

Gap Inc.

Quarterly Financial Summary Q2 2016

Gap Inc.

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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 2015 (52)					Fiscal Year 2016 (52)	
	2011 (52)	2012 (53)	2013 (52)	2014 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)
Net sales	\$ 14,549	\$ 15,651	\$ 16,148	\$ 16,435	\$ 3,657	\$ 3,898	\$ 3,857	\$ 4,385	\$ 15,797	\$ 3,438	\$ 3,851
Cost of goods sold and occupancy expenses	9,275	9,480	9,855	10,146	2,275	2,440	2,417	2,945	10,077	2,229	2,414
Gross profit	5,274	6,171	6,293	6,289	1,382	1,458	1,440	1,440	5,720	1,209	1,437
Operating expenses	3,836	4,229	4,144	4,206	996	1,089	1,026	1,085	4,196	987	1,158
Operating income	1,438	1,942	2,149	2,083	386	369	414	355	1,524	222	279
Interest expense	74	87	61	75	5	17	19	18	59	19	18
Interest income	(5)	(6)	(5)	(5)	(1)	(1)	(1)	(3)	(6)	(1)	(2)
Income before income taxes	1,369	1,861	2,093	2,013	382	353	396	340	1,471	204	263
Income taxes	536	726	813	751	143	134	148	126	551	77	138
Net Income	<u>\$ 833</u>	<u>\$ 1,135</u>	<u>\$ 1,280</u>	<u>\$ 1,262</u>	<u>\$ 239</u>	<u>\$ 219</u>	<u>\$ 248</u>	<u>\$ 214</u>	<u>\$ 920</u>	<u>\$ 127</u>	<u>\$ 125</u>
Weighted-average number of shares - basic	529	482	461	435	421	417	406	400	411	398	398
Weighted-average number of shares - diluted	533	488	467	440	424	418	408	402	413	399	399
Basic earnings per share ⁽¹⁾	\$ 1.57	\$ 2.35	\$ 2.78	\$ 2.90	\$ 0.57	\$ 0.53	\$ 0.61	\$ 0.54	\$ 2.24	\$ 0.32	\$ 0.31
Diluted earnings per share ⁽¹⁾	\$ 1.56	\$ 2.33	\$ 2.74	\$ 2.87	\$ 0.56	\$ 0.52	\$ 0.61	\$ 0.53	\$ 2.23	\$ 0.32	\$ 0.31
Gross margin (% of sales)	36.2%	39.4%	39.0%	38.3%	37.8%	37.4%	37.3%	32.8%	36.2%	35.2%	37.3%
Operating expenses (% of sales)	26.4%	27.0%	25.7%	25.6%	27.2%	27.9%	26.6%	24.7%	26.6%	28.7%	30.1%
Operating income (% of sales)	9.9%	12.4%	13.3%	12.7%	10.6%	9.5%	10.7%	8.1%	9.6%	6.5%	7.2%

(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 2015				Fiscal Year 2016	
	2011	2012	2013	2014	Q1	Q2	Q3	Q4	Q1	Q2
Assets										
Cash, cash equivalents and short-term investments	\$ 1,885	\$ 1,510	\$ 1,510	\$ 1,515	\$ 1,234	\$ 1,043	\$ 1,042	\$ 1,370	\$ 1,313	\$ 1,681
Merchandise inventory	1,615	1,758	1,928	1,889	2,010	2,005	2,498	1,873	1,958	1,951
Other current assets	809	864	992	913	874	899	821	742	674	669
Total current assets.....	4,309	4,132	4,430	4,317	4,118	3,947	4,361	3,985	3,945	4,301
Property and equipment, net	2,523	2,619	2,758	2,773	2,790	2,740	2,814	2,850	2,864	2,755
Other long-term assets	590	719	661	600	587	600	631	638	698	681
Total assets.....	<u>\$ 7,422</u>	<u>\$ 7,470</u>	<u>\$ 7,849</u>	<u>\$ 7,690</u>	<u>\$ 7,495</u>	<u>\$ 7,287</u>	<u>\$ 7,806</u>	<u>\$ 7,473</u>	<u>\$ 7,507</u>	<u>\$ 7,737</u>
Liabilities and stockholders' equity										
Current maturities of debt	\$ 59	\$ -	\$ 25	\$ 21	\$ 21	\$ 20	\$ 421	\$ 421	\$ 424	\$ 424
Accounts payable	1,066	1,144	1,242	1,173	1,156	1,206	1,327	1,112	1,108	1,224
Accrued expenses and other current liabilities	998	1,092	1,142	1,020	960	954	997	979	974	1,063
Income taxes payable	5	108	36	20	37	4	23	23	49	70
Total current liabilities.....	2,128	2,344	2,445	2,234	2,174	2,184	2,768	2,535	2,555	2,781
Long-term debt	1,606	1,246	1,369	1,332	1,331	1,328	1,331	1,310	1,318	1,321
Lease incentives and other long-term liabilities	933	986	973	1,141	1,111	1,104	1,098	1,083	1,112	1,076
Total long-term liabilities.....	2,539	2,232	2,342	2,473	2,442	2,432	2,429	2,393	2,430	2,397
Common stock	55	55	55	21	21	20	20	20	20	20
Additional paid-in capital	2,867	2,864	2,899	-	-	-	-	-	6	31
Retained earnings	12,364	13,259	14,218	2,797	2,718	2,507	2,484	2,440	2,476	2,509
Accumulated other comprehensive income	229	181	135	165	140	144	105	85	20	(1)
Treasury stock, at cost	(12,760)	(13,465)	(14,245)	-	-	-	-	-	-	-
Total stockholders' equity.....	2,755	2,894	3,062	2,983	2,879	2,671	2,609	2,545	2,522	2,559
Total liabilities and stockholders' equity.....	<u>\$ 7,422</u>	<u>\$ 7,470</u>	<u>\$ 7,849</u>	<u>\$ 7,690</u>	<u>\$ 7,495</u>	<u>\$ 7,287</u>	<u>\$ 7,806</u>	<u>\$ 7,473</u>	<u>\$ 7,507</u>	<u>\$ 7,737</u>

