

The Gap, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED

(\$ in millions)	<u>July 31, 2021</u>	<u>August 1, 2020</u>	<u>August 3, 2019 (a)</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,375	\$ 2,188	\$ 1,177
Short-term investments	337	25	294
Merchandise inventory	2,281	2,242	2,326
Other current assets	1,201	882	770
Total current assets	<u>6,194</u>	<u>5,337</u>	<u>4,567</u>
Property and equipment, net	2,897	2,895	3,141
Operating lease assets	3,975	4,689	5,807
Other long-term assets	693	795	528
Total assets	<u>\$ 13,759</u>	<u>\$ 13,716</u>	<u>\$ 14,043</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	1,583	1,629	1,246
Accrued expenses and other current liabilities	1,252	1,124	908
Current portion of operating lease liabilities	789	856	946
Income taxes payable	27	40	34
Total current liabilities	<u>3,651</u>	<u>3,649</u>	<u>3,134</u>
Long-term liabilities:			
Long-term debt	2,220	2,212	1,249
Long-term operating lease liabilities	4,348	5,179	5,644
Other long-term liabilities	520	423	391
Total long-term liabilities	<u>7,088</u>	<u>7,814</u>	<u>7,284</u>
Total stockholders' equity	<u>3,020</u>	<u>2,253</u>	<u>3,625</u>
Total liabilities and stockholders' equity	<u>\$ 13,759</u>	<u>\$ 13,716</u>	<u>\$ 14,043</u>

(a) Second quarter of fiscal 2019 information provided for comparability.

The Gap, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

(\$ and shares in millions except per share amounts)	13 Weeks Ended			26 Weeks Ended		
	July 31, 2021	August 1, 2020	August 3, 2019 (a)	July 31, 2021	August 1, 2020	August 3, 2019 (a)
Net sales	\$ 4,211	\$ 3,275	\$ 4,005	\$ 8,202	\$ 5,382	\$ 7,711
Cost of goods sold and occupancy expenses	2,388	2,126	2,449	4,749	3,965	4,811
Gross profit	1,823	1,149	1,556	3,453	1,417	2,900
Operating expenses	1,414	1,076	1,274	2,804	2,588	2,302
Operating income (loss)	409	73	282	649	(1,171)	598
Loss on extinguishment of debt	-	58	-	-	58	-
Interest, net	50	56	11	103	71	25
Income (loss) before income taxes	359	(41)	271	546	(1,300)	573
Income taxes	101	21	103	122	(306)	178
Net income (loss)	\$ 258	\$ (62)	\$ 168	\$ 424	\$ (994)	\$ 395
Weighted-average number of shares - basic	378	374	378	377	373	378
Weighted-average number of shares - diluted	386	374	379	385	373	380
Earnings (loss) per share - basic	\$ 0.68	\$ (0.17)	\$ 0.44	\$ 1.12	\$ (2.66)	\$ 1.04
Earnings (loss) per share - diluted	\$ 0.67	\$ (0.17)	\$ 0.44	\$ 1.10	\$ (2.66)	\$ 1.04

(a) Second quarter and first half of fiscal 2019 information provided for comparability.

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

(\$ in millions)	26 Weeks Ended	
	July 31, 2021 (a)	August 1, 2020 (a)
Cash flows from operating activities:		
Net income (loss)	\$ 424	\$ (994)
Depreciation and amortization	244	256
Impairment of operating lease assets	6	361
Impairment of store assets	1	127
Loss on extinguishment of debt	-	58
Loss on divestiture activity	59	-
Change in merchandise inventory	156	(91)
Other, net	(98)	196
Net cash provided by (used for) operating activities	792	(87)
Cash flows from investing activities:		
Purchases of property and equipment	(269)	(208)
Purchases of short-term investments	(427)	(59)
Proceeds from sales and maturities of short-term investments	500	325
Net cash paid for divestiture activity	(21)	-
Other	-	2
Net cash provided by (used for) investing activities	(217)	60
Cash flows from financing activities:		
Proceeds from revolving credit facility	-	500
Payments for revolving credit facility	-	(500)
Proceeds from issuance of long-term debt	-	2,250
Payments to extinguish debt	-	(1,307)
Payments for debt issuance costs	-	(61)
Proceeds from issuances under share-based compensation plans	41	12
Withholding tax payments related to vesting of stock units	(32)	(8)
Repurchases of common stock	(55)	-
Cash dividends paid	(137)	-
Net cash provided by (used for) financing activities	(183)	886
Effect of foreign exchange rate fluctuations on cash, cash equivalents, and restricted cash	(1)	1
Net increase in cash, cash equivalents, and restricted cash	391	860
Cash, cash equivalents, and restricted cash at beginning of period	2,016	1,381
Cash, cash equivalents, and restricted cash at end of period	\$ 2,407	\$ 2,241

