

The Gap Inc - Financial and Strategic Analysis Review

Publication Date: Jan-2024

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Company Snapshot

Key Information

The Gap Inc, Key Information	
Web Address	www.gapinc.com
Financial year-end	January
Number of Employees	95,000
NYSE	GPS
Source : GlobalData	

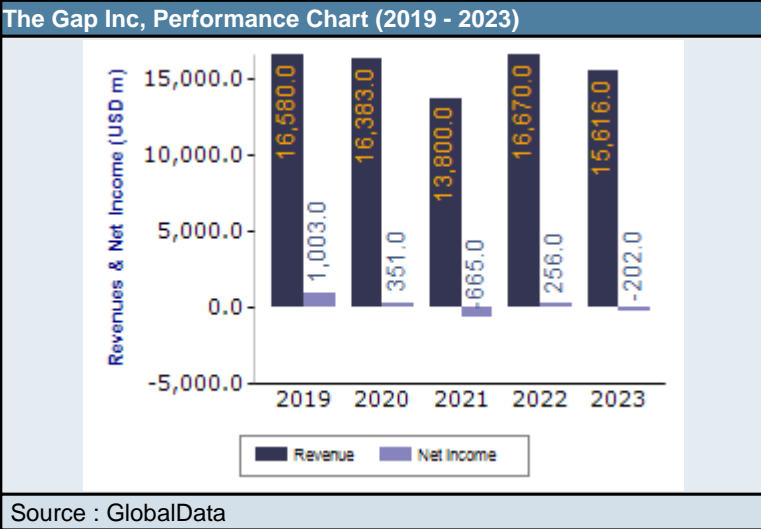
Key Ratios

The Gap Inc, Key Ratios	
P/E	NA
EV/EBITDA	21.60
Return on Equity (%)	-9
Debt/Equity	0.82
Operating profit margin (%)	--0.4
Dividend Yield	2.84
Note: Above ratios are based on share price as of 04-Jan-2024	
Source : GlobalData	

Share Data

The Gap Inc, Share Data	
Price (USD) as on 04-Jan-2024	21.30
EPS (USD)	--0.3
Book value per share (USD)	6.10
Shares Outstanding (in million)	367
Source : GlobalData	

Performance Chart



Company Overview

The Gap Inc (Gap) is a clothing and accessories retailer. It merchandises accessories, apparel, and personal care products for men, women, and children through its retail stores, franchised stores, and e-commerce portals. The company also offers omni-channel services such as order-in-store, reserve-in-store, find-in-store, and ship-from-store. Its products are marketed under various brand names including Old Navy, Banana Republic, Gap, GapBody, GapFit, GapKids, babyGapy, Athleta, and Intermix. It also licenses various third parties to sell and market these products.

SWOT Analysis

The Gap Inc, SWOT Analysis	
Strengths	Weaknesses
Strong Cash Reserves	Dependence on Third-Party Vendors
Wide Global Presence	
Established Store Network	
Opportunities	Threats
Positive Outlook for Online Retail Market in US	Manpower Costs in the US
Global Apparel Industry	Increasing Competitive Pressure
Agreements and Partnerships	Risks related to Foreign Exchange
Source : GlobalData	

Financial Performance

The company reported revenues of (US Dollars) US\$15,616 million for the fiscal year ended January 2023 (FY2023), a decrease of 6.3% over FY2022. The operating loss of the company was US\$69 million in FY2023, compared to an operating profit of US\$485 million in FY2022. The net loss of the company was US\$202 million in FY2023, compared to a net profit of US\$256 million in FY2022.

Key Information

The Gap Inc, Key Information			
Corporate Address	Two Folsom Street, San Francisco, CA, 94105, United States	Ticker Symbol, Stock Exchange	GPS [New York Stock Exchange]
Telephone	+1 415 4270100	No. of Employees	95,000
Fax	+1 302 6555049	Fiscal Year End	January
URL	www.gapinc.com	Revenue (in USD Million)	15,616.0
Industry	Consumer Goods, Energy and Utilities, Retail, Wholesale & Foodservice		
Locations	Canada, China, France, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Mexico, Russia, Singapore, United Kingdom, United States		
Source : GlobalData			

Company Overview

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The Gap Inc - SWOT Analysis

SWOT Analysis - Overview

The Gap Inc (Gap) is a specialty retailer of apparel, footwear, and accessories. Strong cash reserves, a wide global presence, and an established store network are the company's major strengths, whereas dependence on third-party vendors remains a major area for concern. The global apparel industry, strategic agreements and partnerships, and the online retail market in the US are likely to provide growth opportunities for the company. However, foreign exchange risks, increasing competitive pressure, and manpower costs in the US could affect its business operations.

