

Gap Inc.

Quarterly Financial Summary  
Q1 2022

# Gap Inc.

## Gap Inc. Quarterly Financial Summary Q1 2022

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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.

# 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 2021 (52)					Fiscal Year 2022 (52)
	2018 (52)	2019 (52)	2020 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)
Net sales	\$ 16,580	\$ 16,383	\$ 13,800	\$ 3,991	\$ 4,211	\$ 3,943	\$ 4,525	\$ 16,670	\$ 3,477
Cost of goods sold and occupancy expenses	10,258	10,250	9,095	2,361	2,388	2,282	3,002	10,033	2,381
Gross profit	6,322	6,133	4,705	1,630	1,823	1,661	1,523	6,637	1,096
Operating expenses	4,960	5,559	5,567	1,390	1,414	1,508	1,515	5,827	1,293
Operating income (loss)	1,362	574	(862)	240	409	153	8	810	(197)
Loss on extinguishment of debt	-	-	58	-	-	325	-	325	-
Interest expense	73	76	192	54	51	44	18	167	20
Interest income	(33)	(30)	(10)	(1)	(1)	(1)	(2)	(5)	(1)
Income (loss) before income taxes	1,322	528	(1,102)	187	359	(215)	(8)	323	(216)
Income taxes	319	177	(437)	21	101	(63)	8	67	(54)
Net Income (loss)	\$ 1,003	\$ 351	\$ (665)	\$ 166	\$ 258	\$ (152)	\$ (16)	\$ 256	\$ (162)
Weighted-average number of shares - basic	385	376	374	376	378	376	373	376	370
Weighted-average number of shares - diluted	388	378	374	385	386	376	373	383	370
Basic earnings per share <sup>(1)</sup>	\$ 2.61	\$ 0.93	\$ (1.78)	\$ 0.44	\$ 0.68	\$ (0.40)	\$ (0.04)	\$ 0.68	\$ (0.44)
Diluted earnings per share <sup>(1)</sup>	\$ 2.59	\$ 0.93	\$ (1.78)	\$ 0.43	\$ 0.67	\$ (0.40)	\$ (0.04)	\$ 0.67	\$ (0.44)
Gross margin (% of sales)	38.1%	37.4%	34.1%	40.8%	43.3%	42.1%	33.7%	39.8%	31.5%
Operating expenses (% of sales)	29.9%	33.9%	40.3%	34.8%	33.6%	38.2%	33.5%	35.0%	37.2%
Operating income (% of sales)	8.2%	3.5%	-6.2%	6.0%	9.7%	3.9%	0.2%	4.9%	-5.7%

(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 2021				Fiscal Year 2022
	2018	2019	2020	Q1	Q2	Q3	Q4	Q1
<b>Assets</b>								
Cash and cash equivalents	\$ 1,081	\$ 1,364	\$ 1,988	\$ 2,066	\$ 2,375	\$ 801	\$ 877	\$ 845
Short-term investments	288	290	410	475	337	275	-	-
Merchandise inventory	2,131	2,156	2,451	2,370	2,281	2,721	3,018	3,169
Other current assets	751	706	1,159	1,091	1,201	1,410	1,270	991
Total current assets.....	4,251	4,516	6,008	6,002	6,194	5,207	5,165	5,005
Property and equipment, net of accumulated depreciation	2,912	3,122	2,841	2,839	2,897	2,924	3,037	2,791
Operating lease assets	-	5,402	4,217	4,060	3,975	3,788	3,675	3,587
Other long-term assets	886	639	703	703	693	861	884	874
Total assets.....	\$ 8,049	\$ 13,679	\$ 13,769	\$ 13,604	\$ 13,759	\$ 12,780	\$ 12,761	\$ 12,257
<b>Liabilities and stockholders' equity</b>								
Accounts payable	1,126	1,174	1,743	1,530	1,583	1,630	1,951	1,599
Accrued expenses and other current liabilities	1,024	1,067	1,276	1,294	1,252	1,414	1,367	1,127
Current portion of operating lease liabilities	-	920	831	798	789	746	734	717
Income taxes payable	24	48	34	16	27	33	25	29
Total current liabilities.....	2,174	3,209	3,884	3,638	3,651	3,823	4,077	3,472
Revolving credit agreement	-	-	-	-	-	-	-	350
Long-term debt	1,249	1,249	2,216	2,218	2,220	1,484	1,484	1,485
Long-term operating lease liabilities	-	5,508	4,617	4,449	4,348	4,163	4,033	3,921
Other long-term liabilities <sup>(1)</sup>	1,073	397	438	493	520	523	445	575
Total long-term liabilities.....	2,322	7,154	7,271	7,160	7,088	6,170	5,962	6,331
Common stock	19	19	19	19	19	19	19	19
Additional paid-in capital	-	-	85	118	114	71	43	-
Retained earnings	3,481	3,257	2,501	2,667	2,879	2,681	2,622	2,389
Accumulated other comprehensive income	53	40	9	2	8	16	38	46
Total stockholders' equity.....	3,553	3,316	2,614	2,806	3,020	2,787	2,722	2,454
Total liabilities and stockholders' equity.....	\$ 8,049	\$ 13,679	\$ 13,769	\$ 13,604	\$ 13,759	\$ 12,780	\$ 12,761	\$ 12,257

