



Gap Annual Report 2020

Form 10-K (NYSE:GPS)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended February 1, 2020

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1-7562

THE GAP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

94-1697231
(I.R.S. Employer Identification No.)

Two Folsom Street
San Francisco, California 94105
(Address of principal executive offices)

Registrant's telephone number, including area code: **(415) 427-0100**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.05 par value	GPS	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of August 2, 2019 was approximately \$4 billion based upon the last price reported for such date in the NYSE-Composite transactions.

The number of shares of the registrant's common stock outstanding as of March 11, 2020 was 371,301,527.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 19, 2020 (hereinafter referred to as the "2020 Proxy Statement") are incorporated into Part III.

Special Note on Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. All statements other than those that are purely historical are forward-looking statements. Words such as “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan,” “project,” and similar expressions also identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding the following:

- intent to operate in a more rigorous and transformational manner;
 - plans to restructure the Gap brand specialty fleet, including anticipated store closures and timing, associated pre-tax costs and charges, impact to annualized sales, and effect on annualized savings;
 - the potential impact of COVID-19 on both our projected customer demand and supply chain, as well as our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2020;
 - improving inventory productivity by leveraging responsive capabilities;
 - investing in digital and customer capabilities, as well as store experience;
 - increasing productivity by leveraging our scale and streamlining operations and processes;
 - attracting and retaining strong talent in our businesses and functions;
 - continuing to integrate social and environmental sustainability into business practices;
 - investing strategically in the business while maintaining operating expense discipline;
 - transforming our product to market process;
 - continuing our investment in customer experience to drive higher customer engagement and loyalty;
 - continuing to invest in strengthening our brand awareness, customer acquisition, and digital capabilities;
 - utilizing data, analytics, and technology to respond faster while making decisions;
 - store openings and closings in fiscal 2020;
 - impact of foreign currency exchange rate fluctuations in fiscal 2020;
 - extinguishing our 5.95 percent notes due April 2021, and entering into a new long-term debt arrangement and a new secured revolving credit facility;
 - current cash balances and cash flows being sufficient to support our business operations, and the expected impact of extensive store closures on our need for additional credit;
 - ability to supplement near-term liquidity, if necessary, with our \$500 million revolving credit facility or other available market instruments;
 - the impact of the seasonality of our operations;
 - dividend payments in fiscal 2020;
 - the impact if actuals differ substantially from estimates and assumptions used in accounting calculations and policies;
 - the impact of recent accounting pronouncements;
 - recognition of revenue deferrals as revenue;
 - impact of violating financial and other covenants under our five-year, unsecured revolving credit facility;
 - unrealized gains and losses from designated cash flow hedges;
 - recognition of unrecognized share-based compensation expense;
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- total gross unrecognized tax benefits;
- the impact of losses due to indemnification obligations;
- the outcome of proceedings, lawsuits, disputes, and claims; and
- the impact of changes in internal control over financial reporting.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, without limitation, the following:

- the risk that we or our franchisees will be unsuccessful in gauging apparel trends and changing consumer preferences;
 - the highly competitive nature of our business in the United States and internationally;
 - engaging in or seeking to engage in strategic transactions that are subject to various risks and uncertainties;
 - the risk that failure to maintain, enhance and protect our brand image could have an adverse effect on our results of operations;
 - the risk that the failure to manage key executive succession and retention and to continue to attract qualified personnel could have an adverse impact on our results of operations;
 - the risk that our investments in customer, digital, and omni-channel shopping initiatives may not deliver the results we anticipate;
 - the risk that if we are unable to manage our inventory effectively, our gross margins will be adversely affected;
 - the risks to our business, including our costs and supply chain, associated with global sourcing and manufacturing;
 - the risk that we are subject to data or other security breaches that may result in increased costs, violations of law, significant legal and financial exposure, and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation;
 - the risk that a failure of, or updates or changes to, our information technology ("IT") systems may disrupt our operations;
 - the risk that changes in global economic conditions or consumer spending patterns could adversely impact our results of operations;
 - the risks to our efforts to expand internationally, including our ability to operate in regions where we have less experience;
 - the risk that we or our franchisees will be unsuccessful in identifying, negotiating, and securing new store locations and renewing, modifying, or terminating leases for existing store locations effectively;
 - the risks to our reputation or operations associated with importing merchandise from foreign countries, including failure of our vendors to adhere to our Code of Vendor Conduct;
 - the risk that our franchisees' operation of franchise stores is not directly within our control and could impair the value of our brands;
 - the risk that trade matters could increase the cost or reduce the supply of apparel available to us and adversely affect our business, financial condition, and results of operations;
 - the risk that foreign currency exchange rate fluctuations could adversely impact our financial results;
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- the risk that comparable sales and margins will experience fluctuations;
- the risk that changes in our credit profile or deterioration in market conditions may limit our access to the capital markets and adversely impact our financial results or our business initiatives;
- the risk that changes in the regulatory or administrative landscape could adversely affect our financial condition and results of operations;
- the risk that natural disasters, public health crises, political crises, negative global climate patterns, or other catastrophic events could adversely affect our operations and financial results, or those of our franchisees or vendors;
- the risk that reductions in income and cash flow from our credit card arrangement related to our private label and co-branded credit cards could adversely affect our operating results and cash flows;
- the risk that the adoption of new accounting pronouncements will impact future results;
- the risk that we do not repurchase some or all of the shares we anticipate purchasing pursuant to our repurchase program; and
- the risk that we will not be successful in defending various proceedings, lawsuits, disputes, and claims.

