

Gap Inc.

Quarterly Financial Summary
Q2 2019

Gap Inc.

Gap Inc. Quarterly Financial Summary Q2 2019

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 2018 (52)					Fiscal Year 2019 (52)	
	2015 (52)	2016 (52)	2017 (53)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)
Net sales	\$ 15,797	\$ 15,516	\$ 15,855	\$ 3,783	\$ 4,085	\$ 4,089	\$ 4,623	\$ 16,580	\$ 3,706	\$ 4,005
Cost of goods sold and occupancy expenses	10,077	9,876	9,789	2,356	2,458	2,466	2,978	10,258	2,362	2,449
Gross profit	5,720	5,640	6,066	1,427	1,627	1,623	1,645	6,322	1,344	1,556
Operating expenses	4,196	4,449	4,587	1,198	1,229	1,260	1,273	4,960	1,028	1,274
Operating income	1,524	1,191	1,479	229	398	363	372	1,362	316	282
Interest expense	59	75	74	16	17	21	19	73	20	19
Interest income	(6)	(8)	(19)	(6)	(7)	(8)	(12)	(33)	(6)	(8)
Income before income taxes	1,471	1,124	1,424	219	388	350	365	1,322	302	271
Income taxes	551	448	576	55	91	84	89	319	75	103
Net Income	\$ 920	\$ 676	\$ 848	\$ 164	\$ 297	\$ 266	\$ 276	\$ 1,003	\$ 227	\$ 168
Weighted-average number of shares - basic	411	399	393	389	387	384	381	385	379	378
Weighted-average number of shares - diluted	413	400	396	393	390	387	383	388	381	379
Basic earnings per share ⁽¹⁾	\$ 2.24	\$ 1.69	\$ 2.16	\$ 0.42	\$ 0.77	\$ 0.69	\$ 0.72	\$ 2.61	\$ 0.60	\$ 0.44
Diluted earnings per share ⁽¹⁾	\$ 2.23	\$ 1.69	\$ 2.14	\$ 0.42	\$ 0.76	\$ 0.69	\$ 0.72	\$ 2.59	\$ 0.60	\$ 0.44
Gross margin (% of sales)	36.2%	36.3%	38.3%	37.7%	39.8%	39.7%	35.6%	38.1%	36.3%	38.9%
Operating expenses (% of sales)	26.6%	28.7%	28.9%	31.7%	30.1%	30.8%	27.5%	29.9%	27.7%	31.8%
Operating income (% of sales)	9.6%	7.7%	9.3%	6.1%	9.7%	8.9%	8.0%	8.2%	8.5%	7.0%

(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 2018				Fiscal Year 2019	
	2015	2016	2017	Q1	Q2	Q3	Q4	Q1	Q2
Assets									
Cash and cash equivalents	\$ 1,370	\$ 1,783	\$ 1,783	\$ 1,210	\$ 1,322	\$ 958	\$ 1,081	\$ 941	\$ 1,177
Short-term investments	-	-	-	164	286	296	288	272	294
Merchandise inventory	1,873	1,830	1,997	2,035	2,202	2,668	2,131	2,242	2,326
Other current assets	742	702	788	778	780	792	751	757	770
Total current assets.....	3,985	4,315	4,568	4,187	4,590	4,714	4,251	4,212	4,567
Property and equipment, net of accumulated depreciation	2,850	2,616	2,805	2,791	2,832	2,887	2,912	3,129	3,141
Operating lease assets	-	-	-	-	-	-	-	5,732	5,807
Other long-term assets	638	679	616	607	588	572	886	547	528
Total assets.....	\$ 7,473	\$ 7,610	\$ 7,989	\$ 7,585	\$ 8,010	\$ 8,173	\$ 8,049	\$ 13,620	\$ 14,043
Liabilities and stockholders' equity									
Current maturities of debt	\$ 421	\$ 65	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,112	1,243	1,181	1,072	1,297	1,299	1,126	994	1,246
Accrued expenses and other current liabilities	979	1,113	1,270	975	1,026	1,070	1,024	882	908
Current portion of operating lease liabilities	-	-	-	-	-	-	-	929	946
Income taxes payable	23	32	10	11	18	24	24	26	34
Total current liabilities.....	2,535	2,453	2,461	2,058	2,341	2,393	2,174	2,831	3,134
Long-term debt	1,310	1,248	1,249	1,249	1,249	1,249	1,249	1,249	1,249
Long-term operating lease liabilities	-	-	-	-	-	-	-	5,597	5,644
Lease incentives and other long-term liabilities	1,083	1,005	1,135	1,081	1,080	1,091	1,073	372	391
Total long-term liabilities.....	2,393	2,253	2,384	2,330	2,329	2,340	2,322	7,218	7,284
Common stock	20	20	19	19	19	19	19	19	19
Additional paid-in capital	-	81	8	-	-	-	-	-	-
Retained earnings	2,440	2,749	3,081	3,127	3,268	3,368	3,481	3,495	3,551
Accumulated other comprehensive income	85	54	36	51	53	53	53	57	55
Total stockholders' equity.....	2,545	2,904	3,144	3,197	3,340	3,440	3,553	3,571	3,625
Total liabilities and stockholders' equity.....	\$ 7,473	\$ 7,610	\$ 7,989	\$ 7,585	\$ 8,010	\$ 8,173	\$ 8,049	\$ 13,620	\$ 14,043

