GAP INC.

Gap Inc. First Quarter Fiscal 2025 Conference Call Prepared Remarks
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Whitney Notaro – Head of Investor Relations, Gap Inc.

Good afternoon, everyone. Welcome to Gap Inc.'s First Quarter Fiscal 2025 Earnings Conference Call. Before we begin, I'd like to remind you that the information made available on this conference call contains forward-looking statements that are subject to risks that could cause our actual results to be materially different.

For information on factors that could cause our actual results to differ materially from any forward-looking statements, please refer to the cautionary statements contained in our latest earnings release, the risk factors described in the company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2025, and any subsequent filings with the Securities and Exchange Commission, all of which are available on gapinc.com.

These forward-looking statements are based on information as of today, May 29th, 2025 and we assume no obligation to publicly update or revise our forward-looking statements.

Our latest earnings release and the accompanying materials available on gapinc.com also include descriptions and reconciliations of financial measures not consistent with Generally Accepted Accounting Principles.

Joining me on the call today are Chief Executive Officer, Richard Dickson, and Chief Financial Officer, Katrina O'Connell.

With that, I'll turn the call over to Richard…

Richard Dickson – Chief Executive Officer, Gap Inc.

Thank you, Whitney, and good afternoon everyone.

- The first quarter was another great quarter, during which we delivered what we said we were going to, exceeding expectations across key financial metrics.
- We had positive comp sales for the 5th consecutive quarter, expanded both gross margin and operating margin, and gained market share for the 9th consecutive quarter.
- We are lapping the early stages of our transformation, and our two largest brands, Gap and Old Navy, are winning in the marketplace and demonstrating the potential of our brand reinvigoration playbook.
- Old Navy and Gap, saw growth across all income cohorts, with Old Navy gaining share in both top and bottom cohorts, and Gap gaining share in top and middle cohorts, showing our strategic intent is working.
- During the quarter, we increased our year-over-year e-commerce penetration, with Gap Inc. ranking as the #1 apparel e-commerce business in the U.S. - reflecting our ability to meet customers where they are.

- We remain focused on controlling the controllables, driving continuous improvement and pursuing exciting opportunities as we operate and build this company for long term growth.
- Our strategic priorities are clear, our intent is unwavering, and despite a dynamic environment, we're staying firmly on course—and it's showing in our results.
- Tariffs are understandably top of mind, so let me take a moment to share how we are approaching this topic.

  - Based on what we know today, we are working to develop plans to mitigate as much of the anticipated tariff impact as possible, taking actions in the short term without compromising the long-term integrity of our strategy.
  - We have been successfully diversifying our sourcing footprint for several years demonstrating the agility and resilience of our supply chain. China, as an example, used to be one of the top sourcing countries for our product. In 2024, it represented less than 10% of our sourcing and, exiting 2025, we now expect it to be less than 3%. Most other countries represent less than 10%. Vietnam and Indonesia represented 27% and 19% of our sourcing last year, respectively, and our goal is for no country to account for more than 25% by the end of 2026.
  - We are taking a collaborative approach with our global sourcing partners to maintain and build on the long-term relationships we have across our supply chain.
  - Diversification also means near shoring as well as domestic investment.
  - We're planning to double our vendor sourcing of American grown cotton in 2026. With about 90% of our sales in the quarter in the U.S. and an American workforce of over 65,000, investing in the U.S. is an important priority for our business.
  - Today, we are much better equipped to handle complex headwinds because we have a stronger financial foundation and we are operating with greater discipline, growing brand momentum and improved platform capabilities.

- The first quarter was yet another proof point that our strategy is working and I remain optimistic - yet realistic - about the opportunities ahead as we navigate a highly dynamic environment.
- On today's call, as usual, I'll provide an update on our first quarter performance and progress in the context of our four strategic priorities.
- Then, Katrina will walk you through our detailed financial results and our financial outlook after which we will open the call for questions.

