, repurposed across social platforms.

## **Positioning**

VSCO positions Victoria's Secret and PINK as scaled, mainstream intimates and lifestyle brands that combine global awareness with modern confidence-led storytelling, using omnichannel reach, product breadth (intimates, lifestyle, beauty), and periodic flagship brand moments to sustain relevance and drive repeat demand.

## **Marketing funnel**

- Awareness: High-reach social content, earned media, and flagship brand moments (including the Fashion Show) that reignite cultural relevance.
- Consideration: Creator try-ons, fit education, UGC, and clear value architecture.
- Conversion: Frictionless digital experiences, inventory visibility, omnichannel fulfillment, and disciplined promotional strategy.
- Retention: Replenishment cycles, personalized messaging, and cross-sell into lifestyle and beauty to increase lifetime value.

From an investment perspective, this strategy supports higher full-price sell-through, improved gross margin resilience, and increased lifetime value through repeat replenishment and beauty cross-sell.

# **Brand Thesis and Marketing Appendix**

## **Brand thesis**

Victoria's Secret & Co. operates a scaled intimates and lifestyle platform led by Victoria's Secret and PINK, supported by strong brand awareness, a large physical retail footprint, and omnichannel capabilities. The brand is repositioning toward modern confidence, inclusivity, and everyday wearability while maintaining aspirational brand equity.

Growth is driven by omnichannel optimization, digital engagement, international expansion through partner-led models, and product adjacency in beauty and lifestyle categories. Flagship brand moments, most notably the Victoria's Secret Fashion Show, serve as top-of-funnel brand-heat catalysts, reinforcing cultural relevance and amplifying campaign reach through social media.

VSCO's competitive advantage lies in brand scale, physical retail reach, and a replenishment-oriented product portfolio. Key risks include execution in sustaining brand relevance, promotional intensity, and consumer cyclical, while near-term catalysts include successful runway activations, improved sell-through, and international momentum.

## **Marketing Appendix**

### **Consumer Targeting**

Victoria's Secret anchors demand in replenishment franchises such as *Body by Victoria* and *Love Cloud*, supporting high-frequency purchases among adult women. PINK targets Gen Z through lounge-focused assortments, campus drops, and college ambassador programs, positioning as a lifestyle brand rather than traditional lingerie.

### **Brand Reset Actions**

In 2026, the global intimates market has transitioned into a unified "lifestyle" ecosystem, where the historical divide between lingerie, loungewear, and wellness has effectively collapsed. Moving past the "beauty is pain" era, the industry is now defined by "Comfort-Plus" innovation, a strategic shift where 65% of consumers prioritize physical ease over pure aesthetics. This "Natural Glamour" trend replaces rigid structures with "second-skin" materials like bamboo and stretch mesh, while the Wireless Revolution—marked by a 30% surge in sales—leverages advanced "soft-support" technology to provide traditional shaping without the restriction of underwires.

## **Brand Thesis and Marketing Appendix**

Growth is currently driven by three distinct behavioral pillars: the "Intimates-as-Outerwear" movement, propelling a 13.9% CAGR in versatile pieces like lace bodysuits; the rise of the "Hybrid Wardrobe," which favors elevated, antimicrobial loungewear suitable for both sleep and social settings; and the rapid 9.9% CAGR of Wellness/Active intimates, where "Smart Bras" and Vitamin-infused textiles merge fashion with biometric health. Ultimately, the 2026 market dictates that longevity and brand loyalty are no longer won through "sexy" marketing alone, but through a high-performance formula of Technical Innovation, Materiality, and Inclusive Functionality. VSCO retired the "Angels" concept and launched the *VS Collective*, featuring athletes and public figures, marking a shift from legacy glamour toward inclusivity. Management reframed the brand around confidence and representation, using language such as "celebrate all women."

### **Messaging & Campaign Language**

Campaigns including "The New Sexy" signal a move from fantasy-driven imagery to confidence and everyday wearability, with increased emphasis on fit, comfort, and real-life use cases.

### **Social Media Execution**

Instagram supports campaign launches, curated visuals, and runway-adjacent imagery. TikTok prioritizes creator-led try-ons, bra fit education, and comfort comparisons, using user-generated content to reduce purchase friction.

