

GAP INC.

Gap Inc. Second Quarter Fiscal 2025 Conference Call Prepared Remarks August 28, 2025

Whitney Notaro – Head of Investor Relations, Gap Inc.

Good afternoon, everyone. Welcome to Gap Inc.'s Second 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](https://www.gapinc.com).

These forward-looking statements are based on information as of today, August 28th, 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](https://www.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.

Thanks, Whitney. And good afternoon, everyone.

We are pleased to report second quarter results that overdelivered on our profit expectations and achieved our topline goals, once again demonstrating our ability to do what we said we were going to do.

In my first remarks to you as CEO two years ago, I shared my vision for leading Gap Inc. into an exciting new chapter, one that honors our legacy while boldly shaping an extraordinary future. From the start, I saw the immense potential of our brand portfolio and recognized the need to reposition the company for sustainable, profitable growth.

Over the past two years, we've sharpened our strategic priorities, brought greater clarity to our organization and empowered our people in ways that are attracting world class talent and partners. We've made meaningful financial progress, laying the groundwork for long-term success.

We still have plenty of work to do because transformation of this scale takes time. However, it's clear we're now operating from a position of strength, one that's proving essential as we navigate an increasingly dynamic and complex environment.

Our strategic priorities define the framework that has enabled us to perform while we've been transforming over the last two years:

- First, maintaining financial and operational rigor – This has become fundamental to how we operate and has driven significant gross margin expansion of 360 basis points to 41.2% in the second quarter vs the same period two years ago. In fiscal 2024, we delivered EPS of \$2.20, our strongest performance in six years, and ended the year with cash balances of \$2.6 billion, the highest in 15 years.
- Second, reinvigorating our brands – Our playbook continues to deliver, strengthening the foundation of our brands and proving they can matter more. With the 6th consecutive quarter of positive comp sales for Gap Inc., we're seeing clear, consistent signals that our playbook is working and that our brands are winning where it counts: with the consumer.
- Third, strengthening our platform – We've restructured our fixed cost base, strengthened our supply chain, modernized our media mix model and are investing in technology driving both efficiency and effectiveness.
- And, fourth, energizing our culture – We've been building a more united, focused, and energized organization—one that's rooted in purpose, driven by talent, and inspired by the belief that great brands can shape culture and connect deeply with consumers.

It's been an exciting two years and our success is a testament to the talent and dedication of the people of Gap Inc. Together, we have emerged as a more resilient company – one that turns challenges into opportunities, moves with speed, operates with bold ambition and creativity, and delivers with consistency. The foundational rigor we have established, combined with the proven relevance of our brands, is enabling us to build momentum within our core while at the same time exploring new opportunities that will help to fuel profitable growth over the long-term.

On today's call, as usual, I'll provide an update on our second 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 financial and operational rigor...

Gap Inc. comparable sales were up 1% in the quarter versus last year. We were pleased to see our three largest brands, Old Navy, Gap, and Banana Republic, posting positive comps in the second quarter, allowing us to leverage the strength of our portfolio despite the challenging quarter for Athleta, and deliver another solid comp gain for Gap Inc.

We delivered operating margin of 7.8%, EPS of 57 cents, up 6% versus last year, and ended the quarter with strong cash balances of approximately \$2.4 billion, allowing us to make targeted investments in capabilities, infrastructure, and our brands to drive shareholder value creation over time.

Turning to our next strategic priority, driving relevance and revenue by executing on our brand reinvigoration playbook. We are building stronger brand identities, supported by trend-right products that are amplified with more compelling storytelling that is translating to greater cultural relevance. Our portfolio consists of iconic, trusted brands, each in a different stage of the brand reinvigoration journey, and today, the playbook is driving growth in three of our four brands.

Let's begin with Old Navy...

Old Navy, our largest brand, and the #1 specialty apparel brand and retailer in the U.S., delivered another strong quarter with a 2% comp on top of last year's 5% comp. These results reflect a brand that is operating with greater discipline as it delivers sustainable growth, quarter after quarter.