(1) Prior to the adoption of ASC 842 Lease Accounting, fiscal year 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 2021 (52)					Fiscal Year 2022 (52)
	2018 (52)	2019 (52)	2020 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)
Cash flows from operating activities:									
Net income (loss)	\$ 1,003	\$ 351	\$ (665)	\$ 166	\$ 258	\$ (152)	\$ (16)	\$ 256	\$ (162)
Depreciation and amortization <sup>(1)</sup>	517	557	507	120	124	128	132	504	130
Impairment of operating lease assets	-	239	391	5	1	-	2	8	-
Impairment of store assets	14	98	135	-	1	-	-	1	-
Loss on extinguishment of debt	-	-	58	-	-	325	-	325	-
Loss on divestiture activity	-	-	-	56	3	-	-	59	-
Gain on sale of building	-	(191)	-	-	-	-	-	-	-
Change in merchandise inventory	(154)	4	(305)	69	87	(444)	(305)	(593)	(166)
Other, net	1	353	116	(76)	(22)	33	314	249	(164)
Net cash provided by (used for) operating activities.....	<u>1,381</u>	<u>1,411</u>	<u>237</u>	<u>340</u>	<u>452</u>	<u>(110)</u>	<u>127</u>	<u>809</u>	<u>(362)</u>
Cash flows from investing activities:									
Purchases of property and equipment	(705)	(702)	(392)	(124)	(145)	(217)	(208)	(694)	(228)
Purchase of building	-	(343)	-	-	-	-	-	-	-
Proceeds from sale of building	-	220	-	-	-	-	-	-	333
Purchases of short-term investments	(464)	(293)	(508)	(298)	(129)	(207)	(119)	(753)	-
Proceeds from sales and maturities of short-term investments	177	293	388	233	267	268	394	1,162	-
Payments for acquisition activity, net of cash acquired	-	-	-	-	-	(135)	-	(135)	-
Proceeds from (net cash paid for) divestiture activity	-	-	-	28	(49)	-	-	(21)	-
Purchase of Janie and Jack	-	(69)	-	-	-	-	-	-	-
Other	(9)	-	2	-	-	-	(5)	(5)	-
Net cash provided by (used for) investing activities.....	<u>(1,001)</u>	<u>(894)</u>	<u>(510)</u>	<u>(161)</u>	<u>(56)</u>	<u>(291)</u>	<u>62</u>	<u>(446)</u>	<u>105</u>
Cash flows from financing activities:									
Proceeds from revolving credit facility	-	-	500	-	-	-	-	-	350
Payments for revolving credit facility	-	-	(500)	-	-	-	-	-	-
Proceeds from issuance of long-term debt	-	-	2,250	-	-	1,500	-	1,500	-
Payments to extinguish debt	-	-	(1,307)	-	-	(2,546)	-	(2,546)	-
Payments for debt issuance costs	-	-	(61)	-	-	(16)	-	(16)	-
Proceeds from issuances under share-based compensation plans	46	25	22	25	16	7	6	54	7
Withholding tax payments related to vesting of stock units	(23)	(21)	(9)	(32)	-	(2)	(2)	(36)	(14)
Repurchases of common stock	(398)	(200)	-	-	(55)	(73)	(73)	(201)	(54)
Cash dividends paid	(373)	(364)	-	(91)	(46)	(45)	(44)	(226)	(56)
Other	(1)	-	-	-	-	-	-	-	-
Net cash provided by (used for) financing activities.....	<u>(749)</u>	<u>(560)</u>	<u>895</u>	<u>(98)</u>	<u>(85)</u>	<u>(1,175)</u>	<u>(113)</u>	<u>(1,471)</u>	<u>233</u>
Effect of foreign exchange rate fluctuations on cash, cash equivalents, and restricted cash....	(10)	4	13	(1)	-	(2)	(3)	(6)	(7)
Net increase (decrease) in cash, cash equivalents, and restricted cash .....	<u>\$ (379)</u>	<u>\$ (39)</u>	<u>\$ 635</u>	<u>\$ 80</u>	<u>\$ 311</u>	<u>\$ (1,578)</u>	<u>\$ 73</u>	<u>\$ (1,114)</u>	<u>\$ (31)</u>
Net cash provided by (used for) operating activities									
Less: purchases of property and equipment	(705)	(702)	(392)	(124)	(145)	(217)	(208)	(694)	(228)
Free cash flow <sup>(2)</sup> .....	<u>\$ 676</u>	<u>\$ 709</u>	<u>\$ (155)</u>	<u>\$ 216</u>	<u>\$ 307</u>	<u>\$ (327)</u>	<u>\$ (81)</u>	<u>\$ 115</u>	<u>\$ (590)</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.

