

GAP INC.

Gap Inc. Fourth Quarter Fiscal 2025 Conference Call Prepared Remarks March 5, 2026

Whitney Notaro – Head of Investor Relations, Gap Inc.

Good afternoon, everyone. Welcome to Gap Inc.'s Fourth 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, August 29, 2025, and November 26, 2025, and other 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, March 5th, 2026 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, where available, reconciliations of financial measures not consistent with Generally Accepted Accounting Principles. All market share data referenced today will be from Circana's U.S. Apparel Consumer service for the 12 months ending January 2026, 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.

I am pleased to report that we delivered another successful fourth quarter, in line with our expectations, and marking another year of meaningful progress for Gap Inc.

In the quarter, we achieved comparable sales of 3%, our eighth consecutive quarter of positive comps, while once again winning across all income cohorts. We continued to do what we said we were going to do, underscoring the growing resilience, durability and potential of our portfolio.

Reflecting on the full year, 2025 continued to demonstrate our ability to perform while we transform – even in a highly dynamic environment – as we execute our strategic priorities and deliver consistent performance while Fixing the Fundamentals. Through the disciplined execution of our brand reinvigoration playbook, we are building a clear track record of reliable growth, proving our three largest brands can deliver quarter after quarter. Gap Inc. achieved its second consecutive year of top-line

growth. Full year net sales grew 2%, at the high end of our outlook, fueled by comparable sales of 3% - building on last year's 1% net sales growth and 3% comp.

Our playbook continues to fuel our portfolio with Gap brand delivering its third consecutive year of positive comp sales, and both Old Navy and Banana Republic reporting their second consecutive year of positive comp sales.

We delivered one of our highest gross margins in the last 25 years and generated \$1.1 billion in full-year operating income, a clear reflection of the strength of our platform and the financial and operational rigor embedded across the organization.

Disciplined execution throughout the year further strengthened our balance sheet, enabling us to end 2025 with a cash balance of \$3 billion, our highest in nearly two decades. Based on our strong financial position and confidence in our continued progress, the Board recently approved an increase in our first quarter dividend and a new \$1 billion share repurchase authorization.

I am proud of the resilience this team has shown and what we have achieved together.

This performance gives me confidence as we continue to move forward.

That confidence is rooted in something deeper than any single quarter or year. Since 1969, when the Fishers opened a single store to bridge a generation gap, Gap Inc. has proven that purpose and profit can coexist—taking pride in doing what's right for our company, our customers and our communities, and building brands that matter.

It's that legacy—of bridging gaps and leading with purpose—that brings us to today. We have a unique opportunity with the legal settlement received to pledge a \$50 million charitable donation to a combination of The Gap Foundation and our donor advised fund. This marks a true legacy moment—honoring a heritage rooted in shared humanity and ensuring that our commitment to create a better world endures for generations to come.

On today's call, I'll discuss our fourth quarter performance by brand and share how we're thinking about 2026 in the context of our strategy. Then, Katrina will walk you through our detailed financial results and outlook after which we will open the call for questions.

Starting with Old Navy...

As we execute on our reinvigoration playbook, Old Navy is becoming a proven growth engine, with consistency and scale that drives meaningful value. Fourth quarter comp sales grew 3%, building on last year's 3% comp growth and reflecting the brand's fifth consecutive quarter of positive comps. Old Navy ranks as a top 3 brand in 9 of the 10 largest apparel categories and gained share in all 5 of the largest categories on a rolling twelve basis.

Old Navy continues to win at the intersection of great product, quality, and price. The brand's focused pursuit of leadership in active, denim, and kids and baby, drove strong performance across each of these categories as the brand continued to innovate and excite our customers. Both active and denim continued to grow share and the strong execution of our Disney partnership has positioned Old Navy as

Disney's #1 apparel brand direct-to-consumer partner in the United States. The brand has also continued to evolve its media mix model to meet consumers where they are, growing its presence on social media platforms and significantly increasing creator volume with over 15,000 creators in the fourth quarter, almost 3x the number of creators last year.

