VGR

// Q2 FY2026

GAP INC.

OLD NAVY GAP BANANA REPUBLIC ATHLETA

VGR MARKET INTELLIGENCE

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01

Executive Summary

Gap Inc. reported net sales of $3,651 million for the thirteen weeks ended 1 August 2026, 2.0% below the same quarter a year earlier, with comparable sales down 1%. Reported operating income was $676 million and the reported operating margin 18.5%, both more than double the prior year, and reported diluted earnings were $1.38 a share against $0.57. Those figures contain a $417 million net credit to cost of goods sold from tariff refunds. On the company's own adjusted basis, which removes that credit, operating income was $259 million, the operating margin 7.1% and diluted earnings $0.52 a share. The company states it exceeded its own reported and adjusted operating margin expectations for the quarter, narrowed its full-year net sales guidance to up 1% to 1.5% from up 1% to 2%, raised its adjusted earnings per share guidance to $2.35 to $2.45 from $2.30 to $2.40, and has returned $726 million to shareholders so far this year. Sections 02 to 13 measure what produced that result.

Net sales fell $74 million: Old Navy and Athleta took out $125 million, the Gap brand added $72 million, and the "Other" line, down from $28 million to $4 million, took out $24 million, 32.4% of the decline.

The group's five reported net sales lines move in opposite directions and sum exactly to the $74 million decline. Old Navy fell 4.1% to $2,061 million, taking out $89 million. Athleta fell 12.0% to $264 million, taking out $36 million. The Gap brand grew 9.3% to $844 million, putting back $72 million. Banana Republic grew 0.6% to $478 million, putting back $3 million. The fifth line, which the company labels only "Other" and describes as "net sales from revenue-generating strategic initiatives", fell from $28 million to $4 million, an 85.7% decline that removed $24 million.

That $24 million is 32.4% of the group's net sales decline. The line appears in the release as a column in the net sales table and nowhere else. It is not a brand, so it carries no comparable sales figure, and the outlook gives no expectation for it. The company's description, "net sales from revenue-generating strategic initiatives", is the whole of the disclosure.

It also accounts for most of the distance between the two growth rates the company publishes for the same quarter. Comparable sales were down 1%; reported net sales were down 2.0%. Excluding the Other line from both years, net sales were $3,647 million against $3,697 million, a decline of 1.4%, against comparable sales down 1%. Net company-operated store closures over the half were three, on a base of 2,474, so the estate does not account for the difference. Growth composition is measured in section 04.

Within the two brands that moved most, the direction is regional. The Gap brand's United States net sales rose 12.6% to $654 million while its business outside North

America fell 5.2%, from $115 million to $109 million. In this quarter's figures the growth the company describes as "momentum at the Gap brand" comes from the United States. Old Navy fell 4.1% in the United States and 3.2% in Canada.

Excluding the tariff credit the operating margin was 7.1% against 7.8%, 74 basis points lower: 18 basis points gained at the gross margin, 92 lost to operating expense deleverage.

The reported gross margin of 52.8% contains 1,140 basis points of tariff recovery, a figure the company publishes itself. Removing it gives an adjusted gross margin of 41.4% against 41.2% a year earlier, a gain of 18 basis points. Operating expense was $1,253 million, or 34.3% of net sales, against 33.4%, a deleverage of 92 basis points on absolute spending that rose 0.7%. Almost all of that deleverage is the denominator: sales fell 2.0% while operating expense was nearly flat. The adjusted operating margin is 7.1% against 7.8%, 74 basis points lower, and adjusted operating income fell 11.3% to $259 million.

The bridge closes with no residual: a gain of 18 basis points at the gross margin less a deleverage of 92 basis points at operating expense gives minus 74 basis points at the operating margin. The company discloses the components separately. It gives the gross margin step as "increased 20 basis points" and its two parts, merchandise margin up 80 basis points and rent, occupancy and depreciation deleveraging 60, in the same bullet list; it prints the operating expense ratio as "34.3% of net sales" and the adjusted operating margin as "7.1%", each without a prior-year comparison. The assembled bridge is VGR arithmetic on those figures.

The company's own claim is that it "exceeded reported and adjusted operating margin expectations". That is a comparison against its own prior guidance, which this release does not print, so it cannot be checked here and is recorded as not verifiable from the disclosure. It does not conflict with the arithmetic above, which compares the margin with the prior year rather than with a forecast. The bridge is set out in full in section 06.

Shareholder returns of $726 million ran at 2.8 times the $261 million of free cash flow generated over the same twenty-six weeks, and cash fell $514 million.

Year to date the company repurchased $601 million of stock and paid $125 million of dividends, $726 million in total. Over the same twenty-six weeks it generated $550 million of operating cash flow and, after $289 million of capital expenditure, $261 million of free cash flow on its own definition. Returns were 2.78 times free cash flow and buybacks alone were 2.30 times. The difference came off the balance sheet: cash, cash equivalents and restricted cash fell $514 million over the half, from $2,644 million to $2,130 million. Capital expenditure has also risen to 1.12 times depreciation and amortisation from 0.74 times, so the company is spending more on assets at the same time.

The share count reduction is visible in the guidance. Diluted share count guidance for the full year fell from approximately 375 million to approximately 367 million, a reduction of 2.1%, and the quarter's diluted count of 362 million is 4.5% below the prior year's 379 million. That reduction separates the profit movement from the per-share movement: adjusted net income fell 12.0% in the quarter while adjusted diluted earnings per share fell 8.8%, so the share count absorbed 3.3 percentage points of the decline. Section 09 sets out the execution, including the 10.8% difference between the price paid under the accelerated repurchase programme and the price paid in the open market; section 11 takes the guidance apart.

WHAT TO WATCH

Third quarter fiscal 2026, quarter ending 31 October 2026, release date not yet announced. Old Navy comparable sales. The company has cut its full-year assumption for the brand to flat to down 1% after a fourth-quarter-weighted year, and Old Navy is 56.5% of group net sales. A continuation is a second consecutive negative quarter at or near minus 4%; a break is a return to flat or better.

Third quarter fiscal 2026. Whether the tariff refund becomes cash. Of the $512 million recognised in the second quarter, $95 million was received; the company says the remaining refunds and related interest income are expected in the third quarter. The disclosures to check are the "Other current assets" line on the balance sheet, which stood at $1,088 million against $651 million a year earlier, and net cash provided by operating activities. Conversion looks like other current assets falling by roughly $417 million; non-conversion looks like the receivable still sitting there.

