GAP INC.

Gap Inc. Third Quarter Fiscal 2025 Conference Call Prepared Remarks
November 20, 2025

Whitney Notaro – Head of Investor Relations, Gap Inc.

Good afternoon, everyone. Welcome to Gap Inc.'s Third 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, Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission on May 30, 2025, and August 29, 2025, and other 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, November 20th, 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. All market share data referenced today will be from Circana's US Apparel Consumer service for the 12 months ending October 2025, unless otherwise stated.

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 very pleased to report third quarter results for Gap Inc. that exceeded our expectations across multiple measures, including net sales, gross margin and operating margin. We've done this by executing our strategic priorities with precision and consistency.

The reinvigoration of our iconic brands continues to gain strength. Our playbook — rooted in purpose, powered by creativity, and executed with excellence — is working, and it's bringing consistency to how we operate and clarity to how we win. The momentum in the business is clear — from product design to storytelling, from store execution to digital engagement. The result is a company that's becoming more agile and performing with increasing confidence.

On today's call, as usual, I'll provide an update on our third 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 5% versus last year, the highest quarterly comp in over four years. We were pleased to see our three largest brands, Old Navy, Gap, and Banana Republic, posting strong positive comps in the third quarter, demonstrating the resilience of our portfolio despite a challenging quarter for Athleta.

We delivered operating margin of 8.5%, which benefitted from growth in AUR as customers responded well to our brand offerings. We continued to strengthen our balance sheet, ending the quarter with strong cash balances of approximately $2.5 billion.

Turning to our next strategic priority, driving relevance and revenue by executing on our brand reinvigoration playbook. This playbook, when applied with relentless repetition creates a powerful flywheel which has resulted in seven consecutive quarters of comp growth for our portfolio.

Our largest brand, Old Navy had an incredibly strong quarter, reflecting the brand’s strength, consistency, and continued momentum. Comparable sales were up 6%, with the brand consistently gaining market share over the last two years. Customers responded to the compelling value proposition resulting in healthy growth in average unit retail and notably, across all income cohorts, which is encouraging despite widely reported macro-economic pressure on the low-income consumer.

Old Navy’s consistent performance is being delivered by trend-right products, our strategic pursuit of category leadership and compelling storytelling.

- The quarter began with a robust back-to-school season, reinforcing its leadership position in Kids and Baby in the U.S.
- Denim posted its highest third quarter volume in years, with growth across the family. Women’s and girls’ showed particular strength driven by trend-right styles like barrel, wide-leg, and baggy fits.
- Active delivered impressive double-digit growth in the quarter with strength across the family. This demonstrates the strong customer response to the brand’s distinctive value proposition in the active market and innovation, including new franchises like Bounce Fleece. Today, Old Navy is the #5 active apparel brand in the U.S. and the #4 brand in the women’s active space.

As we begin to drive more growth through strategic partnerships that amplify our brand relevance, our latest Disney collaboration kicked off the holiday season with our Jingle Jammies collection which is exceeding our expectations — driving excitement across the family and fueling strong performance in the broader sleep category. Another great example is our first designer collaboration with American design legend Anna Sui. The collection brought high fashion design to a broader audience, staying true to Old Navy’s democratic and accessible brand promise. The campaign featured rising Gen Z artist PinkPantheress and resonated across platforms.

In September, we announced plans for a strategic expansion into the beauty category with a phased launch starting with Old Navy. As one of the fastest growing, most resilient retail categories in the U.S. and customer insights that reinforce strong interest in the category, we see a clear and meaningful opportunity to grow in beauty. We recently expanded Old Navy's beauty collection in 150 stores, with select stores offering dedicated shop-in-shops and beauty associates. We intend to use this pilot to inform a thoughtful scaling strategy that will take us from seeding in 2026 to accelerating growth in the years that follow.

Old Navy's third quarter performance reflects the strength of the team's work which is clearly resonating. This brand continues to delight consumers and consistently deliver positive comps, while reinforcing Old Navy's position as a brand that defines value, style, and accessibility in American fashion. This gives us confidence as we move into Q4 and beyond.