Looking ahead, we believe Old Navy is well positioned, and we're confident in the brand's ability to deliver consistently, largely in line with its performance over the past two years.

Now, let's turn to Gap...

Gap's momentum accelerated meaningfully in the fourth quarter, delivering comp sales up 7% on top of last year's 7% comp growth, marking its ninth consecutive quarter of positive comps. Returning to its powerful heritage, the brand is once again bridging the generation gap — continuing to attract Gen Z while growing its core customer — and that multi-generational appeal is showing up in the results.

Gap, at its best, is a true original — a pop culture brand that celebrates individuality, united through music, genres and collaborations that bridge generations and cultures. We're leaning into that heritage with intention. From red carpet moments — most recently dressing Leon Thomas for the Grammys and Claire Danes for the Golden Globes — to co-hosting a star-studded Super Bowl event in San Francisco, to spotlighting emerging artists from Tyla and Troye Sivan to KATSEYE and Sienna Spiro — Gap is showing up in culture in ways that are authentic and relevant.

In the fourth quarter, the team executed our playbook with fluency which was demonstrated through their "Give Your Gift" holiday campaign and culturally relevant collaborations, supported by a highly evolved media mix. We saw particular strength in key categories like fleece including logo, denim and sleepwear. As brand relevance has increased, we're also proving elasticity — this was our second quarter of meaningfully pulling back discounting, driven by on-trend product and strong brand heat.

With a focus on elevating the customer shopping experience, new store models continue to outperform the fleet, giving us confidence in the opportunity to accelerate these formats in 2026.

I'm proud to say that Gap, our namesake brand of 56 years, is firmly back in growth mode.

Banana Republic delivered a 4% comp, building on a 4% comp last year with sharper merchandising and execution. Banana Republic has returned to its roots as a storytelling brand expressed through the lens of the modern explorer. You can see that story coming to life more cohesively and comprehensively — through our assortments, merchandising, and how we show up in culture — and consumers have taken notice. There's greater synergy between men's and women's with head-to-toe wardrobing guided by a clear style guide and design language that's informing design, presentation, and storytelling. Leather, suede, cashmere, and texture — all synonymous with Banana Republic's design language - are reinforcing the brand's distinctive point of view. This is a great example of the differentiation of our portfolio coming alive, and we look forward to getting even sharper — with more precision, more narrative-led merchandising, and a dialed-up fashion quotient that underscores Banana Republic's unique brand DNA.

Shifting to Athleta...

While Athleta remains a work in progress, we took decisive action in the second half of 2025, appointing Maggie Gauger to lead its reinvigoration. The active category remains strategically important and resilient. Even amid disruption, customers continue to make fashion choices that are active-oriented. Within that landscape, Athleta holds a meaningful position as the #5 women's active brand — with distinction as a women's-only brand rooted in quality, performance, and design intent exclusively for her.

And, while Athleta's sales trend has been disappointing, we've accumulated critical learnings and are acting on them with intention. We are rearchitecting the assortment, building key items into enduring franchises, and reorganizing the brand around consumer insights. Maggie is going deep with the team — even meeting with Athleta's founder to reconnect the brand to its original purpose and establish clarity and alignment around the brand's identity. With the strength of our portfolio and our proven playbook, 2026 will be all about positioning the brand for sustainable growth in the years ahead. Progress will take time, but I am confident we are attracting the right talent to rebuild Athleta.

In 2025, the power of our portfolio became clear as our playbook successfully delivered consistent growth across our three largest brands. This was reflected in the metrics that matter, the strength of our product and in the cultural narratives that are resonating with consumers. Moving at the speed of culture takes focus and discipline, and we're working together with clarity and conviction to continue to advance our strategy.

As we've shared, we've been very purposeful in the sequential order of our transformation. Over the last two years, we have focused on Fixing the Fundamentals — maintaining financial and operational rigor, reinvigorating our brands, strengthening our platform and energizing our culture. The meaningful progress we've made across these strategic priorities has enabled us to consistently perform while we transform - strengthening our financial model and driving shareholder value.

