

The Gap, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED

(\$ in millions)	November 2, 2019	November 3, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 788	\$ 958
Short-term investments	294	296
Merchandise inventory	2,720	2,668
Other current assets	770	792
Total current assets	4,572	4,714
Property and equipment, net	3,225	2,887
Operating lease assets	5,796	-
Other long-term assets	525	572
Total assets	\$ 14,118	\$ 8,173
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,241	\$ 1,299
Accrued expenses and other current liabilities	974	1,070
Current portion of operating lease liabilities	934	-
Income taxes payable	43	24
Total current liabilities	3,192	2,393
Long-term liabilities:		
Long-term debt	1,249	1,249
Long-term operating lease liabilities	5,650	-
Lease incentives and other long-term liabilities (a)	393	1,091
Total long-term liabilities	7,292	2,340
Total stockholders' equity	3,634	3,440
Total liabilities and stockholders' equity	\$ 14,118	\$ 8,173

(a) Beginning in fiscal 2019, lease incentives and other long-term liabilities no longer reflects lease incentives due to the adoption of the new lease accounting standard.

The Gap, Inc.

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED**

	13 Weeks Ended		39 Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
(\$ and shares in millions except per share amounts)				
Net sales	\$ 3,998	\$ 4,089	\$ 11,709	\$ 11,957
Cost of goods sold and occupancy expenses	2,439	2,466	7,250	7,280
Gross profit	1,559	1,623	4,459	4,677
Operating expenses	1,338	1,260	3,640	3,687
Operating income	221	363	819	990
Interest, net	12	13	37	33
Income before income taxes	209	350	782	957
Income taxes	69	84	247	230
Net income	\$ 140	\$ 266	\$ 535	\$ 727
Weighted-average number of shares - basic	375	384	377	387
Weighted-average number of shares - diluted	376	387	379	390
Earnings per share - basic	\$ 0.37	\$ 0.69	\$ 1.42	\$ 1.88
Earnings per share - diluted	\$ 0.37	\$ 0.69	\$ 1.41	\$ 1.86
Cash dividends declared and paid per share	\$ 0.2425	\$ 0.2425	\$ 0.7275	\$ 0.7275

The Gap, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

(\$ in millions)	39 Weeks Ended	
	November 2, 2019 (b)	November 3, 2018 (b)
Cash flows from operating activities:		
Net income	\$ 535	\$ 727
Depreciation and amortization (a)	417	380
Gain on sale of building	(191)	-
Change in merchandise inventory	(559)	(696)
Other, net	326	156
Net cash provided by operating activities	528	567
Cash flows from investing activities:		
Purchases of property and equipment	(523)	(510)
Purchase of building	(343)	-
Purchases of short-term investments	(235)	(408)
Proceeds from sales and maturities of short-term investments	231	112
Proceeds from sale of building	220	-
Purchase of Janie and Jack	(69)	-
Other	-	(7)
Net cash used for investing activities	(719)	(813)
Cash flows from financing activities:		
Proceeds from issuances under share-based compensation plans	22	40
Withholding tax payments related to vesting of stock units	(21)	(22)
Repurchases of common stock	(150)	(300)
Cash dividends paid	(274)	(281)
Other	-	(1)
Net cash used for financing activities	(423)	(564)
Effect of foreign exchange rate fluctuations on cash, cash equivalents, and restricted cash	-	(13)
Net decrease in cash, cash equivalents, and restricted cash	(614)	(823)
Cash, cash equivalents, and restricted cash at beginning of period	1,420	1,799
Cash, cash equivalents, and restricted cash at end of period	\$ 806	\$ 976

(a) Fiscal 2018 depreciation and amortization is net of amortization of lease incentives. Beginning in fiscal 2019, amortization of lease incentives is no longer reflected due to the adoption of the new lease accounting standard.

(b) For the thirty-nine weeks ended November 2, 2019 and November 3, 2018, total cash, cash equivalents, and restricted cash includes \$18 million of restricted cash recorded in other current assets and other long-term assets on the Condensed Consolidated Balance Sheets.

The Gap, Inc.
NON-GAAP FINANCIAL MEASURES
UNAUDITED

FREE CASH FLOW

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 and infrastructure. 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.

(\$ in millions)	39 Weeks Ended	
	November 2, 2019	November 3, 2018
Net cash provided by operating activities	\$ 528	\$ 567
Less: Purchases of property and equipment (a)	(523)	(510)
Free cash flow	<u>\$ 5</u>	<u>\$ 57</u>

(a) Excludes purchase of building in the first quarter of fiscal 2019.

The Gap, Inc.
NON-GAAP FINANCIAL MEASURES
UNAUDITED

ADJUSTED INCOME STATEMENT METRICS FOR THE THIRD QUARTER OF FISCAL YEAR 2019

The following adjusted income statement metrics are non-GAAP financial measures. These measures are provided to enhance visibility into the Company's underlying results for the period excluding the impacts of separation-related costs and specialty fleet restructuring costs. Management believes the adjusted metrics are useful for the assessment of ongoing operations as we believe the adjusted items are not part of our ongoing operations due to the nature of the adjustments, and management believes that the presentation of adjusted financial information provides additional information to investors to facilitate the comparison of results against prior years. However, these non-GAAP financial measures are not intended to supersede or replace the GAAP measures.

