

# Gap Inc. Fiscal 2021

## SECOND QUARTER EARNINGS RESULTS

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# Forward Looking Statements / Non-GAAP Financial Measures

## **FORWARD LOOKING STATEMENTS**

This conference call and webcast contain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements other than those that are purely historical are forward-looking statements. Forward-looking statements include statements identified as such in our August 26, 2021 press release.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results to differ materially from those in the forward-looking statements. Additional information regarding factors that could cause results to differ can be found in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2021, as well as the Company's subsequent filings with the Securities and Exchange Commission.

These forward-looking statements are based on information as of August 26, 2021. We assume no obligation to publicly update or revise our forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

## **SEC REGULATION G**

This presentation includes the non-GAAP measures free cash flow, adjusted operating expenses, adjusted operating income, adjusted operating margin, adjusted earnings per share, and adjusted expected earnings per share. The description and reconciliation of these measures from GAAP is included in our August 26, 2021 earnings press release, which is available on [investors.gapinc.com](https://investors.gapinc.com).

# We grow purpose-led, billion-dollar lifestyle brands



OLD NAVY



GAP



BANANA REPUBLIC



ATHLETA





# Power Plan 2023

## **Power of our Brands**

Grow purpose-led, billion-dollar lifestyle brands

## **Power of our Platform**

Leverage our omni capabilities and scaled operations, and extend our engineered approach to cost and growth

## **Power of our Portfolio**

Extend customer reach across every age, body and occasion through our collective power



## Q2 2021 Financial Highlights

- Record Q2 Sales of \$4.2B were up 29% versus 2020 and up 5% versus 2019
  - Strategic store closures and divestitures reduced net sales by ~8% and COVID-related closures resulted in an estimated 2% sales decline versus 2019
- Comparable sales up 3% versus 2020 and up 12% versus 2019
- Operating Margin of ~10% reflected improved Gross Margin and meaningful progress toward our Power Plan 2023 financial targets
- Raised full year guidance for sales, operating margin, and earnings per share



# Q2 2021 P&L Summary (REPORTED)

(\$ Millions)	Q2 2021	Q2 2020	Q2 2021 vs. Q2 2020	Q2 2019 <sup>(2)</sup>	Q2 2021 vs. Q2 2019
Net Sales	\$4,211	\$3,275	+29%	\$4,005	+5%
Gross Profit	\$1,823	\$1,149	+59%	\$1,556	+17%
% of Sales	43.3%	35.1%	+820 bps	38.9%	+440 bps
Merchandise Margin B/(W)			+380 bps		+110 bps
ROD % of Sales B/(W)			+440 bps		+330 bps
Operating Expenses	\$1,414 <sup>(1)</sup>	\$1,076	+31%	\$1,274	+11%
% of Sales	33.6%	32.9%	+70 bps	31.8%	+180 bps
Operating Income (Loss)	\$409	\$73	+460%	\$282	+45%
% of Sales	9.7%	2.2%	+750 bps	7.0%	+270 bps
Net Income (Loss)	\$258	(\$62)	n/a	\$168	+54%
Diluted EPS	\$0.67	(\$0.17)	n/a	\$0.44	+52%

(1) Includes \$19 million of charges primarily related to changes in the company's European operating model.

(2) Second quarter of fiscal 2019 information provided for comparability.