As we move into the next phase of our transformation, Building Momentum, our primary focus will be growing our core apparel business through continuous improvement, driven by disciplined execution with better product, marketing, and storytelling. In parallel, we will be building on the strength of our apparel business by thoughtfully seeding growth accelerators and new capabilities.

We are beginning with expansions into adjacent lifestyle categories such as beauty and accessories, two categories that are underdeveloped in our portfolio but are meaningful to our consumers and sizeable in the industry. We will also continue advancing our Fashiontainment platform and technology capabilities — all with the intent to build scale, relevance, and revenue over time.

Let me take a moment to share more about each of these:

Starting with beauty...

As discussed in the past, beauty is one of the fastest growing, most resilient retail categories in the U.S., and our customer insights reinforce strong engagement. Our research suggests that for other fashion/apparel businesses that have entered the beauty space, beauty makes up anywhere from 5% to 20% of their business. We believe this is a good indicator of the category's potential in our business over the longer-term.

In 2025, we introduced the consumer to our expanded beauty assortment at Old Navy and are making refinements based on consumer feedback. In 2026, we'll be deepening this engagement with consumers and look forward to reintroducing a fragrance assortment at Gap this summer.

Turning to accessories...

Our accessory category performed well in 2025, reinforcing our confidence in this expansion. According to Euromonitor, this category has a ~\$15 billion total addressable market and today, Gap Inc. represents just ~1% of the market share. Consumers are looking for us to be more pronounced in accessories and we see an exciting opportunity to become a destination for wardrobing. We look forward to launching an expanded accessory line for holiday.

We believe the beauty and accessories categories have the added benefit of serving as margin and traffic drivers that strengthen our brands, deepen customer connection and build lasting loyalty. We have appointed proven industry experts to lead each of these areas with focus and discipline.

Our Fashiontainment platform is another area we will be focusing on in 2026.

Today's customers aren't just buying apparel; they're buying brands that tell stories and drive cultural conversations. As we continue to build our brands, we see entertainment as a powerful growth lever. Last month, Pam Kaufman joined Gap Inc. as Chief Entertainment Officer, adding focused leadership, expertise, and relationships across entertainment and licensing. The Fashiontainment platform we're building is about amplifying and scaling what is already working – expanding licensing, strengthening strategic partnerships, and aligning our assortments more intentionally with the entertainment calendar.

One capability we believe can be better monetized is our loyalty program. Gap Inc. has one of the largest programs in U.S. apparel retail, with nearly 40 million active members. Last week, we launched "Encore", our newly reimagined loyalty program, setting a new standard for loyalty in the apparel space. Encore brings our Fashiontainment platform to life by turning purchases into experiences that give members access to fashion, entertainment and the moments they care about across our portfolio of brands. It represents a shift from a traditional points-based loyalty program to a broader engagement platform. By bringing fashion, entertainment and access together, we are building momentum, deepening relationships and creating long-term value across our portfolio.

Technology is another platform capability where we see opportunity, especially with AI. Our AI strategy is focused on three areas: Enable, Optimize, and Re-Invent. Enable is about enterprise wide adoption, equipping our teams with AI tools that improve day to day productivity, streamline workflows and build AI fluency across the organization. Optimize focuses on high-impact process improvements to drive efficiency, accuracy, and speed. Reinvent is about reimagining our customer, product and enterprise journeys end-to-end. We are focusing on areas where AI can meaningfully reduce customer friction, increase predictability across product to market, and unlock productivity within the enterprise.

As we close the first chapter of our transformation and step into the next, we do so with a brand portfolio that is consistently growing, healthy gross margins, disciplined expense management, sustained bottom line performance, and strong cash on hand.

Looking ahead, we have a focused, energized team that believes in the future we're building. Our aspirations remain high and we're positioned to deliver. I'm excited about the opportunity ahead and confident in our ability to capture it.

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.

