Initiating Coverage:

Gap Inc. ($GAP)

From Runway to Revenue: Gap’s Denim Revival

Key Take-away: Gap Inc. is entering a new chapter of stability and momentum under CEO Richard Dickson, whose two-year tenure has focused on sharpening operational discipline, reinvigorating core brands, and strengthening cultural alignment. The flagship Gap brand has regained cultural relevance, Old Navy continues to deliver steady results, and Banana Republic is showing meaningful comp sales improvement—together reinforcing Gap’s leadership as the largest specialty apparel company in the U.S.. With a stronger foundation, clear strategic priorities, and demonstrated resilience in a dynamic retail environment, Gap is positioned to sustain momentum and create long-term shareholder value.

Better in Denim: Gap is revitalizing brand equity and competing directly with rivals through culturally resonant marketing. The “Better in Denim” campaign featuring K-pop group Katseye generated over 400M views and 8B impressions, while a complementary Instagram campaign leveraging Y2K nostalgia and multicultural representation drew 20M+ views. Gap has further elevated brand prestige by dressing high-profile celebrities including Timothée Chalamet, Anne Hathaway, and Demi Moore for red carpet events. Unlike competitors such as American Eagle, whose Sydney Sweeney campaign has been criticized for overt sexualization, Gap emphasizes inclusivity, authenticity, and cultural relevance. These initiatives are expected to drive higher store and online traffic as well as support margin expansion.

Music Meets Merchandising: Gap recently appointed Jody Gerson, Chairman and CEO of Universal Music Publishing Group, to its Board of Directors to accelerate the company’s integration of fashion and culture. As the first female CEO of a major music publisher and a global cultural influencer, Gerson brings over three decades of experience championing creativity, inclusion, and innovation. CEO Richard Dickson highlighted her expertise in “fashiontainment”—the intersection of fashion, music, and celebrity—as invaluable for amplifying Gap’s storytelling and cultural relevance. Her appointment is expected to enhance brand resonance with Gen Z and millennial consumers, support marketing and product innovation, and ultimately drive higher engagement and long-term shareholder value.

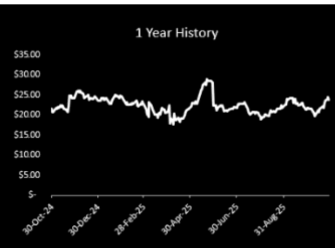
Stock Spike Signals Confidence: On September 4, 2025, Gap's shares experienced notable volatility, briefly triggering a trading halt before closing 5.9% higher. The spike reflected investor enthusiasm around CEO Richard Dickson's turnaround initiatives, including the announcement of the company's strategic pivot into the beauty segment via the Old Navy brand. While the stock has yet to fully recover from a 20% decline in May tied to tariff-related profit concerns, the strong market response underscores confidence in Gap's current transformation efforts, operational discipline, and cultural relevance across its core brands.

Valuation: We initiate coverage with a $25.00 PT.

Consortium Research Group
Consumer | Apparel Retail
October 30th, 2025

Stock Rating:	Overweight
Price Target:	$25.00

Price:	$23.28
Potential Upside:	5.56%
Ticker:	$GAP



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Company Overview

Bridging the Gap: Gap Inc. was founded in 1969 by Doris and Donald Fisher in San Francisco, with its first store selling Levi's jeans and records aimed at bridging the "generation gap" between older and younger consumers. The company went public in 1976 and grew rapidly through the 1980s and 1990s, expanding its brand portfolio to include Gap Kids, Baby Gap, and Old Navy. Headquartered in San Francisco, Gap now operates multiple brands across North America, Europe, and Asia, combining brick-and-mortar stores with a growing e-commerce platform. After facing challenges from fast-fashion competitors and controversies over factory conditions, the company has recently emphasized sustainability, inclusivity, and adapting its business model to a changing retail landscape.