Let's start with our first strategic priority, financial and operational rigor…

Gap Inc. comparable sales were up 2% in the quarter:

- Comps at Old Navy, our largest brand, were up 3%. This is the brand's 9th consecutive quarter of market share gains reinforcing its leadership position as the #1 specialty apparel brand and retailer in the U.S.
- Gap comps were up 5%, the 6th consecutive quarter of positive comps, and the brand delivered its 8th consecutive quarter of market share gains.
- Banana Republic comps were flat as we continue to focus on reestablishing this premium brand in our portfolio.
- As we expected, Athleta comps have been challenging, down 8%, and we remain focused on resetting the brand for the long term.

We expanded operating margin 140 basis points versus last year. EPS was $0.51, up 24% versus the first quarter of last year. We ended the quarter with strong cash balances of approximately $2.2 billion. The rigor and discipline we have put into managing the business is serving us well.

Turning to our next strategic priority, driving relevance and revenue by executing on our brand reinvigoration playbook. Our portfolio consists of iconic, trusted brands, each in a different stage of the brand reinvigoration journey.

Let's begin with Old Navy…

Old Navy is off to a strong start, outperforming in the first quarter with a 3% comp and the 9th consecutive quarter of market share gains. This momentum underscores Old Navy's growing relevance with customers and the team's continued rigor of execution.

We are bringing more innovation, style, and value in 2025 and the brand's category leadership drove its Q1 performance, led by active and denim, which are both strategic growth categories for the brand. During the quarter, we continued to advance our strategic pursuit to become the destination for the family as the value player in the active category. Notably, Old Navy continued to gain share in active as the #5 player in the category. The launch of our Studio Smooth collection outperformed our expectations, delivering exceptional comfort and value to consumers, and marking another step forward in our expansion in the category. And we are not stopping there. With our active product resonating, we're amping up the storytelling. Earlier this week, we launched the brand's first major active campaign in years "Old Navy, New Moves" which is getting great reception.

The brand's Q1 performance was also fueled by the success of our trend-right, crafted denim collection, with styles in loose and barrel fits, embroidery and braided details. This is another great proof point that great style at great value wins across the family. During the quarter, Old Navy grew share in denim, ranking #4 in the category.

In women's, we launched a new "Occasion" dress collection, supported by a marketing campaign, that drove some of our highest reach and engagement on social media to date, an encouraging sign that our product and storytelling are landing with impact. The inspiration for the Occasion line was born from customer insights and then informed by Zac Posen's expertise in occasion wear, ultimately creating a versatile collection where standout style meets unbelievable value. Customers responded well to the collection's design and quality, reinforcing the strength of Old Navy's value with strong full price sell through.

Kids also had a great quarter, reinforcing our position as a top Kids and Baby brand in the U.S. with strength in licensing and graphics. We are continuing to lean into this strategic category with the recent launch of our iconic summer Americana collection for the family – bringing the brand's first partnership with Disney to life in key markets in June.

We are intently focused on enhancing the customer experience at Old Navy, which is driving higher NPS scores for both stores and online. We're investing in technology that elevates the customer experience, and our phased rollout of AI-powered RFID is a great example of how we're bringing smarter operations and sharper service to our stores. We also recently announced plans for Old Navy's next-generation flagship in New York's Herald Square—an iconic location for an iconic brand. Opening in 2026, the new store will be a modern expression of Old Navy, bringing our creativity to life through curated assortments and interactive moments designed to better engage customers.

We enter the second quarter well positioned with pricing clarity, consistent messaging, and leadership in key categories. As we lap last year's strongest quarterly comp in Q2, we do so with sharper execution, a focused playbook, and a brand that's meeting the customer where they are—and where they're going.

Now, let's turn to Gap…

Gap continues to execute our reinvigoration playbook with clarity and consistency, delivering a standout 5% comp in Q1. This marks the brand's 6th consecutive quarter of positive comps and its 8th consecutive quarter of market share gains—clear indications that Gap is resonating with consumers and gaining relevance.