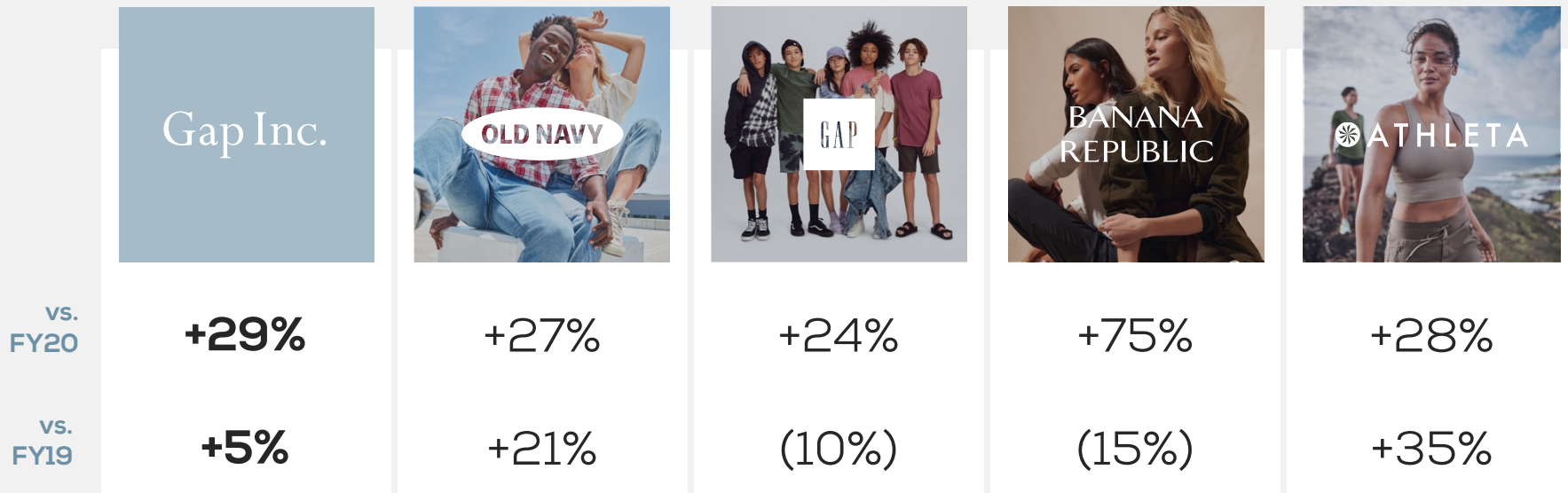
# Q2 2021 P&L Summary (ADJUSTED)

(\$ Millions)	Q2 2021	Q2 2020	Q2 2021 vs. Q2 2020	Q2 2019 <sup>(2)</sup>	Q2 2021 vs. Q2 2019
Net Sales	\$4,211	\$3,275	+29%	\$4,005	+5%
Gross Profit	\$1,823	\$1,149	+59%	\$1,556	+17%
% of Sales	43.3%	35.1%	+820 bps	38.9%	+440 bps
Merchandise Margin B/(W)			+380 bps		+110 bps
ROD % of Sales B/(W)			+440 bps		+330 bps
Adjusted Operating Expenses	\$1,395 <sup>(1)</sup>	\$1,076	+30%	\$1,222 <sup>(1)</sup>	+14%
% of Sales	33.1% <sup>(1)</sup>	32.9%	+20 bps	30.5% <sup>(1)</sup>	+260 bps
Adjusted Operating Income (Loss)	\$428 <sup>(1)</sup>	\$73	+485%	\$334 <sup>(1)</sup>	+28%
% of Sales	10.2% <sup>(1)</sup>	2.2%	+800 bps	8.3% <sup>(1)</sup>	+190 bps
Adjusted Net Income (Loss)	\$272 <sup>(1)</sup>	(\$62)	n/a	\$238 <sup>(1)</sup>	+14%
Adjusted Diluted EPS	\$0.70 <sup>(1)</sup>	(\$0.17)	n/a	\$0.63 <sup>(1)</sup>	+11%

(1) The description and reconciliation of these measures from GAAP is included in our August 26, 2021 earnings press release, which is available on [investors.gapinc.com](https://investors.gapinc.com).

(2) Second quarter of fiscal 2019 information provided for comparability.

