

Gap Inc.

Quarterly Financial Summary  
Q3 2018

# Gap Inc.

## Gap Inc. Quarterly Financial Summary Q3 2018

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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. 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 2017 (53)					Fiscal Year 2018 (52)		
	2013 (52)	2014 (52)	2015 (52)	2016 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (14)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Net sales	\$ 16,148	\$ 16,435	\$ 15,797	\$ 15,516	\$ 3,440	\$ 3,799	\$ 3,838	\$ 4,778	\$ 15,855	\$ 3,783	\$ 4,085	\$ 4,089
Cost of goods sold and occupancy expenses	9,855	10,146	10,077	9,876	2,137	2,320	2,313	3,019	9,789	2,356	2,458	2,466
Gross profit	6,293	6,289	5,720	5,640	1,303	1,479	1,525	1,759	6,066	1,427	1,627	1,623
Operating expenses	4,144	4,206	4,196	4,449	1,049	1,028	1,147	1,363	4,587	1,198	1,229	1,260
Operating income	2,149	2,083	1,524	1,191	254	451	378	396	1,479	229	398	363
Interest expense	61	75	59	75	19	16	18	21	74	16	17	21
Interest income	(5)	(5)	(6)	(8)	(3)	(4)	(4)	(8)	(19)	(6)	(7)	(8)
Income before income taxes	2,093	2,013	1,471	1,124	238	439	364	383	1,424	219	388	350
Income taxes	813	751	551	448	95	168	135	178	576	55	91	84
Net Income	<u>\$ 1,280</u>	<u>\$ 1,262</u>	<u>\$ 920</u>	<u>\$ 676</u>	<u>\$ 143</u>	<u>\$ 271</u>	<u>\$ 229</u>	<u>\$ 205</u>	<u>\$ 848</u>	<u>\$ 164</u>	<u>\$ 297</u>	<u>\$ 266</u>
Weighted-average number of shares - basic	461	435	411	399	399	395	391	389	393	389	387	384
Weighted-average number of shares - diluted	467	440	413	400	400	396	393	393	396	393	390	387
Basic earnings per share <sup>(1)</sup>	\$ 2.78	\$ 2.90	\$ 2.24	\$ 1.69	\$ 0.36	\$ 0.69	\$ 0.59	\$ 0.53	\$ 2.16	\$ 0.42	\$ 0.77	\$ 0.69
Diluted earnings per share <sup>(1)</sup>	\$ 2.74	\$ 2.87	\$ 2.23	\$ 1.69	\$ 0.36	\$ 0.68	\$ 0.58	\$ 0.52	\$ 2.14	\$ 0.42	\$ 0.76	\$ 0.69
Gross margin (% of sales)	39.0%	38.3%	36.2%	36.3%	37.9%	38.9%	39.7%	36.8%	38.3%	37.7%	39.8%	39.7%
Operating expenses (% of sales)	25.7%	25.6%	26.6%	28.7%	30.5%	27.1%	29.9%	28.5%	28.9%	31.7%	30.1%	30.8%
Operating income (% of sales)	13.3%	12.7%	9.6%	7.7%	7.4%	11.9%	9.8%	8.3%	9.3%	6.1%	9.7%	8.9%

(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.

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Section II: Condensed Consolidated Balance Sheets

	Year End Balance				Fiscal Year 2017				Fiscal Year 2018		
	2013	2014	2015	2016	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Assets</b>											
Cash, cash equivalents and short-term investments	\$ 1,510	\$ 1,515	\$ 1,370	\$ 1,783	\$ 1,583	\$ 1,609	\$ 1,353	\$ 1,783	\$ 1,210	\$ 1,322	\$ 958
Short-term investments	-	-	-	-	-	-	-	-	164	\$ 286	\$ 296
Merchandise inventory	1,928	1,889	1,873	1,830	1,961	2,051	2,476	1,997	2,035	2,202	2,668
Other current assets	992	913	742	702	575	598	654	788	778	780	792
Total current assets.....	4,430	4,317	3,985	4,315	4,119	4,258	4,483	4,568	4,187	4,590	4,714
Property and equipment, net	2,758	2,773	2,850	2,616	2,605	2,643	2,686	2,805	2,791	2,832	2,887
Other long-term assets	661	600	638	679	687	716	726	616	607	588	572
Total assets.....	\$ 7,849	\$ 7,690	\$ 7,473	\$ 7,610	\$ 7,411	\$ 7,617	\$ 7,895	\$ 7,989	\$ 7,585	\$ 8,010	\$ 8,173
<b>Liabilities and stockholders' equity</b>											
Current maturities of debt	\$ 25	\$ 21	\$ 421	\$ 65	\$ 67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,242	1,173	1,112	1,243	1,119	1,230	1,330	1,181	1,072	1,297	1,299
Accrued expenses and other current liabilities	1,142	1,020	979	1,113	1,088	1,062	1,132	1,270	975	1,026	1,070
Income taxes payable	36	20	23	32	28	107	134	10	11	18	24
Total current liabilities.....	2,445	2,234	2,535	2,453	2,302	2,399	2,596	2,461	2,058	2,341	2,393
Long-term debt	1,369	1,332	1,310	1,248	1,248	1,248	1,248	1,249	1,249	1,249	1,249
Lease incentives and other long-term liabilities	973	1,141	1,083	1,005	999	1,025	1,027	1,135	1,081	1,080	1,091
Total long-term liabilities.....	2,342	2,473	2,393	2,253	2,247	2,273	2,275	2,384	2,330	2,329	2,340
Common stock	55	21	20	20	20	20	19	19	19	19	19
Additional paid-in capital	2,899	-	-	81	-	-	-	8	-	-	-
Retained earnings	14,218	2,797	2,440	2,749	2,796	2,902	2,965	3,081	3,127	3,268	3,368
Accumulated other comprehensive income	135	165	85	54	46	23	40	36	51	53	53
Treasury stock, at cost	(14,245)	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity.....	3,062	2,983	2,545	2,904	2,862	2,945	3,024	3,144	3,197	3,340	3,440
Total liabilities and stockholders' equity.....	\$ 7,849	\$ 7,690	\$ 7,473	\$ 7,610	\$ 7,411	\$ 7,617	\$ 7,895	\$ 7,989	\$ 7,585	\$ 8,010	\$ 8,173