### **Flagship Brand Moments**

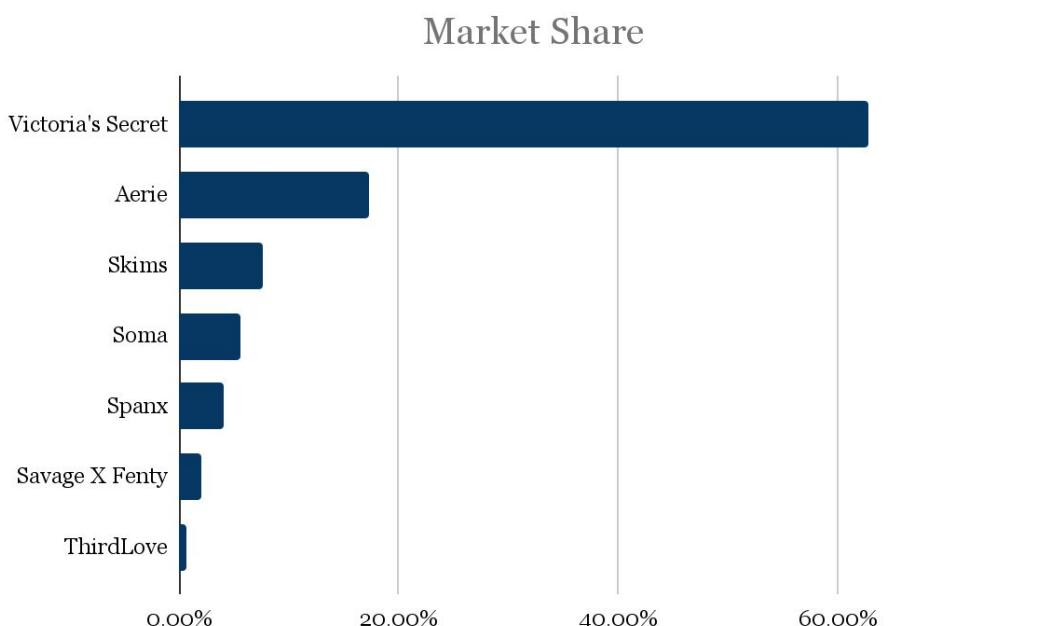
The Victoria's Secret Fashion Show remains the brand's most recognizable asset. Its reintroduction is positioned as a modernized cultural moment, with runway content repurposed into short-form social and earned media to drive top-of-funnel awareness.

### **Competitive Context**

Relative to digitally native peers such as Aerie, Savage X Fenty, and SKIMS, VSCO competes through brand scale, physical retail reach, and replenishment-driven demand, supported by omnichannel distribution.

## Industry Overview

In 2026, the global intimates market has evolved into a unified "lifestyle ecosystem," effectively dissolving the traditional boundaries between lingerie, loungewear, and wellness. Consumers have decisively traded the "beauty is pain" philosophy for a "comfort-first" mandate, evidenced by a 30% surge in wireless and silk-alternative sales that utilize advanced "soft-support" technologies. This growth is propelled by three pivotal behavioral shifts: the "Intimates-as-Outerwear" movement, driving a 13.9% CAGR for versatile pieces like bodysuits; the rise of the "Hybrid Wardrobe," where antimicrobial textiles allow for seamless transitions from sleep to social settings; and the expansion of Wellness Intimates, where smart-tech bras now command a 9.9% CAGR. Ultimately, the industry has transitioned from selling an "unattainable fantasy" to providing a functional, technical, and holistic self-care wardrobe.



## Market Trends & Total Assessable Markets

In 2026 VS&Co is navigating a successful "Path to Potential" turnaround within a global Total Addressable Market (TAM) exceeding \$1.1 trillion (includes core, adjacency, and optionality TAMs), a vast ecosystem comprising a \$113 billion lingerie market and a \$1.0 trillion beauty and wellness sector growing at a robust 8.6% CAGR. The company targets a Serviceable Addressable Market (SAM) of \$130 billion, focusing on mid-to-premium specialty intimates and prestige fragrances for women aged 18–45 across 70 countries. As of late 2025, VS&Co raised its Serviceable Obtainable Market (SOM)—or revenue target—to a forecasted \$6.45B – \$6.48B, maintaining a dominant 20–25% share of the North American specialty market despite pressure from digitally native rivals like Skims. This growth is fueled by a pivot to a "holistic lifestyle" model, capitalizing on the "Intimates-as-Outerwear" trend (driving a 13.9% CAGR in versatile pieces), high-margin prestige beauty, and an 11.4% expansion in wellness-focused athleisure. Leveraging a 34% surge in international sales and a digital footprint that accounts for 40% of its business, the brand is offsetting \$90M in tariff headwinds through disciplined full-price selling and AI-driven "Fit Tech" acquired via Adore Me to reduce returns and optimize the customer experience.