Execution of our strategic priorities continues to drive results and 2025 was a strong year of financial performance. We grew net sales 2%, gaining market share for the year as we demonstrated relevance to customers of all income levels. It's exciting to see our playbook driving the second consecutive year of top-line growth fueled by positive comp sales across our largest brands, Old Navy, Gap and Banana Republic.

The rigor we've developed is delivering reliable profit performance with another historically high gross margin of 40.8%, operating profit of \$1.1 billion, and an operating margin of 7.3%. These results reflect improved AURs as we leveraged the growing strength of our brands combined with SG&A leverage as we continued to optimize our cost structure. Tariff impacts were significant; however, our mitigation strategies have effectively managed these pressures.

Our focus on cost optimization and inventory management drove robust cash generation, ending the year with \$3 billion in cash, cash equivalents and short-term investments.

In 2025, we generated \$1.3 billion in net operating cash and \$823 million in free cash flow. Our strong balance sheet allowed us to invest into high returning projects while returning over \$400 million to our shareholders through dividends and share repurchases.

I'm incredibly proud of what this team has accomplished, and our performance gives us confidence in the 2026 outlook we provided today which reflects another year of sales growth in addition to operating margin expansion.

Before discussing the detailed results for the quarter and the year, it's important to note that changes in global tariff rates in 2025 had a substantial impact on our profits. Specifically, tariffs influenced our fiscal year's gross and operating margins by approximately 120 basis points and affected our fourth-quarter gross and operating margins by approximately 200 basis points. Despite these pressures, our reported results today include these factors, showcasing our strong underlying performance, thanks to the effective execution of our strategic priorities.

Now, let's turn to our fourth quarter results...

I am pleased with our performance, which included a solid holiday season, underscoring the increasing resonance of our brands with consumers. Fourth quarter net sales of \$4.2 billion increased 2% year over year with comparable sales up 3%, marking our eighth consecutive quarter of positive comps. Results were in line with our plans despite disruption from expansive store closures due to extreme weather at the end of January.

By brand, Old Navy net sales were \$2.3 billion, up 3% versus last year, with comparable sales up 3% building on last year's 3% comp growth. The brand's price value equation is resonating with consumers as Old Navy continues to win with strategic categories and across a wide range of income levels.

Turning to Gap brand, net sales of \$1.1 billion were up an impressive 8% versus last year and comparable sales were up 7%. This was on top of last year's 7% comp growth, demonstrating Gap's momentum as it continues to expand its customer base across generations.

Banana Republic net sales of \$549 million were up 1% year over year, with comparable sales up 4%. The brand delivered its third consecutive quarter of comp growth, reflecting progress in product elevation and sharper marketing and merchandising.

Athleta net sales of \$354 million decreased 11% versus last year, and comparable sales were down 10%. We remain focused on rebuilding the brand for the long term.

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

Gross margin of 38.1% declined 80 basis points. Lower discounting resulted in another quarter of AUR growth driven by the consumer's response to our relevant product and storytelling. Compared to last year, merchandise margins were down 90 basis points due to the net impact of tariffs. ROD leveraged 10 basis points in the quarter.

SG&A increased to \$1.4 billion, primarily due to the quarterly timing of incentive compensation in addition to strategic investments. SG&A as a percentage of net sales was 32.7%, deleveraging 10 basis points versus last year.

Fourth quarter operating margin of 5.4% was down 80 basis points compared to last year, primarily due to the approximately 200 basis points headwind from tariffs.

Earnings per share in the quarter were \$0.45 versus last year's earnings per share of \$0.54.

Now, let's turn to our full year 2025 results....

Net sales of \$15.4 billion increased 2% year-over-year, at the high end of the guidance range we provided, with comparable sales up 3%. Our playbook is working and drove strong results across our three largest brands, with Old Navy comp sales up 3%, Gap up 6% and Banana Republic up 3%. Comp sales for Athleta were down 9%.

Gross margin of 40.8% declined 50 basis points versus last year. Merchandise margin was down 80 basis points due to the impact of tariffs and ROD leveraged 30 basis points.