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

	Fiscal Year (number of weeks)				Fiscal Year 2015 (52)					Fiscal Year 2016 (52)	
	2011 (52)	2012 (53)	2013 (52)	2014 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)
Cash flows from operating activities:											
Net income	\$ 833	\$ 1,135	\$ 1,280	\$ 1,262	\$ 239	\$ 219	\$ 248	\$ 214	\$ 920	\$ 127	\$ 125
Depreciation and amortization ⁽¹⁾	506	483	470	500	133	130	127	137	527	132	140
Change in merchandise inventory	4	(143)	(193)	(9)	(117)	(7)	(491)	609	(6)	(53)	1
Other, net	20	461	148	376	(44)	89	208	(100)	153	(38)	300
Net cash provided by operating activities.....	1,363	1,936	1,705	2,129	211	431	92	860	1,594	168	566
Cash flows from investing activities:											
Purchases of property and equipment	(548)	(659)	(670)	(714)	(150)	(151)	(204)	(221)	(726)	(139)	(131)
Proceeds from sale of property and equipment	-	-	-	121	-	-	-	-	-	-	-
Purchases of short-term investments	(50)	(200)	-	-	-	-	-	-	-	-	-
Maturities of short-term investments	150	150	50	-	-	-	-	-	-	-	-
Acquisition of business, net of cash acquired	-	(129)	-	-	-	-	-	-	-	-	-
Other	(6)	(6)	(4)	(3)	-	(1)	(3)	-	(4)	(1)	-
Net cash used for investing activities.....	(454)	(844)	(624)	(596)	(150)	(152)	(207)	(221)	(730)	(140)	(131)
Cash flows from financing activities:											
Proceeds from issuance of short-term debt	16	-	-	-	-	-	400	-	400	-	-
Payments of short-term debt	-	(19)	-	-	-	-	-	-	-	-	-
Proceeds from issuance of long-term debt	1,646	-	144	-	-	-	-	-	-	-	-
Payments of long-term debt issuance costs	(11)	-	-	-	-	-	-	-	-	-	-
Payments of long-term debt	-	(400)	-	(21)	-	-	-	(21)	(21)	-	-
Issuances under share-based compensation plans, net	62	174	97	38	(31)	16	7	4	(4)	(7)	6
Repurchases of common stock	(2,092)	(1,030)	(979)	(1,179)	(232)	(390)	(200)	(193)	(1,015)	-	-
Excess tax benefit from exercise of stock options and vesting of stock units	13	34	56	38	17	7	-	4	28	1	-
Cash dividends paid	(236)	(240)	(321)	(383)	(97)	(95)	(93)	(92)	(377)	(91)	(92)
Other	-	-	(1)	-	-	(1)	-	-	(1)	-	23
Net cash provided by/(used for) financing activities.....	(602)	(1,481)	(1,004)	(1,507)	(343)	(463)	114	(298)	(990)	(97)	(63)
Effect of foreign exchange rate fluctuations on cash.....	17	(36)	(27)	(21)	1	(7)	-	(13)	(19)	12	(4)
Net increase (decrease) in cash and cash equivalents.....	\$ 324	\$ (425)	\$ 50	\$ 5	\$ (281)	\$ (191)	\$ (1)	\$ 328	\$ (145)	\$ (57)	\$ 368
Net cash provided by operating activities	\$ 1,363	\$ 1,936	\$ 1,705	\$ 2,129	\$ 211	\$ 431	\$ 92	\$ 860	\$ 1,594	\$ 168	\$ 566
Less: purchases of property and equipment	(548)	(659)	(670)	(714)	(150)	(151)	(204)	(221)	(726)	(139)	(131)
Free cash flow ⁽²⁾	\$ 815	\$ 1,277	\$ 1,035	\$ 1,415	\$ 61	\$ 280	\$ (112)	\$ 639	\$ 868	\$ 29	\$ 435

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

(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.