Now, let's turn to Gap…

Gap delivered another standout quarter, reinforcing the reliability of its execution and the compounding strength of our namesake brand. Comparable sales were up 7%, on top of a 3% comp last year, marking the 8th consecutive quarter of positive comps, with growth in average unit retail, consideration, organic impressions, and new customers — a clear signal that Gap's momentum is real, repeatable, and resonating.

The quarter was fueled by broad-based strength in denim, the centerpiece of our viral campaign, "Better in Denim," featuring global group Katseye. This campaign demonstrated the power of the playbook in action – featuring trend right product amplified by culturally relevant storytelling.

With more than 8 billion impressions and 500 million views, Better in Denim culminated in a global cultural takeover and has become one of the brand's most successful campaigns to date, generating significant traffic and double digit growth in denim. The results speak for themselves: Gap continues to accelerate, attracting a younger, highly engaged consumer — particularly Gen Z, who is discovering us — while reinforcing loyalty with our core consumer.

As Gap's brand equity and relevance continues to build, the iconic Gap arch logo hoodie is a great example of the brand reclaiming its place in the cultural conversation. During the quarter, we marked the 30th anniversary of the Gap hoodie, with our first ever hoodie day. It was a moment that energized our teams, drove connection with consumers and contributed to the notable strength in fleece during the quarter.

Our recent collaboration with Sandy Liang was another highlight, delivering strong results and continuing to position Gap as a platform for creative partnerships that drive relevance and new customer acquisition.

For holiday, the brand is leaning into CashSoft, where you'll see continued innovation with extensions into new silhouettes, on-trend sets, and vibrant colorways. Earlier this month, we launched our highly anticipated "Give Your Gift" holiday campaign, a continuation of our effort to bridge the gap across generations through music, creativity, and culture featuring emerging artist Sienna Spiro.

Gap's execution of the playbook has been fantastic. And it's been exciting to see the brand building on their success quarter after quarter while continuing to drive distinction and relevance. It's a brand that knows who it is, where it's going, and how to win, and we're looking forward to carrying that momentum into the holiday season.

At Banana Republic, we continue to make steady progress. The work to strengthen its positioning — leaning into its heritage — is paying off. Comparable sales were up 4% in the quarter, reflecting meaningful traction as the brand's reinvigoration takes hold.

Growth was driven by continued progress in the harmonization between men's and women's. Men's elevated fashion designs, featuring distinctive textures and fabrications, continued to perform well and we've seen notable improvement in women's as fit and product refinement are resonating, particularly in dresses and wovens.

Building on the success of the brand's prior campaigns, the response to Banana Republic's fall campaign with David Corenswet was strong, breaking brand engagement records and fueling growth while expanding cultural reach and resonance.

For the holiday season, Banana Republic is leaning into its distinctive position as the modern explorer brand. Our new campaign, shot in the stunning landscape of Ireland, captures this essence well — with our beautiful product featured in our travel-oriented storytelling brought to life through dynamic, destination-rich content. This approach is driving stronger brand affinity and proving to be highly impactful with our customers.

Overall, Banana Republic's third quarter results reflect meaningful progress and continued momentum. I'm optimistic the brand is well positioned as we head into the holiday season.

Shifting to Athleta...

Maggie Gauger, brand President, has begun to make an impact in her first 90 days. She's taking quick and thoughtful action to begin to reorient the brand. This includes reorganizing the talent structure to align with her vision.

The team is doing the right work — acting with speed and urgency to drive progress — but this reset will take time. Our focus is on positioning Athleta for long-term success and returning it to its rightful place as a premium, aspirational brand. The brand is at the beginning of its reinvigoration journey. We aren't chasing quick fixes, we are taking a deliberate approach to position the brand for the long term.

We're confident that the consistent application of our brand reinvigoration playbook — anchored in purpose and heritage — will guide Athleta forward. This is about returning to what made the brand great to begin with, while reestablishing our clear and distinctive position in the active market.

We're encouraged by the steps Maggie and the team have already taken, and we look forward to the continued impact of their leadership as Athleta's reinvigoration takes shape.

As we head into the holiday season, our supply chain continues to power strategic advantages. The scale of our global network — across sourcing, logistics, and fulfillment — gives us the flexibility and resilience to operate with confidence. Our long-standing vendor partnerships and diversified sourcing footprint are enabling us to move with speed and deliver newness at the pace of demand.

