

The logo for Seeking Alpha, with the text 'Seeking Alpha' in white and a gold Greek letter alpha symbol to the right, all on a dark red background.

Limited Brands, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Paul Lejuez - Credit Suisse.

Paul Lejuez - Credit Suisse

Stuart now that the third quarter is more apples-to-apples, just looking at the expense line I think you said it was flat on an apples-to-apples basis in the second quarter quarter; what should we expect for the whole second half and I'm even thinking a little bit further out; what is a normal expense run rate in this business as we look out to 2009, can you run the business on flat expenses?

Stuart Burgdoerfer

Well for the third quarter we are expecting a roughly flat SG&A rate. As we look further out to your point we continue to be very focused on expense management as we talked about in the last several quarters with particular focus on overhead expense that are from office. With that said, what really is important is whether we leverage or de-leverage depending upon the comp as we add stores which we are doing. Obviously expense dollars should increase related to that store activity, but we are working hard to manage our over head very tightly and as we talked about pretty consistently on a go forward basis we do want expenses to grow slower than sales and we are very focused on that. The wild card at this point is what assumptions we make about the comp rate, so that's kind of where we are.

Operator

Our next question will come from the line of Dana Cohen with Bank of America Securities.

Dana Cohen - Banc of America Securities

I just wanted to clarify; you're saying that the improved profitability at Victoria's Secrete Complex this quarter was entirely from direct, so as you look at the back half I want to confirm that, but in the back half of the year given the \$80 million or so that was the expense related to direct can you help us understand if we just take Victoria Secrete in the back half of the year should we get all of that back offset by other things? Just help us to understand because there are so many moving pieces.

Stuart Burgdoerfer

Dana there are three or four things that I would just call out in terms of the dynamics. It relates to Victoria's Secret Direct, we've talked about \$70 million to \$80 million negative impact a year ago and

that skew is more towards the fourth quarter than the third quarter, so I'd start with that and in addition there are ongoing higher cost levels running this new distribution center than there were in the old distribution center, so point one would be more of a skew in Q4 versus Q3 of the SG&A. The second thing as we called out in our prepared comments is in the low volume third quarter, we really have de-leverage both in buying occupancy and in some SG&A marketing related investments that we're making to really setup for a really strong fourth quarter and then the last thing big variable is what we called out with respect to the decline in mass third party sales related to the step down in the express business that's by contract in connection with that transition services agreement, so those are the details.

Copyright © 2008 CNET Networks, Inc. All Rights Reserved.