

The Gap, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED

| (\$ in millions) | August 3, 2019 | August 4, 2018 |
|--|-------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,177 | \$ 1,322 |
| Short-term investments | 294 | 286 |
| Merchandise inventory | 2,326 | 2,202 |
| Other current assets | 770 | 780 |
| Total current assets | 4,567 | 4,590 |
| Property and equipment, net | 3,141 | 2,832 |
| Operating lease assets | 5,807 | - |
| Other long-term assets | 528 | 588 |
| Total assets | \$ 14,043 | \$ 8,010 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,246 | \$ 1,297 |
| Accrued expenses and other current liabilities | 908 | 1,026 |
| Current portion of operating lease liabilities | 946 | - |
| Income taxes payable | 34 | 18 |
| Total current liabilities | 3,134 | 2,341 |
| Long-term liabilities: | | |
| Long-term debt | 1,249 | 1,249 |
| Long-term operating lease liabilities | 5,644 | - |
| Lease incentives and other long-term liabilities (a) | 391 | 1,080 |
| Total long-term liabilities | 7,284 | 2,329 |
| Total stockholders' equity | 3,625 | 3,340 |
| Total liabilities and stockholders' equity | \$ 14,043 | \$ 8,010 |

(a) Beginning in fiscal 2019, lease incentives and other long-term liabilities no longer reflects lease incentives due to the adoption of the new lease accounting standard.

The Gap, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED

| | 13 Weeks Ended | | 26 Weeks Ended | |
|--|-------------------|-------------------|-------------------|-------------------|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| (\$ and shares in millions except per share amounts) | | | | |
| Net sales | \$ 4,005 | \$ 4,085 | \$ 7,711 | \$ 7,868 |
| Cost of goods sold and occupancy expenses | 2,449 | 2,458 | 4,811 | 4,814 |
| Gross profit | 1,556 | 1,627 | 2,900 | 3,054 |
| Operating expenses | 1,274 | 1,229 | 2,302 | 2,427 |
| Operating income | 282 | 398 | 598 | 627 |
| Interest, net | 11 | 10 | 25 | 20 |
| Income before income taxes | 271 | 388 | 573 | 607 |
| Income taxes | 103 | 91 | 178 | 146 |
| Net income | \$ 168 | \$ 297 | \$ 395 | \$ 461 |
| Weighted-average number of shares - basic | 378 | 387 | 378 | 388 |
| Weighted-average number of shares - diluted | 379 | 390 | 380 | 391 |
| Earnings per share - basic | \$ 0.44 | \$ 0.77 | \$ 1.04 | \$ 1.19 |
| Earnings per share - diluted | \$ 0.44 | \$ 0.76 | \$ 1.04 | \$ 1.18 |
| Cash dividends declared and paid per share | \$ 0.2425 | \$ 0.2425 | \$ 0.485 | \$ 0.485 |

The Gap, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

| (\$ in millions) | 26 Weeks Ended | |
|---|-----------------------|-----------------------|
| | August 3, 2019 (b) | August 4, 2018 (b) |
| Cash flows from operating activities: | | |
| Net income | \$ 395 | \$ 461 |
| Depreciation and amortization (a) | 277 | 251 |
| Gain on sale of building | (191) | - |
| Change in merchandise inventory | (166) | (224) |
| Other, net | 268 | 58 |
| Net cash provided by operating activities | <u>583</u> | <u>546</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (324) | (326) |
| Purchase of building | (343) | - |
| Purchases of short-term investments | (150) | (322) |
| Proceeds from sales and maturities of short-term investments | 146 | 36 |
| Proceeds from sale of building | 220 | - |
| Purchase of Janie and Jack | (69) | - |
| Other | - | (6) |
| Net cash used for investing activities | <u>(520)</u> | <u>(618)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuances under share-based compensation plans | 17 | 33 |
| Withholding tax payments related to vesting of stock units | (20) | (20) |
| Repurchases of common stock | (100) | (200) |
| Cash dividends paid | (183) | (188) |
| Other | - | (1) |
| Net cash used for financing activities | <u>(286)</u> | <u>(376)</u> |
| Effect of foreign exchange rate fluctuations on cash, cash equivalents, and restricted cash | <u>(2)</u> | <u>(11)</u> |
| Net decrease in cash, cash equivalents, and restricted cash | (225) | (459) |
| Cash, cash equivalents, and restricted cash at beginning of period | 1,420 | 1,799 |
| Cash, cash equivalents, and restricted cash at end of period | <u>\$ 1,195</u> | <u>\$ 1,340</u> |

(a) Fiscal 2018 depreciation and amortization is net of amortization of lease incentives. Beginning in fiscal 2019, amortization of lease incentives is no longer reflected due to the adoption of the new lease accounting standard.