## Macro Overview

The macro outlook for VS&Co is defined by a strategic navigation of trade complexities and shifting consumer behaviors. Economically, the brand leverages the "Lipstick Effect," where its high-margin beauty and fragrance segments serve as a resilient financial hedge, attracting consumers seeking "affordable luxuries" even amid inflationary concerns. Politically, VS&Co proactively manages a projected \$90M - \$100M tariff headwind by implementing a modal shift from air to ocean freight and exploring nearshoring to stabilize costs and support its 170-basis-point margin expansion goal. Socially, the brand has successfully institutionalized a "Comfort-First" identity, resulting in a 5% increase in active customers within the key 18–44 demographic by prioritizing inclusive empowerment over traditional glamor. This evolution is anchored by technological prowess; following the Adore Me acquisition, VS&Co has integrated AI-powered "Fit Tech" and data-driven personalization as industry standards, directly tackling high return rates - the sector's primary cost center - and modernizing the omnichannel shopping experience.

## Key Competitors and Strategic Positioning

Company	Gross Margin	Revenue (2024E)	Strategic Strengths	Key Risks	Stock Performance
Victoria's Secret	~36.7%	\$6.48 Billion	Massive global footprint; high-margin fragrance moat.	Legacy brand stigma; high sensitivity to tariffs.	+45%
Skims	High est. 45-50%	\$1.0+ Billion	Celebrity "hype" engine; innovative fabric engineering.	Heavy reliance on Kim Kardashian's personal brand.	Private
Savage X Fenty	Moderate	\$250M - \$500M	Cultural relevance; VIP membership recurring revenue.	Crowded celebrity market; scaling brick-and-mortar.	Private
GapBody	~42.4	Part of \$15.3B (Gap Inc.)	Supply chain scale; cross-shopping with Gap/Old Navy.	Perceived as a "basic" rather than an "emotional" brand.	+8.4%

## Competitive Landscape

Victoria's Secret is the incumbent brand in the global lingerie and beauty market, with long-standing category leadership supported by high brand recognition, scale, and a broad footprint across lingerie, sleepwear, and beauty. The market continues to grow and evolve as consumers increasingly prioritise comfort-first essentials, inclusive sizing, and digitally enabled shopping experiences. While Victoria's Secret benefits from its heritage and retail presence, it also faces ongoing weaknesses linked to premium pricing and legacy brand perceptions. This creates a clear strategic need to modernize through stronger fit-led innovation, sustainability progress, and personalization, while managing external threats from agile competitors and intensifying promotional pressure. Notably, its best-selling bras typically sit at mid-range price points rather than at the very top of its price architecture, highlighting that volume is often driven by accessible core products rather than its most expensive styles.



Source: Best-selling bra prices from company websites, Glamour editorial reviews, and luxury retail sites. Market positioning based on competitive analysis.

## **Competitive Landscape**

### **Offensive: Challenger Brand Dynamics**

The competitive landscape is increasingly shaped by cultural influence, celebrity power, and social media share of voice rather than product and price alone. Challenger brands such as Savage X Fenty and SKIMS have captured disproportionate consumer attention through celebrity-led credibility and fan-driven demand. Rihanna has positioned Savage X Fenty around bold, inclusive, entertainment-led campaigns, while Kim Kardashian has anchored SKIMS as a minimalist, aspirational shapewear and intimates brand with recurring viral momentum.

Aerie competes on affordability and authenticity, while fit-led players such as ThirdLove differentiate through comfort, sizing technology, and performance messaging. Competitive pressure is most visible in pricing competitiveness, speed of innovation across newness, inclusivity, and sustainability, and the ability to convert influencer reach into sustained demand. Celebrity star power has become a key offensive weapon, shaping brand momentum through reach, engagement, and social validation.