(\$ in millions)									
13 Weeks Ended November 2, 2019	Gross Profit	Gross Margin	Operating Expenses	Operating Expenses as a % of Net Sales	Operating Income	Operating Income as a % of Net Sales	Income Taxes	Net Income	Earnings per Share - Diluted
GAAP metrics, as reported	\$ 1,559	39.0%	\$ 1,338	33.5%	\$ 221	5.5%	\$ 69	\$ 140	\$ 0.37
Adjustments for:									
Separation-related costs (a)	-	0.0%	(70)	(1.8)%	70	1.8%	19	51	0.14
Specialty fleet restructuring costs (b)	1	0.0%	(7)	(0.2)%	8	0.2%	-	8	0.02
Non-GAAP metrics	<u>\$ 1,560</u>	<u>39.0%</u>	<u>\$ 1,261</u>	<u>31.5%</u>	<u>\$ 299</u>	<u>7.5%</u>	<u>\$ 88</u>	<u>\$ 199</u>	<u>\$ 0.53</u>

(a) Represents the impact of costs related to the planned Old Navy spin-off transaction. These costs primarily consist of cost associated with information technology and consulting fees.

(b) Represents the impact of costs related to previously announced plans to restructure the specialty fleet and revitalize the Gap brand. These costs primarily include lease and employee-related costs.

The Gap, Inc.
NON-GAAP FINANCIAL MEASURES
UNAUDITED

EXPECTED ADJUSTED EARNINGS PER SHARE FOR FISCAL YEAR 2019

Expected adjusted diluted earnings per share is a non-GAAP financial measure. Expected adjusted diluted earnings per share for fiscal year 2019 is provided to enhance visibility into the Company's expected underlying results for the period excluding the estimated impact of specialty fleet restructuring costs and related tax, separation-related costs, a gain on the sale of a building, and the impact of an adjustment to our fiscal 2017 tax liability for additional guidance issued by the U.S. Treasury Department regarding the TCJA. However, this non-GAAP financial measure is not intended to supersede or replace the GAAP measure.

	52 Weeks Ending February 1, 2020	
	Low End	High End
Expected earnings per share - diluted	\$ 1.38	\$ 1.47
Add: Estimated impact of specialty fleet restructuring costs (a)	0.14	0.14
Add: Estimated incremental tax on restructuring costs (b)	0.03	0.03
Add: Estimated impact of separation-related costs (c)	0.44	0.40
Less: Gain on sale of building (d)	(0.37)	(0.37)
Add: U.S. Federal tax reform adjustment (e)	0.08	0.08
Expected adjusted earnings per share - diluted	<u>\$ 1.70</u>	<u>\$ 1.75</u>

(a) Represents the estimated earnings per share impact of estimated costs related to previously announced plans to restructure the specialty fleet and revitalize Gap brand, calculated net of tax at the expected adjusted effective tax rate.

(b) Represents certain non-cash tax impacts related to expected restructuring charges discussed above.

(c) Represents the estimated earnings per share impact of estimated costs associated with the planned Old Navy spin-off transaction, calculated net of tax at the expected adjusted effective tax rate.

(d) The estimated earnings per share impact of the gain on the sale of a building in the first quarter of fiscal 2019, calculated net of tax at the expected adjusted effective tax rate.

(e) Represents the impact of an adjustment to our fiscal 2017 tax liability for additional guidance issued by the U.S. Treasury Department regarding the TCJA.

The Gap, Inc.
NET SALES RESULTS
UNAUDITED

The following table details the Company's third quarter net sales (unaudited):

(\$ in millions)						
13 Weeks Ended November 2, 2019	Old Navy Global	Gap Global	Banana Republic Global (2)	Other (3)	Total	Percentage of Net Sales
U.S. (1)	\$ 1,769	\$ 689	\$ 532	\$ 274	\$ 3,264	82%
Canada	151	97	55	1	304	8%
Europe	-	128	3	-	131	3%
Asia	9	220	21	-	250	6%
Other regions	18	24	7	-	49	1%
Total	\$ 1,947	\$ 1,158	\$ 618	\$ 275	\$ 3,998	100%

(\$ in millions)						
13 Weeks Ended November 3, 2018	Old Navy Global	Gap Global	Banana Republic Global	Other (3)	Total	Percentage of Net Sales
U.S. (1)	\$ 1,769	\$ 738	\$ 510	\$ 257	\$ 3,274	80%
Canada	152	104	59	1	316	8%
Europe	-	145	4	-	149	4%
Asia	13	266	21	-	300	7%
Other regions	13	30	7	-	50	1%
Total	\$ 1,947	\$ 1,283	\$ 601	\$ 258	\$ 4,089	100%

(1) U.S. includes the United States, Puerto Rico, and Guam.

(2) Beginning on March 4, 2019, Banana Republic Global includes net sales for the Janie and Jack brand.

(3) Primarily consists of net sales for the Athleta, Intermix and Hill City brands, as well as a portion of income related to our credit card agreement.

The Gap, Inc.
REAL ESTATE

Store count, openings, closings, and square footage for our stores are as follows:

	February 2, 2019	39 Weeks Ended November 2, 2019		November 2, 2019	
	Store Locations	Store Locations Opened	Store Locations Closed	Store Locations	Square Feet (millions)
Old Navy North America	1,139	60	2	1,197	19.4
Old Navy Asia	15	4	1	18	0.2
Gap North America	758	3	34	727	7.5
Gap Asia	332	46	27	351	3.2
Gap Europe	152	3	12	143	1.2
Banana Republic North America	556	8	10	554	4.7
Banana Republic Asia	45	4	2	47	0.2
Athleta North America	161	24	-	185	0.8
Intermix North America	36	-	1	35	0.1
Janie and Jack North America (1)	-	-	-	139	0.2
Company-operated stores total	3,194	152	89	3,396	37.5
Franchise	472	94	24	542	N/A
Total	3,666	246	113	3,938	37.5

(1) On March 4, 2019, we acquired select assets of Gymboree, Inc. related to Janie and Jack. The 140 stores acquired were not included as store openings for fiscal 2019; however, they are included in the ending number of store locations as of November 2, 2019, net of one closure that occurred in the third quarter of fiscal 2019.