Gap Inc.  
Quarterly Financial Summary  
Section IV: Selected Metrics

	Fiscal Year (number of weeks)			Fiscal Year 2021 (52)					Fiscal Year 2022 (52)	
	2018 (52)	2019 (52)	2020 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	
Rent expenses <sup>(1)</sup>	\$ 1,300	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Operating lease cost <sup>(2)</sup>		\$ 1,233	\$ 1,043	\$ 250	\$ 236	\$ 232	\$ 229	\$ 947	\$ 209	
Dividends declared and paid per share <sup>(3)</sup>	\$ 0.97	\$ 0.97	\$ -	\$ 0.24	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.15	
Square footage	36.7	37.0	34.6	34.7	34.3	33.7	33.3	33.3	33.2	
Square footage - growth/decline <sup>(4)</sup>	0.8%	0.8%	-6.5%	-5.4%	-4.2%	-5.1%	-3.8%	-3.8%	-4.3%	
Sales per average square foot <sup>(5)</sup>	\$ 341	\$ 323	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Number of company-operated store locations <sup>(6)</sup>	3,194	3,345	3,100	2,997	2,937	2,873	2,835	2,835	2,825	
Number of franchise store locations	472	574	615	574	557	586	564	564	589	
Number of total store locations <sup>(6)</sup>	3,666	3,919	3,715	3,571	3,494	3,459	3,399	3,399	3,414	
Total store openings <sup>(7)</sup>	253	329	140	74	24	45	32	175	44	
Total store closings <sup>(7)</sup>	181	215	344	99	70	80	92	341	29	
Working capital	\$ 2,077	\$ 1,307	\$ 2,124	\$ 2,364	\$ 2,543	\$ 1,384	\$ 1,088	\$ 1,088	\$ 1,533	
Current ratio	1.96	1.41	1.55	1.65	1.70	1.36	1.27	1.27	1.44	
Long-term debt to equity ratio	0.35	0.38	0.85	0.79	0.74	0.53	0.55	0.55	0.75	
Shares outstanding	378	371	374	377	376	374	371	371	369	
Shares repurchased	14	10	-	-	2	3	4	9	4	
Average acquisition cost per share	\$ 29	\$ 19	\$ -	\$ -	\$ 32	\$ 25	\$ 19	\$ 23	\$ 14	
Inventory	\$ 2,131	\$ 2,156	\$ 2,451	\$ 2,370	\$ 2,281	\$ 2,721	\$ 3,018	\$ 3,018	\$ 3,169	
Inventory - increase/decrease <sup>(4)</sup>	7%	1%	14%	7%	2%	-1%	23%	23%	34%	
Return on equity <sup>(8)</sup>	30.0	10.2	(22.4)					9.6		
Return on average assets <sup>(9)</sup>	12.5	3.2	(4.8)					1.9		

(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) Fiscal year 2020 dividend of \$0.24 per share was paid in Q1 2021.

(4) Represents year over year % change.

(5) 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.

(6) 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. During Q1 2022, 11 Gap Italy stores were transitioned to OVS, the ending balance excludes these stores and is included in Franchise store locations balance.

(7) 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. Excludes 11 Gap Italy store transitioned to OVS in Q1 2022.

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

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