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

	Fiscal Year (number of weeks)			Fiscal Year 2018 (52)					Fiscal Year 2019 (52)	
	2015 (52)	2016 (52) ⁽³⁾	2017 (53) ⁽³⁾	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)
Cash flows from operating activities:										
Net income	\$ 920	\$ 676	\$ 848	\$ 164	\$ 297	\$ 266	\$ 276	\$ 1,003	\$ 227	\$ 168
Depreciation and amortization ⁽¹⁾	527	531	499	126	125	129	137	517	138	139
Gain on sale of building	-	-	-	-	-	-	-	-	(191)	-
Change in merchandise inventory	(6)	46	(142)	(46)	(178)	(472)	542	(154)	(83)	(83)
Other, net	153	466	175	(310)	368	98	(141)	15	(62)	330
Net cash provided by (used for) operating activities.....	<u>1,594</u>	<u>1,719</u>	<u>1,380</u>	<u>(66)</u>	<u>612</u>	<u>21</u>	<u>814</u>	<u>1,381</u>	<u>29</u>	<u>554</u>
Cash flows from investing activities:										
Purchases of property and equipment	(726)	(524)	(731)	(138)	(188)	(184)	(195)	(705)	(165)	(159)
Purchase of building	-	-	-	-	-	-	-	-	(343)	-
Proceeds from sale of building	-	-	-	-	-	-	-	-	220	-
Purchases of short-term investments	-	-	-	(167)	(155)	(86)	(56)	(464)	(69)	(81)
Proceeds from sales and maturities of short-term investments	-	-	-	3	33	76	65	177	86	60
Purchase of Janie and Jack	-	-	-	-	-	-	-	-	(69)	-
Insurance proceeds related to loss on property and equipment	-	-	66	-	-	-	-	-	-	-
Other	(4)	(5)	(1)	(7)	1	(1)	(2)	(9)	-	-
Net cash used for investing activities.....	<u>(730)</u>	<u>(529)</u>	<u>(666)</u>	<u>(309)</u>	<u>(309)</u>	<u>(195)</u>	<u>(188)</u>	<u>(1,001)</u>	<u>(340)</u>	<u>(180)</u>
Cash flows from financing activities:										
Proceeds from issuance of short-term debt	400	-	-	-	-	-	-	-	-	-
Payments of short-term debt	-	(400)	(67)	-	-	-	-	-	-	-
Payments of long-term debt	(21)	(21)	-	-	-	-	-	-	-	-
Proceeds from issuances under share-based compensation plans	65	29	30	20	13	7	6	46	10	7
Withholding tax payments related to vesting of stock units	(69)	(19)	(18)	(19)	(1)	(2)	(1)	(23)	(19)	(1)
Repurchases of common stock	(1,015)	-	(315)	(100)	(100)	(100)	(98)	(398)	(50)	(50)
Excess tax benefit from exercise of stock options and vesting of stock units	28	1	-	-	-	-	-	-	-	-
Cash dividends paid	(377)	(367)	(361)	(94)	(94)	(93)	(92)	(373)	(92)	(91)
Other	(1)	-	-	-	(1)	-	-	(1)	-	-
Net cash used for financing activities.....	<u>(990)</u>	<u>(777)</u>	<u>(731)</u>	<u>(193)</u>	<u>(183)</u>	<u>(188)</u>	<u>(185)</u>	<u>(749)</u>	<u>(151)</u>	<u>(135)</u>
Effect of foreign exchange rate fluctuations on cash, cash equivalents, and restricted cash.....	<u>(19)</u>	<u>-</u>	<u>19</u>	<u>(2)</u>	<u>(9)</u>	<u>(2)</u>	<u>3</u>	<u>(10)</u>	<u>-</u>	<u>(2)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash ⁽⁴⁾	<u>\$ (145)</u>	<u>\$ 413</u>	<u>\$ 2</u>	<u>\$ (570)</u>	<u>\$ 111</u>	<u>\$ (364)</u>	<u>\$ 444</u>	<u>\$ (379)</u>	<u>\$ (462)</u>	<u>\$ 237</u>
Net cash provided by (used for) operating activities	\$ 1,594	\$ 1,719	\$ 1,380	\$ (66)	\$ 612	\$ 21	\$ 814	\$ 1,381	\$ 29	\$ 554
Less: purchases of property and equipment	(726)	(524)	(731)	(138)	(188)	(184)	(195)	(705)	(165)	(159)
