

Gap Inc.

Quarterly Financial Summary
Q3 2021

Gap Inc.

Gap Inc. Quarterly Financial Summary Q3 2021

Notes to Quarterly Financial Summary:

- All dollar, share, and square footage amounts are shown in millions, with the exception of per share, per square footage, and store count.
- Our fiscal year is a 52- or 53- week period ending on the Saturday closest to January 31. Fiscal 2017 consisted of 53 weeks.

Gap Inc.

Table of Contents

I.	Condensed Consolidated Statements of Income	1
II.	Condensed Consolidated Balance Sheets	2
III.	Condensed Consolidated Statements of Cash Flows	3
IV.	Selected Metrics	4

Gap Inc.
Quarterly Financial Summary
Section I: Condensed Consolidated Statements of Income

	Fiscal Year (number of weeks)			Fiscal Year 2020 (52)					Fiscal Year 2021 (52)		
	2017 (53)	2018 (52)	2019 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Net sales	\$ 15,855	\$ 16,580	\$ 16,383	\$ 2,107	\$ 3,275	\$ 3,994	\$ 4,424	\$ 13,800	\$ 3,991	\$ 4,211	\$ 3,943
Cost of goods sold and occupancy expenses	9,789	10,258	10,250	1,839	2,126	2,374	2,756	9,095	2,361	2,388	2,282
Gross profit	6,066	6,322	6,133	268	1,149	1,620	1,668	4,705	1,630	1,823	1,661
Operating expenses	4,587	4,960	5,559	1,512	1,076	1,445	1,534	5,567	1,390	1,414	1,508
Operating income (loss)	1,479	1,362	574	(1,244)	73	175	134	(862)	240	409	153
Loss on extinguishment of debt	-	-	-	-	58	-	-	58	-	-	325
Interest expense	74	73	76	19	58	55	60	192	54	51	44
Interest income	(19)	(33)	(30)	(4)	(2)	(1)	(3)	(10)	(1)	(1)	(1)
Income (loss) before income taxes	1,424	1,322	528	(1,259)	(41)	121	77	(1,102)	187	359	(215)
Income taxes	576	319	177	(327)	21	26	(157)	(437)	21	101	(63)
Net Income (loss)	\$ 848	\$ 1,003	\$ 351	\$ (932)	\$ (62)	\$ 95	\$ 234	\$ (665)	\$ 166	\$ 258	\$ (152)
Weighted-average number of shares - basic	393	385	376	372	374	374	375	374	376	378	376
Weighted-average number of shares - diluted	396	388	378	372	374	380	382	374	385	386	376
Basic earnings per share ⁽¹⁾	\$ 2.16	\$ 2.61	\$ 0.93	\$ (2.51)	\$ (0.17)	\$ 0.25	\$ 0.62	\$ (1.78)	\$ 0.44	\$ 0.68	\$ (0.40)
Diluted earnings per share ⁽¹⁾	\$ 2.14	\$ 2.59	\$ 0.93	\$ (2.51)	\$ (0.17)	\$ 0.25	\$ 0.61	\$ (1.78)	\$ 0.43	\$ 0.67	\$ (0.40)
Gross margin (% of sales)	38.3%	38.1%	37.4%	12.7%	35.1%	40.6%	37.7%	34.1%	40.8%	43.3%	42.1%
Operating expenses (% of sales)	28.9%	29.9%	33.9%	71.8%	32.9%	36.2%	34.7%	40.3%	34.8%	33.6%	38.2%
Operating income (% of sales)	9.3%	8.2%	3.5%	-59.0%	2.2%	4.4%	3.0%	-6.2%	6.0%	9.7%	3.9%

(1) Earnings per share are computed individually for each of the periods presented; therefore, the sum of the earnings per share amounts for the quarters may not equal the total for the years.

Gap Inc.
Quarterly Financial Summary
Section II: Condensed Consolidated Balance Sheets