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

	Fiscal Year (number of weeks)				Fiscal Year 2017 (53) <sup>(4)</sup>					Fiscal Year 2018 (52)		
	2013 (52)	2014 (52)	2015 (52)	2016 (52) <sup>(4)</sup>	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (14)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Cash flows from operating activities:												
Net income	\$ 1,280	\$ 1,262	\$ 920	\$ 676	\$ 143	\$ 271	\$ 229	\$ 205	\$ 848	\$ 164	\$ 297	\$ 266
Depreciation and amortization <sup>(1)</sup>	470	500	527	531	123	126	123	127	499	126	125	129
Change in merchandise inventory	(193)	(9)	(6)	46	(133)	(70)	(433)	494	(142)	(46)	(178)	(472)
Other, net	148	376	153	466	(42)	68	195	(46)	175	(310)	368	98
Net cash provided by (used for) operating activities.....	1,705	2,129	1,594	1,719	91	395	114	780	1,380	(66)	612	21
Cash flows from investing activities:												
Purchases of property and equipment	(670)	(714)	(726)	(524)	(110)	(165)	(188)	(268)	(731)	(138)	(188)	(184)
Proceeds from sale of property and equipment	-	121	-	-	-	-	-	-	-	-	-	-
Purchases of short-term investments	-	-	-	-	-	-	-	-	-	(167)	(155)	(86)
Sales and maturities of short-term investments	50	-	-	-	-	-	-	-	-	3	33	76
Insurance proceeds related to loss on property and equipment	-	-	-	-	14	45	1	6	66	-	-	-
Other	(4)	(3)	(4)	(5)	-	-	-	(1)	(1)	(7)	1	(1)
Net cash used for investing activities.....	(624)	(596)	(730)	(529)	(96)	(120)	(187)	(263)	(666)	(309)	(309)	(195)
Cash flows from financing activities:												
Proceeds from issuance of short-term debt	-	-	400	-	-	-	-	-	-	-	-	-
Payments of short-term debt	-	-	-	(400)	-	(67)	-	-	(67)	-	-	-
Proceeds from issuance of long-term debt	144	-	-	-	-	-	-	-	-	-	-	-
Payments of long-term debt	-	(21)	(21)	(21)	-	-	-	-	-	-	-	-
Issuances under share-based compensation plans <sup>(2)</sup>	97	38	65	29	8	6	9	7	30	20	13	7
Withholding tax payments related to vesting of stock units <sup>(2)</sup>	-	-	(69)	(19)	(13)	(1)	(1)	(3)	(18)	(19)	(1)	(2)
Repurchases of common stock	(979)	(1,179)	(1,015)	-	(96)	(104)	(100)	(15)	(315)	(100)	(100)	(100)
Excess tax benefit from exercise of stock options and vesting of stock units	56	38	28	1	-	-	-	-	-	-	-	-
Cash dividends paid	(321)	(383)	(377)	(367)	(92)	(90)	(90)	(89)	(361)	(94)	(94)	(93)
Other	(1)	-	(1)	-	-	-	-	-	-	-	(1)	-
Net cash used for financing activities.....	(1,004)	(1,507)	(990)	(777)	(193)	(256)	(182)	(100)	(731)	(193)	(183)	(188)
Effect of foreign exchange rate fluctuations on cash.....	(27)	(21)	(19)	-	1	7	(1)	12	19	(2)	(9)	(2)
Net increase (decrease) in cash, cash equivalents, and restricted cash <sup>(5)</sup> .....	\$ 50	\$ 5	\$ (145)	\$ 413	\$ (197)	\$ 26	\$ (256)	\$ 429	\$ 2	\$ (570)	\$ 111	\$ (364)
Net cash provided by (used for) operating activities	\$ 1,705	\$ 2,129	\$ 1,594	\$ 1,719	\$ 91	\$ 395	\$ 114	\$ 780	\$ 1,380	\$ (66)	\$ 612	\$ 21
Less: purchases of property and equipment	(670)	(714)	(726)	(524)	(110)	(165)	(188)	(268)	(731)	(138)	(188)	(184)
Add: insurance proceeds related to loss on property and equipment	-	-	-	-	14	45	1	6	66	-	-	-
Free cash flow <sup>(3)</sup> .....	\$ 1,035	\$ 1,415	\$ 868	\$ 1,195	\$ (5)	\$ 275	\$ (73)	\$ 518	\$ 715	\$ (204)	\$ 424	\$ (163)