Third quarter fiscal 2026. The "Other" net sales line. It fell from $28 million to $4 million and supplied 32.4% of the group's net sales decline. A continuation is a third-quarter figure near $4 million, a second quarter at the lower level; a break is a return towards the prior-year level.

Third quarter fiscal 2026, then the fourth quarter. What the full-year sales range requires. The first half grew minus 0.6%, and the full-year range of up 1% to 1.5% needs the second half to grow 2.4% to 3.3%. With the third quarter guided to up 1.5% to 2.5%, the fourth quarter has to grow roughly 3.1% to 4.0%. Check the third-quarter outcome against the guided range: a result at the bottom of it raises what the fourth quarter must carry.

VGR will publish the third quarter fiscal 2026 analysis when the figures are released.

02 · THE PERIOD IN FIGURES

The period in figures

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THE GAP, INC. · NYSE: GAP · Q2 FISCAL 2026 · USD AS PUBLISHED

FINANCIAL YEAR ENDS 30 JANUARY 2027 · PERIOD ENDED 1 AUGUST 2026 · REPORTED 27 AUGUST 2026 · ANALYSIS 30 SEPTEMBER 2026

NET REVENUES	GROSS PROFIT	OPERATING PROFIT	NET PROFIT
−2.0%	+25.6%	+131.5%	+131.9%
3,651 vs 3,725	1,929 vs 1,536	676 vs 292	501 vs 216

	GROSS MARGIN	OPERATING MARGIN	RoS
	52.8%	18.5%	13.7%
	from 41.2%	from 7.8%	from 5.8%

$m, quarter against the same quarter a year earlier; USD million, both years as reported under GAAP; fiscal 2026 includes a $417m net tariff credit to cost of goods sold, and the company states fiscal 2025 carried no adjusted metrics; excluding the credit, operating profit is $259m and the operating margin 7.1%

Primary source: The Gap, Inc. (NYSE: GAP), second quarter fiscal 2026 results, filed with the Securities and Exchange Commission as Exhibit 99.1 to a Current Report on Form 8-K; conference call held at approximately 14:00 Pacific Time the same day. Statements unaudited; comparatives as printed in the release. Dollars as published, nothing converted. The percentage changes, the margin rates and the return on sales above are VGR arithmetic on the disclosed figures.

Reported and on the VGR basis, side by side

The VGR basis removes the $417 million net tariff credit and the $5 million of related interest income from the current quarter, which is the company's own adjustment and is reconciled in its release. It makes no adjustment of VGR's own. The prior-year column is the prior year as reported, because the company states plainly that fiscal 2025 carried no adjusted metrics and directs the reader to compare against reported figures.

MEASURE	Q2 26	Q2 25	CHANGE
Net sales	3,651	3,725	−2.0%
Gross profit, reported	1,929	1,536	+25.6%
Gross profit, VGR basis	1,512	1,536	−1.6%

MEASURE	Q2 26	Q2 25	CHANGE
Gross margin, reported	52.8%	41.2%	+1,160bp
Gross margin, VGR basis	41.4%	41.2%	+18bp
Operating expense	1,253	1,244	+0.7%
Operating expense, % of sales	34.3%	33.4%	+92bp deleverage
Operating income, reported	676	292	+131.5%
Operating income, VGR basis	259	292	−11.3%
Operating margin, reported	18.5%	7.8%	+1,068bp
Operating margin, VGR basis	7.1%	7.8%	**−74bp**
Income before income taxes	680	296	+129.7%
Effective tax rate	26.3%	27.0%	−70bp
Net income, reported	501	216	+131.9%
Net income, VGR basis	190	216	**−12.0%**
Diluted EPS, reported	$1.38	$0.57	+142.1%
Diluted EPS, VGR basis	$0.52	$0.57	**−8.8%**
Diluted shares	362	379	−4.5%

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million except per-share amounts and shares in millions. The VGR-basis rows are the company's own non-GAAP reconciliation, not a VGR adjustment. The prior-year effective tax rate is VGR arithmetic, 80 ÷ 296.

Every profit line rose on the reported basis and fell on the VGR basis. The difference between the two is one item: a $417 million credit to cost of goods sold, worth 1.61 times the quarter's adjusted operating income and 61.7% of its reported operating income. Section 10 examines what that credit is and how much of it is cash.

The half year

MEASURE	H1 26	H1 25	CHANGE
Net sales	7,148	7,188	−0.6%
Gross profit	3,346	2,984	+12.1%
Operating expenses	2,225	2,432	−8.5%

MEASURE	H1 26	H1 25	CHANGE
Operating income	1,121	552	+103.1%
Net income	840	409	+105.4%
Diluted EPS	$2.26	$1.07	+111.2%
Net cash from operating activities	550	308	+78.6%
Free cash flow	261	127	+105.5%

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million except per-share amounts. Twenty-six weeks in both years. The half-year figures carry two items the company itself removes from its full-year adjusted guidance: a $313m litigation settlement gain and a $50m charitable contribution, both in the first quarter, and the $417m tariff credit in the second. The company publishes no adjusted half-year income statement.

03 · THE RESTATEMENT BRIDGE

Comparability: clean on the calendar, one restatement in the cash flow, and no prior-year adjusted comparator anywhere

TEST	FLAG	FINDING
Period length	—	Thirteen weeks against thirteen weeks; twenty-six against twenty-six. Both period ends, 1 August 2026 and 2 August 2025, are Saturdays consistent with the company's 52/53-week calendar. No week-count distortion in any comparison in this document.
Fiscal year length	—	The release prints "52 Weeks Ending January 30, 2027" in the header of its expected adjusted EPS table. Fiscal 2026 is a 52-week year, as was fiscal 2025, which ended 31 January 2026. The full-year comparison is clean.
Perimeter	—	No acquisition, disposal or discontinued operation is disclosed in either period. All four brands are present in both columns.
Currency basis	N	The company discloses no constant-currency figures at any level and gives no translation effect. Canada and Other regions are 11.7% of net sales, so a currency effect exists and its size is not calculable. This is the single largest comparability limitation in the release.
Prior-year adjusted basis	M	The company states: "There were no adjusted metrics during fiscal 2025; therefore, reported amounts ... are included for comparative purposes." Every adjusted-to-prior comparison in this document is adjusted 2026 against reported 2025, on the company's own instruction. It is the only basis available and it is not a like-for-like adjusted series.
Cash flow restatement	N	The release states: "Certain prior period amounts have been reclassified to conform to the current period presentation." The amounts and the lines are not identified. The prior-year operating cash flow total of $308 million is unaffected in the sense that no restated total is given; the composition may have moved.
New non-GAAP measures	M	Four adjusted measures are introduced this quarter — adjusted cost of goods sold and occupancy, adjusted gross profit, adjusted gross margin and adjusted interest, net. The company states they "were not relevant to first quarter results and therefore were not included". A newly introduced metric is a comparability flag at any size.