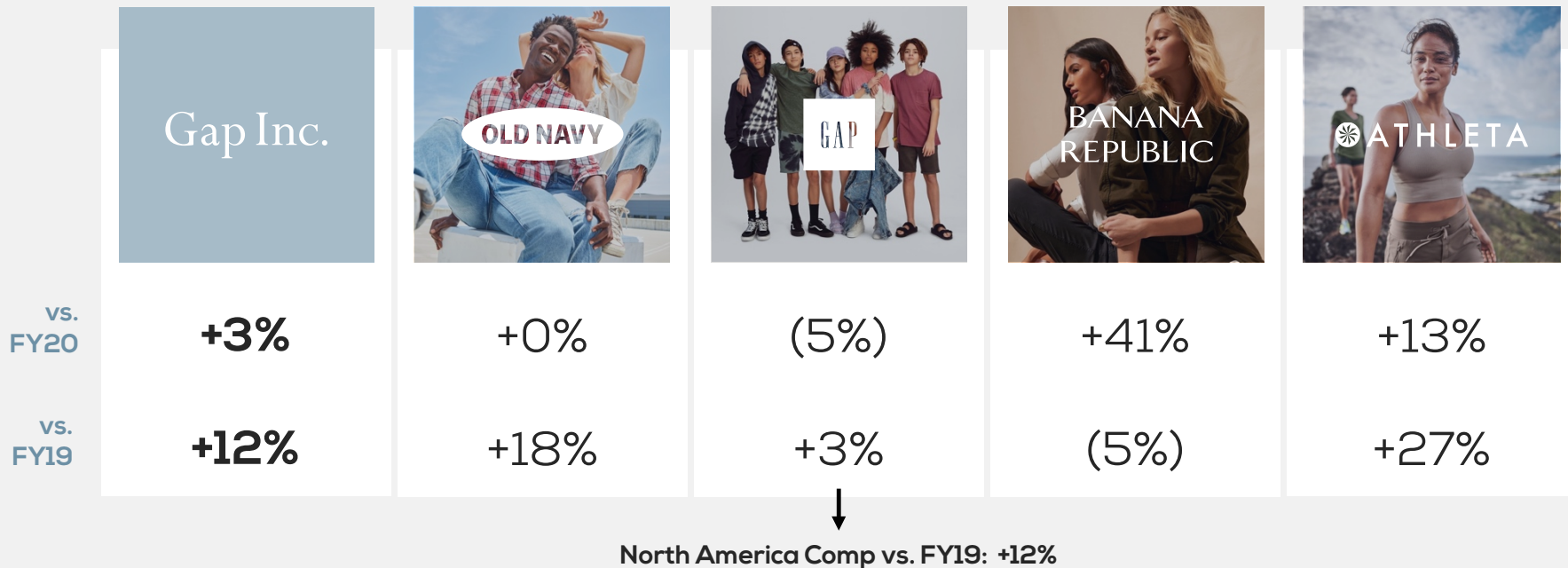
# Q2 2021 Net Sales Growth



Note: Due to the significant impact of COVID-related store closures last year, comparisons for the second quarter of 2019 are also included.



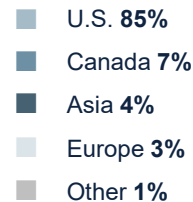
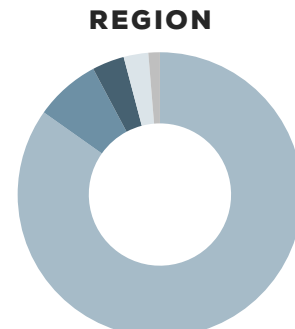
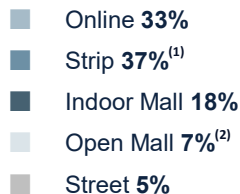
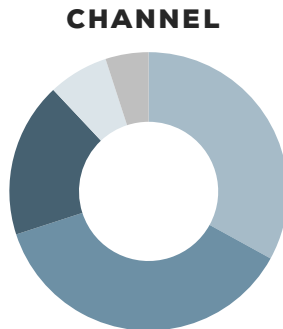
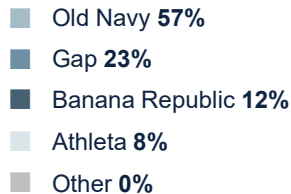
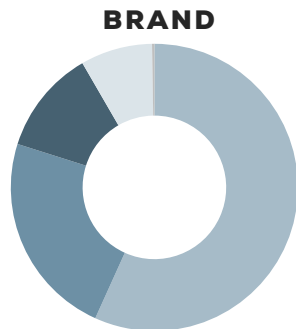
# Q2 2021 Comparable Sales



Note: Due to the significant impact of COVID-related store closures last year, comparisons for the second quarter of 2019 are also included.

# We have omni-strength in North America

- Higher-margin Old Navy and Athleta were 65% of company sales
- Over 80% of revenue generated from online and off-mall locations
- Over 90% of company sales generated in North America and partnering to amplify our reach Internationally



Note: All data based on Q2 2021 net sales.