We've introduced new automation and AI capabilities across our omni fulfillment network — from robotic unloaders to advanced storage and retrieval systems — which have increased productivity by nearly 30% compared to just a few years ago. This enables us to meet peak demand with greater speed, agility, and precision.

With a fleet of about 2,500 stores globally and the largest specialty apparel e-commerce businesses in the U.S., we're positioned to serve our customers wherever and however they choose to shop this holiday season.

Across Gap Inc., our teams are inspired and energized by the work we're doing — and you can feel it. The work we're doing together to drive the business continues to ignite real energy inside the company, creating a culture that's united, motivated, and focused on execution. This is the culture that is carrying us into the holiday season, where our collective focus is clear: win with the consumer, deliver with excellence, and keep building on the progress we've made together.

In the fourth quarter, we remain focused on executing with excellence. Our Q3 and quarter-to-date performance positions us well for the holiday selling season and gives us the confidence to update our full year outlook, increasing net sales growth to the high end of our prior range and raising our operating margin.

We look forward to finishing the year strong and creating a clear runway to the next phase of our transformation as we move into 2026 - building momentum.

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.

We delivered exceptional third quarter results, surpassing our expectations across multiple key metrics. Our strategy is working – growing brand relevance, combined with operational and financial discipline, drove our highest quarterly comparable sales performance in over four years, up 5%. We saw strong performance across the back-to-school and early holiday periods, underscoring the increasing resonance of our brands with consumers.

With the playbook now in its second year, we're beginning to see a flywheel of growth take hold at Old Navy and Gap, with Banana Republic gaining traction. We exceeded our gross margin expectations with strong flow through to our operating margin in the quarter driven by rigor in the fundamentals. Average unit retail, or AUR, grew again this quarter, reflecting our compelling product offering and the disciplined execution across our teams. Our brand momentum combined with our strategic supply chain actions enabled a significant portion of the tariff impact on our margins to be mitigated.

With the strength of our third quarter results and our quarter-to-date performance in mind, we are raising our full year 2025 gross margin and operating margin outlook with full year 2025 net sales growth now expected to be at the high end of our prior guidance range. I'll take you through the details of our outlook shortly.

We are entering the final stages of fixing the fundamentals. Consistent progress on our strategic priorities has strengthened our position as we move into 2026, where we will focus on building momentum and creating new growth opportunities.

Now, turning to third quarter results:

Net sales of $3.9 billion were up 3% year-over-year, exceeding our expectations, with comparable sales up 5%.

By Brand,

Starting with Old Navy, net sales were $2.3 billion, up 5% versus last year, with comparable sales up 6%. It's exciting to see the brand winning in strategic categories like denim, active, and kids & baby, supported by strong execution of culturally relevant marketing and partnerships.

Turning to Gap brand, net sales of $951 million were up 6% versus last year and comparable sales were up 7%. Relentless, consistent execution of the reinvigoration playbook is fueling sustained momentum for the brand, clearly reflected in the Better in Denim campaign.

Banana Republic net sales of $464 million were down 1% year over year, with comparable sales up 4%. Our foundational work on the brand – from elevated product to culturally relevant storytelling - is resonating with consumers and drove the second consecutive quarter of solid performance.

Athleta net sales of $257 million decreased 11% versus last year, and comparable sales were down 11%. We're focused on applying the playbook with rigor, beginning with the fundamentals, as we work to reset the brand for the long term. And while we're eager for results, we are executing a phased plan that will take time.

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

Gross margin of 42.4% declined 30 basis points from last year but exceeded our expectations. As anticipated, tariffs pressured overall margin levels; however, lower discounting resulted in increased AUR growth driven by the consumer's response to our relevant product and storytelling.

Compared to last year, merchandise margins were down 70 basis points due to the estimated 190-basis point impact of tariffs. This implies roughly 120 basis points of underlying margin expansion. ROD leveraged 40 basis points in the quarter.

SG&A increased to $1.3 billion, primarily due to the quarterly timing of incentive compensation and continued strategic investments. SG&A as a percentage of net sales was 33.9%, deleveraging 50 basis points versus last year.