We're seeing the impact of Old Navy's brand reinvigoration take hold, with continued strength in key customer metrics, including increased brand consideration vs last year, growing organic brand search and strong Net Promoter Scores at our stores. Strong execution, combined with consistent storytelling and product focus, is helping Old Navy show up in a way that's more relevant to today's consumer, and the results are showing up in the numbers.

We are seeing the benefits of our strategic pursuit of key categories, particularly in denim and active, where we focused on leading at scale with great products, clear value, and amplified by compelling storytelling.

- Old Navy's denim posted the highest volume second quarter in ten years, driving a strong comp and positioning itself as the #4 brand in adult denim. This growth was fueled by the strength of our WOW denim and on-trend baggy and wide-leg fits. Our dedicated denim shops and clear merchandising point of view signal that we are leaning into the denim category with conviction.
- The momentum has extended into the third quarter with early back-to-school denim performing very well.
- Old Navy's active business continued to grow in the second quarter and is positioned as the #5 brand in the active category. The growth was fueled by our first major active campaign in years, "Old Navy, New Moves" featuring Lindsay Lohan, with women's product really resonating.

We are continuing to unlock growth through strategic partnerships that amplify our brand relevance. This quarter marked the launch of our Disney Summer Americana collection for the family, which excited customers with must-have product. We amplified this campaign across digital channels, generating more than 100 pieces of creator-led social content, extending our reach and driving engagement. We look forward to providing updates on more exciting brand activations in the second half.

Our strategic pursuit of key categories is driving results, and our storytelling is coming to life with more compelling narratives, clearer expression of value, and a growing connection with the customer. It's exciting to see the reinvigoration playbook now coming to life more comprehensively at Old Navy as we reassert this iconic brand.

Now, let's turn to Gap...

Our efforts to reignite Gap are showing up on the leaderboard. The brand continues to deliver strong and consistent results with a 4% comp in Q2 on top of a 3% comp last year. This is the brand's 7th consecutive quarter of positive comps. It's particularly satisfying to see our namesake brand leading the execution of our playbook and reentering the cultural conversation in such a pronounced way. This momentum is fueled by big product ideas, culturally relevant storytelling, and consistent execution.

Performance in the quarter was led by ongoing strength in women's and improving trends in men's.

Our strategic pursuit of denim continues to propel the brand with more pronounced fashion and trend-right products. Gap denim had a standout quarter with broad-based strength across the family, fueled by demand across baggy, horseshoe, barrel & easy-pull on styles. Building on that strength, last week we launched our Fall release, Better in Denim, featuring the return of low-rise styles and the iconic Long and Lean jean. This is another example of consistent execution of our brand reinvigoration playbook for Gap, led by a big product idea brought to life through music, dance, and self-expression—this time starring KATSEYE. As the playbook advances and becomes more pronounced, we're seeing sequential progress with each release. Better in Denim has generated the strongest response to date with 20 million views in the first three days, more views than the full length of our last four releases combined, reinforcing the cultural relevance of the brand.

Linen remained a key seasonal success story in the second quarter, with our versatile on-trend essentials. Our strong results are a testament to the strength of the product and its relevance to our customers.

We continued to elevate our storytelling, working with 400 creators to build connection through culturally relevant products like the Horseshoe Jean and the NAP hoodie. These products are not just performing well, they are becoming viral trends, driven by content and social-first marketing. These are examples of how we are continuing to evolve the way we engage with our customers.

Our collaborations continue to drive excitement, with Malbon and BEIS representing the 11th and 12th collaborations in the last two years. This is fueling momentum. These collabs along with our latest Gap Studio Collection have driven relevance and revenue at a higher price point while driving new customer growth.

As a result of the team's hard work, we're seeing improving brand health and growing customer engagement, with average unit retails up, greater spend per customer and increasing brand search.

Gap brand is building momentum – reclaiming its place in the cultural conversation with credibility. We see a clear path forward for this brand and are confident in our ability to build on this position of strength, fueling sustained growth for the brand over time.