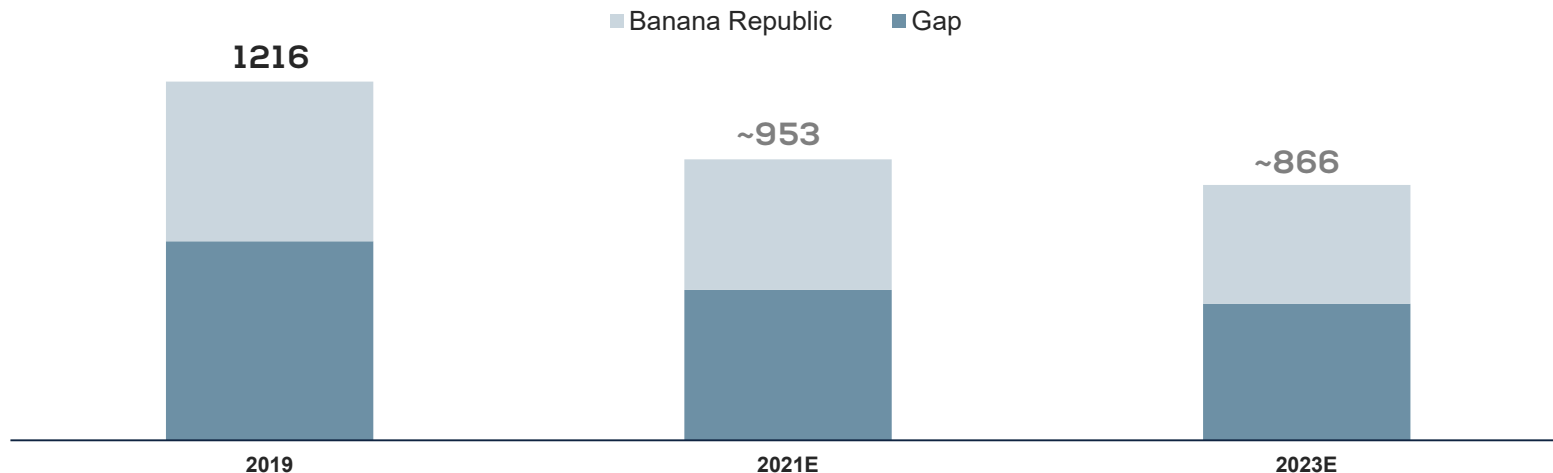
(1) Includes Strip and Lifestyle Centers. (2) Includes Open Malls and Outlet Centers.

Q2 2021

# Rationalizing our North America Fleet

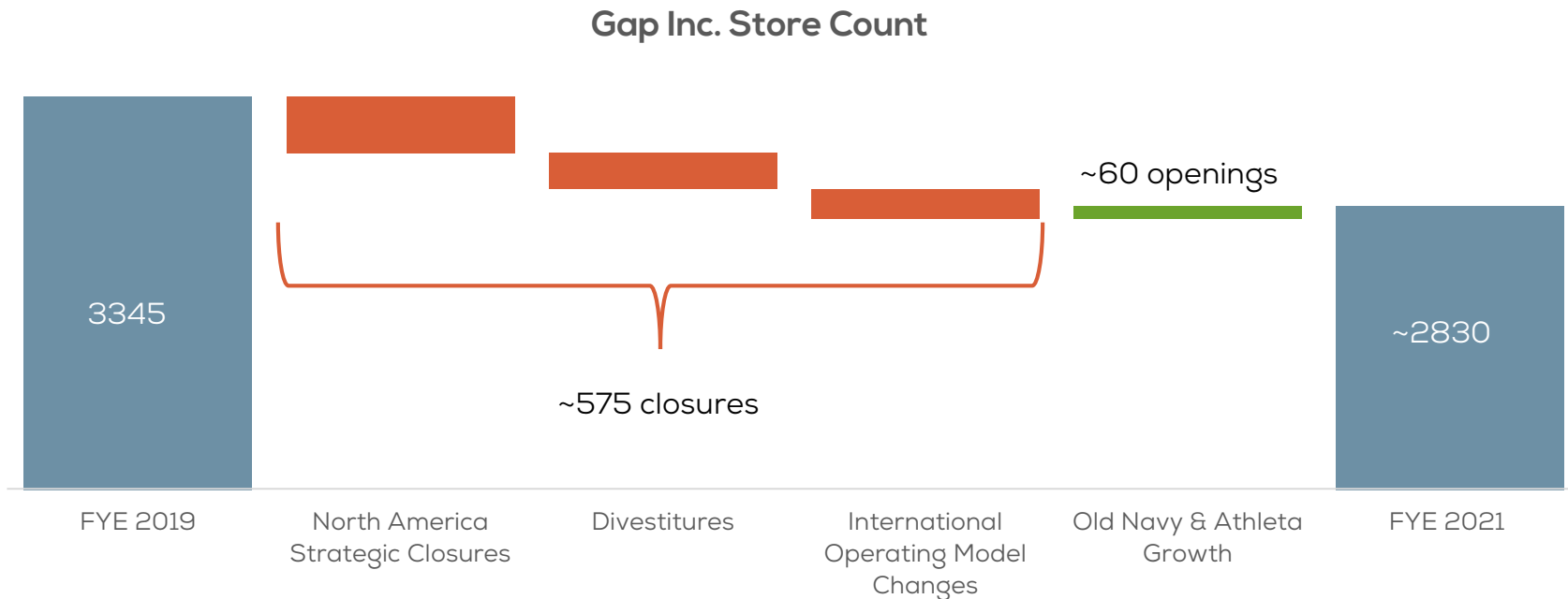
- On-track to close ~350 N.A. Gap and Banana Republic stores by end of FY23
- Will have completed ~75% of North America closures by end of FY21