Gap Inc.
Quarterly Financial Summary
Section IV: Selected Metrics

	Fiscal Year (number of weeks)				Fiscal Year 2015 ⁽⁵²⁾					Fiscal Year 2016 ⁽⁵²⁾	
	2011 ⁽⁵²⁾	2012 ⁽⁵³⁾	2013 ⁽⁵²⁾	2014 ⁽⁵²⁾	Q1 ⁽¹³⁾	Q2 ⁽¹³⁾	Q3 ⁽¹³⁾	Q4 ⁽¹³⁾	Full Year	Q1 ⁽¹³⁾	Q2 ⁽¹³⁾
Rent expenses ⁽¹⁾	\$ 1,187	\$ 1,223	\$ 1,279	\$ 1,319	\$ 327	\$ 327	\$ 332	\$ 327	\$ 1,313	\$ 325	\$ 328
Marketing expenses	\$ 548	\$ 653	\$ 637	\$ 639	\$ 136	\$ 131	\$ 142	\$ 169	\$ 578	\$ 127	\$ 131
Dividends per share	\$ 0.45	\$ 0.50	\$ 0.70	\$ 0.88	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.92	\$ 0.23	\$ 0.23
Square footage	37.2	36.9	37.2	38.1	38.3	38.2	38.6	37.9	37.9	37.8	37.8
Square footage - growth/decline ⁽²⁾	-2.6%	-0.8%	0.8%	2.4%	3.0%	2.1%	1.6%	-0.5%	-0.5%	-1.3%	-1.0%
Average square footage ⁽³⁾	38	37	37	38	38	38	38	39	38	38	38
Sales per average square foot ⁽⁴⁾	\$ 337	\$ 364	\$ 365	\$ 361	\$ 78	\$ 86	\$ 82	\$ 91	\$ 337	\$ 74	\$ 85
Number of company-operated store locations	3,036	3,095	3,164	3,280	3,309	3,309	3,346	3,275	3,275	3,276	3,273
Number of franchise store locations	227	312	375	429	440	442	448	446	446	451	457
Number of total store locations	3,263	3,407	3,539	3,709	3,749	3,751	3,794	3,721	3,721	3,727	3,730
Total store openings	174	263	262	283	64	42	82	61	249	39	33
Total store closings	157	150	130	113	24	40	39	134	237	33	30
Working capital	\$ 2,181	\$ 1,788	\$ 1,985	\$ 2,083	\$ 1,944	\$ 1,763	\$ 1,593	\$ 1,450	\$ 1,450	\$ 1,390	\$ 1,520
Current ratio	2.02	1.76	1.81	1.93	1.89	1.81	1.58	1.57	1.57	1.54	1.55
Long-term debt to equity ratio	0.58	0.43	0.45	0.45	0.46	0.50	0.51	0.51	0.51	0.52	0.52
Shares outstanding	485	463	446	421	419	410	404	397	397	398	398
Shares repurchased	111	34	26	30	6	10	6	8	30	-	-
Average acquisition cost per share	\$ 19	\$ 30	\$ 38	\$ 39	\$ 41	\$ 38	\$ 32	\$ 25	\$ 34	n/a	n/a
Inventory	\$ 1,615	\$ 1,758	\$ 1,928	\$ 1,889	\$ 2,010	\$ 2,005	\$ 2,498	\$ 1,873	\$ 1,873	\$ 1,958	\$ 1,951
Inventory per store - increase/decrease ⁽⁵⁾	-0.8%	5%	7%	-6%	4%	1%	-4%	0%	0%	n/a	n/a
Inventory - increase/decrease ⁽⁶⁾										-3%	-3%
Return on equity ⁽⁷⁾	24.4	40.2	43.0	41.8					33.3		
Return on average assets ⁽⁸⁾	11.5	15.2	16.7	16.2					12.1		

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

(2) Represents year over year % change.

(3) Annual average square footage is calculated using a 13-point average. Quarterly average square footage is calculated using a 4-point average.

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

(5) Excludes inventory for online and Franchise, and Piperlime, Athleta, and Intermix stores. Includes online inventory for ship from store for Japan.

(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).