SG&A was \$5.2 billion. As a percentage of net sales, SG&A was 33.5%, leveraging 40 basis points versus last year. We achieved our targeted cost efficiencies in 2025 as we rigorously managed our core expenses to fund inflation and begin our investments in growth accelerators.

Fiscal 2025 operating income was \$1.1 billion, resulting in an operating margin of 7.3%. The 10 basis point decline in operating margin versus last year was due to the estimated 120 basis point impact of tariffs, implying roughly 110 basis points of underlying margin expansion vs. last year's 7.4%.

Earnings per share for the year were \$2.13, down 3% versus last year's EPS of \$2.20. Now turning to the balance sheet and cash flow.

End of quarter inventory levels were up 7% year-over-year, primarily attributable to increases in tariff-related cost. Our disciplined inventory management resulted in units down year over year, and we believe we ended the year with the right inventory composition going into fiscal 2026. We expect our inventory buys in the year ahead to be in line with our principle of unit purchases positioned modestly below sales.

As I highlighted earlier, we ended the year with cash, cash equivalents and short-term investments of \$3 billion, an increase of over \$400 million compared to last year. Full year net cash from operating activities was \$1.3 billion and we generated free cash flow of \$823 million for the year. Capital expenditures were \$470 million.

With regard to returning cash to shareholders, during the year, we paid \$247 million to shareholders in the form of dividends. Additionally, we repurchased 7 million shares for \$155 million, achieving our 2025 goal of offsetting dilution.

Before I move on, I want to thank our teams for their hard work and diligence this past year. Our 2025 results reflect significant progress in our transformation journey with the execution of our strategic priorities driving two years of impressive results. We are moving forward from a position of strength and will continue to operate with the same rigor in 2026.

Looking ahead...

We are energized by our strong business results which underpin a confident outlook for 2026. Our strong performance at Old Navy, Gap, and Banana Republic is expected to drive another year of net sales growth. At the same time, we are committed to rebuilding Athleta for sustainable long-term success. With our brands becoming increasingly relevant to consumers and our stringent inventory management practices, we anticipate continuous improvement in average unit retail supporting robust gross margins aligned with historically high levels. Successfully navigating the challenges of a second year of tariff dynamics, we are poised to not only maintain but improve our financial health.

Our strategy for 2026 includes generating further cost savings by increasing efficiencies in our core operations, enabling us to combat inflationary pressures while reallocating resources into strategic growth investments. This approach is designed to deliver a third consecutive year of profitable sales growth and robust cash flow generation, enabling us to continue capital investments and enhance shareholder returns.

I want to note that our guidance today reflects tariff rates under the IEEPA regime and therefore does not contemplate the recently announced Supreme Court ruling and subsequent Section 122 announcement. These recent events were not contemplated in our original plans for fiscal year 2026. If the Section 122 tariffs stay in place for the year or expire in July, we do believe there could be an

incremental benefit to our current plans. With many scenarios still being debated, we are awaiting more clarity before changing our plans. At this time, we expect any benefit to Q1 to be minimal based on the timing of receipts. In the meantime, our teams are continuing to leverage the extensive tariff mitigation strategies we have built out over the past year, which sets us up for the annualization of last year's tariffs to be net neutral to 2026 full year operating income, as previously disclosed.

As noted in today's earnings press release, our outlook excludes the net estimated gain related to a legal settlement in the first quarter as well as the pledged charitable donation of approximately \$50 million to a combination of the Gap Foundation and our donor advised fund which we are pleased to make as we look to advance our purpose. Both are included in our Reported EPS guidance for FY 2026.

As I take you through the details of our 2026 outlook, I'll spend time unpacking the factors that shape the year as there is some nuance to the quarterly cadence related to the timing of tariffs and investments.

Let's jump into the full year...

Starting with revenue, we expect net sales growth of approximately 2% to 3% year-over-year. While there are a range of outcomes for each of our brands, we expect continued comp sales growth across our three largest brands, and negative mid-to-high-single-digit sales declines for Athleta in the first half of the year and the team is hard at work on the second half.

Turning to gross margin...