	Year End Balance			Fiscal Year 2020				Fiscal Year 2021		
	2017	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Assets										
Cash and cash equivalents	\$ 1,783	\$ 1,081	\$ 1,364	\$ 1,028	\$ 2,188	\$ 2,471	\$ 1,988	\$ 2,066	\$ 2,375	\$ 801
Short-term investments	-	288	290	51	25	178	410	475	337	275
Merchandise inventory	1,997	2,131	2,156	2,217	2,242	2,747	2,451	2,370	2,281	2,721
Other current assets	788	751	706	920	882	966	1,159	1,091	1,201	1,410
Total current assets.....	4,568	4,251	4,516	4,216	5,337	6,362	6,008	6,002	6,194	5,207
Property and equipment, net of accumulated depreciation	2,805	2,912	3,122	2,945	2,895	2,846	2,841	2,839	2,897	2,924
Operating lease assets	-	-	5,402	4,851	4,689	4,460	4,217	4,060	3,975	3,788
Other long-term assets	616	886	639	698	795	705	703	703	693	861
Total assets.....	\$ 7,989	\$ 8,049	\$ 13,679	\$ 12,710	\$ 13,716	\$ 14,373	\$ 13,769	\$ 13,604	\$ 13,759	\$ 12,780
Liabilities and stockholders' equity										
Revolving credit facility	\$ -	\$ -	\$ -	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,181	1,126	1,174	971	1,629	2,284	1,743	1,530	1,583	1,630
Accrued expenses and other current liabilities	1,270	1,024	1,067	1,051	1,124	1,283	1,276	1,294	1,252	1,414
Current portion of operating lease liabilities	-	-	920	886	856	823	831	798	789	746
Income taxes payable	10	24	48	23	40	41	34	16	27	33
Total current liabilities.....	2,461	2,174	3,209	3,431	3,649	4,431	3,884	3,638	3,651	3,823
Long-term debt	1,249	1,249	1,249	1,250	2,212	2,214	2,216	2,218	2,220	1,484
Long-term operating lease liabilities	-	-	5,508	5,331	5,179	4,899	4,617	4,449	4,348	4,163
Other long-term liabilities ⁽¹⁾	1,135	1,073	397	381	423	458	438	493	520	523
Total long-term liabilities.....	2,384	2,322	7,154	6,962	7,814	7,571	7,271	7,160	7,088	6,170
Common stock	19	19	19	19	19	19	19	19	19	19
Additional paid-in capital	8	-	-	17	39	60	85	118	114	71
Retained earnings	3,081	3,481	3,257	2,235	2,173	2,268	2,501	2,667	2,879	2,681
Accumulated other comprehensive income	36	53	40	46	22	24	9	2	8	16
Total stockholders' equity.....	3,144	3,553	3,316	2,317	2,253	2,371	2,614	2,806	3,020	2,787
Total liabilities and stockholders' equity.....	\$ 7,989	\$ 8,049	\$ 13,679	\$ 12,710	\$ 13,716	\$ 14,373	\$ 13,769	\$ 13,604	\$ 13,759	\$ 12,780

(1) Prior to the adoption of ASC 842 Lease Accounting, fiscal years 2017 and 2018 include long-term deferred rent and tenant allowances.

Gap Inc.
Quarterly Financial Summary
Section III: Condensed Consolidated Statements of Cash Flows