Momentum in women's continued to build quarter-over-quarter, fueling the brand's strong Q1 performance. We are building a consistent brand narrative that we are applying with relentless repetition. In Q1, this was exemplified through our exciting "Feels Like Gap" campaign that leveraged music by Mette with a timely feature of Parker Posey.

We continued to advance our authority in denim in Q1. This is a foundational category for Gap that has been a key pillar of the brand's reinvigoration. We gained share in the category with on-trend styles like wide-leg, barrel, relaxed silhouettes, and pull-ons, all of which are exciting our customers. Taking insights from our Flatiron store, we're now rolling out an enhanced denim experience to top locations—a great example of how we're turning insights into action.

We also saw strength in key categories like fleece, sweaters, and sleepwear—essentials that are building deeper loyalty and driving brand affinity with our customer.

The brand's strategy, including collaborations, is attracting a new generation to Gap while reinforcing the brand to those who have loved us for years – we are bridging the generation gap. Collaborations continued to drive relevance and revenue for the brand in the quarter, with Harlem's Fashion Row and Doen contributing to strong new customer response, increased engagement and meaningful buying beyond the collabs.

The GapStudio Collection, designed by Zac Posen, launched last month and is also bringing excitement and buzz to the brand. As Gap brand's highest expression of style, craftsmanship, and quality, GapStudio showcases expert tailoring, intricate details and a modern take on American style. Initial response has been positive with strong sell through at full price, demonstrating the brand's elevated design direction and generating over 1.3 billion impressions so far.

All of these collabs are showing strong attachment rates, with customers adding other Gap products to their basket.

We are testing the brand's elasticity as we push the boundaries of our pricing power through some of these programs. The strength of the Gap brand is clear and reflects increasing brand relevance and the growing connection with our customers. With its strong execution of our playbook, we believe Gap is well positioned to continue this momentum.

At Banana Republic, we continued to focus on re-establishing the brand and we are encouraged by the ongoing progress. We delivered a flat comp for the quarter with fundamentals improving and new proof points emerging.

The underlying health of the business is strengthening with a pricing architecture that is taking hold. Men's continued to perform well, driven by key items, and we are pleased by improving performance in women's, particularly in coats, skirts and pants. Having made progress on fit and style, we are now focusing on greater alignment in design and merchandising across men's and women's which we believe will cultivate broader appeal.

The White Lotus collaboration was a standout, generating over 3 billion impressions, and bringing new customers into the brand while staying true to the brand's aesthetic. This has been one of Banana Republic's most impactful collaborations yet.

Banana's narrative-based storytelling is personifying the brand well through the lens of travel, adventure and modern exploration. And the brand's marketing is becoming more efficient and effective as we continue to lean into our social first, influencer strategy.

We continue to strengthen the foundation at Banana Republic and with each quarter, we are seeing clearer signs of brand progress and customer engagement.

Shifting to Athleta...

As we shared last quarter, we are resetting the brand, and we know that we have more work to do. In Q1, we continued to work through the over-rotation we discussed last quarter towards new, more trend-forward customers. While we were successful in bringing in new customers in the quarter, we still did not have enough compelling products to appeal to our existing customer base, and that showed in the brand's performance. As we said on our fourth quarter call, we expect this year to be choppy as we focus on fixing the fundamentals. This is reflected in our outlook.

Athleta is a purpose-driven, women centric brand, rooted in the Power of She, and has a valuable place in both our portfolio and the industry. We are investing in design talent and, as we build out the team, we are working to find the right balance across the assortment – delivering product that blends fashion, function, and brand relevance – but this will take time. There's more work to do, and we are committed to taking the necessary steps to reset the brand.

