S&P Global
Market Intelligence

Bath & Body Works, Inc. NYSE:BBWI

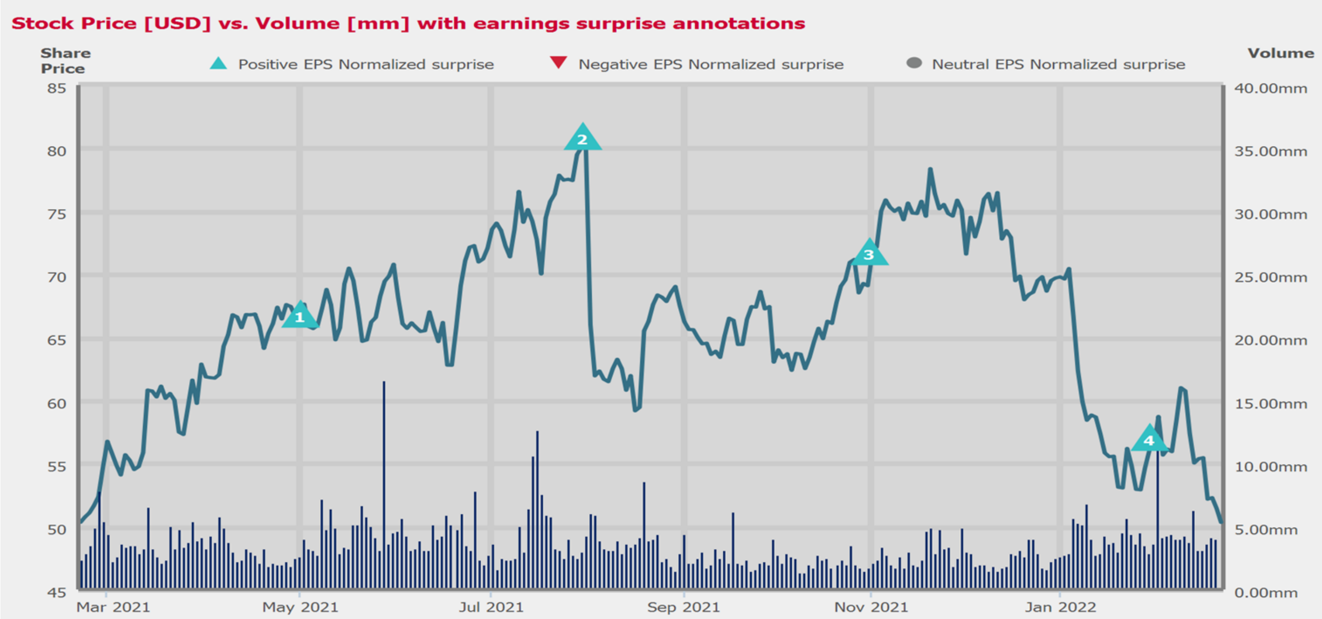
FQ4 2022 Earnings Call Transcripts

Thursday, February 24, 2022 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.27	2.30	1.32	0.53	4.51	4.51	0.00	4.66
Revenue (mm)	2964.70	3027.40	2.11	1432.13	7819.24	7881.50	0.80	8129.42

Currency: USD
Consensus as of Feb-24-2022 11:43 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	1.21	1.25	3.31 %
FQ2 2022	0.77	1.34	74.03 %
FQ3 2022	0.61	0.92	50.82 %
FQ4 2022	2.27	2.30	1.32 %

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Call Participants

EXECUTIVES

Amie Preston
Chief Investor Relations Officer

Andrew M. Meslow
CEO & Director

Sarah Elizabeth Nash
Independent Chair & Lead Independent Director

Wendy C. Arlin
Executive VP, CFO & Controller

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MKM Partners LLC, Research Division

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BMO Capital Markets Equity Research

Stephanie Marie Schiller Wissink
Jefferies LLC, Research Division

Presentation

Operator

Good morning. My name is Cedric, and I will be your conference operator today. At this time, I would like to welcome everyone to the Bath & Body Works Fourth Quarter 2021 Earnings Conference Call. Please be advised that today's conference is being recorded. [Operator Instructions]

I will now turn the call over to Ms. Wendy Arlin, Chief Financial Officer at Bath & Body Works. Wendy, you may begin.