Covering Every Customer: Gap Inc.'s operations revolve around four main brands, each targeting different customer segments. Old Navy focuses on value-conscious consumers and consistently contributes the largest share of revenue. Gap offers casual, everyday apparel for a broad audience, while Banana Republic caters to more premium, fashion-forward customers. Athleta specializes in women's performance and athleisure wear, benefiting from the growing popularity of fitness and lifestyle apparel. Together, these brands operate through a combination of retail stores, e-commerce platforms, and international locations, allowing Gap to capture diverse consumer preferences while balancing growth across channels and markets.

A Generation-Defining Brand: Gap Inc. has become a defining American brand, widely recognized for popularizing denim and casual apparel while fostering a sense of individuality and inclusivity. Beyond its products, Gap has played a role in shaping American fashion culture, from the rise of "everyday casual" wear to iconic advertising campaigns that captured generational attitudes. Its stores and marketing have often reflected social trends, emphasizing diversity, self-expression, and accessibility. While the retail landscape continues to evolve, Gap's cultural heritage and brand recognition remain central to its identity, offering both a competitive advantage and a foundation for connecting with new generations of consumers.

Industry Overview

Denim Wars: In summer 2025, denim brands leaned heavily on celebrities and influencers to capture younger consumers. American Eagle's campaign featuring Sydney Sweeney drew attention—and controversy—with its provocative tagline, sparking viral discussions and mixed reactions across social media, yet it ultimately drove strong engagement and sold-out denim items. Gap responded with its "Better in Denim" campaign featuring KATSEYE, emphasizing inclusivity and cultural energy, which was widely praised and shared online. Lucky Brand collaborated with TikTok star Addison Rae to relaunch ultra-low-rise flare jeans, blending nostalgia with influencer appeal and generating significant buzz among Gen Z shoppers. These campaigns and consumers' enthusiastic responses highlight how social media, celebrity partnerships, and viral marketing now shape trends, drive engagement, and boost sales among Gen Z and Millennial audiences.

Retail Reimagined: The apparel and retail industry is being shaped by technology and evolving consumer expectations. Retailers are increasingly leveraging AI and automation to personalize shopping experiences and optimize inventory management. Omnichannel strategies connect physical stores, e-commerce, and mobile platforms to create seamless customer journeys. Experiential retail has also emerged as a key differentiator, with brands like Lululemon hosting in-store yoga classes, wellness workshops, and community events to engage customers beyond traditional shopping. Voice- and text-based shopping, combined with agile supply chains, allow retailers to respond quickly to consumer demands for convenience and immediacy. Overall, the retail landscape is more digital, agile, and consumer-focused than ever before.

Cross-Border Challenges: Rising U.S. tariffs on apparel imports—reaching up to 49% on key sourcing countries—have increased costs for retailers, forcing them to either absorb expenses or pass them on to consumers, potentially affecting demand and margins. Companies like Gap, American Eagle, and Levi's are responding by diversifying supply chains away from China, exploring alternative sourcing countries, and considering nearshoring to reduce exposure. The expiration of trade programs such as the African Growth and Opportunity Act (AGOA) has further complicated sourcing, increasing costs for African textile exporters. Tariffs and trade policy will continue to shape pricing, supply chain strategy, and operational resilience across the U.S. apparel retail industry.

Peer Comparisons

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
American Eagle Outfitters, Inc	$2,620	$4,490	14.9x	$5,267	$524
Levi Strauss & Co	$9,610	$11,180	23.3x	$6,334	$945
Abercrombie & Fitch Co	$3,670	$4,060	7.2x	$5,100	$893
Urban Outfitters, Inc	$6,280	$6,840	13.7x	$5,832	$685
The Gap, Inc	$7,820	$10,980	9.1x	$15,166	$1,646

