

Gap Inc.

Quarterly Financial Summary
Q3 2020

Gap Inc.

Gap Inc. Quarterly Financial Summary Q3 2020

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.

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

	Fiscal Year (number of weeks)			Fiscal Year 2019 (52)					Fiscal Year 2020 (52)		
	2016 (52)	2017 (53)	2018 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Net sales	\$ 15,516	\$ 15,855	\$ 16,580	\$ 3,706	\$ 4,005	\$ 3,998	\$ 4,674	\$ 16,383	\$ 2,107	\$ 3,275	\$ 3,994
Cost of goods sold and occupancy expenses	9,876	9,789	10,258	2,362	2,449	2,439	3,000	10,250	1,839	2,126	2,374
Gross profit	5,640	6,066	6,322	1,344	1,556	1,559	1,674	6,133	268	1,149	1,620
Operating expenses	4,449	4,587	4,960	1,028	1,274	1,338	1,919	5,559	1,512	1,076	1,445
Operating income (loss)	1,191	1,479	1,362	316	282	221	(245)	574	(1,244)	73	175
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	58	-
Interest expense	75	74	73	20	19	19	18	76	19	58	55
Interest income	(8)	(19)	(33)	(6)	(8)	(7)	(9)	(30)	(4)	(2)	(1)
Income (loss) before income taxes	1,124	1,424	1,322	302	271	209	(254)	528	(1,259)	(41)	121
Income taxes	448	576	319	75	103	69	(70)	177	(327)	21	26
Net Income (loss)	\$ 676	\$ 848	\$ 1,003	\$ 227	\$ 168	\$ 140	\$ (184)	\$ 351	\$ (932)	\$ (62)	\$ 95
Weighted-average number of shares - basic	399	393	385	379	378	375	373	376	372	374	374
Weighted-average number of shares - diluted	400	396	388	381	379	376	373	378	372	374	380
Basic earnings per share ⁽¹⁾	\$ 1.69	\$ 2.16	\$ 2.61	\$ 0.60	\$ 0.44	\$ 0.37	\$ (0.49)	\$ 0.93	\$ (2.51)	\$ (0.17)	\$ 0.25
Diluted earnings per share ⁽¹⁾	\$ 1.69	\$ 2.14	\$ 2.59	\$ 0.60	\$ 0.44	\$ 0.37	\$ (0.49)	\$ 0.93	\$ (2.51)	\$ (0.17)	\$ 0.25
Gross margin (% of sales)	36.3%	38.3%	38.1%	36.3%	38.9%	39.0%	35.8%	37.4%	12.7%	35.1%	40.6%
Operating expenses (% of sales)	28.7%	28.9%	29.9%	27.7%	31.8%	33.5%	41.1%	33.9%	71.8%	32.9%	36.2%
Operating income (% of sales)	7.7%	9.3%	8.2%	8.5%	7.0%	5.5%	-5.2%	3.5%	-59.0%	2.2%	4.4%

(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 2019				Fiscal Year 2020		
	2016	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Assets										
Cash and cash equivalents	\$ 1,783	\$ 1,783	\$ 1,081	\$ 941	\$ 1,177	\$ 788	\$ 1,364	\$ 1,028	\$ 2,188	\$ 2,471
Short-term investments	-	-	288	272	294	294	290	51	25	178
Merchandise inventory	1,830	1,997	2,131	2,242	2,326	2,720	2,156	2,217	2,242	2,747
Other current assets	702	788	751	757	770	770	706	920	882	966
Total current assets.....	4,315	4,568	4,251	4,212	4,567	4,572	4,516	4,216	5,337	6,362
Property and equipment, net of accumulated depreciation	2,616	2,805	2,912	3,129	3,141	3,225	3,122	2,945	2,895	2,846
Operating lease assets	-	-	-	5,732	5,807	5,796	5,402	4,851	4,689	4,460
Other long-term assets	679	616	886	547	528	525	639	698	795	705
Total assets.....	\$ 7,610	\$ 7,989	\$ 8,049	\$ 13,620	\$ 14,043	\$ 14,118	\$ 13,679	\$ 12,710	\$ 13,716	\$ 14,373
Liabilities and stockholders' equity										
Revolving credit facility	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500	\$ -	\$ -
Accounts payable	1,243	1,181	1,126	994	1,246	1,241	1,174	971	1,629	2,284
Accrued expenses and other current liabilities	1,113	1,270	1,024	882	908	974	1,067	1,051	1,124	1,283
Current portion of operating lease liabilities	-	-	-	929	946	934	920	886	856	823
Income taxes payable	32	10	24	26	34	43	48	23	40	41
Total current liabilities.....	2,453	2,461	2,174	2,831	3,134	3,192	3,209	3,431	3,649	4,431
Long-term debt	1,248	1,249	1,249	1,249	1,249	1,249	1,249	1,250	2,212	2,214
Long-term operating lease liabilities	-	-	-	5,597	5,644	5,650	5,508	5,331	5,179	4,899
Lease incentives and other long-term liabilities	1,005	1,135	1,073	372	391	393	397	381	423	458
Total long-term liabilities.....	2,253	2,384	2,322	7,218	7,284	7,292	7,154	6,962	7,814	7,571
Common stock	20	19	19	19	19	19	19	19	19	19
Additional paid-in capital	81	8	-	-	-	-	-	17	39	60
Retained earnings	2,749	3,081	3,481	3,495	3,551	3,573	3,257	2,235	2,173	2,268
Accumulated other comprehensive income	54	36	53	57	55	42	40	46	22	24
Total stockholders' equity.....	2,904	3,144	3,553	3,571	3,625	3,634	3,316	2,317	2,253	2,371
Total liabilities and stockholders' equity.....	\$ 7,610	\$ 7,989	\$ 8,049	\$ 13,620	\$ 14,043	\$ 14,118	\$ 13,679	\$ 12,710	\$ 13,716	\$ 14,373