Wendy C. Arlin
Executive VP, CFO & Controller

Good morning. Welcome to the Bath & Body Works Fourth Quarter Earnings Conference Call for the period ending January 29, 2022. As a matter of formality, I need to remind you that any forward-looking statements we may make today are subject to our safe harbor statement found in our SEC filings and in our press releases. Joining me on the call today are CEO, Andrew Meslow, and SVP of Investor Relations, Amie Preston. Sarah Nash, Executive Chair of our Board is also with us this morning.

All results we discuss on the call today are adjusted results and exclude the significant items as described in our press release. All results we discuss today represent the continuing operations of the Bath & Body Works business as the spun-off Victoria's Secret business has been classified as discontinued operations.

Thank you. And now I'll turn the call over to Andrew.

Andrew M. Meslow
CEO & Director

Thank you, Wendy, and good morning, everyone. Before we turn to our results, I'd like to address the news that we announced yesterday that I will be stepping down as CEO in May. I made this decision after much consideration and many discussions with my family so that I can appropriately focus on my health.

Sarah Nash, our Board Chair, has been appointed Executive Chair and will be named Interim Chief Executive Officer upon my departure, and the Board will conduct a search for my successor. Well, as you can imagine, this was a difficult decision, I have incredible confidence in the Bath & Body Works leadership team and all of our associates across our organization.

Thanks to the hard work and dedication of a team that is second to none, we have grown Bath & Body Works into a global, market-leading business. We have successfully navigated the challenges of an unprecedented global pandemic, and we completed the spin-off of Victoria's Secret and launched ourselves as a stand-alone public company that continues to deliver industry-leading results. I am looking forward to helping ensure a seamless transition over the coming months, and then watching the company's continued success after I depart.

Sarah and I have worked very closely over the last couple of years, and she will provide strong oversight alongside the rest of the leadership team as we work through this transition. Sarah has joined us today, and I'd now like to turn the call over to her for a few remarks. Sarah?

Sarah Elizabeth Nash
Independent Chair & Lead Independent Director

Thanks, Andrew. Andrew and I have had an extraordinary partnership over the last 2 years. And through the separation and formation of Bath & Body Works as an independent company, I have also had the opportunity to work closely with the rest of the leadership team. Andrew has led the Bath & Body Works team in strengthening the company and creating extraordinary value, which was only reinforced with the completion of the spin-off of Victoria's Secret and the launch of Bath & Body Works as a stand-alone public company. His vision, guidance and commitment to culture has positioned Bath & Body Works as an industry leader.

While we will all miss Andrew, we wish him all of our best thoughts and wishes. I know the company is in great hands due to the deep bench of talent Andrew has helped to cultivate. I'm looking forward to continuing to work closely with them to help Bath & Body Works achieve future success.

Thanks. And now I'll turn the call back to Andrew.

Andrew M. Meslow
CEO & Director

Thank you, Sarah. So now turning to our performance. 2021 was a historic year for Bath & Body Works. We made incredible progress across the company to build on our already strong foundation, ensuring that our brand and business remain healthy and relevant well into the future.

As mentioned, we successfully separated from Victoria's Secret and became a stand-alone public company. We delivered significant and balanced 2-year growth across all our major product categories and channels. We grew our active customer file to a record 60 million customers, an increase of 13% compared to pre-pandemic levels. We continue to move towards an omnichannel mindset and enhanced our capabilities to engage our customers how, when and where they want.

We demonstrated agility to read, react and replan the business in the midst of strong customer demand while also experiencing inflationary pressures and production constraints. Our primarily North American, vertically integrated supply chain provides us agility, and we were able to present full merchandise assortments to our customers in all time frames. We had definitely adjusted to continuous COVID-19 protocol changes to keep our associates and our customers safe. We started planning and constructing a new company-run fulfillment center to support the future growth of our digital business.

We invested in our associates to enable future growth, including increasing wages in our stores and distribution centers, making key hires needed to support our stand-alone business and help lead critical areas, such as sustainability, social responsibility and corporate governance. And we established a new separate and dedicated team to innovate into new categories and businesses.

Our balance sheet and cash position are strong. We ended the year with approximately $2 billion in cash, and our gross adjusted debt-to-EBITDAR leverage ratio at 2.3, below our target of mid-2s. The Board and management team are committed to continuing to return free cash to shareholders as evidenced by the Board's recent authorization of a new $1.5 billion share repurchase program and a 33% increase in our annual dividend. All of these accomplishments as well as the efforts and dedication of our associates and partners enabled us to deliver record sales and earnings results for both Q4 and the full year 2021.