TEST	FLAG	FINDING
Comparable sales definition	N	The release gives comparable sales by brand and for the group but never defines the measure, and does not state whether online sales are in the comparable base. The comparable series cannot be reconstructed from this release alone.

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Flags on the VGR materiality scale: M material, N noted, — clean.

The calendar raises no comparability issue. Both quarters are thirteen weeks, both halves twenty-six, and the company prints its own forward year end. Nothing in this analysis needs a week-count adjustment.

The two material flags are both about the adjusted series rather than the reported one. The company has introduced four new non-GAAP measures this quarter, and it has no prior-year adjusted comparator to place beside them, because fiscal 2025 had none. The effect is that the adjusted operating margin of 7.1% is compared against a reported 7.8%, which is the comparison the company itself directs the reader to make and the one used throughout this document. Where the prior year contained items of its own that a symmetrical adjustment would remove, the release does not identify them, so no symmetrical restatement is possible and none has been attempted.

04 · GROWTH COMPOSITION

The $74 million decline, decomposed

BRAND	Q2 26	Q2 25	CHANGE	SHARE OF DECLINE
Old Navy	2,061	2,150	−4.1%	120.3%
Gap	844	772	+9.3%	−97.3%
Banana Republic	478	475	+0.6%	−4.1%
Athleta	264	300	−12.0%	48.6%
Other	4	28	−85.7%	32.4%
Total	3,651	3,725	−2.0%	100.0%

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million. Share of decline is each brand's dollar movement divided by the group's $74m decline; a negative share means the line grew and offset part of the decline. The five movements sum to the group movement exactly.

Growth Composition Index

SOURCE OF GROWTH	POINTS	BASIS
Currency	not disclosed	No constant-currency disclosure at any level. 11.7% of sales are outside the United States.
Perimeter	0.0pp	No acquisition or disposal in either period.
Space	not separated	Net three company-operated store closures over twenty-six weeks on a base of 2,474, 0.1%. The company does not disclose a space contribution.
Like-for-like	−1.0pp	The company's disclosed group comparable sales figure.
Other and non-comparable	−1.0pp	Residual. Of this, −0.6pp is the Other line ($24m ÷ $3,725m, exact); the remaining −0.4pp covers space, currency and non-comparable sales, which the release does not separate.
Reported growth	−2.0pp	$3,651m against $3,725m.

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. Components that the company does not disclose are shown as not disclosed rather than folded into a residual. The residual line states what it contains.

The index cannot be completed because the company publishes no currency effect. What can be measured is that the group's comparable sales measure accounts for half of the reported decline and the Other line accounts for roughly a third of it, leaving 0.4 percentage points across currency, space and non-comparable sales combined.

Comparable sales, and the two-year stack

BRAND	Q2 26	Q2 25	TWO-YEAR STACK
Old Navy	−4%	+2%	−2
Gap	+10%	+4%	+14
Banana Republic	+3%	+4%	+7
Athleta	−12%	−9%	−21
Gap Inc.	−1%	+1%	0

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. Comparable sales as printed by the company. The two-year stack is the sum of the two years' rates, a conventional approximation and not a compounded figure.

Athleta declined against a declining base: minus 12% on top of minus 9% gives a two-year stack of minus 21, the lowest of the four brands and 19 points below Old Navy's. The release's brand paragraph for Athleta is one sentence: "Athleta remains focused on disciplined execution to rebuild the brand profitably." The Gap brand's plus 14 is the only double-digit stack. Old Navy moved from plus 2 to minus 4 in a year, and at 56.5% of group net sales it carries the largest weight in the group outcome.

By region

LINE	Q2 26	Q2 25	CHANGE
Gap brand — United States	654	581	+12.6%
Gap brand — Canada	81	76	+6.6%
Gap brand — Other regions	109	115	−5.2%
Old Navy — United States	1,897	1,978	−4.1%
Old Navy — Canada	152	157	−3.2%
Group — United States	3,223	3,285	−1.9%
Group — Canada	286	288	−0.7%
Group — Other regions	142	152	−6.6%

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million. United States includes Puerto Rico, on the company's own footnote.

The Gap brand grew 12.6% in the United States and fell 5.2% outside North America in the same quarter, a spread of 17.8 percentage points within one brand. The release attributes the brand's performance to "big ideas and culturally relevant storytelling" and to "destination categories including denim, fleece, and kids and baby", without distinguishing between the two geographies. Whether the international decline reflects franchise timing, store closures or demand is not calculable: the company gives no store count, no comparable sales and no currency effect for the region.

Channel

MEASURE	Q2 26	Q2 25	CHANGE
Online net sales	≈1,278	≈1,291	−1%
Online share of net sales	35%	≈34.7%	+34bp
Store net sales	≈2,373	≈2,434	≈−2.5%

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million. The company discloses only that online sales fell 1% and were 35% of net sales. Every figure in this table is derived from that rounded percentage and carries a tolerance of roughly $18m; the derived store decline of 2.5% is consistent with the company's stated "decreased 3%" within it. Bounded, not exact. Online growth and share are printed in whole points, as disclosed.

05 · THE ESTATE

2,471 company-operated stores, three fewer than at the year end, and two thirds of the square footage is Old Navy

SEGMENT	31 JAN 26	NET	1 AUG 26	SQ FT (M)
Old Navy North America	1,242	−1	1,241	19.6
Gap North America	459	+2	461	4.9
Gap Asia	123	+4	127	1.1
Banana Republic North America	358	−9	349	2.8
Banana Republic Asia	40	+2	42	0.1
Athleta North America	252	−1	251	1.0
Total	2,474	−3	2,471	29.5

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Company-operated stores; net openings and closings over twenty-six weeks. Franchise partners operated approximately 1,000 further stores at 1 August 2026. The company reports "nearly 3,500 store locations in about 35 countries".