The Gap Inc - Strengths

Strength - Strong Cash Reserves

Gap reported a 38.5% increase in its cash and short-term investments in FY2023, which grew to US\$1,215 million from US\$877 million in FY2022. Gap reported an increase in its cash reserves in FY2023, which could strengthen its short-term operations.

Strength - Wide Global Presence

The company operates franchised stores in Asia, Europe, Latin America, Australia, the Middle East, and Africa. Gap has business presence across Europe, North America, and Asia. It operates own stores in the US, the UK, Japan, Italy, France, Canada, Ireland, China, Hong Kong, Taiwan, and Mexico. Its global presence enables the company to build brand image and maintain a strong position in the market. It maintains corporate offices in San Francisco, California, and Rocklin. The company also has franchise agreements with unaffiliated franchisees to operate Old Navy, Gap, and Banana Republic stores across Europe, Asia, Latin America, the Middle East, and Africa. In FY2023, the US accounted for 84.5% of the company's total revenue, followed by Canada (7.9%), Asia (4.3%), Europe (1.3%) and Other Regions (1.9%), respectively.

Strength - Established Store Network

As of January 2023, the company operated 3,352 stores including 2,685 company-owned stores and 667 franchise stores with a total store size of 31.8 million sq. ft across Europe, North America, and Asia regions. The company operates 1,238 stores in North America with a retail space of 19.8 million sq. ft.; 493 stores in North America with a retail space of 5.2 million sq. ft.; 232 stores in Asia with a retail space of 2 million sq. ft.; 257 Athleta stores with a retail space of 0.2 million sq. ft. A diversified store network helps the company to gain operational synergies and allows it to serve customers with efficiency. Gap retails and sells apparel, accessories, and personal care products for men, women, and children through its retail stores, franchised stores, and e-commerce portals.

The Gap Inc - Weaknesses

Weakness - Dependence on Third-Party Vendors

The company relies heavily on third-party vendors from around the world. It purchases private label and non-private label merchandise from approximately 250 vendors, with facilities in approximately 25 countries. These vendors must comply with certain vendor conduct standards and environmental, labor, health, and safety requirements in both domestic and international markets. In FY2023, 30% of the company's total sales came from factories in Vietnam, while 17% came from factories in Indonesia. The two largest vendors accounted for 8% and 6% of the total sales in FY2023. If costs or tariffs increase, import issues, financial or regulatory concerns, or disruptions in imports from Vietnam, China, or other foreign countries arise, this could have a negative impact on the company.

The Gap Inc - Opportunities

Opportunity - Positive Outlook for Online Retail Market in US

According to in-house research, the online retail sector in the US is forecast to reach US\$746.9 billion by 2025. The US accounts for about 31.2% of the global online retail sector value. The retailing of electrical and electronic goods was the sector's largest segment, accounting for 30.2% of total value, followed by apparel retail (18.5%), home and garden products (18.1%), food and grocery retail (12.5%), furniture and floor coverings (7.5%), jewellery, watches, and accessories (3.8%), and other (9.3%). The company sells its products on several websites, including gap.com, oldnavy.com, bananarepublic.com, weddingtonway.com, and athleta.com. The company stands to benefit from growing online retailing, which provides consumers the convenience of shopping from home. With the increase in interactive methods and limitless content, the retail e-commerce is growing rapidly. Increasing internet penetration, user-friendly interface of web portals, enhanced discounts and offers, changing consumer patterns and purchasing power are aiding the growth of the e-retail market.

Opportunity - Global Apparel Industry

According to in-house research, the Global Apparel Retail industry is expected to reach US\$1,656.3 billion by 2025. Being the largest segment in the global apparel retail industry, womenswear accounted for 51.3% of the industry's value, followed

by menswear with 34.1% and children wear with 14.6%. The clothing, footwear and accessories specialists category accounted for 43.8% of the total global apparel retail market; followed by online specialists category with 16.3%, department stores with 10.7%, value, discount and variety stores with 5.6%, and other with 23.7%. This indicates the demand for and popularity of apparel retail in the global markets. Asia-Pacific is likely to account for 40.7% of the global apparel retail industry, followed by Europe with 26.9%, the US with 22.4%, the Middle East with 2.7% and Rest of the World with 7.4%. The company offers wide range of apparels and fashion accessories for men, women and kids under Old Navy, Gap, Banana Republic and Athleta brand names. The company offers wide range of apparels and fashion accessories for men, women and kids under Old Navy, Gap, Banana Republic and Athleta brand names. The global apparel retail market is expected to register growth owing to the increasing purchasing power of the young middle-class people, technological advancements and increasing popularity of online shopping.