Moving to our third strategic priority, strengthening the platform…

As we shared on our last earnings call, we continue to prioritize technology investments as a key lever to drive efficiency, elevate the customer experience, and position us for long-term growth. We aspire to be a human-centered, digitally enabled organization, and we're fortunate to be operating in close proximity to the Bay Area's world-class tech community. We are actively engaging with leading tech companies as we continue to modernize our organization, with exciting opportunities to drive innovation across our business, and we look forward to sharing more as these initiatives progress.

We’re focused on building the right tools to power growth: advancing inventory management, digital product creation, AI-enabled capabilities to power customer and employee experiences, and strengthening our e-commerce engine with a sharper focus on customer insights and loyalty. Our rigor and the strength of our balance sheet allows us to go on offense—investing in the capabilities, infrastructure, and our brands that will fuel growth for years to come.

Behind every great strategy is a strong culture. Gap Inc. is a 55-year-old company that has navigated its fair share of disruption—and at the heart of that endurance is our culture. It's one defined by creativity, resilience, and a deep sense of purpose – these are driving impactful outcomes for our business. Today, we are a much stronger company, not just operationally, but culturally. We’re building a more united, focused, and energized organization—one that’s rooted in values, driven by talent, and inspired by the belief that great brands can shape culture and connect deeply with consumers. We’ve made real progress on the fundamentals of the business, but what sets us apart is our people—their dedication, agility, and belief in what we’re building together. That culture is our superpower, and it’s what will carry us forward.

We delivered the first quarter with the same clarity of purpose and operational discipline that’s becoming a hallmark of how we run the business. The rigor we’ve embedded across the organization continues to serve us well. We have a powerful portfolio of brands that matter, and we’re proving that they can matter even more. Our strong supply chain, resilient teams, and sharp focus on controlling the controllables has enabled us to manage expenses effectively and meet our bottom-line objectives.

Looking ahead, I’m confident in our path forward, not just because of the results that we’ve achieved, but because of the team that’s delivering them. I want to thank our employees for their ongoing commitment and our partners for their continued collaboration. With a strong financial foundation and a more united culture, we believe we are well equipped to navigate this complex, dynamic environment. We are making steady progress executing our strategy, and we remain focused on building a high performing company that drives shareholder value creation over the long term.

I’ll now turn the call to Katrina for a closer look at our financials…

Katrina O’Connell – Chief Financial Officer, Gap Inc.

Thank you, Richard, and thanks everyone for joining us this afternoon.

In the first quarter, we once again exceeded financial expectations, demonstrating that the meaningful progress we’ve made on our strategic priorities is translating into strong results. The disciplined approach we've implemented throughout the business led to sales growth, gross margin improvement, SG&A efficiency, and earnings gains in the quarter —further strengthening our solid balance sheet.

The revitalization of our brands, combined with continued financial and operational discipline, is enabling us to perform while we transform—consistently delivering on our commitments and strengthening overall performance. Our strong first-quarter results reinforce our confidence in the fundamentals of the business which is enabling us to reaffirm the net sales outlook for FY2025.

That said, as trade policy evolves, we remain mindful of the impact of tariffs on our financial outlook for the remainder of the year. In a moment, I'll share more details on our guidance, which reflects both the strength of our execution and brand momentum, while separately providing our view on the new headwinds from shifting trade policy.

First, I'll share some key highlights from the quarter:

- It's been energizing to see our brand reinvigoration continue to drive results with net sales and comparable sales both up 2%.
- Our brands demonstrated progress in driving relevance and revenue, especially Old Navy and Gap, with strong market share gains.
- We expanded gross margin by 60 bps and leveraged SG&A 90 bps versus last year.
- This resulted in an operating margin of 7.5% for Q1, a 140-basis point improvement compared to last year.
- And we achieved 24% growth in earnings per share to $0.51 - highlighting the earnings power of our business.
- We returned approximately $131 million to shareholders in Q1 through share repurchases and dividends – demonstrating our commitment to our balanced capital deployment framework.
- We ended the quarter with $2.2 billion of cash, cash equivalents and short-term investments - giving us the financial flexibility to continue executing with confidence.
- We are reiterating our fiscal 2025 outlook of net sales up 1% to 2% and are still expecting operating income growth in the 8% to 10% range, excluding any tariff impact. We are currently estimating a net impact of approximately $100 million to $150 million to fiscal 2025 operating margin based on current tariff policy. I'll take you through the details of our outlook shortly.