(a) For the twenty-six weeks ended July 31, 2021 and August 1, 2020, total cash, cash equivalents, and restricted cash includes \$32 million and \$53 million, respectively, 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 including technology improvements to automate processes, engage with customers, and optimize our supply chain in addition to building and maintaining stores. 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)	26 Weeks Ended	
	July 31, 2021	August 1, 2020
Net cash provided by (used for) operating activities	\$ 792	\$ (87)
Less: Purchases of property and equipment	(269)	(208)
Free cash flow	<u>\$ 523</u>	<u>\$ (295)</u>

The Gap, Inc.
NON-GAAP FINANCIAL MEASURES
UNAUDITED

ADJUSTED STATEMENT OF OPERATIONS METRICS FOR THE SECOND QUARTER OF FISCAL YEAR 2021

The following adjusted statement of operations metrics are non-GAAP financial measures. These measures are provided to enhance visibility into the Company's underlying results for the period excluding the impact of a loss on divestiture activity and strategic changes related to our operating model in Europe. Management believes that excluding certain items from statement of operations metrics that are not part of the Company's core operations provides additional information to investors to facilitate the comparison of results against past and future years. However, these non-GAAP financial measures are not intended to supersede or replace the GAAP measures.

(\$ in millions)							
13 Weeks Ended July 31, 2021	Operating Expenses	Operating Expenses as a % of Net Sales	Operating Income	Operating Margin	Income Taxes	Net Income	Earnings per Share - Diluted (c)
GAAP metrics, as reported	\$ 1,414	33.6%	\$ 409	9.7%	\$ 101	\$ 258	\$ 0.67
Adjustments for:							
Strategic actions in Europe (a)	(16)	(0.4)%	16	0.4%	4	12	0.03
Loss on divestiture activity (b)	(3)	(0.1)%	3	0.1%	1	2	0.01
Non-GAAP metrics	<u>\$ 1,395</u>	<u>33.1%</u>	<u>\$ 428</u>	<u>10.2%</u>	<u>\$ 106</u>	<u>\$ 272</u>	<u>\$ 0.70</u>

(a) Represents the impact of costs related to the decision to close stores in the United Kingdom and Ireland. These costs primarily include employee related costs.

(b) Represents the impact of the loss on divestiture activity for the Janie and Jack and Intermix brands.

(c) Earnings per share was computed individually for each line item; therefore, the sum of the individual lines may not equal the total.

The Gap, Inc.
NON-GAAP FINANCIAL MEASURES
UNAUDITED

ADJUSTED STATEMENT OF OPERATIONS METRICS FOR THE SECOND 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, specialty fleet restructuring costs, and the impact of an adjustment to our fiscal 2017 tax liability for additional guidance issued by the U.S. Treasury Department regarding the Tax Cuts and Jobs Act of 2017 ("TCJA"). Management believes that excluding certain items from statement of operations metrics that are not part of the Company's core operations provides additional information to investors to facilitate the comparison of results against past and future years. However, these non-GAAP financial measures are not intended to supersede or replace the GAAP measures.

(\$ in millions)					
13 Weeks Ended August 3, 2019	Operating Expenses	Operating Expenses as a % of Net Sales (d)	Operating Income	Operating Margin (d)	Earnings per Share - Diluted
GAAP metrics, as reported	\$ 1,274	31.8%	\$ 282	7.0%	\$ 0.44
Adjustments for:					
Separation-related costs (a)	(38)	(0.9)%	38	0.9%	0.08
Specialty fleet restructuring costs (b)	(14)	(0.3)%	14	0.3%	0.03
U.S. federal tax reform adjustment (c)	-	0.0%	-	0.0%	0.08
Non-GAAP metrics	<u>\$ 1,222</u>	<u>30.5%</u>	<u>\$ 334</u>	<u>8.3%</u>	<u>\$ 0.63</u>

(a) Represents the impact of costs related to the Old Navy spin-off transaction that was subsequently cancelled. Separation-related amounts primarily consists of costs associated with information technology and fees for consulting and advisory services.

(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.

(c) 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.

(d) Operating expense as a percentage of net sales and operating margin were computed individually for each line item; therefore, the sum of the percentages may not equal the total.

The Gap, Inc.
NON-GAAP FINANCIAL MEASURES
UNAUDITED

EXPECTED ADJUSTED EARNINGS PER SHARE FOR FISCAL YEAR 2021

Expected adjusted diluted earnings per share is a non-GAAP financial measure. Expected adjusted diluted earnings per share for fiscal year 2021 is provided to enhance visibility into the Company's expected underlying results for the period excluding the expected impact of strategic changes to the operating model in Europe and the loss on divestiture activity for the Janie and Jack and Intermix brands. Future expected costs related to Europe primarily include employee-related costs and lease-related costs. This non-GAAP financial measure is not intended to supersede or replace the GAAP measure.

