

Friday, June 22, 2007

Dear Associates,

We have been working toward and planning for the future ... and in doing so, we've moved from a portfolio of brands and businesses to an enterprise powered by two world-leading brands, Victoria's Secret and Bath and Body Works ... the best brands in intimate apparel and personal care.

I'm positive that this "new Limited Brands," i.e., lingerie and beauty, will experience accelerated growth. For one thing, these categories have incredibly loyal customers – women are more loyal to their bra brand than any other product ... and beauty brands and products have huge loyalty. Lingerie and beauty are also less seasonal – and merchandise in both lingerie and beauty have longer product lives ... therefore, more consistency of purchase and profit ... and bigger growth opportunity. We will grow into new spaces and new places ... we'll give major attention to international growth – lingerie and beauty brands do more internationally – and to other new channels for delivering our brands to our customers.

Our brands are "best brands." We have the three most dominant lingerie brands in North America (Victoria's Secret, Pink and La Senza). Pink's rise has been meteoric ... its first two years place it among the fastest growing brands ever – and La Senza owns Canada. In personal care, Bath and Body Works and VS Beauty make us the fifth largest beauty company in the nation ... and growing.

So we have the "best brands." Now the challenge is to grow better ... and grow more rapidly. We are at the moment of becoming the "new Limited Brands." We are close ... but not yet fully prepared to perform at our best and prove world best performance. We are a business not yet sized or structured to empower our two brands to their fullest ... and to be faster, more agile – efficient.

Our next step is to become world-class in not just our brands, but also to build world-class efficiency.

That will require a fundamental change ... and that's nothing new for us. We must always change and be forever young in our perspective. We know what got us here won't get us there. The biggest opportunity for us is in our structure – we are not yet a model of efficiency. Coordinated execution, energy and speed are essential to a large enterprise like ours. If we're going to match our potential with the opportunity and the future, we must build world-leading efficiency and set a standard for managing expenses ... inventory ... how we invest our capital. Because nothing about our enterprise can be world class until everything about us is!

I do believe we are on the cusp of achieving that reality. But there are thoughtful changes that need to be made quickly. I'm writing to you today to outline those changes – and to ask us all to align with making them.

What I see today

So how do we change to match our current position and ensure accelerated growth? What I believe, and what I've discussed with leaders from across the enterprise, is this: winning as the

new enterprise will be about empowering our brands to execute and be responsible for more. The heart of our business is an absolute commitment to knowing customers and delivering merchandise and experiences that bring their aspirations to life – that make them feel sexy, sophisticated and forever young. Our brands must be free to focus on the customer ... to react faster and more efficiently.

To do that, brands must have a relentless focus on execution ... and must have sitting with them every day the resources and teams that are responsible for that execution. These resources must be closer to the ultimate customer, focused on delivering world-class merchandise and support – better ... and faster.

This requires organization change. The people and teams that do this must be located in the brands. What does that mean for the Center? That's something I have been working on with the senior leadership team. The Center necessarily changes dramatically. Teams, jobs and roles will shift. Redundancies must be identified and eliminated. The Center will be reduced in size. Businesses must be more self-sufficient.

Simply put, to grow the “new Limited Brands,” we must fundamentally realign our resources and reduce redundant functions. By acknowledging that reality, I've reached several clear conclusions about what must happen next:

First, we know who we are. We're best at lingerie, and we're win at personal care/beauty ... that is what will take us into the future. Purposeful distortion to blue chips ... to what supports growth at our “best brands.”

Second, we must align our talent with the future and strategy. We must be the right size ... we know what level of expense we can afford. We must be organized in the right structure – fast, agile. We must be efficient; the Center and home offices aren't and need to be rethought.

Third, we must act quickly. Now is the time to align with the enterprise of the future. Without today, there can be no tomorrow. Pace is important.

Fourth, we must be thoughtful. We are not changing our business without deep consideration, tough self-examination, and challenging everything we think we know.

In that spirit, what I will now ask of each of you is to support a swift realignment and resizing of our business – to get faster, more efficient. We will evaluate our structure and create a new organization structure that supports the enterprise of the present ... and the future. And we will make changes to how we think about capital investment along the way.

Guiding principles:

- * Every part of the business will play a role in driving to a leaner, faster, more agile and more effective structure.
- * This business has two major brands.
- * We must have a creative engine with the ability to inspire and build new vehicles for growth.
- * A flatter organization is faster, so I am challenging leadership to reassess and make sure we have a simple, flatter structure.
- * The Center will focus on providing truly world-class support of the brands.
- * The Center has a governance role, a shared services role and also houses centers of expertise.
- * As support to the brands, the Center should only do for the business those things it can do more efficiently ... through specific expertise and economies of scale ... than the brands could do for themselves.
- * Sorting out “brand” blue chips and “Center” blue chips – the few that produce the many – and

not doing work twice. Red and white chips are not priorities.