	Fiscal Year (number of weeks)			Fiscal Year 2020 (52)					Fiscal Year 2021 (52)		
	2017 (53) ⁽³⁾	2018 (52)	2019 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Cash flows from operating activities:											
Net income (loss)	\$ 848	\$ 1,003	\$ 351	\$ (932)	\$ (62)	\$ 95	\$ 234	\$ (665)	\$ 166	\$ 258	\$ (152)
Depreciation and amortization ⁽¹⁾	499	517	557	130	126	125	126	507	120	124	128
Impairment of operating lease assets	-	-	239	360	1	-	30	391	5	1	-
Impairment of store assets	28	14	98	124	3	-	8	135	-	1	-
Loss on divestiture activity	-	-	-	-	-	-	-	-	56	3	-
Loss on extinguishment of debt	-	-	-	-	58	-	-	58	-	-	325
Gain on sale of building	-	-	(191)	-	-	-	-	-	-	-	-
Change in merchandise inventory	(142)	(154)	4	(79)	(12)	(499)	285	(305)	69	87	(444)
Other, net	147	1	353	(543)	739	765	(845)	116	(76)	(22)	33
Net cash provided by (used for) operating activities.....	<u>1,380</u>	<u>1,381</u>	<u>1,411</u>	<u>(940)</u>	<u>853</u>	<u>486</u>	<u>(162)</u>	<u>237</u>	<u>340</u>	<u>452</u>	<u>(110)</u>
Cash flows from investing activities:											
Purchases of property and equipment	(731)	(705)	(702)	(122)	(86)	(80)	(104)	(392)	(124)	(145)	(217)
Purchase of building	-	-	(343)	-	-	-	-	-	-	-	-
Proceeds from sale of building	-	-	220	-	-	-	-	-	-	-	-
Purchases of short-term investments	-	(464)	(293)	(59)	-	(178)	(271)	(508)	(298)	(129)	(207)
Proceeds from sales and maturities of short-term investments	-	177	293	297	28	23	40	388	233	267	268
Proceeds from (cash paid for) divestiture activity	-	-	-	-	-	-	-	-	28	(49)	-
Payments for acquisition activity, net of cash acquired	-	-	-	-	-	-	-	-	-	-	(135)
Purchase of Janie and Jack	-	-	(69)	-	-	-	-	-	-	-	-
Insurance proceeds related to loss on property and equipment	66	-	-	-	-	-	-	-	-	-	-
Other	(1)	(9)	-	-	2	-	-	2	-	-	-
Net cash provided by (used for) investing activities.....	<u>(666)</u>	<u>(1,001)</u>	<u>(894)</u>	<u>116</u>	<u>(56)</u>	<u>(235)</u>	<u>(335)</u>	<u>(510)</u>	<u>(161)</u>	<u>(56)</u>	<u>(291)</u>
Cash flows from financing activities:											
Payments for revolving credit facility	-	-	-	-	(500)	-	-	(500)	-	-	-
Proceeds from revolving credit facility	-	-	-	500	-	-	-	500	-	-	-
Payments of short-term debt	(67)	-	-	-	-	-	-	-	-	-	-
Payments for debt issuance costs	-	-	-	-	(61)	-	-	(61)	-	-	(16)
Payments to extinguish debt	-	-	-	-	(1,307)	-	-	(1,307)	-	-	(2,546)
Proceeds from issuance of long-term debt	-	-	-	-	2,250	-	-	2,250	-	-	1,500
Proceeds from issuances under share-based compensation plans	30	46	25	6	6	4	6	22	25	16	7
Withholding tax payments related to vesting of stock units	(18)	(23)	(21)	(7)	(1)	-	(1)	(9)	(32)	-	(2)
Repurchases of common stock	(315)	(398)	(200)	-	-	-	-	-	-	(55)	(73)
Cash dividends paid	(361)	(373)	(364)	-	-	-	-	-	(91)	(46)	(45)
Other	-	(1)	-	-	-	-	-	-	-	-	-
Net cash provided by (used for) financing activities.....	<u>(731)</u>	<u>(749)</u>	<u>(560)</u>	<u>499</u>	<u>387</u>	<u>4</u>	<u>5</u>	<u>895</u>	<u>(98)</u>	<u>(85)</u>	<u>(1,175)</u>
Effect of foreign exchange rate fluctuations on cash, cash equivalents, and restricted cash.....	<u>19</u>	<u>(10)</u>	<u>4</u>	<u>(8)</u>	<u>9</u>	<u>3</u>	<u>9</u>	<u>13</u>	<u>(1)</u>	<u>-</u>	<u>(2)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>\$ 2</u>	<u>\$ (379)</u>	<u>\$ (39)</u>	<u>\$ (333)</u>	<u>\$ 1,193</u>	<u>\$ 258</u>	<u>\$ (483)</u>	<u>\$ 635</u>	<u>\$ 80</u>	<u>\$ 311</u>	<u>\$ (1,578)</u>
Net cash provided by (used for) operating activities											
Less: purchases of property and equipment	(731)	(705)	(702)	(122)	(86)	(80)	(104)	(392)	(124)	(145)	(217)
Add: insurance proceeds related to loss on property and equipment	66	-	-	-	-	-	-	-	-	-	-
Free cash flow ⁽²⁾	<u>\$ 715</u>	<u>\$ 676</u>	<u>\$ 709</u>	<u>\$ (1,062)</u>	<u>\$ 767</u>	<u>\$ 406</u>	<u>\$ (266)</u>	<u>\$ (155)</u>	<u>\$ 216</u>	<u>\$ 307</u>	<u>\$ (327)</u>

(1) Depreciation and amortization is net of the amortization of lease incentives. Beginning in fiscal year 2019, amortization of lease incentives is no longer reflected due to the adoption of the new lease accounting standard.

(2) Free cash flow is a non-GAAP financial measure. We believe free cash flow is an important metric because it represents a measure of how much cash a company has available for discretionary and non-discretionary items after the deduction of capital expenditures. We require regular capital expenditures including technology improvements to automate processes, engage with customers, and optimize our supply chain in addition to building and maintaining stores. We use this metric internally, as we believe our sustained ability to generate free cash flow is an important driver of value creation. However, this non-GAAP financial measure is not intended to supersede or replace our GAAP results. Free cash flow for fiscal 2017 is further adjusted for insurance proceeds related to loss on property and equipment, as our cash used for purchases of property and equipment in fiscal 2017 includes certain capital expenditures primarily related to the rebuilding of the Company-owned distribution center in Fishkill, New York, which was impacted by the fire on August 29, 2016.