Additional information regarding factors that could cause results to differ can be found in this Annual Report on Form 10-K and our other filings with the U.S. Securities and Exchange Commission ("SEC").

Future economic and industry trends that could potentially impact net sales and profitability are difficult to predict. These forward-looking statements are based on information as of March 17, 2020, and we assume no obligation to publicly update or revise our forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

THE GAP, INC.
2019 ANNUAL REPORT ON FORM 10-K
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Part I

Item 1. Business.

General

The Gap, Inc. (Gap Inc., the “Company,” “we,” and “our”) was incorporated in the State of California in July 1969 and was reincorporated in the State of Delaware in May 1988.

Gap Inc. is a leading global apparel retail company. We offer apparel, accessories, and personal care products for men, women, and children under the Old Navy, Gap, Banana Republic, Athleta, Intermix, Janie and Jack, and Hill City brands. Our portfolio of distinct brands across multiple channels and geographies, combined with our size and scale which allows for strategic and advantageous partnerships with our third-party vendors and suppliers throughout the organization, gives us a competitive advantage in the global retail marketplace.

Gap Inc. is an omni-channel retailer, with sales to customers both in stores and online, through Company-operated and franchise stores, websites, and third-party arrangements. Gap Inc. has Company-operated stores in the United States, Canada, the United Kingdom, France, Ireland, Japan, Italy, China, Hong Kong, Taiwan, and Mexico. We also have franchise agreements with unaffiliated franchisees to operate Old Navy, Gap, and Banana Republic stores throughout Asia, Europe, Latin America, the Middle East, and Africa. Under these agreements, third parties operate stores that sell apparel and related products under our brand names. Most of the products sold under our brand names are designed by us and manufactured by independent sources. We also sell products that are designed and manufactured by branded third parties, primarily at our Intermix brand.

Gap Inc. uses omni-channel capabilities to bridge the digital world and physical stores, creating world-class shopping experiences regardless of where or how our customers shop. The Company’s suite of omni-channel services, including order-in-store, reserve-in-store, find-in-store, buy-online-pick-up-in-store, and ship-from-store, as well as mobile shopping experiences, are uniquely tailored across its portfolio of brands.

Old Navy. Old Navy is an American value apparel brand that makes current essentials accessible to everyone. The brand celebrates the democracy of style through on-trend, playfully optimistic, affordable, high-quality product, and inclusive size ranges. Old Navy is committed to creating incredible shopping experiences regardless of where, when and how customers choose to shop, including a fun store experience, a dynamic online channel and convenient omni-channel capabilities. Old Navy opened its first store in 1994 in the United States and since has expanded to more than 1,200 stores, including Company-operated stores in Canada, China, and Mexico, as well as franchise stores around the world. Old Navy believes in the power of the next generation, and through its cause platform, Onward!, supports the Boys & Girls Clubs of America to help turn learners into leaders.

Gap. Gap is an iconic apparel and accessories brands anchored in optimistic, casual, American style. Founded in San Francisco in 1969, the brand’s collections continue to build the foundation of modern wardrobes—all things denim, tees, fleece, and khakis, along with must-have trends.

Gap is designed to build the foundation of modern wardrobes through every stage of life with apparel and accessories for adult men and women under the Gap name, in addition to GapKids, babyGap, GapMaternity, GapBody, and GapFit collections. Beginning in 1987 with the opening of the first store outside North America in London, Gap continues to connect with customers around the world through specialty stores, online, and franchise stores. In addition, we bring the brand to value-conscious customers, with exclusively designed collections for Gap Outlet and Gap Factory stores and online.

Banana Republic. Acquired in 1983 as a travel and adventure outfitter, Banana Republic is now a global apparel and accessories brand focused on delivering modern, versatile classics designed for a life with no boundaries. Curious, connected and out in the world, Banana Republic provides a wardrobe of favorites—clothing, eyewear, jewelry, shoes, handbags, and fragrances—all made for a life in motion with the finest materials and fabric innovations. Customers can purchase Banana Republic products globally in our specialty stores, factory stores, online, and franchise stores.