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

	Fiscal Year (number of weeks)			Fiscal Year 2019 (52)					Fiscal Year 2020 (52)		
	2016 (52) ⁽³⁾	2017 (53) ⁽³⁾	2018 (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)	\$ 676	\$ 848	\$ 1,003	\$ 227	\$ 168	\$ 140	\$ (184)	\$ 351	\$ (932)	\$ (62)	\$ 95
Depreciation and amortization ⁽¹⁾	531	499	517	138	139	140	140	557	130	126	125
Impairment of operating lease assets	-	-	-	-	-	-	239	239	360	1	-
Impairment of store assets	107	28	14	-	-	-	98	98	124	3	-
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	58	-
Gain on sale of building	-	-	-	(191)	-	-	-	(191)	-	-	-
Change in merchandise inventory	46	(142)	(154)	(83)	(83)	(393)	563	4	(79)	(12)	(499)
Other, net	359	147	1	(62)	330	58	27	353	(543)	739	765
Net cash provided by (used for) operating activities.....	<u>1,719</u>	<u>1,380</u>	<u>1,381</u>	<u>29</u>	<u>554</u>	<u>(55)</u>	<u>883</u>	<u>1,411</u>	<u>(940)</u>	<u>853</u>	<u>486</u>
Cash flows from investing activities:											
Purchases of property and equipment	(524)	(731)	(705)	(165)	(159)	(199)	(179)	(702)	(122)	(86)	(80)
Purchase of building	-	-	-	(343)	-	-	-	(343)	-	-	-
Proceeds from sale of building	-	-	-	220	-	-	-	220	-	-	-
Purchases of short-term investments	-	-	(464)	(69)	(81)	(85)	(58)	(293)	(59)	-	(178)
Proceeds from sales and maturities of short-term investments	-	-	177	86	60	85	62	293	297	28	23
Purchase of Janie and Jack	-	-	-	(69)	-	-	-	(69)	-	-	-
Insurance proceeds related to loss on property and equipment	-	66	-	-	-	-	-	-	-	-	-
Other	(5)	(1)	(9)	-	-	-	-	-	-	2	-
Net cash provided by (used for) investing activities.....	<u>(529)</u>	<u>(666)</u>	<u>(1,001)</u>	<u>(340)</u>	<u>(180)</u>	<u>(199)</u>	<u>(175)</u>	<u>(894)</u>	<u>116</u>	<u>(56)</u>	<u>(235)</u>
Cash flows from financing activities:											
Payments for revolving credit facility	-	-	-	-	-	-	-	-	-	(500)	-
Proceeds from revolving credit facility	-	-	-	-	-	-	-	-	500	-	-
Payments of short-term debt	(400)	(67)	-	-	-	-	-	-	-	-	-
Payments of long-term debt	(21)	-	-	-	-	-	-	-	-	-	-
Payments for debt issuance costs	-	-	-	-	-	-	-	-	-	(61)	-
Payments to extinguish debt	-	-	-	-	-	-	-	-	-	(1,307)	-
Proceeds from issuance of long-term debt	-	-	-	-	-	-	-	-	-	2,250	-
Proceeds from issuances under share-based compensation plans	29	30	46	10	7	5	3	25	6	6	4
Withholding tax payments related to vesting of stock units	(19)	(18)	(23)	(19)	(1)	(1)	-	(21)	(7)	(1)	-
Repurchases of common stock	-	(315)	(398)	(50)	(50)	(50)	(50)	(200)	-	-	-
Excess tax benefit from exercise of stock options and vesting of stock units	1	-	-	-	-	-	-	-	-	-	-
Cash dividends paid	(367)	(361)	(373)	(92)	(91)	(91)	(90)	(364)	-	-	-
Other	-	-	(1)	-	-	-	-	-	-	-	-
Net cash provided by (used for) financing activities.....	<u>(777)</u>	<u>(731)</u>	<u>(749)</u>	<u>(151)</u>	<u>(135)</u>	<u>(137)</u>	<u>(137)</u>	<u>(560)</u>	<u>499</u>	<u>387</u>	<u>4</u>
Effect of foreign exchange rate fluctuations on cash, cash equivalents, and restricted cash....	-	19	(10)	-	(2)	2	4	4	(8)	9	3
Net increase (decrease) in cash, cash equivalents, and restricted cash ⁽⁴⁾	<u>\$ 413</u>	<u>\$ 2</u>	<u>\$ (379)</u>	<u>\$ (462)</u>	<u>\$ 237</u>	<u>\$ (389)</u>	<u>\$ 575</u>	<u>\$ (39)</u>	<u>\$ (333)</u>	<u>\$ 1,193</u>	<u>\$ 258</u>
Net cash provided by (used for) operating activities	\$ 1,719	\$ 1,380	\$ 1,381	\$ 29	\$ 554	\$ (55)	\$ 883	\$ 1,411	\$ (940)	\$ 853	\$ 486
Less: purchases of property and equipment	(524)	(731)	(705)	(165)	(159)	(199)	(179)	(702)	(122)	(86)	(80)
Add: insurance proceeds related to loss on property and equipment	-	66	-	-	-	-	-	-	-	-	-
Free cash flow ⁽²⁾	<u>\$ 1,195</u>	<u>\$ 715</u>	<u>\$ 676</u>	<u>\$ (136)</u>	<u>\$ 395</u>	<u>\$ (254)</u>	<u>\$ 704</u>	<u>\$ 709</u>	<u>\$ (1,062)</u>	<u>\$ 767</u>	<u>\$ 406</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, 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. 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 years 2017 and 2016 reflect the retrospective adoption of ASU No. 2016-18 as of the first quarter of fiscal year 2018.