In the quarter, we increased sales by 11% and 22% for the full year. In the fourth quarter, we increased earnings per share by 17% and full year earnings per share increased by 45%. Looking to 2022, we remain very confident that the Bath & Body Works brand is strong with continued opportunities for growth. We are comfortable with and committed to the 3- to 5-year growth algorithm that we communicated at our Investor Day last July, including mid- to single -- mid- to high single-digit percent sales and operating income growth and an operating income rate in the low to mid-20 range. In 2022, we are investing in capabilities in the business to support long-term growth, and there are macro factors, such as inflation, that will impact our results.

These investments and macro pressures, which we outlined in detail in our commentary released yesterday, could cause this year to vary from that growth algorithm. For the first quarter of 2022, we expect sales to be down low to mid-single digits compared to the prior year. Excluding the estimated $50 million of 2021 stimulus benefit, we estimate that sales would be down low single digits to up low single digits. We are forecasting first quarter earnings per share from continuing operations between $0.47 and $0.55 and compared to $0.60 per share in 2021. For the full year in sales to be flat to up 4% compared to 2021.

Excluding the $50 million 2022 loyalty program revenue deferral and the $50 million first quarter 2021 estimated stimulus benefit, sales are forecasted to be up low to up mid-single digits. We forecast full year 2022 earnings per share from continuing operations to be between $4.30 and $4.70 compared to $4.51 in 2021. This forecast reflects pressure of between $1 and $1.08 per share related to the anticipated investments and macro factors in 2022, again, that were described in detail in yesterday's commentary.

We have confidence in our opportunities for long-term growth as we continue to focus on maximizing our performance by leveraging the strength of the brand, our vertically integrated largely North American supply chain, maintaining close connections to our customers and delivering compelling products and experiences at a great value. Thanks, and I'll now turn it over to Amie Preston.

Amie Preston
Chief Investor Relations Officer
Thanks, Andrew. That concludes our prepared comments. At this time, we'd be happy to take any questions you might have. In the interest of time and consideration to others, please limit yourself to one question. Thanks, and I'll turn it back over to the operator.

Question and Answer

Operator

[Operator Instructions] My first question comes from Roxanne Meyer with MKM Partners.

Roxanne Felice Meyer
MKM Partners LLC, Research Division

And congratulations on a solid fourth quarter and the year. My question is around pricing. You've taken some select price increases in areas such as candles more recently. I'm just wondering how have price increases been received. And how will new product innovations, such as some of the men's product coming out, SPF and others be priced? And will it be impactful to the overall pricing mix?

Amie Preston
Chief Investor Relations Officer

Thanks, Roxanne. Andrew?

Andrew M. Meslow
CEO & Director

Thank you, Roxanne. So yes, I think you're right to point out that, frankly, over the last several years, we've taken a series of price increases. And again, as a reminder, our retailers are driven by the combination of our ticket prices, our everyday deal prices and then other promotional prices that we use throughout the year. And also, as a reminder, we have a very deep and thorough testing and read-and-react process that we use to look at all price changes that we make, especially on the promotional deal structure.

But again, as you mentioned, 3-Wick is a good example, 3-Wick Candles a good example of where we've taken prices up from pre-pandemic. Ticket prices were mostly $24.50. We now have a range of prices in that category from a low of $24.50 to much of the assortment at $26.50 and the upper end of the assortment at $29.50.

That's also an area where, on our biggest deal price of the year, which is our Try It To Believe It day in December, over the last few years, we've taken that critical price point up from $9.50 to $9.95 and then to $10.25 in this most recent time frame. And other examples like that exist throughout the assortment within our hand soap category, within our body care category, within our wall flower category, all areas where we have taken up ticket prices, everyday deal prices and those deep Try It To Believe It promotional prices.

To your question on how have they been received, I would say across the total time frame, we have been very pleased with the results that we've seen with those price increases. Again, as we mentioned in our prepared remarks, we have seen balanced category growth on a 2-year basis across all of our key categories, even as we've made those price changes. I think it's also important to understand that through the long period of time of the business, any time that we've made investments into our products, whether it's through a restage or a launch, we generally use that as an opportunity to look at pricing, to look at promotional activity to make sure that we're getting paid for those investments. And that certainly is the mindset and the strategy that we have on a go-forward basis as well. So hopefully, that helps to answer your question.