(3) Fiscal year 2017 reflects the retrospective adoption of ASU No. 2016-18 as of the first quarter of fiscal year 2018.

Gap Inc.
Quarterly Financial Summary
Section IV: Selected Metrics

	Fiscal Year (number of weeks)			Fiscal Year 2020 (52)					Fiscal Year 2021 (52)			
	2017 (53)	2018 (52)	2019 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)	
Rent expenses ⁽¹⁾	\$ 1,300	\$ 1,300	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Operating lease cost ⁽²⁾			\$ 1,233	\$ 282	\$ 267	\$ 205	\$ 289	\$ 1,043	\$ 250	\$ 236	\$ 232	
Dividends declared and paid per share	\$ 0.92	\$ 0.97	\$ 0.97	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.24	\$ 0.12	\$ 0.12	
Square footage	36.4	36.7	37.0	36.7	35.8	35.5	34.6	34.6	34.7	34.3	33.7	
Square footage - growth/decline ⁽³⁾	-0.8%	0.8%	0.8%	-0.3%	-3.5%	-5.3%	-6.5%	-6.5%	-5.4%	-4.2%	-5.1%	
Sales per average square foot ⁽⁴⁾	\$ 340	\$ 341	\$ 323	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Number of company-operated store locations ⁽⁵⁾	3,165	3,194	3,345	3,313	3,215	3,178	3,100	3,100	2,997	2,937	2,873	
Number of franchise store locations	429	472	574	598	599	607	615	615	574	557	586	
Number of total store locations ⁽⁵⁾	3,594	3,666	3,919	3,911	3,814	3,785	3,715	3,715	3,571	3,494	3,459	
Total store openings ⁽⁶⁾	152	253	329	40	38	36	26	140	74	24	45	
Total store closings ⁽⁶⁾	217	181	215	48	135	65	96	344	99	70	80	
Working capital	\$ 2,107	\$ 2,077	\$ 1,307	\$ 785	\$ 1,688	\$ 1,931	\$ 2,124	\$ 2,124	\$ 2,364	\$ 2,543	\$ 1,384	
Current ratio	1.86	1.96	1.41	1.23	1.46	1.44	1.55	1.55	1.65	1.70	1.36	
Long-term debt to equity ratio	0.40	0.35	0.38	0.54	0.98	0.93	0.85	0.85	0.79	0.74	0.53	
Shares outstanding	389	378	371	373	374	374	374	374	377	376	374	
Shares repurchased	13	14	10	-	-	-	-	-	-	2	3	
Average acquisition cost per share	\$ 24	\$ 29	\$ 19	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32	\$ 25	
Inventory	\$ 1,997	\$ 2,131	\$ 2,156	\$ 2,217	\$ 2,242	\$ 2,747	\$ 2,451	\$ 2,451	\$ 2,370	\$ 2,281	\$ 2,721	
Inventory - increase/decrease ⁽³⁾	0.1	7%	1%	-1%	-4%	1%	14%	14%	7%	2%	-1%	
Return on equity ⁽⁷⁾	28.0	30.0	10.2					(22.4)				
Return on average assets ⁽⁸⁾	10.9	12.5	3.2					(4.8)				

(1) Prior to fiscal year 2019, included rent expense for Stores, Field, and Headquarters, and lease incentive amortization, net of sublease income.

(2) Beginning in fiscal year 2019, under ASC 842 Lease Accounting, operating lease cost excludes variable lease cost and sublease income.

(3) Represents year over year % change.

(4) Excludes net sales associated with our online and Franchise businesses. Beginning in Q1 2020, as a result of the extensive temporary store closures due to the COVID-19 pandemic and shift in focus to online, sales per average square foot is not a meaningful metric and therefore we have omitted it.

(5) Includes the acquisition of 140 Janie and Jack stores in Q1 2019, net of one closure that occurred in the Q3 2019. Beginning in Q1 2021 excludes Janie and Jack stores. Beginning in Q2 2021 excludes Intermix stores. During Q3 2021, 21 Gap France stores were sold to Hermione People & Brands, the ending balance excludes these stores and is included in Franchise store locations balance.

(6) Includes Franchise. For fiscal year 2019, excludes Janie and Jack stores acquired in Q1 2019, net of one closure in Q3 2019, also excludes 119 Janie and Jack stores sold in Q1 2021 and 31 Intermix stores sold in Q2 2021. Excludes 21 Gap France stores sold to Hermione People & Brands in Q3 2021.

(7) Calculation: net income / average annual total stockholders' equity (2-point average).

(8) Calculation: net income / average annual total assets (2-point average).