### **Defensive: VSCO Competitive Moat**

VSCO's primary defense is its scale-driven, omnichannel ecosystem, anchored by a global store network that enables in-person fit, frictionless returns, and higher conversion than digitally native peers. The replenishment-driven nature of core intimates reinforces habitual purchasing and customer lock-in through fit familiarity and brand trust.

In beauty and fragrance, brand licensing and high attachment rates provide a monetization layer beyond apparel, while partner-led international expansion embeds VSCO within local retail ecosystems, creating capital-efficient distribution advantages that are difficult for direct-to-consumer brands to replicate.

# Financials

## Historicals

VSCO's historical financials reflect a mature, North America-centric business that experienced heightened volatility following post-pandemic demand normalization. Revenue growth has been subdued, while margins were pressured by elevated freight costs, promotional intensity, and strategic brand reinvestment. More recent performance indicates stabilization, supported by cost control, inventory discipline, and easing input inflation, underpinning a gradual recovery in profitability.

## Growth

Looking forward, group growth is expected to be modest and mix-driven. **North America Stores**, the core earnings base, are forecast to grow at low single-digit rates, despite a trend of declining number of stores, reflecting a stable store footprint and a continued focus on profitability rather than expansion.

**Direct (Digital)** is expected to return to mid-single-digit growth as conversion improves and omnichannel initiatives gain traction, partially offsetting competitive promotional pressures.

**International** channel represents the key structural growth lever, with high single-digit to low double-digit growth (12.9% for FY2024) driven by partner-operated expansion and joint ventures, increasing its contribution to group revenues over time.

Revenue schedule build based on 10-k segment disclosures including average sales per store (ASP).

**International** and **Direct** sales triangulated using these disclosures.

	2023A	2024A	2025E	2026E	2027E	2028E	2029E
NA Store Units	831	806	791	776	762	748	734
NA ASP Growth (%)		0.0%	5.0%	4.5%	4.0%	3.5%	3.2%
NA Store ASP (\$MM)	4.04	4.04	4.24	4.43	4.61	4.77	4.92
NA Store Revenue (\$MM)	3,356	3,255	3,354	3,439	3,510	3,565	3,611
		-3.0%	3.0%	2.6%	2.1%	1.6%	1.3%
Int. Store Units	533	575	614	656	700	747	798
Int. ASP Growth (%)			3.5%	3.0%	2.5%	2.5%	2.5%
Int. Sale ASP (\$MM)	1.31	1.37	1.42	1.46	1.50	1.54	1.57
Int. Store Revenue (\$MM)	699	789	872	959	1,049	1,148	1,257
		12.9%	10.5%	10.0%	9.4%	9.4%	9.4%
Total Store Revenue (\$MM)	4,054	4,043	4,225	4,398	4,559	4,714	4,868
NA Direct Sales growth (\$MM)	1,938	1,980	2,174	2,323	2,450	2,558	2,648
		2%	9.8%	7%	5%	4%	4%
Int. Direct Sales growth (\$MM)	77	62	71	73	76	79	82
		-20%	2.4%	3.0%	3.5%	3.8%	4.0%
DTC Revenue (\$MM)	2,015	2,042	2,245	2,396	2,526	2,636	2,729
Total Revenue (\$MM)	6,182	6,230	6,471	6,794	7,086	7,350	7,597
growth (%)		0.78%	3.86%	5.00%	4.29%	3.73%	3.36%

## Discounted Cash Flow Analysis

Our DCF analysis for **Victoria's Secret & Co. (VSCO)** implies an intrinsic equity value of approximately **\$4.5bn**, corresponding to an implied share price of **\$56.01**, modestly below the current market price of **\$61.5** as of 14 January 2026. With the stock trading slightly above our DCF-implied fair value, the valuation supports a **Hold** recommendation, reflecting a balanced risk-reward profile.

### Revenue, Operating Performance, FCF, Terminal Value & Discounting

Revenue is forecast to grow from **\$6.5bn in 2025E to \$7.6bn by 2029E**, driven by continued international store expansion, steady direct-to-consumer growth, and pricing-led ASP increases, partially offset by a gradual decline in North American store count. Operating performance improves meaningfully over the forecast period, with EBIT margins expanding from **6.8% in 2025E to 12.8% in 2029E**, reflecting operating leverage, cost discipline, and mix shift toward higher-margin channels.