(4) Includes restricted cash beginning in fiscal year 2016.

Gap Inc.
Quarterly Financial Summary
Section IV: Selected Metrics

	Fiscal Year (number of weeks)			Fiscal Year 2019 (52)					Fiscal Year 2020 (52)			
	2016 (52)	2017 (53)	2018 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)	
Rent expenses ⁽¹⁾	\$ 1,311	\$ 1,300	\$ 1,300	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Operating lease cost ⁽²⁾				\$ 296	\$ 301	\$ 308	\$ 328	\$ 1,233	\$ 282	\$ 267	\$ 205	
Dividends per share	\$ 0.92	\$ 0.92	\$ 0.97	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.97	\$ -	\$ -	\$ -	
Square footage	36.7	36.4	36.7	36.8	37.1	37.5	37.0	37.0	36.7	35.8	35.5	
Square footage - growth/decline ⁽³⁾	-3.2%	-0.8%	0.8%	0.8%	1.4%	1.6%	0.8%	0.8%	-0.3%	-3.5%	-5.3%	
Sales per average square foot ⁽⁴⁾	\$ 334	\$ 340	\$ 341	\$ 75	\$ 83	\$ 78	\$ 87	\$ 323	n/a	n/a	n/a	
Number of company-operated store locations ⁽⁵⁾	3,200	3,165	3,194	3,335	3,356	3,396	3,345	3,345	3,313	3,215	3,178	
Number of franchise store locations	459	429	472	514	521	542	574	574	598	599	607	
Number of total store locations ⁽⁵⁾	3,659	3,594	3,666	3,849	3,877	3,938	3,919	3,919	3,911	3,814	3,785	
Total store openings ⁽⁶⁾	155	152	253	83	64	99	83	329	40	38	36	
Total store closings ⁽⁶⁾	217	217	181	40	36	37	102	215	48	135	65	
Working capital	\$ 1,862	\$ 2,107	\$ 2,077	\$ 1,381	\$ 1,433	\$ 1,380	\$ 1,307	\$ 1,307	\$ 785	\$ 1,688	\$ 1,931	
Current ratio	1.76	1.86	1.96	1.49	1.46	1.43	1.41	1.41	1.23	1.46	1.44	
Long-term debt to equity ratio	0.43	0.40	0.35	0.35	0.34	0.34	0.38	0.38	0.54	0.98	0.93	
Shares outstanding	399	389	378	378	376	373	371	371	373	374	374	
Shares repurchased	-	13	14	2	3	3	3	10	-	-	-	
Average acquisition cost per share	n/a	\$ 24	\$ 29	\$ 26	\$ 18	\$ 17	\$ 17	\$ 19	\$ -	\$ -	\$ -	
Inventory	\$ 1,830	\$ 1,997	\$ 2,131	\$ 2,242	\$ 2,326	\$ 2,720	\$ 2,156	\$ 2,156	\$ 2,217	\$ 2,242	\$ 2,747	
Inventory - increase/decrease ⁽³⁾	(0.0)	9%	7%	10%	6%	2%	1%	1%	-1%	-4%	1%	
Return on equity ⁽⁷⁾	24.8	28.0	30.0					10.2				
Return on average assets ⁽⁸⁾	9.0	10.9	12.5					3.2				

(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 for the first three quarters of fiscal 2020 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.

(6) Includes Franchise. For fiscal year 2019, excludes Janie and Jack stores acquired in Q1 2019, net of one closure in Q3 2019.

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

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