MEASURE	VALUE	BASIS
Old Navy share of square footage	66.4%	19.6 ÷ 29.5, exact
Group net sales per square foot, one quarter	≈$124	3,651 ÷ 29.5
Old Navy net sales per square foot, one quarter	≈$105	2,061 ÷ 19.6
Athleta net sales per square foot, one quarter	≈$264	264 ÷ 1.0
Banana Republic estate	391 stores, 2.9m sq ft	North America plus Asia
Net estate change, twenty-six weeks	−0.1%	−3 ÷ 2,474

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. These divide total brand net sales, which include online, by company-operated square footage. They compare estate intensity across brands. They are not store productivity measures and are not comparable with a retailer's four-wall figure.

The estate is unchanged in size to within three stores, and net store closures for the full year are guided at "about flat" against 32 in fiscal 2025. Within it, Banana Republic closed nine stores in North America and opened two in Asia, and Gap opened four in Asia and two in North America. Old Navy occupies 66.4% of the square footage and posted the largest dollar decline of any brand in the quarter.

With the estate flat, the quarter's sales movement comes from comparable sales and mix, not from space, which agrees with the comparable sales table in section 04. With no space contribution, the $24 million fall in the Other line is 32.4% of the $74 million movement.

06 · MARGIN ARCHITECTURE

Adjusted operating margin fell 74 basis points: plus 18 at the gross margin, minus 92 at operating expense, no residual

STEP	BASIS POINTS	SOURCE
Merchandise margin, adjusted	+80	Company-disclosed. "Adjusted for the net IEEPA tariff recovery, merchandise margin increased 80 basis points."
Rent, occupancy and depreciation	−60	Company-disclosed. "ROD as a percent of sales deleveraged 60 basis points."
Adjusted gross margin	+18	VGR: 1,512 ÷ 3,651 = 41.4% against 1,536 ÷ 3,725 = 41.2%, a gain of 18bp. The company prints "increased 20 basis points".
Operating expense deleverage	−92	VGR: 1,253 ÷ 3,651 = 34.3% against 1,244 ÷ 3,725 = 33.4%, 92bp. The company prints the current ratio only, with no comparison.
Adjusted operating margin	**−74**	VGR: 259 ÷ 3,651 = 7.1% against 292 ÷ 3,725 = 7.8%, 74bp. 18 − 92 = −74, exact, no residual.

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. The company discloses the steps separately; the assembled bridge is VGR arithmetic. The prior-year comparator is the prior year as reported, on the company's own instruction.

Operating expense accounts for the whole of the movement below the gross margin. In absolute dollars it rose 0.7%, from $1,244 million to $1,253 million, $9 million on a base of $1.24 billion, in a quarter when sales fell 2.0%. The deleverage is almost entirely a denominator effect: operating expense held flat against sales 2.0% lower accounts for most of the 92 basis points.

The 60 basis points of occupancy deleverage has the same cause and sits with the estate. Rent, occupancy and depreciation are largely fixed against an estate that did not shrink, while the sales they are spread over fell. The company guides net store closures at about flat for the year, so this pressure does not ease in fiscal 2026 unless sales recover.

The gain in the bridge is the 80 basis points of adjusted merchandise margin. The company attributes it to tariff mitigation, to "strength at the Gap brand" and to

average unit retail rising "across all brands", partly offset by "higher promotional activity at Old Navy". None of those four components is quantified, and no unit, price or markdown data is disclosed anywhere in the release, so the split between them is not calculable. What is calculable is that the 80 basis points were more than offset by the 60 of occupancy deleverage and the 92 of operating expense deleverage, a net fall of 74 basis points.

Below the operating line

LINE	Q2 26 REPORTED	Q2 26 VGR BASIS	Q2 25
Operating income	676	259	292
Interest, net	+4 income	−1 expense	+4 income
Income before income taxes	680	258	296
Income tax expense	179	68	80
Effective tax rate	26.3%	26.4%	27.0%
Net income	501	190	216

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million. The VGR-basis column is the company's own non-GAAP reconciliation. The adjustment removes $5m of interest income received on the tariff refunds, which turns $4m of net interest income into $1m of net interest expense. The prior-year effective tax rate, 80 ÷ 296, is VGR arithmetic; the company does not print it.

Below operating income the movements are small. The effective tax rate fell about 70 basis points year on year on a reported basis, worth roughly $5 million of net income at this scale, and the company gives no reason for the movement. Net interest is immaterial in both years at $4 million, and on the adjusted basis it becomes a $1 million expense once the refund interest is removed. There are no minority interests and no equity-accounted associates. Substantially all of the movement in net income is explained above the operating line.

07 · INVENTORY AND THE MARKDOWN CYCLE

Inventory is flat in dollars and 1.3 percentage points heavier against sales

MEASURE	1 AUG 26	2 AUG 25	CHANGE
Merchandise inventory	2,297	2,294	+0.1%
Net sales, the quarter	3,651	3,725	−2.0%
Inventory as % of the quarter's net sales	62.9%	61.6%	+1.3pp
Change in inventory, twenty-six weeks (cash flow)	−97	−214	−$117m outflow
Accounts payable	1,696	1,656	+2.4%
Payables to inventory	73.8%	72.2%	+1.6pp

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million. The company discloses no days-inventory measure and no quarterly cost of goods sold split between merchandise and occupancy, so a days-inventory outstanding figure cannot be computed on a consistent basis and none is published here.

The company describes ending inventory as "flat compared to last year" and in dollars it is — $2,297 million against $2,294 million, a movement of $3 million. Against sales it is heavier, because sales fell 2.0% and inventory did not. The 1.3 percentage point increase is modest and sits below the VGR materiality threshold for inventory as a share of balance, so it is noted rather than flagged.

The markdown cycle cannot be measured from this release. The company discloses no markdown rate, no sell-through, no units, no average unit retail figure and no ageing. What it does give is directional and qualitative, in one sentence: the adjusted merchandise margin gain was "partially offset by higher promotional activity at Old Navy", and average unit retail "increased across all brands". Those two statements are consistent with a brand discounting into a comparable sales decline of 4% while list prices rose, but the release provides no figure that would size it. Recorded as not calculable, not estimated.

The measurable movement is that payables rose 2.4% against inventory that was flat, so the share of inventory financed by suppliers rose 1.6 percentage points to 73.8%. On the twenty-six week cash flow the inventory build consumed $97 million against $214 million a year earlier, so the company put $117 million less into stock this year than last.