Roxanne Felice Meyer
MKM Partners LLC, Research Division

All the best to you.

Andrew M. Meslow
CEO & Director

Thank you, Roxanne.

Operator

Our next question comes from Steph Wissink with Jefferies.

Stephanie Marie Schiller Wissink
Jefferies LLC, Research Division

Andrew, our best wishes as well to you. We want to ask a multifaceted question on the loyalty program, if we could. The first is just as you conceived of this program, give us some sense of some of the key attributes that you think are important to your customer in terms of their loyalty and engagement. If you can give us some sense of the way in which you expect to launch and roll that out and how you're communicating with your stores and your customers. And then the last feature within loyalty is just what you're doing with respect to building a data warehouse. And how do you expect to leverage data as you think about some adjacent categories in your future growth?

Amie Preston
Chief Investor Relations Officer

Thanks, Stephanie. Andrew?

Andrew M. Meslow
CEO & Director

Thank you, Stephanie. I appreciate the thoughts. Yes. Yes, so on the loyalty program, as we've mentioned on prior calls, it is an application-based program. It's one that we've been piloting in about 1/4 of our stores, a little less than 1/4 of our stores for the last several years. It is a points-based system where customers spend and get rewarded for those spending. And once you reach certain thresholds, you then get free items as your reward, in addition to you get both an introductory award and a birthday award. So that is the nature of the program.

And again, it's a program that in that extended pilot, has gotten very good qualitative feedback. And as we've shared in the past, we've been very pleased with the results we've seen in terms of customer engagement through the program, where we've seen consistently higher retention rates of loyalty customers and also higher spend rates of loyalty customers relative to our non-loyalty cohorts in those markets.

In terms of the portion of your question around the launch, as we mentioned in our prepared remarks, we do intend to begin the rollout to the balance of the company later in the summer of this year. And so are hopeful that as we roll that out, it will allow us to complete rollout by the end of the year. But obviously, we'll keep a close eye on that and make sure that from an operational standpoint and from a results standpoint that we feel good with getting that all done in fiscal 2022. The commentary that we provided around the implications of the loyalty program in our prepared remarks do assume a full year -- a full rollout within fiscal '22 at this point.

And to the last part of your question around data, as you can imagine, in addition to the customer engagement results that we've seen and been pleased with, we are very excited about the ability through an opt-in loyalty application, where the customer provides us with a lot more data than we're able to generally generate from our existing data collection techniques. We do believe that, that will be a very important weapon or tool for us on a forward basis as we think about further engagement with our existing customers as well as figuring out how to target customers either for new category opportunities or for new customers. So that is also a very critical aspect of, we believe, the benefits that we will realize from this program. I hope that helps.

Operator

The next question comes from Simeon Siegel with BMO Capital Markets.

Simeon Avram Siegel
BMO Capital Markets Equity Research

Andrew, sending our well wishes for your health as well. Can you guys talk a little bit about AUC? You gave some interesting data on finished inventory at cost versus units. And it seems like that AUC gap may be widening now. So just maybe hoping you could dig into that a little bit. And then can you speak to your decision to build the company-owned fulfillment center versus using a third party?

Amie Preston
Chief Investor Relations Officer

Sure. Thanks, Simeon. We're going to go to Wendy.

Wendy C. Arlin
Executive VP, CFO & Controller

Simeon, yes. As you saw, we -- when we talk about inventory, we have a big spread between our dollar growth and our unit growth. And that is fundamentally an inflation story. So it's really not about mix. It's about the inflation pressures that we've talked about. You heard us disclose that in the fourth quarter, our inflation estimate came in at the high end of our expectations. And roughly 40% of that inflation that we talked about is related to raw materials.

So it's pretty broad-based pressure that we're feeling in all of our inputs, and that's really driving up the cost of our product. We're working hard with our suppliers to mitigate that, but that is a true pressure point that we're feeling in terms of our AUCs in our product.

In terms of your question on the fulfillment center, we -- as we thought about adding that to our network, we thought it was important to continue to add capacity. So one of the biggest factors in our decision-making was units. We see in the future a lot of potential for growth in our direct business. And we like having a blend of a company-owned distribution center along with our partners that we use, and by adding this, we'll add substantial -- add meaningful increase to the units.