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
American Eagle Outfitters, Inc	8.6x	32.9%	10.0%	5.7%	1.3%
Levi Strauss & Co	11.8x	61.4%	14.9%	11.7%	3.0%
Abercrombie & Fitch Co	4.5x	59.7%	17.5%	14.5%	15.6%
Urban Outfitters, Inc	10.0x	35.7%	11.7%	9.5%	7.7%
The Gap, Inc	6.7x	41.0%	10.9%	7.6%	1.3%
High	11.84x	61.4%	17.5%	14.5%	15.6%
75th Percentile	9.99x	59.7%	14.9%	11.7%	7.7%
Average	8.32x	46.1%	13.0%	9.8%	5.8%
Median	8.57x	41.0%	11.7%	9.5%	3.0%
25th Percentile	6.67x	35.7%	10.9%	7.6%	1.3%
Low	4.55x	32.9%	10.0%	5.7%	1.3%

The Gap, Inc Relative Valuation		
Implied Enterprise Value (25th Percentile)	$	10,980
Implied Enterprise Value (Median)	**$**	**14,101**
Implied Enterprise Value (75th Percentile)	$	16,444
Implied Share Price (25th Percentile)	$	21.12
Implied Share Price (Median)	**$**	**29.53**
Implied Share Price (75th Percentile)	$	35.85

Source: The Wall Street Journal, Yahoo Finance

Investment Theses

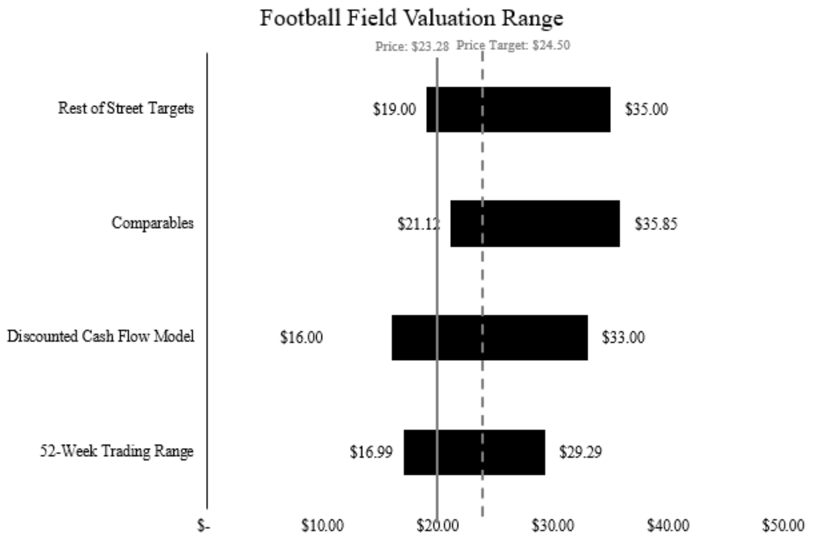
Beyond Apparel: Gap's entry into the beauty market, beginning with its Old Navy brand, represents a strategic pivot into one of the most resilient retail segments. The initial rollout will include beauty and personal-care products in 150 stores, supported by dedicated beauty associates and select shop-in-shops, with plans to scale next year. Complementing this, Gap intends to expand its accessories business, leveraging existing strength in the category and strong customer reception. By broadening its product mix beyond apparel, Gap aims to capture additional wallet share, enhance customer engagement, and generate new, diversified revenue streams.

Cultural Relevance & Lifestyle Expansion: Gap Inc. is leveraging cultural partnerships and brand campaigns to strengthen long-term growth prospects. The collaboration with Katseye highlights Gap's efforts to connect with Gen Z consumers through culturally resonant marketing, aiming to drive incremental traffic and engagement. Complementing this, the Spring 2025 "Feels Like Gap" campaign with Parker Posey emphasizes comfort, individuality, and self-expression through elevated staples, reinforcing brand values across digital, social, and out-of-home channels. Together, these initiatives aim to enhance brand equity, attract younger and more engaged customers, and generate incremental revenue.