Opportunity - Agreements and Partnerships

The company has strong partnerships with leading pharmaceutical enablers, which help it increase revenue and market share. In August 2023, the company entered into a partnership with Macy's to launch a collection of sleepwear, underwear and intimates for men and women. The partnership with Macy's allows Gap to expand its market reach and make its sleepwear and intimates collections available to a broader audience. By leveraging Macy's distribution channels, Gap can tap into new customer segments, increasing brand visibility and driving sales growth. In April 2023, the company and Mattel announced a new apparel collaboration to launch Gap x Barbie Collection. The collaboration with Mattel allows Gap to leverage the iconic and beloved brands in Mattel's portfolio, starting with the Gap x Barbie collection. This partnership brings a fresh appeal to Gap's products, attracting a wide audience and driving sales through shared brand recognition and creative expression.

The Gap Inc - Threats

Threat - Manpower Costs in the US

Increasing manpower costs could increase the company's operating costs and hamper its profits. The tight labor markets, government-mandated increases in minimum wages and a higher proportion of full-time employees are increasing labor costs. Effective January 2023, 24 states in the US increased their minimum wages. Alaska, Florida, Minnesota, Montana, Nebraska, Ohio, South Dakota, and Vermont increased their hourly minimum wage based on the cost of living to US\$10.85, US\$11, US\$10.59, US\$9.95, US\$10.50, US\$10.10, US\$10.80, and US\$13.18, respectively. Arizona, California, Colorado, Delaware, Illinois, Maine, Maryland, and Massachusetts increased their hourly minimum wages to US\$13.85, US\$15.50, US\$13.65, US\$11.75, US\$13, US\$13.80, US\$13.25, and US\$15.00, respectively. Whereas, states such as Michigan, Missouri, New Jersey, Rhode Island, Virginia, New Mexico, New York, and Washington increased their hourly minimum wages due to previously approved legislation to US\$10.10, US\$12, US\$14.13, US\$13, US\$12, US\$12, US\$14.20, and \$15.74, respectively.

Threat - Increasing Competitive Pressure

Gap competes fiercely in the clothing retail market. Service performance, price, and sales and distribution capabilities are all factors that influence industry competition. Abercrombie & Fitch Co, American Eagle Outfitters Inc, Belk Inc, Forever 21 Inc, Guess Inc, H&M Hennes & Mauritz AB, J Crew Group Inc, Le Chateau Inc, Nordstrom Inc, The TJX Companies Inc, Timberland LLC, and Urban Outfitters Inc compete with Gap. Apart from established players in developed countries, emerging players are also vying for a larger share of the market. Many of its competitors have a longer operating history, greater brand recognition, established customer and supplier relationships, and greater financial resources, which could lead to the creation of innovative products and business expansion through acquisitions. Nordstrom Inc announced plans to open a new Nordstrom Rack in the Los Angeles neighbourhood of North Hollywood in April 2022. Guess Inc. launched its in-store customer recycling programme in collaboration with Homeboy Recycling, a recycling centre in Commerce, California, the same month.

Threat - Risks related to Foreign Exchange

Gap operates in many parts of the world and is subject to fluctuations in foreign exchange rates. The company reports its financials in US dollars, so its revenue is vulnerable to fluctuations in the US dollar against other currencies, as it conducts business operations around the world. Significant part of its revenue is also denominated in other currencies, such as Canadian dollars, Japanese yen, Indian rupees, Euro and British pounds, among others. Major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2022, Gap reported a gain of US\$9 million from foreign currency translation adjustments as compared to a loss of US\$17 million in FY2021. To minimize risks from currency fluctuations, the company involves in foreign exchange hedging activities by entering into foreign exchange forward contracts. However, there may be no assurance that such hedging activities or measures may limit the impact of movements in exchange rates on the company's results of operations.

NOTE: The above strategic analysis is based on in-house research and reflects the publishers opinion only