

Gap Inc.

Quarterly Financial Summary  
Q3 2017

# Gap Inc.

## Gap Inc. Quarterly Financial Summary Q3 2017

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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, store count, and per store data (per store data shown in thousands).
- Our fiscal year is a 52- or 53- week period ending on the Saturday closest to January 31. Fiscal 2012 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 2016 (52)					Fiscal Year 2017 (53)		
	2012 (53)	2013 (52)	2014 (52)	2015 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Net sales	\$ 15,651	\$ 16,148	\$ 16,435	\$ 15,797	\$ 3,438	\$ 3,851	\$ 3,798	\$ 4,429	\$ 15,516	\$ 3,440	\$ 3,799	\$ 3,838
Cost of goods sold and occupancy expenses	9,480	9,855	10,146	10,077	2,229	2,414	2,305	2,928	9,876	2,137	2,320	2,313
Gross profit	6,171	6,293	6,289	5,720	1,209	1,437	1,493	1,501	5,640	1,303	1,479	1,525
Operating expenses	4,229	4,144	4,206	4,196	987	1,158	1,104	1,200	4,449	1,049	1,028	1,147
Operating income	1,942	2,149	2,083	1,524	222	279	389	301	1,191	254	451	378
Interest expense	87	61	75	59	19	18	20	18	75	19	16	18
Interest income	(6)	(5)	(5)	(6)	(1)	(2)	(3)	(2)	(8)	(3)	(4)	(4)
Income before income taxes	1,861	2,093	2,013	1,471	204	263	372	285	1,124	238	439	364
Income taxes	726	813	751	551	77	138	168	65	448	95	168	135
Net Income	<u>\$ 1,135</u>	<u>\$ 1,280</u>	<u>\$ 1,262</u>	<u>\$ 920</u>	<u>\$ 127</u>	<u>\$ 125</u>	<u>\$ 204</u>	<u>\$ 220</u>	<u>\$ 676</u>	<u>\$ 143</u>	<u>\$ 271</u>	<u>\$ 229</u>
Weighted-average number of shares - basic	482	461	435	411	398	398	399	399	399	399	395	391
Weighted-average number of shares - diluted	488	467	440	413	399	399	400	401	400	400	396	393
Basic earnings per share <sup>(1)</sup>	\$ 2.35	\$ 2.78	\$ 2.90	\$ 2.24	\$ 0.32	\$ 0.31	\$ 0.51	\$ 0.55	\$ 1.69	\$ 0.36	\$ 0.69	\$ 0.59
Diluted earnings per share <sup>(1)</sup>	\$ 2.33	\$ 2.74	\$ 2.87	\$ 2.23	\$ 0.32	\$ 0.31	\$ 0.51	\$ 0.55	\$ 1.69	\$ 0.36	\$ 0.68	\$ 0.58
Gross margin (% of sales)	39.4%	39.0%	38.3%	36.2%	35.2%	37.3%	39.3%	33.9%	36.3%	37.9%	38.9%	39.7%
Operating expenses (% of sales)	27.0%	25.7%	25.6%	26.6%	28.7%	30.1%	29.1%	27.1%	28.7%	30.5%	27.1%	29.9%
Operating income (% of sales)	12.4%	13.3%	12.7%	9.6%	6.5%	7.2%	10.2%	6.8%	7.7%	7.4%	11.9%	9.8%

(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 2016				Fiscal Year 2017		
	2012	2013	2014	2015	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Assets</b>											
Cash, cash equivalents and short-term investments	\$ 1,510	\$ 1,510	\$ 1,515	\$ 1,370	\$ 1,313	\$ 1,681	\$ 1,522	\$ 1,783	\$ 1,583	\$ 1,609	\$ 1,353
Merchandise inventory	1,758	1,928	1,889	1,873	1,958	1,951	2,398	1,830	1,961	2,051	2,476
Other current assets	864	992	913	742	674	669	751	702	575	598	654
Total current assets.....	4,132	4,430	4,317	3,985	3,945	4,301	4,671	4,315	4,119	4,258	4,483
Property and equipment, net	2,619	2,758	2,773	2,850	2,864	2,755	2,662	2,616	2,605	2,643	2,686
Other long-term assets	719	661	600	638	698	681	674	679	687	716	726
Total assets.....	\$ 7,470	\$ 7,849	\$ 7,690	\$ 7,473	\$ 7,507	\$ 7,737	\$ 8,007	\$ 7,610	\$ 7,411	\$ 7,617	\$ 7,895
<b>Liabilities and stockholders' equity</b>											
Current maturities of debt	\$ -	\$ 25	\$ 21	\$ 421	\$ 424	\$ 424	\$ 424	\$ 65	\$ 67	\$ -	\$ -
Accounts payable	1,144	1,242	1,173	1,112	1,108	1,224	1,413	1,243	1,119	1,230	1,330
Accrued expenses and other current liabilities	1,092	1,142	1,020	979	974	1,063	1,059	1,113	1,088	1,062	1,132
Income taxes payable	108	36	20	23	49	70	19	32	28	107	134
Total current liabilities.....	2,344	2,445	2,234	2,535	2,555	2,781	2,915	2,453	2,302	2,399	2,596
Long-term debt	1,246	1,369	1,332	1,310	1,318	1,321	1,320	1,248	1,248	1,248	1,248
Lease incentives and other long-term liabilities	986	973	1,141	1,083	1,112	1,076	1,046	1,005	999	1,025	1,027
Total long-term liabilities.....	2,232	2,342	2,473	2,393	2,430	2,397	2,366	2,253	2,247	2,273	2,275
Common stock	55	55	21	20	20	20	20	20	20	20	19
Additional paid-in capital	2,864	2,899	-	-	6	31	57	81	-	-	-
Retained earnings	13,259	14,218	2,797	2,440	2,476	2,509	2,621	2,749	2,796	2,902	2,965
Accumulated other comprehensive income	181	135	165	85	20	(1)	28	54	46	23	40
Treasury stock, at cost	(13,465)	(14,245)	-	-	-	-	-	-	-	-	-
Total stockholders' equity.....	2,894	3,062	2,983	2,545	2,522	2,559	2,726	2,904	2,862	2,945	3,024
Total liabilities and stockholders' equity.....	\$ 7,470	\$ 7,849	\$ 7,690	\$ 7,473	\$ 7,507	\$ 7,737	\$ 8,007	\$ 7,610	\$ 7,411	\$ 7,617	\$ 7,895