Now, turning to first quarter results:

Net sales of $3.5 billion increased 2% year over year, with comparable sales up 2% as well.

By Brand…

Starting with Old Navy, net sales were $2 billion, up 3% versus last year, with comparable sales up 3%. Old Navy's consistent delivery and execution was notable as they continued to win in key categories, like active and denim, and gain share.

Turning to Gap brand, net sales of $724 million were up 5% versus last year and comparable sales were up 5%. Gap continued to execute the brand reinvigoration playbook with excellence driving continued momentum and achieving positive comp sales for the last 6 quarters.

Banana Republic net sales of $428 million were down 3% year over year, with comparable sales flat. We are encouraged by the early signs of progress in our women's performance.

Athleta net sales of $308 million decreased 6% versus last year, and comparable sales were down 8%. As Richard mentioned, we are working to reset the brand this year and have work to do to improve product and marketing which will take some time.

Let's continue to the balance of the P&L.

Gross margin of 41.8% increased 60 basis points versus last year, ahead of our expectations.

Merchandise margin was flat with the remaining 60 basis points of expansion driven by ROD leverage.

SG&A was $1.2 billion in the quarter, flat to last year as we demonstrate continued rigor in our expense management. SG&A as a percentage of net sales was 34.3%, leveraging 90 basis points versus last year, ahead of our expectations.

First quarter operating margin of 7.5% improved 140 basis points compared to last year.

Earnings per share in the quarter were $0.51, up 24% versus last year's earnings per share of $0.41. Now turning to the balance sheet and cash flow.

End of quarter inventory levels were up 7% year-over-year, primarily as a result of earlier receipts and faster transit times. We remain committed to our disciplined inventory management principles, and we believe we ended the quarter with the right inventory composition.

We ended the quarter with cash, cash equivalents and short-term investments of $2.2 billion, an increase of 28% from last year further demonstrating the rigor we have put into managing the business. Capital expenditures in the quarter were $83 million.

In line with the capital allocation framework I outlined on our fourth quarter call, we returned approximately $131 million to shareholders in Q1 in the form of dividends and share repurchases. More specifically, we paid $61 million to shareholders in the form of dividends and the Board recently approved a second quarter dividend of $0.165 per share. We also repurchased 4 million shares during the quarter for approximately $70 million. It is important to note that we have $331 million remaining on our share repurchase authorization as we proactively and opportunistically achieve our goal of offsetting dilution.

Our strong balance sheet gives us the foundation to focus on capital allocation with the goal of enhancing long-term shareholder value. And in this dynamic environment, this also allows us to be thoughtful about the levers we are pulling to mitigate potential headwinds while remaining mindful of pursuing opportunities for growth.

Now, turning to our outlook for fiscal 2025.

We've been operating in a highly dynamic backdrop for the last few years, and we're expecting the same for the balance of fiscal 2025. Our outlook assumes a relatively consistent macroeconomic environment but acknowledges the potential for increasing uncertainties related to consumer behavior and global economic and geopolitical conditions. As a result, we continue to take a balanced view with our guidance and remain focused on controlling the controllables.

Today I will provide a fiscal 2025 outlook that does not include tariffs and then separately quantify the potential impact of trade policy on our profits should current policies remain. Since last quarter's outlook, trade policy has introduced new cost headwinds to margins in the form of tariffs. Because tariffs remain dynamic, we have not reflected the potential effect in the outlook we provided today. However, we are providing an estimate of our latest view.