At Banana Republic, we set out to reestablish this brand to thrive in the premium lifestyle space, and our 4% comp in the quarter reflects the steady progress against that ambition. We've remained focused on tightening our assortment, refining our product aesthetic, enhancing our marketing and improving service levels, and it is starting to show up in the metrics that matter. Consideration reached its highest level in two years, a key signal of our growing brand differentiation, and we saw encouraging growth in new and reactivated customers.

This quarter, we made meaningful progress harmonizing the look and feel of the brand across men's and women's. I'm particularly encouraged by the improvement we've seen in women's performance, which is now more closely aligned with the strength we've consistently delivered in men's—a testament to the team's focused execution. Importantly, we're seeing notable traction in women's bottoms, a category that's foundational to wardrobe building and central to our strategy.

Our strategic shift toward travel-oriented, lifestyle storytelling—delivered through dynamic, destination-rich content—is effectively reinforcing the brand's distinctive positioning as the modern explorer brand. This approach is not only driving stronger brand heat but is also proving to be efficient and highly impactful with our customers.

From stores to service to storytelling to product, the brand is really coming together. Banana's second quarter results reflect meaningful traction as its reinvigoration takes hold and I'm optimistic about the activations we have coming in the second half.

Shifting to Athleta...

At Athleta, we're disappointed in the second quarter performance. As we shared last quarter, we're approaching 2025 as a purposeful reset year. Although we saw bright spots in key items like sports bras and shorts in the quarter, the broader assortment simply isn't aligned with what the Athleta customer expects.

As part of our vision for the brand's future, we appointed Maggie Gauger as the new President and CEO of Athleta. As a proven leader in women's active sport and style, Maggie joins with over two decades of key leadership roles at Nike, where she most recently led the North America women's business. Her extensive background across retail, strategy, merchandising, and product creation, in addition to her experience reinvigorating underperforming segments at Nike and her deep alignment with Athleta's purpose, are all qualities that will help us stabilize the brand, and, ultimately, put it on a path to growth.

Heading into the back half, we are maintaining a disciplined approach: lowering inventory and tightening our mix to products that are resonating.

As we shared last quarter, the brand's reset will take time—but we're approaching it with intention and focus. We believe in Athleta's potential in the women's active category and are confident that under Maggie's leadership Athleta can reemerge as a purpose-led brand poised to matter even more through product, trend and narratives that women deeply connect with.

Moving to our third strategic priority, strengthening the platform...

It's clear that our scale continues to power strategic advantages—especially across our supply chain. From product sourcing to our diversified global sourcing network and our strong partner relationships, our scale enables agility, innovation and resilience.

Our deep, long-standing relationships with our sourcing partners have enabled investments in advanced facilities and joint innovation. Today, this collaboration with our global supply chain partners is even more important as we navigate increased global trade headwinds.

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. These investments focus on two primary areas...

First, reinventing how we bring product to market. We're leveraging technology to reengineer how we imagine, design, develop, and assort with a model that's more responsive, dynamic, and data driven.

And second, we're investing in technology to optimize processes and create a digitally enabled workforce—unlocking productivity, sharpening accuracy, and empowering our teams to do their best work. This includes leveraging AI in demand planning, supply chain, and everyday workflows—giving teams more time to focus on innovation, storytelling, and strategy.

These investments are designed to keep us on offense—strengthening the capabilities and infrastructure that fuel our brands and position us to drive sustained value over time.

Moving on to our fourth strategic priority, as we work to energize our culture, we are taking a more intentional approach to employee feedback with the goal of creating the best employee experience and differentiating ourselves as a great place to work. To this end, we recently conducted a global engagement survey that underscores the progress we are making, optimism for the future and industry leading employee net promoter scores. We have many strengths to celebrate and also see opportunities for further improvement as we continue to lean into building our culture into a superpower and an enabler of our long-term success.

In closing, we're advancing our transformation with discipline, clarity, and momentum and are focused on executing with excellence in the second half.

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.