* Focus on results – high-impact only.

Resizing: Simply stated, we need to reduce expenses ... period. Following the apparel brand dispositions, we will simply be too big in most Center functions. They are not sized to ensure superb execution in the brands ... some are simply backstopping “hard work.” About 70 percent of our total expense and overhead is headcount related. As an enterprise, I am directing us to achieve \$100 million in annual expense savings. These reductions will come primarily from a decrease in headcount of about 10 percent at the Center and in brand home offices – including eliminating open positions and some current roles ... and the transfer of some associates to Express in conjunction with the completion of the sale, which will happen on July 6. Stores, DCs and call centers will not be affected by the headcount reduction work.

The \$100 million target is a responsible goal, and serves an important purpose ... without a target, it's not likely we'd change our thinking, which is essential. This is not tactical or about surface change – we are setting out to change how we think about work and who does what.

We arrived at the \$100 million target based on analysis of our operations and comparisons with what we know are good industry standards. Both general overhead and marketing costs have increased faster than sales growth. Correcting that will require expense reductions we can count on annually.

Capital strategy: Our structure and size are not the only things I believe we must adjust to prepare to grow. I believe revising our roles and execution strategies means reexamining our capital expenses too. We have been investing in projects that support the business ... stores expansion, technology, distribution centers, others. We must continue to pair investment with our long-standing commitment to returning value to shareholders. For instance, we are announcing that we are increasing our current \$500 million share buyback program to \$1 billion and accelerating the repurchase rate – essentially, buying back more shares faster.

What's next

As I mentioned, I have had numerous discussions with leaders across the business regarding this need to realign and the work associated with it. They are already examining their businesses systematically to find ways to better support the new enterprise and to meet our collective goal of \$100 million. You will be hearing more from them as we work fast to make progress ... with updates coming no later than end of July.

And it's important to say my work on this has been thoughtful and considerate, and their work will be thoughtful and considerate too... and above all, respectful of associates and in the interest of all stakeholders. We will move quickly. We will begin with the enterprise strategy ... and identify the positions that support work or projects we'll no longer engage in. Those will be the roles that are eliminated. And of course we'll be guided by our values throughout the process. We all deserve respect and dignity – especially if we face a job elimination. So I have made this commitment: anyone who is affected by this resizing work will hear it first from their direct manager or a leader in their business. They will be provided with all the information and options, and will be thoroughly supported through any transition.

What I see tomorrow

The future looks great ... it's better than and different from the past ... growing the lingerie and personal care brands ... continued stores growth, developing adjacent categories – like Pink – major opportunities in licensing and international growth ... and new channels of distribution. Our brands will come to life in new ways – maybe Victoria's Secret ring tones for your mobile phone ... emails from VS and BBW that know what you'll like and want based on what you've bought before.

I believe in our tomorrow ... a business even more vibrant, more inspired, than ever. I see a new, simpler structure that allows decisions to be made faster. I see an enterprise with fewer layers and more doers clearly aligned with work that drives our performance. We'll enjoy speed ... flexibility ... agility ...

I've shifted my mindset in a fundamental way. We'll have new thinking, new behaviors and improved results ...

Our customers can expect even higher quality and better brand experiences ... and all stakeholders in our enterprise will benefit from growth and improved performance.

Maybe most exciting, we'll be fully behind two category-dominating, worldwide specialty brands, Victoria's Secret and Bath and Body Works. And we will be even better focused on turning our creativity and innovation, our customer intimacy and insight, into superb performance and growth of these "best brands."

This is an inflection point in our history. Looking ahead, we have our own dreams to catch. I drive to work each day thinking of our future ... and of what we must do today to reach it. I can tell you with confidence that I believe this work is essential to winning now and growing tomorrow.

There is a comprehensive questions and answers document about this announcement posted online here [20Q+A%20draft%2011%20FINAL.doc](http://gtnwebp.limited.brands.com/cmsFileStore/IRIS%20-%20Q+A%20draft%2011%20FINAL.doc) <<http://gtnwebp.limited.brands.com/cmsFileStore/IRIS%20-%20Q+A%20draft%2011%20FINAL.doc>> . And I am committed to sharing updates with you as work moves ahead and there is progress to report. Until then, please go to any leader – including Len or me – with questions you may have.