08 · WORKING CAPITAL, CASH AND CAPITAL STRUCTURE

A $437 million increase in other current assets is the tariff refund that has not yet been paid

MEASURE	1 AUG 26	2 AUG 25	CHANGE
Cash and cash equivalents	2,103	2,194	−4.1%
Short-term investments	382	238	+60.5%
Cash and short-term investments	2,485	2,432	+2.2%
Other current assets	1,088	651	+67.1%
Total current assets	5,870	5,377	+9.2%
Long-term debt	1,493	1,491	+0.1%
Net cash position	992	941	+$51m
Operating lease liabilities, total	4,227	4,101	+3.1%
Lease liabilities to long-term debt	2.83x	2.75x	+0.08x
Total stockholders' equity	3,951	3,433	+15.1%
Total assets	12,856	12,146	+5.8%

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million. Net cash is cash and short-term investments less long-term debt; the company discloses no short-term borrowings. Operating lease liabilities are the current and long-term portions added together.

Other current assets rose $437 million, 67.1%, and that single line is the largest movement anywhere on the balance sheet. It is the tariff refund. The company recognised $512 million of refunds in the quarter and received $95 million of them in cash, leaving $417 million outstanding at the balance sheet date. The $417 million receivable, the $437 million increase in other current assets and the $445 million larger working capital outflow on the twenty-six week cash flow statement — minus $524 million against minus $79 million — are three views of the same item and agree within the rounding of the underlying lines. Each figure is disclosed separately; the link between them is VGR arithmetic.

Long-term debt moved $2 million in a year. Cash and short-term investments exceed it by $992 million, a net cash position that widened $51 million. The larger fixed obligation sits outside the debt line: total operating lease liabilities of $4,227 million are 2.83 times long-term debt and rose 3.1% while debt was flat, against an estate of 2,471 company-operated stores that shrank by three.

Equity rose 15.1% to $3,951 million over the year despite $601 million of buybacks and $125 million of dividends in the last twenty-six weeks, reflecting earnings retained across four quarters, including the two non-recurring items in the current half. Short-term investments rose 60.5% to $382 million while cash fell 4.1%; cash and short-term investments together rose 2.2%.

09 · CAPITAL ALLOCATION AND RETURNS

$726 million returned against $261 million of free cash flow, and $514 million of cash consumed

MEASURE	H1 26	H1 25	CHANGE
Net cash from operating activities	550	308	+78.6%
Capital expenditure	289	181	+59.7%
Free cash flow	261	127	+105.5%
Share repurchases	601	152	+295.4%
Dividends paid	125	123	+1.6%
Total returned to shareholders	726	275	+164.0%
Returns as a multiple of free cash flow	2.78x	2.17x	+0.61x
Buybacks as a multiple of free cash flow	2.30x	1.20x	+1.10x
Capital expenditure to depreciation	1.12x	0.74x	+0.38x
Capital expenditure as % of net sales	4.0%	2.5%	+152bp
Net decrease in cash	−514	−143	−$371m

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million, twenty-six weeks in both years. Free cash flow is the company's own definition, operating cash flow less purchases of property and equipment, and is disclosed. The multiples and ratios are VGR arithmetic.

Shareholder returns of $726 million over twenty-six weeks were 2.78 times the $261 million of free cash flow generated in the same period, and buybacks alone were 2.30 times. The difference came out of the balance sheet: cash, cash equivalents and restricted cash fell $514 million, from $2,644 million to $2,130 million. The prior year shows the same pattern at a smaller scale — returns of $275 million on free cash flow of $127 million, 2.17 times, and a cash decrease of $143 million.

Capital expenditure is rising at the same time. It reached $289 million over the half, up 59.7%, or 4.0% of net sales against 2.5%, and the full-year guide of approximately $650 million is 38.3% above the $470 million spent in fiscal 2025. Spending has crossed above depreciation, at 1.12 times against 0.74 times. Capital expenditure and buybacks together account for the cash decrease.

Buyback execution

MEASURE	VALUE	BASIS
Accelerated repurchase programme	8.3m shares for $200m	6.9m delivered in Q1, 1.4m in May; programme completed in Q2
Implied average price, the programme	$24.10	200 ÷ 8.3, VGR arithmetic
Open-market repurchases, Q2	9.3m shares for $200m	Company-disclosed
Implied average price, open market	$21.51	200 ÷ 9.3, VGR arithmetic
Difference	−10.8%	Open market against the programme
Remaining authorisation	$399m	Company-disclosed
Quarterly dividend	$0.175 per share	Up 6% year on year; Q3 declared at the same rate
Implied share count from the dividend	≈354m	62 ÷ 0.175, against 355m basic
Annualised payout on adjusted EPS guidance	29.2%	$0.70 ÷ $2.40, the midpoint of the guided range

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. The two implied prices are not comparable as a measure of execution: the programme was priced across a window spanning two quarters and the open-market purchases were made within the second quarter alone. The difference is stated because it is arithmetic on the disclosed figures.

The company retired 9.3 million shares in the open market during the quarter at an implied $21.51 and completed a programme whose aggregate 8.3 million shares imply $24.10. The quarter's diluted count of 362 million is 4.5% below the prior year and the full-year guide has fallen to approximately 367 million from approximately 375 million. Section 11 shows what that reduction does to the earnings per share guidance.

10 · EARNINGS QUALITY

$417 million of the quarter's operating income is a tariff credit, and 81.4% of the amount recognised had not been received

MEASURE	VALUE	BASIS
Gross refund recognised in the quarter	$512m	Company-disclosed
Less vendor commitment of appreciation	−$95m	Company-disclosed
Net credit to cost of goods sold	$417m	Company-disclosed
Related interest income received	$5m	Company-disclosed
Cash actually received in the quarter	$95m	Company-disclosed
Cash received as a share of the amount recognised	18.6%	95 ÷ 512, exact
Still a receivable at 1 August 2026	$417m, 81.4%	512 − 95, exact
Credit as a share of reported operating income	61.7%	417 ÷ 676, exact
Credit as a multiple of adjusted operating income	1.61x	417 ÷ 259, exact
Reported gross margin benefit	1,140bp	Company-disclosed

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. The company's footnote reads: "Represents the impact of IEEPA tariff refunds of approximately $512 million, partially offset by a commitment of appreciation of approximately $95 million for certain vendors."