Our rigorous execution in the second quarter delivered solid results - surpassing our profit expectations and achieving our topline goals. The meaningful progress we are making across our strategic priorities continues to drive the business forward. The revitalization of our brands, coupled with our unwavering financial and operational discipline, is enabling us to perform while we transform—consistently delivering on our commitments and fortifying the foundation of our business. These results reinforce our confidence in the core strengths of our reinvigoration playbook, allowing us to reaffirm our net sales outlook for fiscal 2025.

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 continued brand momentum as well as our view on the headwinds from the latest trade policy.

In the second quarter, we continued to do what we said we were going to do – delivering flat net sales as we lapped last year's credit card benefit, with comparable sales up 1% as our reinvigoration efforts drive results. It was exciting to see continued strength at Old Navy and Gap with emerging growth at Banana Republic, all of which helped us navigate the quarter despite choppiness at Athleta, where we welcome new leadership. As expected, gross margin contracted vs. last year due to the lapping of last year's credit card benefit, and while we had some weakness at Athleta in support of the brand's reset, we utilized rigorous cost management to successfully deliver our profit expectations. This resulted in an operating margin of 7.8% for the quarter and earnings per share of \$0.57, up 6% vs last year - highlighting the earnings power of our business.

During the quarter, we continued to demonstrate our commitment to our balanced capital deployment framework, returning approximately \$144 million to shareholders through share repurchases and dividends. Our \$2.4 billion of cash, cash equivalents and short-term investments on the balance sheet gives us the financial flexibility to continue executing with confidence.

Today, we are reiterating our fiscal 2025 outlook of net sales up 1% to 2% and are updating our expectations for an operating margin of 6.7% to 7.0%, which includes our estimated net tariff impact of approximately 100 to 110 basis points. I'll take you through the details of our outlook shortly.

Now, turning to second quarter results:

Net sales of \$3.7 billion were flat year-over-year, as expected, with comparable sales up 1%.

By Brand,

Starting with Old Navy, net sales were \$2.2 billion, up 1% versus last year, with comparable sales up 2%. The brand continues to demonstrate consistency in their execution and we look forward to seeing their reinvigoration efforts continue.

Turning to Gap brand, net sales of \$772 million were up 1% versus last year and comparable sales were up 4%. With its continued momentum, Gap has become the case study of our reinvigoration playbook in action. The brand's relentless repetition of the framework is driving momentum with sustained comp growth.

Banana Republic net sales of \$475 million were down 1% year over year, with comparable sales up 4%. We are encouraged to see the foundational work to reestablish the brand resonating with consumers and showing up in the results.

Athleta net sales of \$300 million decreased 11% versus last year, and comparable sales were down 9%. As Richard mentioned, we remain focused on resetting the brand for the long term 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 41.2% decreased 140 basis points versus last year, primarily due to the lapping of last year's credit card benefit. More specifically, merchandise margin decreased 150 basis points with the majority due to the lapping of last year's credit card benefit offsetting 10 basis points of ROD leverage.

Gross margin was below our expectations due to incremental actions taken in support of the reset at Athleta.

SG&A was \$1.2 billion in the quarter, a decrease to last year driven by differences in the quarterly impact of incentive compensation accruals year-over-year. SG&A as a percentage of net sales was 33.4%, leveraging 130 basis points versus last year. This was ahead of our expectations primarily due to the timing of spending related to technology investments which have largely shifted into the third quarter.

Second quarter operating margin of 7.8% was down 10 basis points compared to last year.

Earnings per share in the quarter were \$0.57, an increase of 6% versus last year's earnings per share of \$0.54.

Now turning to the balance sheet and cash flow.

End of quarter inventory levels were up 9% year-over-year, primarily as a result of accelerated receipts and higher cost due to tariffs. 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 \$2.4 billion, an increase of 13% from last year. Net cash from operating activities was \$308 million year-to-date. And our free cash flow of \$127 million year-to-date demonstrates the rigor we have put into managing the business.

Capital expenditures in the quarter were \$181 million.