The other thing about our company-owned approach is we do plan on launching that fulfillment center in the fall 2022. But over time, including in 2023, our goal is to increase automation which will, over time, decrease the labor that we require in that building. So you'll see that we do plan on spending capital, not just this year, but in 2023 to increase the automation and like I said, reduce our reliance on labor in that facility.

Operator

Our next question comes from Kimberly Greenberger with Morgan Stanley.

Kimberly Conroy Greenberger
Morgan Stanley, Research Division

Andrew, we are really going to miss you, and we wish you all the best. I know that you are leaving BBW in really great shape. I'm wondering if you can just talk about the team that supports you, Andrew. Give us a little bit of an idea of the sort of tenure and experience on that team. And Sarah, as you begin your executive search, what is the Board focused on as you look to replace the very, very big shoes that Andrew is leaving?

Amie Preston
Chief Investor Relations Officer

Thanks, Kimberly. We'll start with Andrew.

Andrew M. Meslow
CEO & Director

Kim, thank you very much for your thoughts and for your question. Yes. So the reality is we have a very, very deep and talented group of talent across the business and within our senior leadership team. So if I focus on our most senior leaders first, because I think that's probably the nature of your question. We've got a good mix of folks who have been here with BBW and/or L Brands for a long time. So people like Wendy, who's on the call today is relatively new in the BBW CFO chair, but has been with the enterprise, as we call it, for 16 years and played a very close, supporting role to Stuart Burgdoerfer in all of his time as the corporate CFO.

On the longer-term BBW side, we've got Chris Cramer, as our COO. He's been with the overall business for 20 years and in his newer role since about the time that I assumed the CEO role. But Chris has a long background, having run our digital business for a period of time, also was our brand CFO for a period of time and our head of merchandise planning and allocation, so a nice, broad set of experiences there.

Also a long tenured associate with L Brands, previously Mast and now Bath & Body Works is Tom Mazurek. Tom has also been here for 15-plus years, has been over our vitally important, vertically integrated supply chain and has deep and long-lasting relationships with all of our vendor partners there, and knows the power of our sourcing model that allows for all of the agility that we have in the business.

Then turning to our other members who are more new to the business, but each bring deep experiences and have brought, importantly, fresh perspective as well. Julie Rosen, our Brand President, has been here now about 18 months, but has a long career in specialty retail, a long time with Gap and Banana Republic, and then prior to joining us, the 5 years prior at ascena and Ann Taylor. And Julie's background as a terrific merchandise leader, marketing leader, customer leader, design leader has already shown important impact into our business, and so Julie is a terrific talent.

And then Deon Riley, who is our relatively new Chief Human Resource Officer, joined the business a little over a year ago after a long career at Ross Stores and prior to that, with Abercrombie & Fitch and started her career with United Technologies. And then our last newest member of the team is our Chief Legal Officer, Michael Wu, who joined the business a little over 9 months ago and has had that similar role at several other places, including Carter's and Rosetta Stone.

So again, a very experienced senior leadership team with a good mix of long tenure, both with this business and with important experiences in other businesses as well. So I'm very confident that, that most senior team can help with the transition and continue to drive this business to much future success. With that, I'll turn it over to Sarah for the second part of your question.

Sarah Elizabeth Nash
Independent Chair & Lead Independent Director

Thank you, Andrew. And nice to meet you, Kimberly. The Board will conduct a comprehensive search process to identify Andrew's permanent successor. And as we stated yesterday, we do plan to retain a national search firm to help us in that effort. We will be looking for an experienced public company executive, preferably female, with very strong global brand experience. I hope that answers your question.

Operator

Our next question comes from Ike Boruchow with Wells Fargo Securities.

Irwin Bernard Boruchow
Wells Fargo Securities, LLC, Research Division

Andrew, [indiscernible]. I guess that I just wanted to zero-in a little bit to go back to the holiday update when you guys talked to us about a little bit of variability in performance. You guys have been beating plan by leaps and bounds earlier in the year. Holiday, you had a little bit of an issue post-Christmas heading into January. You kind of commented in the script that things improved through January.

I kind of just want to get a sense of where that -- you guys are headed there right now. It seemed like the last week of December, you were trying to diagnose the problem, trying to figure out exactly what was happening with traffic or revenue trends. Are we back to where we want to be? Are there still some things you're trying to figure out? I guess I'm just trying to understand where the mindset is today versus maybe that at the end of December.