(1) Depreciation and amortization is net of the amortization of lease incentives.

(2) Beginning in fourth quarter of fiscal year 2015, Issuances under share-based compensation plans are reported gross from Withholding tax payments related to vesting of stock units in the Condensed Consolidated Statements of Cash Flows.

(3) 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.

(4) Fiscal years 2017 and 2016 reflect the retrospective adoption of ASU No. 2016-18 as of the first quarter of fiscal year 2018.

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

Gap Inc.  
Quarterly Financial Summary  
Section IV: Selected Metrics

	Fiscal Year (number of weeks)				Fiscal Year 2017 (53)					Fiscal Year 2018 (52)		
	2013 (52)	2014 (52)	2015 (52)	2016 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (14)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Rent expenses <sup>(1)</sup>	\$ 1,279	\$ 1,319	\$ 1,313	\$ 1,311	\$ 322	\$ 324	\$ 326	\$ 328	\$ 1,300	\$ 328	\$ 324	\$ 326
Dividends per share	\$ 0.70	\$ 0.88	\$ 0.92	\$ 0.92	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.92	\$ 0.24	\$ 0.24	\$ 0.24
Square footage	37.2	38.1	37.9	36.7	36.5	36.5	36.6	36.4	36.4	36.5	36.6	36.9
Square footage - growth/decline <sup>(2)</sup>	0.8%	2.4%	-0.5%	-3.2%	-3.4%	-3.4%	-2.9%	-0.8%	-0.8%	0.0%	0.3%	0.8%
Sales per average square foot <sup>(3)</sup>	\$ 365	\$ 361	\$ 337	\$ 334	\$ 74	\$ 85	\$ 82	\$ 98	\$ 340	\$ 79	\$ 90	\$ 83
Number of company-operated store locations	3,164	3,280	3,275	3,200	3,186	3,179	3,193	3,165	3,165	3,171	3,187	3,218
Number of franchise store locations	375	429	446	459	466	463	446	429	429	446	439	470
Number of total store locations	3,539	3,709	3,721	3,659	3,652	3,642	3,639	3,594	3,594	3,617	3,626	3,688
Total store openings <sup>(4)</sup>	262	283	808	155	24	22	50	56	152	62	45	86
Total store closings <sup>(4)</sup>	130	113	393	217	31	32	53	101	217	39	36	24
Working capital	\$ 1,985	\$ 2,083	\$ 1,450	\$ 1,862	\$ 1,817	\$ 1,859	\$ 1,887	\$ 2,107	\$ 2,107	\$ 2,129	\$ 2,249	\$ 2,321
Current ratio	1.81	1.93	1.57	1.76	1.79	1.77	1.73	1.86	1.86	2.03	1.96	1.97
Long-term debt to equity ratio	0.45	0.45	0.51	0.43	0.44	0.42	0.41	0.40	0.40	0.39	0.37	0.36
Shares outstanding	446	421	397	399	396	392	389	389	389	387	385	382
Shares repurchased	26	30	30	-	4	5	4	-	13	3	3	4
Average acquisition cost per share	\$ 38	\$ 39	\$ 34	n/a	\$ 24	\$ 22	\$ 27	\$ 30	\$ 24	\$ 31	\$ 31	\$ 28
Inventory	\$ 1,928	\$ 1,889	\$ 1,873	\$ 1,830	\$ 1,961	\$ 2,051	\$ 2,476	\$ 1,997	\$ 1,997	\$ 2,035	\$ 2,202	\$ 2,668
Inventory per store - increase/decrease <sup>(5)</sup>	7%	-6%	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Inventory - increase/decrease <sup>(6)</sup>				-2%	0%	5%	3%	9%	9%	4%	7%	8%
Return on equity <sup>(7)</sup>	43.0	41.8	33.3	24.8					28.0			
Return on average assets <sup>(8)</sup>	16.7	16.2	12.1	9.0					10.9			

(1) Includes rent expense for Stores, Field, and Headquarters, and lease incentive amortization, net of sublease income.

(2) Represents year over year % change.

(3) Excludes net sales associated with our online and Franchise businesses.

(4) Includes Franchise.

(5) Excludes inventory for online and Franchise, and Piperlime, Athleta, and Intermix stores.

(6) Beginning in Q1 2016, total inventory guidance replaced the inventory per store metric.

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

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