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

	Fiscal Year (number of weeks)				Fiscal Year 2016 (52)					Fiscal Year 2017 (53)		
	2012 (53)	2013 (52)	2014 (52)	2015 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Cash flows from operating activities:												
Net income	\$ 1,135	\$ 1,280	\$ 1,262	\$ 920	\$ 127	\$ 125	\$ 204	\$ 220	\$ 676	\$ 143	\$ 271	\$ 229
Depreciation and amortization <sup>(1)</sup>	483	470	500	527	132	140	130	129	531	123	126	123
Change in merchandise inventory	(143)	(193)	(9)	(6)	(53)	1	(461)	559	46	(133)	(70)	(433)
Other, net	461	148	376	153	(38)	300	193	11	466	(42)	68	195
Net cash provided by operating activities.....	<u>1,936</u>	<u>1,705</u>	<u>2,129</u>	<u>1,594</u>	<u>168</u>	<u>566</u>	<u>66</u>	<u>919</u>	<u>1,719</u>	<u>91</u>	<u>395</u>	<u>114</u>
Cash flows from investing activities:												
Purchases of property and equipment	(659)	(670)	(714)	(726)	(139)	(131)	(113)	(141)	(524)	(110)	(165)	(188)
Proceeds from sale of property and equipment	-	-	121	-	-	-	-	-	-	-	-	-
Purchases of short-term investments	(200)	-	-	-	-	-	-	-	-	-	-	-
Maturities of short-term investments	150	50	-	-	-	-	-	-	-	-	-	-
Acquisition of business, net of cash acquired	(129)	-	-	-	-	-	-	-	-	-	-	-
Insurance proceeds related to loss on property and equipment	-	-	-	-	-	-	-	-	-	14	45	1
Other	(6)	(4)	(3)	(4)	(1)	-	-	(4)	(5)	(3)	-	-
Net cash used for investing activities.....	<u>(844)</u>	<u>(624)</u>	<u>(596)</u>	<u>(730)</u>	<u>(140)</u>	<u>(131)</u>	<u>(113)</u>	<u>(145)</u>	<u>(529)</u>	<u>(99)</u>	<u>(120)</u>	<u>(187)</u>
Cash flows from financing activities:												
Proceeds from issuance of short-term debt	-	-	-	400	-	-	-	-	-	-	-	-
Payments of short-term debt	(19)	-	-	-	-	-	-	(400)	(400)	-	-	-
Proceeds from issuance of long-term debt	-	144	-	-	-	-	-	-	-	-	-	-
Payments of long-term debt	(400)	-	(21)	(21)	-	-	-	(21)	(21)	-	(67)	-
Issuances under share-based compensation plans <sup>(2)</sup>	174	97	38	65	10	6	9	4	29	8	6	9
Withholding tax payments related to vesting of stock units <sup>(2)</sup>	-	-	-	(69)	(17)	-	(1)	(1)	(19)	(13)	(1)	(1)
Repurchases of common stock	(1,030)	(979)	(1,179)	(1,015)	-	-	-	-	-	(96)	(104)	(100)
Excess tax benefit from exercise of stock options and vesting of stock units	34	56	38	28	1	-	-	-	1	-	-	-
Cash dividends paid	(240)	(321)	(383)	(377)	(91)	(92)	(92)	(92)	(367)	(92)	(90)	(90)
Other	-	(1)	-	(1)	-	23	(23)	-	-	-	-	-
Net cash used for financing activities.....	<u>(1,481)</u>	<u>(1,004)</u>	<u>(1,507)</u>	<u>(990)</u>	<u>(97)</u>	<u>(63)</u>	<u>(107)</u>	<u>(510)</u>	<u>(777)</u>	<u>(193)</u>	<u>(256)</u>	<u>(182)</u>
Effect of foreign exchange rate fluctuations on cash.....	(36)	(27)	(21)	(19)	12	(4)	(5)	(3)	-	1	7	(1)
Net increase (decrease) in cash and cash equivalents.....	<u>\$ (425)</u>	<u>\$ 50</u>	<u>\$ 5</u>	<u>\$ (145)</u>	<u>\$ (57)</u>	<u>\$ 368</u>	<u>\$ (159)</u>	<u>\$ 261</u>	<u>\$ 413</u>	<u>\$ (200)</u>	<u>\$ 26</u>	<u>\$ (256)</u>
Net cash provided by operating activities												
Less: purchases of property and equipment	(659)	(670)	(714)	(726)	(139)	(131)	(113)	(141)	(524)	(110)	(165)	(188)
Add: insurance proceeds related to loss on property and equipment	-	-	-	-	-	-	-	-	-	14	45	1
Free cash flow <sup>(3)</sup> .....	<u>\$ 1,277</u>	<u>\$ 1,035</u>	<u>\$ 1,415</u>	<u>\$ 868</u>	<u>\$ 29</u>	<u>\$ 435</u>	<u>\$ (47)</u>	<u>\$ 778</u>	<u>\$ 1,195</u>	<u>\$ (5)</u>	<u>\$ 275</u>	<u>\$ (73)</u>