Amie Preston
Chief Investor Relations Officer

Great. Thanks, Ike. Andrew?

Andrew M. Meslow
CEO & Director

Thanks for the thoughts and appreciate the question. So to your point, we were very pleased with our holiday performance. And especially, frankly, late in holiday in the last 5 to 10 days leading up to Christmas, we saw very strong results. And I think we would attribute some of that to the fact that we were able to use our vertically integrated supply chain to be in really good in-stock situations and provide last-minute gifting opportunities for customers that, frankly, some others probably weren't able to be in that position. And so that was a benefit. As well as the whole of the holiday time frame benefited from being at full capacity from the stores' standpoint this year versus still, in many areas, restricted capacity last year.

As we shared in our prepared remarks, January and especially the early part of January, that was, as part of our semiannual sale, was softer than our expectations. And I think at this point, we would probably speculate that there were a lot of different factors at play there, whether it was certainly the widespread Omicron variant putting a damper on traffic levels for us. And certainly seem to be for malls in general or businesses in general as a contributing factor as well as starting to lapse some of the stimulus activity from last year that may have had more benefit in that time frame that we had visibility to at that point.

But importantly, as we shared, our business improved through the end of January, especially as we got out of semiannual sale and got new product launches on the floor. Newness is always a driver of our business. And as that has then continued into February, again, our Q1 guidance, we think, is very fair and reasonable relative to the results that we've been seeing recently.

Operator

Our next question comes from Lorraine Hutchinson with Bank of America.

Lorraine Corrine Maikis Hutchinson
BofA Securities, Research Division

Andrew, thank you, and best of luck to you. I wanted to just focus on some of the customer metrics that you gave in the prepared comments. How have your retention rates trended post-pandemic? And are there any changes that you've seen in the past couple of months on these retention or other customer metrics?

Amie Preston
Chief Investor Relations Officer

Thanks, Lorraine. Andrew?

Andrew M. Meslow
CEO & Director

Thank you, Lorraine. Thank you for your thoughts, and thank you for your question. So as we shared in our prepared remarks, 2021 was really a remarkable year from a customer standpoint, getting to the 60 million active customer number that we shared and substantial growth, not just to last year, which was negatively impacted by the store closure time frame in 2020, I'm talking about, but also importantly, good mid-teens growth to our pre-pandemic levels. And how we've gotten there has been certainly that we've added a lot of new customers to the brand over that time frame, which is really, really exciting. And again, another sign to us of the long-term health and viability of the business.

But to the other part of your question, we've also gotten there by a pretty nice increase in our overall retention rate through that time frame that now stands directionally right around 60%. Versus if we were having this conversation a few years ago, that number was closer to 50%. So again, good growth from a new customer standpoint and very nice performance from a retention standpoint.

The only other thing I would add, this is something we've talked about in the past, is that our customer engagement metrics are also very positive. In terms of our spend per customer, has trended up nicely over the last several years, directionally up about 30% to where we were pre-pandemic. And our other metrics around cross-channel and cross-category metrics, in terms of the percent of our file that engage in those ways, have also increased nicely over the last couple of years.

And importantly, the spend associated with both our multichannel and our multi-category customers are more than 3x what the spend of either a single channel or a single-category customer spend looks like. So again, we're very pleased with those metrics on the absolute numbers, but also on those engagement metrics.

Operator

Our next question comes from Mark Altschwager with Baird.

Mark R. Altschwager
Robert W. Baird & Co. Incorporated, Research Division

And best wishes to you, Andrew. I wanted to ask about some of the inflationary headwinds. You mentioned in the prepared remarks that Q4 came in at the high end of the range. I'm curious, in retrospect, how much of that were you able to offset through pricing and promotional actions?

And then looking ahead, are you incorporating any offsets to the incremental $150 million to $175 million that's in the 2022 guidance? It's -- bigger picture, I'm just trying to get a better sense of the gross versus net impact of these inflationary pressures. And just any view you have on what portion could be considered transitory kind of medium term?

Amie Preston
Chief Investor Relations Officer

Great. We're going to go to Wendy for that question.