Unlevered free cash flow is projected to increase steadily from **\$363m in 2025E to \$727m by 2029E**, supported by rising operating income and normalized reinvestment assumptions. CapEx converges toward depreciation over the forecast horizon, while net working capital stabilizes at approximately **10% of revenue**, limiting incremental cash absorption.

Assumptions										
WACC										12.8%
TGR										2%
Income Statement		2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Revenue	(\$MM)	6,785	6,344	6,182	6,230	6,471	6,794	7,086	7,350	7,597
growth rate	(%)	-6.5%	-2.6%	0.8%		3.9%	5.0%	4.3%	3.7%	3.4%
EBIT	(\$MM)	2,760	2,272	2,274	2,284	441	565	695	832	974
as a % of sales	(%)	40.7%	35.8%	36.8%	36.7%	6.8%	8.3%	9.8%	11.3%	12.8%
Taxes (on EBIT)	(\$MM)	NA	161	74	54	105	135	166	198	232
as a % of EBIT	(%)	0.0%	7.1%	3.3%	2.4%	23.8%	23.8%	23.8%	23.8%	23.8%
<b>NOPAT</b>	<b>(\$MM)</b>					336	430	530	634	742
Cash Flow Items										
D&A		303	274	259	233	229	240	251	260	269
CapEx		(169)	(164)	(256)	(178)	(196)	(215)	(235)	(254)	(273)
Change in NWC		89	139	(88)	71	5	20	17	13	10
DCF										
Year						1	2	3	4	5
FCFF	(\$MM)					363	435	529	627	727
Discount Factor						1.13	1.27	1.43	1.62	1.82
PV of FCFF	(\$MM)					322	342	369	388	399
Valuation Outputs										
Terminal Value	(\$MM)					6,891				
PV of TV	(\$MM)					3,780				
Sum of PVs of FCFFs	(\$MM)					1,820				
Enterprise Value	(\$MM)					5,599				
Debt	(\$MM)					1,351				
Cash	(\$MM)					249				
Net Debt						1,102				
Equity Value	(\$MM)					4,497				
Shares Outstanding	(MM)					80.3				
<b>Implied Share Price</b>	<b>(\$)</b>					56.01				

Terminal value is calculated using **2029E FCFF of \$727m**, a **2.0% perpetual growth rate**, and discounted at a **12.8% WACC**, resulting in a present value of **\$3.8bn**. **WACC (12.8%)** is derived from a **15.0% cost of equity**, calculated using the **10Y U.S. Treasury** as the risk-free rate, an equity risk premium based on the S&P 500's 30-year annual returns, and a 5-year monthly beta from comparable companies. The **6.1% cost of debt** assumes a 200 bps credit spread, blended using target capital structure weights.

## Public Comparable Companies

Our public comparables analysis benchmarks Victoria's Secret & Co. against a broad set of global apparel and specialty retail peers, including Aerie, PVH Corp., Guess, Abercrombie & Fitch, Urban Outfitters, Bath & Body Works, Gap Inc., and Lululemon. The peer group trades at a median EV/EBITDA of approximately 8.1× and a median P/E of roughly 14.7×, reflecting a mix of mature retailers and higher-growth specialty brands. Relative to this group, Victoria's Secret currently trades at 10.5× EV/EBITDA and 22.2× P/E, representing a material premium to the peer medians. This valuation premium reflects the market's expectations for margin recovery, ongoing restructuring benefits, and the potential for brand revitalization despite the company's lower EBITDA margin profile versus several peers.