Third quarter operating margin of 8.5% was down 80 basis points compared to last year, which includes an estimated 190 basis points of tariff impact. This implies roughly 110 basis points of underlying margin expansion.

Earnings per share in the quarter were $0.62, a decrease of 14% versus last year's earnings per share of $0.72, primarily due to the impact of tariffs.

Now turning to the balance sheet and cash flow…

End of quarter inventory levels were up 5% year-over-year, primarily attributable to higher costs due to tariffs. Our disciplined inventory management resulted in slightly negative unit inventories, and we believe we ended the quarter with the right inventory composition.

We continue to be rigorous in our approach to inventory for the balance of the year. As we shared on our second quarter call, we've tightened the way we purchase unit inventory 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.

The last two years have been about fixing the fundamentals, which includes strengthening the balance sheet. We ended Q3 with cash, cash equivalents and short-term investments of $2.5 billion, an increase of 13% from last year. Net cash from operating activities was $607 million year-to-date. And our free cash flow of $280 million year-to-date demonstrates the rigor we have put into managing the business.

Capital expenditures were $327 million year-to-date.

With regard to returning cash to shareholders, in the third quarter, we paid $62 million to shareholders in the form of dividends, and the Board recently approved a fourth-quarter dividend of $0.165 per share. Year to date we have repurchased 7 million shares for approximately $152 million, achieving our goal of offsetting dilution. And while we've achieved our goal, as always, we remain opportunistic.

Now, turning to our outlook for fiscal 2025...

I am'm pleased with the strength of our Q3 results and solid quarter-to-date performance which are giving us the confidence to update our FY25 outlook.

We've been operating against a dynamic backdrop for the last few years, and we're expecting the same for the fourth quarter. 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.

Starting with full year 2025 net sales, we are increasing our outlook to the high end of our prior guidance range and now expect net sales growth of 1.7% to 2.0% 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…

With our strong Q3 performance, we are raising our full year gross margin outlook. We now expect deleverage of about 50 basis points year-over-year, driven by an unchanged estimated annual net tariff impact of approximately 100 to 110 basis points. Excluding the impact of tariffs, this would imply underlying gross margin expansion of approximately 50 to 60 basis points vs. last year.

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, including beauty and accessories, 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 now expect an operating margin of about 7.2% for the full year, an increase from our prior guidance range of 6.7% to 7.0%. This continues to include the estimated net tariff impact of approximately 100 to 110 basis points. Excluding the impact of tariffs, this would imply meaningful underlying operating margin expansion of 80 to 90 basis points vs. last year.

Our income tax rate outlook for the year has increased to approximately 28% and primarily reflects the impact of changes in the amount and mix of our geographic earnings. This increase of 1 point versus our prior outlook of 27% represents an approximate 3-cent headwind to EPS.

Looking to 2026, as we shared on our second quarter call, we don't expect the annualization of tariffs in 2026 to cause further operating income declines. And we now expect the majority of the mitigation to come from adjustments to our sourcing, manufacturing, and assortments, with the balance driven by targeted pricing.

We continue to be mindful of price elasticity and remain focused on maintaining the overall value proposition for our customers. 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. Our third quarter AUR performance and the momentum of our brands gives me confidence that our AUR growth plans are achievable.

There will be a timing dynamic to the tariff impact on gross margin in 2026. We estimate a Q1 net tariff impact similar to Q4, followed by meaningful benefits from our mitigation efforts in Q2. The back half of 2026 should turn to a tailwind as our actions build, and we lap most of this year's tariff impact.

In closing, our Q3 results reflect strong execution of our reinvigoration playbook, driving consistency and growth across our largest brands. Continued cost discipline is enabling reinvestment in strategic growth opportunities, while our scale and supply chain strength support ongoing tariff mitigation.

When we perform with excellence, it builds confidence. Confidence fuels execution. Execution drives growth. This flywheel is the engine of our momentum.

As we look to deliver this holiday season, we remain focused on operational excellence and advancing our ambition to become a high-performing company that delivers sustainable, profitable growth and long-term value for our shareholders.

I'd like to thank the team for their commitment to excellence and delivering results in support of our transformation journey.

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