We are proud of the underlying gross margin performance achieved in 2025 and expect gross margins to be flat-to-up slightly year over year in 2026 compared to 40.8% last year. This includes a balanced plan of realizing higher AURs through better sell-throughs and lower discounting as well as implementing adjusted sourcing strategies as we offset the tariff impact that annualizes in the base this year.

Regarding tariffs specifically, the net tariff impact is expected to be neutral on the full year. Our sourcing strategies build sequentially through the year resulting in an approximately 150 basis point headwind to the first half gross margin that turns to an approximately 150 basis point tailwind in the second half of the year. Specific to the first half, we expect a 200 basis point headwind to Q1, which improves to an approximately 100 basis point headwind in Q2.

Separately, as we conclude our multiyear program of rationalizing our store footprint and begin to reaccelerate our capital expenditures, we expect ROD as a percentage to sales to deleverage slightly.

Moving on to SG&A, we expect Adjusted SG&A as a percentage of sales to be roughly flat year over year. Our focus is on further improving our cost structure, aiming to achieve around \$150 million in incremental savings by enhancing efficiency and effectiveness in 2026. These savings will help us manage inflation and reinvest in more valuable initiatives such as expanding into new categories and capabilities like beauty, accessories, fashiontainment, and technology, as Richard mentioned.

We initiated our growth accelerator investments in 2025, particularly in the latter half of the year. These will continue into 2026, initially causing some SG&A deleverage in the first half. However, we anticipate SG&A to leverage in the second half as we lap the higher spend in the back half of last year.

Taking this all into consideration, we expect an Adjusted operating margin of about 7.3% to 7.5% for the full year.

Interest income is expected to be approximately \$10 million to \$15 million and we expect a tax rate of approximately 27%.

Reported EPS is expected to be \$2.71 to \$2.86, which includes an estimated \$0.51 benefit related to a legal settlement in the first quarter net of the \$50 million charitable donation. We expect an Adjusted EPS of \$2.20 to \$2.35, representing growth of 4% to 10% year over year.

Our healthy balance sheet supports our balanced capital allocation framework with the primary goal of enhancing long-term shareholder value. The framework remains as follows:

1. Our first priority is investing in the business through high returning capital investments. In 2026, we expect to invest approximately \$650 million, which relates primarily to our investments in our stores, technology, and supply chain.
2. Second, we believe in paying an attractive dividend that grows with net income growth. In alignment with that principle, we recently announced that the board raised the first quarter dividend by approximately 6% to \$0.175 per share.
3. And our third priority is focused on share repurchases. Previously we aimed to simply offset dilution. We are now committed to executing a repurchase program with a goal of driving slight accretion. On that note, the board has approved a new \$1 billion share repurchase authorization that we expect to utilize to meet this goal.

Now, let me turn to our outlook for the first quarter of fiscal 2026.

The quarter is off to a good start and our outlook contemplates our quarter-to-date performance. We expect net sales in Q1 to be up 1.0% to 2.0% year-over-year. This includes an approximately 150 basis point spread where comp outpaces net sales largely related to lapping last year's benefit from our credit card agreement, which continues into Q2 but does not impact the back half of the year.

We expect first quarter gross margin to be down about 150-200 basis points compared to last year's gross margin of 41.8%, including an estimated 200 basis points of net tariff impact. This implies an underlying gross margin of flat to up 50 basis points.

And we are planning for Adjusted SG&A as a percentage of net sales to be about 35%, which reflects the timing of the growth investments I spoke to earlier.

Reflecting on 2025, I am proud of our accomplishments. Our consistent execution over the past two years has laid a solid foundation, driving our confidence as we advance in our transformative journey. As we transition into 2026, we're excited to amplify our core strengths while fostering new opportunities through strategic growth accelerators and innovative capabilities. Our balance sheet is giving us the ability to invest purposefully in our business and accelerate cash returns to shareholders.

With demonstrated progress and an exciting roadmap ahead, we are building a high-performing company that stays focused on delivering sustainable, profitable growth and long-term value for our shareholders.

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