Company	EBITDA Margin (%)	Mkt Cap (USD Bn)	P/BV	EV/S	EV/EBITDA	P/E	Beta
VS & Co.	8.9	4.19	7.47	0.94	10.54	22.16	1.06
Aerie	12.5	3.95	2.83	0.88	9.14	22.09	1.4
PVH Corp	10.4	3.03	0.62	0.58	5.5	6.04	1.28
Warcoal	5.5	1.5	1.11	1.28	8.77	20.45	0.39
Guess	8.4	0.75	1.72	0.46	6.71	10.16	0.51
ANF	18.3	4.99	4.43	1.01	5.67	12.92	1.19
URBN	10.8	6.11	2.64	1.09	9.35	15.72	1.24
BBW	21.2	3.85	-2.82	1.11	5.5	6.65	1.53
Gap Inc	10.7	8.48	2.71	0.58	5.4	11.88	1.72
Lululemon	27.9	21.3	5.79	2.15	8.1	14.67	1.01

## Unit Economics & KPI

KPI (FY25)	VSCO	Aerie	PVH Corp	Warcoal	Guess	ANF	URBN	BBW	Gap Inc	Lululemon
Revenue (bn USD)	6.4	1.7	8.65	1.1	3	4.95	5.55	7.31	15.1	11
YOY Revenue Growth	3%	5%	-6.13%	-7.10%	8%	15.60%	7.70%	-1.60%	1.30%	4%
Gross margin	37%	39%	59.40%	55.40%	43.40%	64.20%	34.80%	54.90%	41.30%	59.20%
	VSCO	Aerie	PVH Corp	Warcoal	Guess	ANF	URBN	BBW	Gap Inc	Lululemon
Revenue per company-operated store (million)	7.73	3.34	4.85	1.37	3.15	6.5	7.1	2.95	4.08	13.3
Inventory Turnover	4.13	5.1	3.6	4.13	3.2	3.4	3.8	5.6	4.4	2.9
Sales Per Square Foot	600	1050	450	600	360	550	710	1030	410	1609

Victoria's Secret & Co. generated \$6.4bn in revenue (+3% YoY) in FY25, with a 37% gross margin, trailing premium peers such as Lululemon and ANF but broadly in line with mass-market apparel retailers. Store-level economics remain solid, with \$7.7m revenue per company-operated store and sales per square foot of ~\$600, supporting stable productivity relative to peers. Inventory turnover of 4.1x indicates disciplined inventory management, though margin expansion remains the key lever to close the profitability gap versus higher-quality branded peers.

# **Risks & Catalysts**

## **Headline Risks**

- Governance & Activist Volatility: The presence of activist investors (BBRC International and Barington Capital) and the adoption of a "poison pill" (expiring May 2026) create a binary risk environment. Continued friction between the Board and activists could distract leadership from operational execution or force capital allocation decisions (e.g., aggressive buybacks) that compromise long-term liquidity.
- Macro-Economic & Tariff Exposure: VSCO faces a projected \$90M - \$100M annualized headwind from renewed tariffs on Chinese imports. While the shift to ocean freight mitigates some cost, the company remains vulnerable to supply chain inflation. A softening in consumer discretionary spending could exacerbate inventory bloat if higher prices cannot be passed to the consumer.
- Supply Chain & Regulatory Compliance: The intensifying regulatory landscape (UFLPA in the US, CSDDD in the EU) presents material risk. Any inability to verify the origin of raw materials (specifically cotton) could lead to border detentions, reputational damage, and inventory write-downs, threatening the "ethical sourcing" narrative built into the brand turnaround.

## **Key Catalysts**

- International Growth Divergence: While the North American market remains mature, International sales have become the primary growth engine, growing 33.5% YoY in Q3 2025. Continued double-digit growth in China and digital channels validates the thesis that the brand has successfully repositioned itself globally, supporting a re-rating of the valuation multiple.
- Brand Heat Conversion (Entertainment Commerce): The return of the Victoria's Secret Fashion Show generated 61 million views and a 60% surge in site traffic, proving that "entertainment commerce" can still drive immediate transactional volume. Additionally, the launch of Adaptive Fashion is driving high single-digit growth in the critical 18-24 demographic, opening a new revenue stream in an underserved market.
- Supply Chain Finance Arbitrage (HSBC Program): The implementation of the Sustainable Supply Chain Finance (SSCF) program allows VSCO to drive Scope 3 decarbonization (93% of its footprint) without increasing direct CapEx. By leveraging its credit rating to give suppliers lower interest rates in exchange for ESG compliance, VSCO turns regulatory compliance into a financial incentive.

# Elphinstone Research Group

## **Disclosure**

This report was prepared by Elphinstone Research Group for academic and educational purposes only. The author does not hold a financial interest in Victoria's Secret & Co (VSCO).

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