(b) For the twenty-six weeks ended August 3, 2019 and August 4, 2018, respectively, total cash, cash equivalents, and restricted cash includes \$18 million of restricted cash primarily recorded in other current assets and long-term assets on the Condensed Consolidated Balance Sheets.

The Gap, Inc.
NON-GAAP FINANCIAL MEASURES
UNAUDITED

FREE CASH FLOW

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 as we require regular capital expenditures to build and maintain stores and purchase new equipment to improve our business. 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.

| (\$ in millions) | 26 Weeks Ended | |
|---|-------------------|-------------------|
| | August 3, 2019 | August 4, 2018 |
| Net cash provided by operating activities | \$ 583 | \$ 546 |
| Less: Purchases of property and equipment (a) | (324) | (326) |
| Free cash flow | <u>\$ 259</u> | <u>\$ 220</u> |

(a) Excludes purchase of building in the first quarter of fiscal 2019.

The Gap, Inc.
NON-GAAP FINANCIAL MEASURES
UNAUDITED

ADJUSTED INCOME STATEMENT METRICS FOR THE SECOND QUARTER OF FISCAL YEAR 2019

The following adjusted income statement metrics are non-GAAP financial measures. These measures are provided to enhance visibility into the Company's underlying results for the period excluding the impacts of separation-related costs, specialty fleet restructuring costs, and the impact of an adjustment to our fiscal 2017 tax liability for additional guidance issued by the U.S. Treasury Department regarding the TCJA. Management believes the adjusted metrics are useful for the assessment of ongoing operations as we believe the adjusted items are not part of our ongoing operations due to the nature of the adjustments, and management believes that the presentation of adjusted financial information provides additional information to investors to facilitate the comparison of results against prior years. However, these non-GAAP financial measures are not intended to supersede or replace the GAAP measures.

| (\$ in millions) | | Operating | | Operating | | | | |
|---|-----------------|------------------|---------------|------------------|--------------|---------------|-----------------|--|
| 13 Weeks Ended August 3, 2019 | Operating | Expenses as a % | Operating | Income as a % | Income | Net | Earnings per | |
| | Expenses | of Net Sales (d) | Income | of Net Sales (d) | Taxes | Income | Share - Diluted | |
| GAAP metrics, as reported | \$ 1,274 | 31.8% | \$ 282 | 7.0% | \$ 103 | \$ 168 | \$ 0.44 | |
| Adjustments for: | | | | | | | | |
| Separation-related costs (a) | (38) | (0.9)% | 38 | 0.9% | 9 | 29 | 0.08 | |
| Specialty fleet restructuring costs (b) | (14) | (0.3)% | 14 | 0.3% | 3 | 11 | 0.03 | |
| U.S. federal tax reform adjustment (c) | - | 0.0% | - | 0.0% | (30) | 30 | 0.08 | |
| Non-GAAP metrics | <u>\$ 1,222</u> | <u>30.5%</u> | <u>\$ 334</u> | <u>8.3%</u> | <u>\$ 85</u> | <u>\$ 238</u> | <u>\$ 0.63</u> | |

(a) Represents the impact of costs related to the planned Old Navy spin-off transaction. These costs primarily consist of external adviser and consulting fees related to the separation.

(b) Represents the impact of costs related to previously announced plans to restructure the specialty fleet and revitalize the Gap brand. These costs are expected to become more significant throughout the fiscal year and primarily include lease and employee-related costs.

(c) Represents the impact of an adjustment to our fiscal 2017 tax liability for additional guidance issued by the U.S. Treasury Department regarding the TCJA.

(d) Operating expense and operating income as a percentage of net sales were computed individually for each line item; therefore, the sum of the percentages may not equal the total.

The Gap, Inc.
NON-GAAP FINANCIAL MEASURES
UNAUDITED

EXPECTED ADJUSTED EARNINGS PER SHARE FOR FISCAL YEAR 2019

Expected adjusted diluted earnings per share is a non-GAAP financial measure. Expected adjusted diluted earnings per share for fiscal year 2019 is provided to enhance visibility into the Company's expected underlying results for the period excluding the estimated impact of specialty fleet restructuring costs and related tax, separation-related costs, a gain on the sale of a building, and the impact of an adjustment to our fiscal 2017 tax liability for additional guidance issued by the U.S. Treasury Department regarding the TCJA. However, this non-GAAP financial measure is not intended to supersede or replace the GAAP measure.

| | 52 Weeks Ending February 1, 2020 | |
|--|---|-----------------|
| | Low End | High End |
| Expected earnings per share - diluted | \$ 1.88 | \$ 2.08 |
| Add: Estimated impact of specialty fleet restructuring costs (a) | 0.14 | 0.14 |
| Add: Estimated incremental tax on restructuring costs (b) | 0.02 | 0.02 |
| Add: Estimated impact of separation-related costs (c) | 0.30 | 0.20 |
| Less: Gain on sale of building (d) | (0.37) | (0.37) |
| Add: U.S. Federal tax reform adjustment (e) | 0.08 | 0.08 |
| Expected adjusted earnings per share - diluted | <u>\$ 2.05</u> | <u>\$ 2.15</u> |

(a) Represents the estimated earnings per share impact of estimated costs related to previously announced plans to restructure the specialty fleet and revitalize Gap brand, calculated net of tax at the expected adjusted effective tax rate.