We remain confident that our strategic priorities are working, as evidenced by another strong quarter. That success underscores our belief that the outlook we provided on our fourth quarter call remains fundamentally intact, excluding the estimated impact of current tariffs.

Starting with full year 2025 net sales, we continue to expect net sales to be up 1% to 2% year-over-year. Our outlook assumes ongoing strength at Old Navy and Gap, stabilizing performance at Banana Republic and a longer recovery timeline at Athleta. We believe great brands can win in any environment.

Moving to gross margin…

We continue to expect underlying gross margin to expand slightly year-over-year, with roughly equal amounts coming from ROD leverage and merchandise margin.

Turning to SG&A…

We continue to expect SG&A to leverage slightly for the full year. As we discussed on last quarter's call, we are driving continuous improvement in the cost structure of the company as we rigorously drive savings in our core operations through efficiency and effectiveness. Our outlook continues to reflect the approximately $150 million in cost savings and efficiencies we expect to achieve this year through better operations. We remain committed to reinvesting a portion of the $150 million of efficiencies into future growth projects as we pursue the long-term success of the company. While we have contemplated whether to delay these strategic investments in the face of trade policy headwinds, between our foundational execution and balance sheet strength, we believe the pursuit of these initiatives remains important to the long-term momentum of the company. Select examples of these initiatives are product-to-market capabilities that will build localization and speed, in addition to foundational capabilities like RFID and AI. A portion of these savings will also offset continued inflation.

Finally, for fiscal 2025, we expect underlying operating income growth of approximately 8% to 10% for the full year.

Now, regarding tariffs, as I mentioned previously, given the dynamic nature of trade policy, our fiscal 2025 outlook does not reflect the potential effect of tariffs. However, based on what we know today, if current tariffs of 30% on most imports from China and 10% on most imports from other countries remain for the balance of the year, we estimate a gross incremental cost of approximately $250 million to $300 million. We currently have strategies to mitigate more than half of that amount. After considering our mitigation strategies, we estimate a remaining net impact of about $100 million to $150 million to fiscal 2025 operating income, primarily weighted to the back half of the year.

As a global leader with the benefit of scale, we are moving swiftly with our mitigation plans which include adjustments to our sourcing, manufacturing, and assortments. We remain committed to evaluating the remaining levers we have at our disposal to achieve further mitigation.

Importantly, we are taking a long-term view as we continue to mitigate these headwinds, rather than responding with short-term decisions that could compromise the integrity of our strategy.

This is an early view, and trade policy remains dynamic, so we will continue to reassess and refine our approach as future developments arise.

We are being even more rigorous in our approach to inventory for the balance of the year. We've further tightened the way we purchase unit inventory for the second half of the year to ensure maximum flexibility for various demand scenarios and to enable us to be more responsive to consumer demand. We continue to expect capital expenditures of $600 million for the year as we utilize our strong balance sheet to invest in the organic opportunities for value creation that we see in our business.

Now, let me share some color on our outlook for the second quarter of fiscal 2025. It's important to note that we estimate minimal impact to our Q2 outlook based on currently enacted tariffs.

We expect second quarter net sales to be roughly flat year-over-year. This contemplates our solid quarter-to-date performance and reflects a 1 percentage point impact related to the lapping of the benefit we saw last year from the incremental revenue related to our credit card agreement which we do not expect to recur this year.

We expect second quarter gross margin to be similar to our first quarter gross margin. This outlook reflects the impact from the lapping of last year's credit card benefit which is the primary driver of the implied year-over-year decline.

And finally, we are planning for second quarter SG&A to leverage slightly versus last year.

In closing, I am incredibly proud of our strong first quarter performance, which reflects disciplined execution and underscores the progress we are making. While tariffs have the potential to impose new costs, we remain focused on controlling the controllables and executing our strategic priorities which are driving results. And we remain committed to building on this momentum as we work to become a high-performing company that delivers sustainable, profitable growth and long-term value for our shareholders.

With that, we'll open the line for questions. Operator?