	52 Weeks Ending January 29, 2022	
	Low End	High End
Expected earnings per share - diluted	\$ 1.90	\$ 2.05
Add: Estimated impact of strategic actions and divestiture activity (a)	0.26	0.26
Less: Estimated incremental tax benefit (b)	(0.06)	(0.06)
Expected adjusted earnings per share - diluted	<u>\$ 2.10</u>	<u>\$ 2.25</u>

(a) Represents the earnings per share impact, calculated net of tax at the adjusted effective tax rate, of estimated costs related to strategic changes to our operating model in Europe and the loss on divestiture activity for the Janie and Jack and Intermix brands. Future expected costs related to Europe primarily include employee-related costs and lease-related costs.

(b) Represents the incremental tax benefit related to divestiture activity.

The Gap, Inc.
NET SALES RESULTS
UNAUDITED

The following table details the Company's second quarter net sales for the fiscal years 2021, 2020, and 2019 (unaudited):

(\$ in millions)

13 Weeks Ended July 31, 2021	Old Navy		Banana		Athleta (2)	Other (3)	Total
	Global	Gap Global	Republic Global				
U.S. (1)	\$ 2,177	\$ 615	\$ 428		\$ 340	\$ 11	\$ 3,571
Canada	191	79	43		-	-	313
Europe	-	116	1		1	-	118
Asia	-	135	19		-	-	154
Other regions	22	29	4		-	-	55
Total	\$ 2,390	\$ 974	\$ 495		\$ 341	\$ 11	\$ 4,211

(\$ in millions)

13 Weeks Ended August 1, 2020	Old Navy		Banana		Athleta (2)	Other (3)	Total
	Global	Gap Global	Republic Global				
U.S. (1)	\$ 1,726	\$ 473	\$ 236		\$ 267	\$ 61	\$ 2,763
Canada	145	63	27		-	-	235
Europe	-	70	2		-	-	72
Asia	2	158	14		-	-	174
Other regions	8	19	4		-	-	31
Total	\$ 1,881	\$ 783	\$ 283		\$ 267	\$ 61	\$ 3,275

(\$ in millions)

13 Weeks Ended August 3, 2019	Old Navy		Banana		Athleta (2)	Other (5)	Total
	Global	Gap Global	Republic Global	(4)			
U.S. (1)	\$ 1,794	\$ 645	\$ 530		\$ 252	\$ 79	\$ 3,300
Canada	148	85	53		-	-	286
Europe	-	131	4		-	-	135
Asia	11	201	23		-	-	235
Other regions	19	24	6		-	-	49
Total	\$ 1,972	\$ 1,086	\$ 616		\$ 252	\$ 79	\$ 4,005

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

(2) Previously, net sales for the Athleta brand were grouped within the "Other" column. Beginning in fiscal 2021, we have made a change for all periods presented to break out Athleta net sales into its own column.

(3) The "Other" column primarily consists of net sales for the Intermix and Janie and Jack brands, as well as sales from the business-to-business program. The sale of Janie and Jack was completed on April 8, 2021. The sale of Intermix was completed on May 21, 2021. Net sales for the thirteen weeks ended August 1, 2020 also included net sales for the Hill City brand, which was closed in January 2021.

(4) Banana Republic Global fiscal year 2019 net sales include the Janie and Jack brand beginning March 4, 2019.

(5) Primarily consists of net sales for the 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:

	January 30, 2021	26 Weeks Ended July 31, 2021		July 31, 2021	
	Store Locations	Store Locations Opened	Store Locations Closed (1)	Store Locations	Square Feet (millions)
Old Navy North America	1,220	30	5	1,245	20.0
Gap North America	556	1	15	542	5.7
Gap Asia	340	9	10	339	2.9
Gap Europe	117	1	28	90	0.7
Banana Republic North America	471	1	11	461	3.9
Banana Republic Asia	47	3	2	48	0.2
Athleta North America	199	13	-	212	0.9
Intermix North America (2)	31	-	-	-	-
Janie and Jack North America (2)	119	-	-	-	-
Company-operated stores total	3,100	58	71	2,937	34.3
Franchise	615	40	98	557	N/A
Total	3,715	98	169	3,494	34.3

(1) Represents stores that have been permanently closed.

(2) On May 21, 2021, the Company completed the sale of the Intermix brand. The 31 stores sold are not included as store closures or in the ending balance for fiscal 2021. On April 8, 2021, the Company completed the sale of the Janie and Jack brand. The 119 stores sold are not included as store closures or in the ending balance for fiscal 2021.