(b) Represents certain non-cash tax impacts related to expected restructuring charges discussed above.

(c) Represents the estimated earnings per share impact of estimated costs associated with the planned Old Navy spin-off transaction, calculated net of tax at the expected adjusted effective tax rate.

(d) The estimated earnings per share impact of the gain on the sale of a building in the first quarter of fiscal 2019, calculated net of tax at the expected adjusted effective tax rate.

(e) Represents the impact of an adjustment to our fiscal 2017 tax liability for additional guidance issued by the U.S. Treasury Department regarding the TCJA.

The Gap, Inc.
NET SALES RESULTS
UNAUDITED

The following table details the Company's second quarter net sales (unaudited):

| (\$ in millions) | | | | | | |
|--------------------------------------|----------------------------|-------------------|---|------------------|-----------------|------------------------------------|
| 13 Weeks Ended August 3, 2019 | Old Navy Global | Gap Global | Banana Republic Global (2) | Other (3) | Total | Percentage of Net Sales |
| U.S. (1) | \$ 1,794 | \$ 645 | \$ 530 | \$ 331 | \$ 3,300 | 83% |
| Canada | 148 | 85 | 53 | - | 286 | 7% |
| Europe | - | 131 | 4 | - | 135 | 3% |
| Asia | 11 | 201 | 23 | - | 235 | 6% |
| Other regions | 19 | 24 | 6 | - | 49 | 1% |
| Total | \$ 1,972 | \$ 1,086 | \$ 616 | \$ 331 | \$ 4,005 | 100% |

| (\$ in millions) | | | | | | |
|--------------------------------------|----------------------------|-------------------|---------------------------------------|------------------|-----------------|------------------------------------|
| 13 Weeks Ended August 4, 2018 | Old Navy Global | Gap Global | Banana Republic Global | Other (3) | Total | Percentage of Net Sales |
| U.S. (1) | \$ 1,816 | \$ 728 | \$ 514 | \$ 264 | \$ 3,322 | 82% |
| Canada | 151 | 94 | 58 | - | 303 | 7% |
| Europe | - | 145 | 3 | - | 148 | 4% |
| Asia | 11 | 229 | 22 | - | 262 | 6% |
| Other regions | 14 | 29 | 7 | - | 50 | 1% |
| Total | \$ 1,992 | \$ 1,225 | \$ 604 | \$ 264 | \$ 4,085 | 100% |

(1) U.S. includes the United States, Puerto Rico, and Guam.

(2) Beginning on March 4, 2019, Banana Republic Global includes net sales for the Janie and Jack brand.

(3) Primarily consists of net sales for the Athleta and Intermix brands, as well as a portion of income related to our credit card agreement. Beginning in the third quarter of fiscal year 2018, the Hill City brand is also included.

The Gap, Inc.
REAL ESTATE

Store count, openings, closings, and square footage for our stores are as follows:

| | February 2, 2019 | 26 Weeks Ended August 3, 2019 | | August 3, 2019 | |
|----------------------------------|------------------|-------------------------------|---------------------------|-----------------|---------------------------|
| | Store Locations | Store Locations Opened | Store Locations Closed | Store Locations | Square Feet (millions) |
| Old Navy North America | 1,139 | 28 | 1 | 1,166 | 19.0 |
| Old Navy Asia | 15 | 2 | - | 17 | 0.2 |
| Gap North America | 758 | 3 | 28 | 733 | 7.6 |
| Gap Asia | 332 | 29 | 19 | 342 | 3.1 |
| Gap Europe | 152 | 1 | 2 | 151 | 1.3 |
| Banana Republic North America | 556 | 5 | 7 | 554 | 4.7 |
| Banana Republic Asia | 45 | 3 | 1 | 47 | 0.2 |
| Athleta North America | 161 | 10 | - | 171 | 0.7 |
| Intermix North America | 36 | - | 1 | 35 | 0.1 |
| Janie and Jack North America (1) | - | - | - | 140 | 0.2 |
| Company-operated stores total | 3,194 | 81 | 59 | 3,356 | 37.1 |
| Franchise | 472 | 66 | 17 | 521 | N/A |
| Total | 3,666 | 147 | 76 | 3,877 | 37.1 |

(1) On March 4, 2019, we acquired select assets of Gymboree, Inc. related to Janie and Jack. The 140 stores acquired were not included as store openings for fiscal 2019; however, they are included in the ending number of store locations as of August 3, 2019.