Athleta. Athleta is a premium fitness and lifestyle brand creating beautiful, technical, sustainable apparel to inspire a community of active, confident women and girls. Established in 1998 and acquired by Gap Inc. in 2008, Athleta integrates technical features and innovative design across its women's collection to carry her through a life in motion, from yoga, training and sports, to everyday activities and travel. In 2016, the Company launched Athleta Girl, mirroring its signature performance in styles for the next generation. In 2019, Athleta announced its partnership with decorated track and field athlete and activist, Allyson Felix, to empower women and girls through sports. Ms. Felix became Athleta's first-ever sponsored athlete. Customers can purchase Athleta products in the United States through its stores and catalogs, or globally online.

Athleta has been certified as a benefit corporation ("B Corp"), furthering its commitment to using our business as a force for good to drive social and environmental impact. The Company met rigorous standards across social and environmental performance, accountability, and transparency. Additionally, Athleta's legal charter was amended to become a Delaware public benefit corporation, further demonstrating its commitment to people and the planet. With this accreditation, Gap Inc. has become one of the largest publicly-traded retail companies with a B Corp certified subsidiary apparel brand.

Intermix. Intermix is a curated, omni-channel, women's fashion business comprised of 33 boutiques with hyper-localized assortments and a growing e-commerce channel. The brand is known for curating the most sought-after styles from a compelling mix of both established and emerging designers. Founded in 1993 and acquired by Gap Inc. in 2012, Intermix delivers a highly personalized shopping experience across both channels, with complimentary personal stylists on-hand to work one-on-one with clients to create looks that make them feel confident while making fashion fun and inspiring.

Janie and Jack. Janie and Jack is a premium children's apparel brand acquired by Gap Inc. in 2019. Janie and Jack is a design house with every kid at heart that encourages individual style from the start. Janie and Jack creates collections featuring modern twists on classic fashion and is known for family moments, thoughtful details and memorable gifts. Customers can shop sizes newborn through 6 years in 139 stores in the United States and all sizes through 12 years online at janieandjack.com.

Hill City. Hill City is a premium-performance men's apparel brand offering highly technical clothing for every part of life. Launched in 2018, Hill City fuses a minimal aesthetic with technical innovation, allowing men to own more versatile clothing. Hill City is a B Corp certified brand, meeting the highest standards for social and environmental performance, transparency, and accountability.

The range of merchandise displayed in each store varies depending on the selling season and the size and location of the store. Stores are generally open seven days per week (where permitted by law) and most holidays.

We ended fiscal 2019 with 3,345 Company-operated stores and 574 franchise store locations. For more information on the number of stores by brand and region, see the table included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

Old Navy, Gap, Banana Republic, and Athleta each have a private label credit card program and a co-branded credit card program through which frequent customers receive benefits. Private label and co-branded credit cards are provided by a third-party financing company, with associated revenue sharing arrangements reflected in Gap Inc. operations. We have a multi-tender loyalty rewards program, Bright Rewards, active across each of these brands in select markets. All of our brands issue and redeem gift cards.

Certain financial information about international operations is set forth under the heading "Segment Information" in Note 17 of Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.

Product Development

We design, develop, market, and sell a wide range of apparel, footwear and accessories products reflecting a mix of basics and fashion items based on widely accepted fashion trends, striving to bring product to market quickly and provide unrivaled value to customers. Our product teams research, test and iterate each season to deliver the latest styles in fabrics and silhouettes that are made to last. We leverage feedback and purchasing data from our customer database, along with market trend insight, to guide our product and merchandising decision-making.

Marketing and Advertising

We use a variety of marketing and advertising mediums to drive brand health, customer acquisition, and engagement. We leverage our growing customer database and respond to shopping behaviors and needs with personalized content across email, site, and digital media to drive relevance and urgency. Our diversified media mix spans traditional to digital to social media. We focus on productivity of marketing investment to drive increased effectiveness.