Wendy C. Arlin
Executive VP, CFO & Controller

Yes, I'll answer that question, obviously, and I'll try and answer it. And Andrew, you can add color commentary if you want at the end. So as we looked at Q4, we as we said, we came in at the high end of our inflationary estimates. And if you look at it on a 1-year basis, we talked about fourth quarter this year, we were roughly flat from a promotional standpoint in Q4 this year. So on a 1-year basis, it was tough to offset the inflationary impact. And as you heard and saw on our results, that we were pressured in merch margin as a result.

Over a multiyear basis, we have, as Andrew shared earlier, we have tested and read and reacted. And when appropriate, we have raised prices. So on a 2-year basis, our AURs in our business are up around 20%. So it's a multiyear journey in terms of offsetting the price -- the inflationary costs. But we continue to look at that and test and try to raise prices and mitigate the pressures to the extent we can.

But as you saw in our remarks, we are expecting to still have inflationary pressures in 2022. Some of that, as I mentioned earlier, is raw materials. Another aspect of the pressure we're experiencing is in transportation. So whether that's inbound or outbound to our stores or transportation in our direct business, those pressures are real and they are in our forecast, and we will try to offset them to the extent we can. But we are feeling those in 2022. Andrew, anything you'd add?

Andrew M. Meslow
CEO & Director

I think Wendy hit all the high points there. Again, I think it's important to recognize on a multiyear basis, as I described earlier, we have taken a lot of pricing opportunities. And we've also dialed back on promotion levels in literally almost every category and in almost every vehicle. But that is, as we've described, something that we are very nimble on and we'll continue to test, read and react to what the customer -- how the customer is behaving, how the customer is responding to all of our categories. And certainly, do our best to offset as much of the price increase as we are able to.

Amie Preston
Chief Investor Relations Officer

Great. Thanks, Mark.

Operator

Our next question comes from Matthew Boss with JPMorgan.

Matthew Robert Boss
JPMorgan Chase & Co, Research Division

A nice quarter. So Andrew, could you speak to the cadence of new product launches this year and category opportunities that the team is excited about? And then maybe, Wendy, on gross margin, any flexibility to your merchandise margin outlook this year, which I believe embeds an uptick in promotional activity? Are you seeing this pressure today? Or are you more anticipating taking actions moving forward?

Amie Preston
Chief Investor Relations Officer

Great. Thanks, Matt. Andrew, do you want to start?

Andrew M. Meslow
CEO & Director

Yes. Sure. Matt, so we actually provided a fair amount of detail on our anticipated product pipeline and launch activity this coming year in our prepared remarks. So without reading those to you, I'll just -- I'll summarize what some of those things were. Obviously, from a good for the earth standpoint, we're excited to continue to really move in the direction of improving the use of post-consumer recycled content in all of our plastic bottles here by the end of the year. Importantly, we're also continuing, as we have done very successfully through the years, to repackage, redesign many of our key core fragrances in body care and other areas, things like Gingham, Japanese Cherry Blossom, Into The Night, A Thousand Wishes, et cetera.

We are in the process of relaunching, as we speak right now, our large and successful aromatherapy product line. We've made improvements to our Wallflower fragrance, plug-in fragrance diffuser business, both in terms of the intensity of the bulbs as well as introducing a new, adjustable wall unit in terms of high, medium, low fragrance dispersal. So that's very exciting.

And then we also spent some time talking about our men's line. Our men's line has been a very successful and fast-growing portion of our business. It represents about 5% of our overall business today. It has been the fastest-growing portion of our body care business. And so we're excited to continue to launch new products there from a form standpoint. And we're also doing some more extensive testing of additional forms and categories within that line to inform our future growth. So again, I think, on an overall basis, I would say that Julie and I and the team are very excited about the product pipeline and the amount of new launches, relaunches and overall product improvements that we're making throughout the year.

Amie Preston
Chief Investor Relations Officer

Thanks. Wendy?

Wendy C. Arlin
Executive VP, CFO & Controller

Sure. Yes. So on margins, specifically on merch margin, when we look to Q1, that is where, during the course of the year, we'll have the most pressure. I mean just as a reminder, we grew Q1 sales last year 93% year-over-year. So we're lapping an enormous growth period from LY. And so we are anticipating being slightly more promotional in Q1 this year as compared to last year. And then we have the inflation pressures that we mentioned. So in terms of the quarters during the year, Q1 is where we'll have the most pressure, which we are realizing right now.

As we look forward to the total year and fall, in particular, as we've mentioned in a lot of ways, we are working to mitigate and hope to have better performance year-over-year in terms of rate. The team is actually working on Christmas right now. So we are actively having these conversations in terms of mitigating the pressures we're feeling, and we'll work to improve the year-over-year pressure as we get to the back half of the year.