Three separate items sit behind the single $417 million line, and the release states each one. The first is $512 million of refunds of tariffs imposed under the International Emergency Economic Powers Act, recognised in full in the quarter. The second is a $95 million "commitment of appreciation for certain vendors", netted against it. The third is that only $95 million of the $512 million was actually received in cash, with the company stating that "the remaining refunds and related interest income expected in the third quarter". The two $95 million figures are

coincidentally equal and are different items: one is a payment the company has committed to make, the other is cash it has collected.

The release gives no further detail on the vendor commitment. Its nature, its timing, whether it is contractual and whether it recurs are not disclosed, and the phrase "commitment of appreciation" is not defined. It is recorded here as a disclosure gap rather than characterised.

How much of the year's reported earnings the company itself removes

ITEM	PER SHARE	QUARTER
Expected reported diluted EPS, midpoint	$3.82	Full year
Less: litigation settlement gain	−$0.63	Q1 FY2026
Add back: charitable contribution	+$0.10	Q1 FY2026
Less: net tariff refund recovery	−$0.89	Q2 FY2026 and after
Expected adjusted diluted EPS, midpoint	$2.40	Full year
Total adjustments	$1.42	37.2% of reported midpoint

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. The per-share figures are the company's own, from its expected adjusted EPS reconciliation. The 37.2% is VGR arithmetic, 1.42 ÷ 3.82.

Rather more than a third of fiscal 2026's expected reported earnings per share — 37.2% at the midpoint — comes from two items the company itself removes: a $313 million credit card interchange fee litigation settlement in the first quarter and the tariff recovery in the second. Both are disclosed and reconciled, and the company's own adjusted midpoint of $2.40 is 37.2% below its reported midpoint of $3.82.

Cash conversion

MEASURE	H1 26	H1 25	CHANGE
Net income	840	409	+105.4%
Net cash from operating activities	550	308	+78.6%
Operating cash flow to net income	65.5%	75.3%	−9.8pp
Free cash flow to net income	31.1%	31.1%	unchanged

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. USD million, twenty-six weeks. The ratios are VGR arithmetic. No quarterly cash flow statement is published, so second-quarter cash conversion is not calculable and is not estimated.

Operating cash flow converted 65.5% of net income against 75.3% a year earlier. The fall is consistent with the composition of the earnings: the litigation gain and the tariff recovery both raise net income, and a large part of the tariff recovery had not been received in cash at the balance sheet date. Free cash flow converted 31.1% of net income in both years, unchanged, because the higher operating cash flow was matched by the higher capital expenditure.

11 · GUIDANCE AND THE IMPLIED REQUIREMENT

The earnings per share guidance rose $0.05 at both ends and the implied adjusted profit in dollars did not move

ITEM	CURRENT	PRIOR	FY2025
Net sales	Up 1% to 1.5%	Up 1% to 2%	$15.4bn
Adjusted gross margin	Up slightly	Flat to up slightly	40.8%
Adjusted operating expense, % of sales	About flat	About flat	33.5%
Adjusted operating margin	7.4% to 7.6%	7.3% to 7.5%	7.3%
Adjusted interest, net	≈$20m	≈$25m	$17m
Adjusted effective tax rate	≈25% to 26%	≈25%	27.9%
Diluted share count	≈367m	≈375m	384m
Adjusted diluted EPS	$2.35 to $2.45	$2.30 to $2.40	$2.13
Capital expenditure	≈$650m	≈$650m	$470m
Net store closures	About flat	About flat	32

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. As printed by the company. Fiscal 2025 carried no adjusted metrics, so the fiscal 2025 column is the reported figure, on the company's own footnote.

The earnings per share raise, decomposed

BASIS	LOW END	HIGH END
Prior: $2.30 to $2.40 × ≈375m shares	$862.5m	$900.0m
Current: $2.35 to $2.45 × ≈367m shares	$862.5m	$899.2m
Change in implied adjusted net income	−$0.1m	−$0.9m

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. Multiplying the company's own adjusted earnings per share guidance by its own diluted share count guidance, at both ends of both ranges. Both inputs are company-disclosed and appear in the same table in the release.

The release is headlined "raising earnings per share outlook", and the adjusted range did rise $0.05 at both ends. Multiplying that range by the company's own share count guidance, which fell from approximately 375 million to approximately 367 million in the same revision, shows implied adjusted net income of $862.5 million to $899.2 million against $862.5 million to $900.0 million before. The implied

profit in dollars is unchanged. The share count reduction of 2.1% accounts for the per-share raise in full. Over the same revision the net sales range was cut at the top, from up 2% to up 1.5%.

The adjusted operating margin guidance also rose, from 7.3% to 7.5% to a range of 7.4% to 7.6%, and that movement has a stated cause. The company writes that its updated tariff rate assumption, following the Section 301 announcement in July, is "expected to provide approximately $15 million of net tariff relief to full-year gross profit and operating income, or approximately 10 basis points of benefit to full-year gross margin and operating margin". The guidance moved 10 basis points. Applying the guided margins to the guided sales ranges gives implied adjusted operating income of $1,151 million to $1,188 million against $1,135 million to $1,178 million, a low-end increase of $15.6 million. The raise and the disclosed tariff relief are the same item, to the nearest million dollars and the nearest basis point.

Two movements below the operating line run the other way in the same revision and are why the operating-level improvement does not reach net income. Adjusted interest, net was guided down from approximately $25 million to approximately $20 million, which is $5 million less interest income, and the adjusted effective tax rate was guided up from approximately 25% to a range of approximately 25% to 26%. The company gives no reason for either change.

The implied requirement for the second half

MEASURE	VALUE	BASIS
First-half net sales growth achieved	−0.6%	7,148 against 7,188, exact
Implied second-half FY2025 base	$8,212m	15,400 − 7,188
Full-year target at up 1% to 1.5%	$15,554m to $15,631m	On the company's $15.4bn base
Second-half net sales required	$8,406m to $8,483m	Target less the H1 actual
Second-half growth required	+2.4% to +3.3%	Against the $8,212m base
Third quarter implied by guidance	$3,958m to $3,997m	Up 1.5% to 2.5% on $3.9bn
Implied fourth-quarter FY2025 base	$4,312m	8,212 − 3,900
Fourth quarter required	$4,448m to $4,485m	Second-half requirement less Q3

MEASURE	VALUE	BASIS
Fourth-quarter growth required	+3.1% to +4.0%	Against the $4,312m base

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Derived columns are VGR arithmetic. This calculation uses the company's rounded "$15.4 billion" for fiscal 2025 and "$3.9 billion" for the third quarter of fiscal 2025, which are the only versions printed in this release. The derived quarterly figures carry that rounding and are accurate to roughly ±$50m. Bounded, not exact. The direction and approximate size of the step-up are not sensitive to the rounding; the exact percentages are.