Add: insurance proceeds related to loss on property and equipment	-	-	66	-	-	-	-	-	-	-
Free cash flow ⁽²⁾	<u>\$ 868</u>	<u>\$ 1,195</u>	<u>\$ 715</u>	<u>\$ (204)</u>	<u>\$ 424</u>	<u>\$ (163)</u>	<u>\$ 619</u>	<u>\$ 676</u>	<u>\$ (136)</u>	<u>\$ 395</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 2018 (52)					Fiscal Year 2019 (52)	
	2015 (52)	2016 (52)	2017 (53)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)
Rent expenses ⁽¹⁾	\$ 1,313	\$ 1,311	\$ 1,300	\$ 328	\$ 324	\$ 326	\$ 322	\$ 1,300	\$ 323	\$ 320
Net lease cost ⁽²⁾									\$ 456	\$ 456
Dividends per share	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.97	\$ 0.24	\$ 0.24
Square footage	37.9	36.7	36.4	36.5	36.6	36.9	36.7	36.7	36.8	37.1
Square footage - growth/decline ⁽³⁾	-0.5%	-3.2%	-0.8%	0.0%	0.3%	0.8%	0.8%	0.8%	0.8%	1.4%
Sales per average square foot ⁽⁴⁾	\$ 337	\$ 334	\$ 340	\$ 79	\$ 90	\$ 83	\$ 90	\$ 341	\$ 75	\$ 83
Number of company-operated store locations	3,275	3,200	3,165	3,171	3,187	3,218	3,194	3,194	3,335	3,356
Number of franchise store locations	446	459	429	446	439	470	472	472	514	521
Number of total store locations ⁽⁵⁾	3,721	3,659	3,594	3,617	3,626	3,688	3,666	3,666	3,849	3,877
Total store openings ⁽⁶⁾	808	155	152	62	45	86	60	253	83	64
Total store closings ⁽⁶⁾	393	217	217	39	36	24	82	181	40	36
Working capital	\$ 1,450	\$ 1,862	\$ 2,107	\$ 2,129	\$ 2,249	\$ 2,321	\$ 2,077	\$ 2,077	\$ 1,381	\$ 1,433
Current ratio	1.57	1.76	1.86	2.03	1.96	1.97	1.96	1.96	1.49	1.46
Long-term debt to equity ratio	0.51	0.43	0.40	0.39	0.37	0.36	0.35	0.35	0.35	0.34
Shares outstanding	397	399	389	387	385	382	378	378	378	376
Shares repurchased	30	-	13	3	3	4	4	14	2	3
Average acquisition cost per share	\$ 34	n/a	\$ 24	\$ 31	\$ 31	\$ 28	\$ 26	\$ 29	\$ 26	\$ 18
Inventory	\$ 1,873	\$ 1,830	\$ 1,997	\$ 2,035	\$ 2,202	\$ 2,668	\$ 2,131	\$ 2,131	\$ 2,242	\$ 2,326
Inventory per store - increase/decrease ⁽⁷⁾	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Inventory - increase/decrease ⁽⁸⁾		-2%	9%	4%	7%	8%	7%	7%	10%	6%
Return on equity ⁽⁹⁾	33.3	24.8	28.0					30.0		
Return on average assets ⁽¹⁰⁾	12.1	9.0	10.9					12.5		

(1) Prior to fiscal year 2019, included rent expense for Stores, Field, and Headquarters, and lease incentive amortization, net of sublease income. Beginning in fiscal year 2019, includes amortization of operating lease liabilities and associated interest expense due to the adoption of the ASC 842 Lease Accounting.

(2) Beginning Q1 2019, the net lease cost metric is disclosed as part of the implementation of ASC 842 Lease Accounting. Net lease costs are defined as operating lease costs plus variable lease costs less sublease income.

(3) Represents year over year % change.

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

(5) Includes the acquisition of 140 Janie and Jack stores in Q1 2019.

(6) Includes Franchise.

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

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

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

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