Amie Preston
Chief Investor Relations Officer

Thanks, and thanks, Matt.

Operator

Our next question comes from Jay Sole with UBS.

Jay Daniel Sole
UBS Investment Bank, Research Division

Andrew, I just want to add my thank you as well, and also wish you best of luck. My question is on SG&A. You outlined some of the drivers of SG&A in fiscal '22. But if we take a step back, can you just sort of elaborate a little bit on SG&A and compare some of the puts and takes versus 2021? But then also looking at it versus 2019, if SG&A dollars are up 40% roughly based on the guidance versus 2019, like what are some of the drivers there, just to compare and contrast the 2 time periods?

Wendy C. Arlin
Executive VP, CFO & Controller

Sure. So a couple of things. So when you look at our SG&A expense, the biggest component of SG&A expense is store labor. So as you can imagine, as our store sales grow, the store labor associated with those sales grows. So that, on a multiyear basis, is the biggest driver of dollar change. We work real hard well to gain efficiencies and keep the overall rate at a level that is consistent. But that is our -- on a year-over-year, that's our biggest driver.

The other thing that is in SG&A is marketing. So we were able in 2020 and 2021, just given the strength of performance, we were able to pull back on our marketing spend. But as we go forward into a more normalized environment, anticipate we'll return our marketing spend to more normalized levels, levels that you would have seen in 2019 and prior.

And then the third biggest component that we have in there is home office expenses. We are always working hard to be frugal and control those expenses as we can. You heard us or saw in our prepared remarks that we will have SG&A pressure as it relates to IT spend over the next several years as we separate our systems from Victoria's Secret's systems. But we're working very hard to manage those costs, and we're focused on what we can control. And that's what we're shooting for in terms of trying to keep SG&A flat year-over-year.

Operator

And our next question comes from Omar Saad with Evercore.

Omar Regis Saad
Evercore ISI Institutional Equities, Research Division

I was wondering if you guys could talk about -- sounds like you've got a lot of good data on your customers' kind of spending pattern. Maybe you could talk about the categories they were spending in pre-pandemic and how that evolved during COVID. And as we come out and markets reopen, are you seeing any sort of category shifts in terms of where people are spending, especially as it relates to the home fragrance? Any changes around how people are spending their money in your store, whether you're in the lockdown period or coming out of it?

Amie Preston
Chief Investor Relations Officer

Thanks, Omar. Andrew?

Andrew M. Meslow
CEO & Director

Yes, Omar. So to the first part of your question, the good news is that the customer profile of the customers that we've gained over the last year relative to the profile of our customer file prior are absolutely very similar in nature. And the good news is that the performance of those new customers that we've gained has also been in line with existing customers, therefore, at a very healthy level as opposed to the -- one might have thought we gained less valuable customers through the pandemic. So again, our retention rates are high and the performance of those new customers, also very high.

On a category performance basis, as we mentioned in our prepared remarks, on a 2-year basis, so meaning looking back full year '21 to full year 2019 pre-pandemic, we saw very healthy growth across all of our categories. Not surprisingly, on a 1-year basis, this past year, we did see a decline in our soap and sanitizer business coming off of an incredible growth rate that it experienced in 2020 at the height of the pandemic. But that was in line with our expectations. And on a multiyear basis, the growth in our soap and sanitizer business is still very healthy and higher than our overall growth rate.

To the part of your question around what, if any, changes in performance are we seeing beyond that as we get further and further, hopefully, removed from the shutdown and the pandemic, we really have not seen any other change. So for example, if there was a concern that there might be a slowdown in our home fragrance category if, in fact, people are now spending less time at home than they were at the height of the pandemic, we have not seen any performance data that would tell us of different behaviors there. So we remain very confident, very enthusiastic about what that category growth rate can continue to be on a future basis. I hope that answers your question.

Omar Regis Saad
Evercore ISI Institutional Equities, Research Division

Best wishes to you and your family.

Andrew M. Meslow

CEO & Director

Appreciate that, Omar, very much.

Amie Preston
Chief Investor Relations Officer

That concludes our call this morning. Thank you for your continuing interest in Bath & Body Works.

Operator
Thank you. And that concludes today's conference. You may all disconnect at this time.