The company has just reported minus 2.0% and has guided the third quarter to up 1.5% to 2.5%. For the full-year range of up 1% to 1.5% to hold, the fourth quarter has to grow roughly 3.1% to 4.0%, more than five percentage points above the quarter just reported, within two quarters. The two brands that fell in the second quarter are Old Navy, now guided to comparable sales of flat to down 1% for the year, and Athleta, which the outlook leaves unchanged. The Gap brand's assumption was raised, to comparable sales growth in the high-single to low double-digit range from up high-single digits; the brand is 23.1% of group net sales.

This is a requirement, not a forecast. VGR publishes no estimate of what the fourth quarter will deliver. The figure to check is the third-quarter net sales outcome against the guided range of up 1.5% to 2.5%: a result at or below the bottom of that range raises what the fourth quarter must carry, and a result above it lowers it.

12 · DISCLOSURE DELTA AND METRICS NOT REPORTED

Ten disclosure gaps, and the four new non-GAAP measures introduced this quarter

METRIC	FLAG	POSITION
Quarterly cash flow statement	M	Presented for twenty-six weeks only. Second-quarter operating cash flow, free cash flow and cash conversion are not calculable from this release and are not estimated anywhere in this document.
Brand-level profitability	M	Net sales and comparable sales are given by brand; operating income, gross margin and expense are not. All margin analysis in this document is group-level.
The "Other" net sales line	M	Fell 85.7% and supplied 32.4% of the group's net sales decline. The description "net sales from revenue-generating strategic initiatives" is the whole of the disclosure. No component, no reason, no forward expectation.
Constant-currency figures	M	Not disclosed at any level, for any brand or region, in a group with 11.7% of sales outside the United States.
Prior-year adjusted comparators	M	Fiscal 2025 carried no adjusted metrics, on the company's own statement. Every adjusted comparison is against a reported prior year.
Four new non-GAAP measures	M	Adjusted cost of goods sold and occupancy, adjusted gross profit, adjusted gross margin and adjusted interest, net, introduced this quarter. Newly introduced metrics are a comparability flag at any size.
The $95m vendor commitment	N	"A commitment of appreciation for certain vendors" is netted against the refund. Its nature, timing and recurrence are not disclosed and the phrase is not defined.
Unrounded FY2025 and Q3 FY2025 net sales	N	Only "$15.4 billion" and "$3.9 billion" appear. The implied requirement in section 11 is bounded by that rounding and says so.
Comparable sales definition	N	Comparable sales are given for five lines and never defined. Whether online sales are in the comparable base is not stated.
Units, average unit retail, markdown and traffic	N	Average unit retail is said to have "increased across all brands" and Old Navy to have seen "an unanticipated slowdown in traffic". Neither is quantified anywhere. No unit, price, markdown, sell-through, transaction or conversion figure is disclosed.

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Flags on the VGR materiality scale: M material, N noted.

The tariff adjustment is presented as a full non-GAAP reconciliation across nine income statement columns, the expected adjusted earnings per share bridge is given line by line for both ends of the range, and the guidance table prints the prior outlook alongside the current one, which is what makes the decomposition in section 11 possible.

Four of the ten items above concern the same absence: the company publishes no brand-level profit, no currency effect, no quarterly cash flow and no operating metric of any kind. A reader can measure what the group earned and cannot measure where inside the group it was earned. In a quarter in which the four brands moved between plus 9.3% and minus 12.0%, that is the disclosure that would most change the analysis.

13 · THE COMPANY'S ACCOUNT, TESTED

Twelve claims from the release and the outlook, each against the disclosed figures

CLAIM	TIER	DISPOSITION
"Net sales down 2% … comparable sales were down 1%"	3	Supported by the disclosed figures. 3,651 against 3,725 is −2.0%; the comparable figure is the company's own measure and is printed as −1%.
"Exceeded reported and adjusted operating margin expectations"	5	Not verifiable from the disclosure. The release does not print the prior operating margin expectation for the second quarter, so the comparison cannot be made here. It is compatible with the adjusted operating margin having fallen 74bp year on year; both can be true.
"gross margin strength" (chief executive)	7	Partially supported. The reported gross margin rose 1,160bp. Excluding the tariff recovery, which the company itself excludes, it rose 18bp.
"momentum at the Gap brand, which posted another quarter of double-digit comparable sales"	7	Partially supported. The quarter's +10% is supported. "Another quarter" refers to a prior period this release does not print — the prior-year second quarter was +4% — so the sequence cannot be checked from this document.
"targeted actions that are already driving improved results" at Old Navy	7	Not verifiable from the disclosure. The release contains no post-quarter trading data of any kind.
"Ending inventory of $2.3 billion was flat compared to last year"	2	Partially supported. Flat in dollars, +0.1%. Against net sales that fell 2.0% it rose 1.3 percentage points, to 62.9% of the quarter's sales from 61.6%.
"Average unit retail increased across all brands"	4	Not verifiable from the disclosure. No unit, price or average unit retail figure is published for any brand.
Old Navy: "an unanticipated slowdown in traffic"	4	Not verifiable from the disclosure. No traffic, transaction or conversion data is published.
"Provides updated outlook for full year while raising earnings per share outlook"	5	Partially supported. The adjusted range rose $0.05 at both ends. On the company's own share count guidance the implied adjusted net income is unchanged, and the net sales range was cut at the top end in the same revision.
"Returned $726 million to shareholders … year-to-date"	2	Supported by the disclosed figures. $601m of repurchases and $125m of dividends reconcile to the cash flow statement exactly. It was 2.78 times the free cash flow generated over the same twenty-six weeks.

CLAIM	TIER	DISPOSITION
"approximately $15 million of net tariff relief ... approximately 10 basis points"	5	Supported by the disclosed figures. The adjusted operating margin guidance moved 10bp and the implied adjusted operating income at the low end moved $15.6m. The two agree.
"The Company's adjusted outlook excludes the impact of the refunds"	5	Supported by the disclosed figures. The expected adjusted EPS bridge removes $0.89 a share of net tariff refund recovery at both ends of the range.