With regard to returning cash to shareholders, we paid \$62 million to shareholders in the form of dividends and the Board recently approved a third quarter dividend of \$0.165 per share. We also repurchased 3 million shares during the quarter for approximately \$82 million. Year-to-date we have repurchased 7 million shares for approximately \$152 million achieving 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 allows us to stay the course with our long-term objectives, including investing 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 second half 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 we are providing a fiscal 2025 outlook that includes an estimated net tariff impact. Last quarter, we previewed an estimated net tariff impact to fiscal 2025 of approximately \$100 million to \$150 million from the April trade policy. I am proud that the teams have since mitigated the majority of that impact. Reflected in our outlook today, is the estimated incremental impact related to the latest trade policies effective August 7th.

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, Gap, and Banana Republic and a longer recovery at Athleta.

Moving to gross margin...

We expect gross margin to deleverage by approximately 70 to 90 basis points year-over-year, driven by an estimated annual net tariff impact of approximately 100 to 110 basis points. As a reminder, we use the weighted-average cost accounting method and we will start to see those higher cost units flow through our margins in the third quarter.

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 this year as we rigorously drive \$150 million in cost savings in our core operations through efficiency and effectiveness. We remain committed to reinvesting a portion of the \$150 million into future growth projects as we pursue the long-term success of the company. A portion of these savings will also offset continued inflation.

Now, I'll turn to fiscal 2025 operating margin...

We expect operating margin of approximately 6.7% to 7.0% for the full year, which includes an estimated net impact of approximately \$150 million to \$175 million, or approximately 100 to 110 basis points, to operating margin. Excluding the impact of tariffs, this would imply underlying operating margin expansion vs. last year.

We don't currently expect the annualization of tariffs in 2026 to cause further operating income declines next year. And, we expect to mitigate the full impact of tariffs over time which we believe represents opportunity for operating margin improvement longer term.

As a global leader with the benefit of scale and brand momentum, we are moving swiftly with our mitigation plans which include adjustments to our sourcing, manufacturing, assortments and targeted pricing. We remain focused on sustaining the momentum and market share gains that our reinvigoration playbook is driving as we pursue these plans. As it relates to pricing, as we said on our last call, we are approaching our pricing strategy as we always do -- considering the various inputs, while maintaining the overall value proposition for our consumers. And while pricing is a lever to manage AUR, it's one of many we've been using to manage margin over time. Other levers include assortment mix, full price sell through, promotions and inventory management.

As we've said, our playbook is working, resulting in significant gross margin expansion over the last two years and meaningful AUR growth compared to 2019. We saw AUR growth in the second quarter with customers responding well to our style, quality and value which we continue to advance. This gives us confidence that we can continue to drive AUR growth as we enter the second half, particularly at Gap and Old Navy.

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 to ensure maximum flexibility for various demand scenarios and to enable us to be more responsive to consumer demand. We expect to operate in line with our inventory principle of unit purchases positioned below sales.

We are continuing to utilize our strong balance sheet to invest in organic opportunities for value creation that we see in our business. Given project timing, we now expect capital expenditures of \$500 million to \$550 million for the year.

Now, let me share some color on our outlook for the third quarter of fiscal 2025.

We expect third quarter net sales to be up 1.5% to 2.5% year-over-year. This contemplates our strong quarter-to-date performance, especially at Old Navy and Gap, where back-to-school is resonating well with consumers.

We expect third quarter gross margin to deleverage by approximately 150 to 170 basis points year-over-year, with the estimated net tariff impact of approximately 200 basis points, more than offsetting the underlying gross margin expansion in the business.

And finally, due to the timing shift of investments from Q2 to Q3, we expect slight SG&A deleverage year-over-year in the quarter.

In closing, our consistent execution continues to strengthen the foundation of our business while demonstrating the agility necessary to successfully navigate this dynamic environment. I'm proud of the team's focus and discipline as we continued to deliver on our commitments. We are performing while we transform, remaining anchored in operational excellence 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?