## NORTH AMERICA STORE COUNT



# Optimizing the Profitability of our Global Fleet

- Strategically closing underperforming store locations and partnering internationally to drive profitability
- Investing in store growth for Old Navy and Athleta





# Improving Value by Turning Customers into Lifetime Loyalists

**~65  
MILLION**

active customers globally as  
of the end of Q2 2021 <sup>(1)</sup>

**40+  
MILLION**

members of our integrated  
loyalty program <sup>(2)</sup>

(1) Refers to total number of customers who have made a purchase in the past 12 months.

(2) Includes credit card holders.

# Commitment to Environmental, Social & Governance Performance

## ENVIRONMENTAL

**11.2B**

**liters of water**  
saved in manufacturing  
since 2017



**65%**

**diversion rate of  
plastic waste**  
across stores and  
distribution centers



**59%**

**cotton sourced from  
more sustainable  
sources** in 2020



## SOCIAL

**1st Gap Inc. Equality +  
Belonging Report  
released**

to share progress on  
2025 Commitments



**10K**

**jobs provided to  
underserved youth**  
through This Way ONward;  
halfway to the goal of 20K  
jobs by 2025



**>800k**

**Women & Girls  
reached through  
P.A.C.E. program**



## GOVERNANCE

**5 of 12**

**Directors  
are women**



**Annual Global  
Sustainability  
Report**

with SASB disclosure  
since 2018



**Regular Board  
& Committee  
Oversight**

including Governance and  
Sustainability Committee





# Fueling our Future

## Accelerating Growth Through:

- Strategic Category Expansion
- Building Customer Lifetime Value
- Digital Transformation

Q2 2021

# Fiscal 2021 Outlook

AS OF AUG. 26, 2021

<b>Diluted Earnings per Share</b>	\$1.90 - \$2.05
<b>Adjusted Diluted Earnings per Share <sup>(1)</sup></b>	\$2.10 - \$2.25
<b>Net Sales Growth <sup>(2)</sup></b>	About 30%
<b>Operating Margin</b>	About 7%
<b>Adjusted Operating Margin <sup>(1)</sup></b>	About 7.5%
<b>Effective Tax Rate</b>	About 25%
<b>Adjusted Effective Tax Rate <sup>(1)</sup></b>	About 26%
<b>Capital Expenditures</b>	About \$800 million

(1) Excludes one-time charges associated with divestiture activity related to Janie & Jack and Intermix, as well as estimated charges related to strategic changes in the company's European business.

(2) This outlook reflects lost revenue related to the company's decision to change its European operating model, as well as the completed divestitures of its Janie & Jack and Intermix businesses.