Source: The Gap, Inc., second quarter fiscal 2026 results, Exhibit 99.1 to Form 8-K. USD as published. Tier on the VGR evidence hierarchy: 2 unaudited interim statements, 3 company data tables, 4 management discussion prose, 5 outlook, 7 chief executive quotes. Dispositions are the four standard VGR dispositions.

Every claim that touches a printed number is supported by the disclosed figures or partially supported, the qualification coming from the company's own reconciliation. No claim in the release conflicts with the statements.

The claims that cannot be checked are all of one kind: they are about operating drivers the company does not quantify anywhere — average unit retail, traffic, the actions being taken at Old Navy, and the sequence behind "another quarter" of Gap brand growth. Four of the twelve claims are not verifiable from this release, and all four sit at tier 4 or tier 7 of the evidence hierarchy.

Cross-section

The closest comparison available in the VGR archive is Abercrombie & Fitch Co., which reported the same thirteen weeks ended 1 August 2026 on 26 August 2026, one day before Gap Inc., in the same market and with the same tariff item. Abercrombie recorded approximately $100 million of IEEPA tariff refunds as a reduction of cost of sales, worth 790 basis points of operating margin, against Gap Inc.'s $417 million net credit worth 1,140 basis points of gross margin. Both companies' reported operating margins rose sharply and both companies' underlying operating margins fell: Abercrombie's was 12.1% excluding the refund against 13.9% on its prior-year adjusted basis, 185 basis points lower, while Gap Inc.'s was 7.1% against 7.8%, 74 basis points lower. Abercrombie grew net sales 4.8% with like-for-like flat; Gap Inc. fell 2.0% with comparable sales down 1%.

The two releases differ in tariff disclosure. Abercrombie publishes a tariff bridge giving the basis-point effect of tariff expense and tariff refunds separately, by line, and guides both forward — refunds of $20 million in its third quarter and $120 million for its full year, against a forward tariff expense of 10% to 12.5% on all goods imported into the United States. Gap Inc. quantifies the refund but publishes no figure for tariff expense in any period, and excludes refunds from its adjusted outlook. From the Gap Inc. release the refund can be sized and the tariff expense cannot.

14 · METHOD, SOURCES AND PRECISION REGISTER

What was measured, from what, and to what precision

This analysis was produced from one document: the second quarter fiscal 2026 results release of The Gap, Inc., filed with the Securities and Exchange Commission as Exhibit 99.1 to a Current Report on Form 8-K and retrieved from the EDGAR archive. No press report, wire syndication, broker note, aggregator or analyst estimate was used at any point, and no expectation attributed to anyone other than the company appears anywhere in this document. The conference call held that afternoon is not a source for this analysis; nothing said on it is quoted or relied upon.

The order of work was fixed before the release was opened. Figures were transcribed from the statements and the data tables first, with the chief executive's quotation, the highlight bullets, the brand narrative and the outlook prose captured but not read. Comparability was tested next, then the measurement blocks, then the findings were ranked. Only after all of that was the narrative opened and the claims register in section 13 built against figures that were already fixed. This is the first VGR analysis of The Gap, Inc., so no prior guidance ledger entry, no recorded implied requirement and no watch list existed to open against, and no score composite is published: the publication rule withholds a composite below four periods of history.

CLASS	MEANING	EXAMPLES IN THIS DOCUMENT
Exact	Arithmetic on two disclosed figures	The −74bp adjusted operating margin movement; the $417m share of reported operating income; every brand growth rate and share of the decline; the implied adjusted net income in section 11.
Bounded	Both ends stated, central reading given	The second-half and fourth-quarter requirements in section 11, bounded by the company's rounded $15.4bn and $3.9bn; the online and store sales split in section 04, bounded by a rounded 35%.

CLASS	MEANING	EXAMPLES IN THIS DOCUMENT
Not calculable	The input is missing and nothing has been substituted	Second-quarter operating and free cash flow; any currency effect; brand-level profitability; the split of the 80bp merchandise margin gain; markdown, units, average unit retail and traffic.

VGR precision register. Every derived figure in this document falls into one of these three classes and is marked where the class is not obvious from the table it sits in.

Every VGR-derived percentage in this document carries one decimal place, and basis points are printed whole. Rates the company discloses in whole points, such as comparable sales, online growth and the guidance ranges, are printed as disclosed. Arithmetic was carried out at full precision and rounded only for printing, so a rounded component and a rounded total may differ in the last digit; where that occurs the table's source line says so. All figures are in United States dollars exactly as the company publishes them. Nothing has been converted, and no constant-currency figure appears anywhere in this analysis because the company publishes none.

The working record for this analysis is the file "GAP_Q2 FY2026_Source_Figures.md", held with this document. It carries the primary source and its retrieval route, the reporting calendar in the company's own words, every disclosed figure organised by statement, every derived figure with its arithmetic written out, and the list of disclosure gaps reproduced in section 12. Any figure in this analysis can be traced to that file and from there to the line of the primary source it came from.

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METHODOLOGY

VGR standardised financial analysis methodology v5. Restatement before measurement; arithmetic before language; every finding names the disclosure that would settle it.
Revised 30 September 2026 to methodology v5; first published 28 August 2026.

PRIMARY SOURCE

The Gap, Inc. (a Delaware corporation; New York Stock Exchange ticker GAP; SEC Central Index Key 0000039911), Gap Inc. Reports Second Quarter Fiscal 2026 Results, reporting the thirteen and twenty-six weeks ended 1 August 2026 against the thirteen and twenty-six weeks ended 2 August 2025. Issued at San Francisco on 27 August 2026 and filed with the Securities and Exchange Commission as Exhibit 99.1 to a Current Report on Form 8-K; a conference call was held at approximately 14:00 Pacific Time the same day and is not a source for this analysis. The condensed consolidated statements of operations, balance sheets and cash flows in the release are unaudited. Comparative figures are the prior-year columns printed in the release itself, and the release notes that certain prior period amounts have been reclassified to conform to the current period presentation. The fiscal year end is the company's own, printed in the release as "52 Weeks Ending January 30, 2027". No press report, wire syndication, broker note, aggregator or analyst estimate was used at any point.
https://www.sec.gov/Archives/edgar/data/0000039911/000162828026059262/q22026eprexhibit991.htm

WORKING RECORD

GAP_Q2 FY2026_Source_Figures.md, written before any prose existed, with company-disclosed figures and VGR-derived arithmetic in separate parts and a register of disclosure gaps. Figures in United States dollars as published; nothing converted. The disclosure limitations recorded in section 12 are set out there in full.

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