(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 related to the rebuilding of the Company-owned distribution center in Fishkill, New York, which was impacted by the fire on August 29, 2016.

Gap Inc.  
Quarterly Financial Summary  
Section IV: Selected Metrics

	Fiscal Year (number of weeks)				Fiscal Year 2016 (52)					Fiscal Year 2017 (53)		
	2012 (53)	2013 (52)	2014 (52)	2015 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Rent expenses <sup>(1)</sup>	\$ 1,223	\$ 1,279	\$ 1,319	\$ 1,313	\$ 325	\$ 328	\$ 331	\$ 327	\$ 1,311	\$ 322	\$ 324	\$ 326
Dividends per share	\$ 0.50	\$ 0.70	\$ 0.88	\$ 0.92	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.92	\$ 0.23	\$ 0.23	\$ 0.23
Square footage	36.9	37.2	38.1	37.9	37.8	37.8	37.7	36.7	36.7	36.5	36.5	36.6
Square footage - growth/decline <sup>(2)</sup>	-0.8%	0.8%	2.4%	-0.5%	-1.3%	-1.0%	-2.3%	-3.2%	-3.2%	-3.4%	-3.4%	-2.9%
Sales per average square foot <sup>(3)</sup>	\$ 364	\$ 365	\$ 361	\$ 337	\$ 74	\$ 85	\$ 81	\$ 93	\$ 334	\$ 74	\$ 85	\$ 82
Number of company-operated store locations	3,095	3,164	3,280	3,275	3,276	3,273	3,281	3,200	3,200	3,186	3,179	3,193
Number of franchise store locations	312	375	429	446	451	457	461	459	459	466	463	446
Number of total store locations	3,407	3,539	3,709	3,721	3,727	3,730	3,742	3,659	3,659	3,652	3,642	3,639
Total store openings	263	262	283	808	39	33	53	30	155	24	22	50
Total store closings	150	130	113	393	33	30	41	113	217	31	32	53
Working capital	\$ 1,788	\$ 1,985	\$ 2,083	\$ 1,450	\$ 1,390	\$ 1,520	\$ 1,756	\$ 1,862	\$ 1,862	\$ 1,817	\$ 1,859	1,887
Current ratio	1.76	1.81	1.93	1.57	1.54	1.55	1.60	1.76	1.76	1.79	1.77	1.73
Long-term debt to equity ratio	0.43	0.45	0.45	0.51	0.52	0.52	0.48	0.43	0.43	0.44	0.42	0.41
Shares outstanding	463	446	421	397	398	398	399	399	399	396	392	389
Shares repurchased	34	26	30	30	-	-	-	-	-	4	5	4
Average acquisition cost per share	\$ 30	\$ 38	\$ 39	\$ 34	n/a	n/a	n/a	n/a	n/a	\$ 24	\$ 22	\$ 27
Inventory	\$ 1,758	\$ 1,928	\$ 1,889	\$ 1,873	\$ 1,958	\$ 1,951	\$ 2,398	\$ 1,830	\$ 1,830	\$ 1,961	\$ 2,051	\$ 2,476
Inventory per store - increase/decrease <sup>(4)</sup>	5%	7%	-6%	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Inventory - increase/decrease <sup>(5)</sup>					-3%	-3%	-4%	-2%	-2%	0%	5%	3%
Return on equity <sup>(6)</sup>	40.2	43.0	41.8	33.3					24.8			
Return on average assets <sup>(7)</sup>	15.2	16.7	16.2	12.1					9.0			

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

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

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

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