Merchandise Vendors

We purchase private label and non-private label merchandise from about 800 vendors. Our vendors have factories in about 30 countries. Our two largest vendors accounted for about 7 and 6 percent of the dollar amount of our total fiscal 2019 purchases. Of our merchandise purchased during fiscal 2019, substantially all purchases, by dollar value, were from factories outside the United States. Approximately 32 percent of our fiscal 2019 purchases, by dollar value, were from factories in Vietnam. Approximately 16 percent of our fiscal 2019 purchases, by dollar value, were from factories in China. Product cost increases or events causing disruption of imports from Vietnam, China, or other foreign countries, including the imposition of additional import restrictions or taxes, or vendors potentially failing due to political, financial, public health crises or regulatory issues, could have an adverse effect on our operations. Substantially all of our foreign purchases of merchandise are negotiated and paid for in U.S. dollars. Also see the sections entitled "Risk Factors—Our business is subject to risks associated with global sourcing and manufacturing," "Risk Factors—Risks associated with importing merchandise from foreign countries, including failure of our vendors to adhere to our Code of Vendor Conduct, could harm our business," "Risk Factors—Trade matters may disrupt our supply chain" and "Risk Factors—Our results could be adversely affected by natural disasters, public health crises, political crises, negative global climate patterns, or other catastrophic events" in Item 1A, Risk Factors, of this Form 10-K.

Seasonal Business

Our business follows a seasonal pattern, with sales peaking during the end-of-year holiday period.

Brand Building

Our ability to develop and evolve our existing brands is a key to our success. We believe our distinct brands are among our most important assets. With the exception of Intermix, virtually all aspects of brand development, from product design and distribution to marketing, merchandising and shopping environments, are controlled by Gap Inc. employees. With respect to Intermix, we control all aspects of brand development except for product design related to third-party products. We continue to invest in our business and enhance the customer experience through significant investments in our supply chain and digital capabilities, investments in marketing, enhancement of our omni-channel shopping experience, remodeling of existing stores, and international expansion.

Trademarks and Service Marks

Old Navy, Gap, GapKids, babyGap, GapMaternity, GapBody, GapFit, Banana Republic, Athleta, Intermix, Janie and Jack, and Hill City trademarks and service marks, and certain other trademarks and service marks, have been registered, or are the subject of pending trademark applications, with the United States Patent and Trademark Office and with the registries of many foreign countries and/or are protected by common law.

Franchising

We have franchise agreements with unaffiliated franchisees to operate Old Navy, Gap, and Banana Republic stores in a number of countries throughout Asia, Europe, Latin America, the Middle East, and Africa. Under these agreements, third parties operate, or will operate, stores that sell apparel and related products under our brand names. For additional information on risks related to our franchise business, see the sections entitled "Risk Factors—Our efforts to expand internationally may not be successful" and "Risk Factors—Our franchise business is subject to certain risks not directly within our control that could impair the value of our brands" in Item 1A, Risk Factors, of this Form 10-K.

Inventory

The nature of the retail business requires us to carry a significant amount of inventory, especially prior to the peak holiday selling season when we, along with other retailers, generally build up inventory levels. We maintain a large part of our inventory in distribution centers. We review our inventory levels in order to identify slow-moving merchandise and broken assortments (items no longer in stock in a sufficient range of sizes or colors) and we primarily use promotions and markdowns to clear merchandise. Also see the sections entitled "Risk Factors—We must successfully gauge apparel trends and changing consumer preferences to succeed," "Risk Factors—If we are unable to manage our inventory effectively, our gross margins could be adversely affected," and "Risk Factors—Our results could be adversely affected by natural disasters, public health crises, political crises, negative global climate patterns, or other catastrophic events" in Item 1A, Risk Factors, of this Form 10-K.

Competitors

The global apparel retail industry is highly competitive. We compete with local, national, and global apparel retailers. Also see the section entitled "Risk Factors—Our business is highly competitive" in Item 1A, Risk Factors, of this Form 10-K.

Employees

As of February 1, 2020, we had a workforce of approximately 129,000 employees, which includes a combination of part-time and full-time employees. We also hire seasonal employees, primarily during the peak holiday selling season.

To remain competitive in the retail apparel industry, we must attract, develop, and retain skilled employees in our design, merchandising, supply chain, marketing, information technology, and other functions, as well as in our stores and distribution centers. Competition for such personnel is intense. Our success is dependent to a significant degree on the continued contributions of key employees. Also see the section entitled "Risk Factors—Our failure to manage key executive succession and retention and to continue to attract qualified personnel could have an adverse impact on our results of operations" in Item 1A, Risk Factors, of this Form 10-K.

Available Information

We make available on our website, www.gapinc.com, under "Investors," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish them to the SEC.

Our Board of Directors Committee Charters (Audit and Finance, Compensation and Management Development, and Governance and Sustainability Committees) and Corporate Governance Guidelines are also available on our website under "Investors, Governance." Our Code of Business Conduct can be found on our website under "Investors, Corporate Compliance, Code of Business Conduct Overview." Any amendments and waivers to the Code will also be available on the website.

Information about our sustainability efforts is available online at www.gapinc sustainability.com, which provides information on our policies, social impact and environmental programs, as well as our sustainability strategy and data. Also available at www.gapinc sustainability.com is a Sustainability Accounting Standards Board (SASB) table, which provides comparable data for our industry.