Athleta Reboot: Athleta, Gap Inc.'s activewear brand, continues to face declining sales, and it remains to be seen if or how CEO Richard Dickson can replicate the success he has had with Gap, Old Navy, and Banana Republic. However, the company's ongoing brand reinvigoration and CX improvements position Athleta for a potential turnaround. Updates to store aesthetics, enhanced digital experiences, and refined product presentation aim to better connect with lifestyle-oriented, health-conscious consumers. By leveraging targeted marketing, inclusive messaging, and cross-channel engagement, Gap seeks to restore Athleta's relevance in the competitive activewear market. A successful revitalization could capture incremental market share, increase customer loyalty, and contribute meaningfully to long-term revenue growth across Gap's portfolio.

Price Target & Valuation

Our analysis gives $GAP a price target of $25.00 and an overweight rating.



Potential Downsides to Our Rating

Tariff Risk: Gap faces ongoing pressure from U.S. import tariffs, which are now expected to reduce operating income by approximately $150–$175 million in 2025. Higher duties, combined with accelerated inventory receipts, have driven a 9% year-over-year increase in inventory levels, which could require additional promotions or markdowns if consumer demand softens. While Gap is actively mitigating these risks through sourcing diversification, pricing adjustments, and supply chain optimization, tariffs remain a significant cost factor that could compress margins and limit near-term profitability.

Athleta Underperformance: Athleta faces potential headwinds as the brand undergoes a significant reset, with reported declines in same-store sales and net sales signaling ongoing challenges. While Gap is implementing store updates, digital enhancements, and targeted marketing to revive the brand, there is no guarantee these efforts will fully restore consumer engagement or sales momentum. Continued underperformance at Athleta could weigh on Gap's overall revenue growth and limit upside potential from the company's lifestyle and activewear initiatives.

Beauty and Accessories Expansion: Gap's expansion into the beauty and accessories market introduces potential risks, as the category faces increasing saturation and evolving consumer preferences that could dampen demand. While the company is rolling out products in select stores and leveraging dedicated associates and shop-in-shop

Our Price Target: $25.00

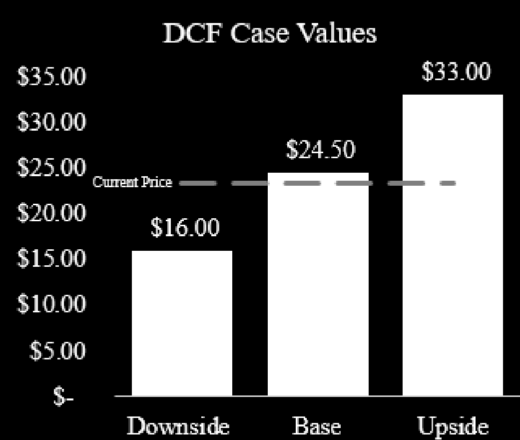
Our PT reflects continued stability and growth, supported by cultural relevance, diversification, and operational discipline under CEO Richard Dickson.

Our Upside Case: $33.00

Our upside case reflects accelerated brand momentum, successful execution in beauty and accessories, and a potential turnaround at Athleta. If Gap sustains cultural relevance while expanding into new categories and capturing incremental market share, earnings could exceed expectations and drive meaningful upside for the stock.

Our Downside Case: $16.00

Our downside case assumes that brand revitalization efforts stall, with Athleta's turnaround failing and Old Navy's beauty entry underperforming. Tariff pressures and higher costs could compress margins, while weaker consumer demand may limit the effectiveness of cultural campaigns.



concepts, there is no guarantee that these initiatives will achieve meaningful traction. Underperformance in beauty or accessories could limit incremental revenue, constrain margin improvement, and temper the overall impact of Gap's diversification strategy.

Projections

Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	15,086	15,400	15,862	16,358	16,889	3.8%
EBITDA	1,600	1,730	1,666	1,738	1,816	4.3%
EBIT	1,100	1,180	1,190	1,247	1,309	6.0%
NOPAT	126	731	(160)	568	807	85.7%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	10.6%	11.2%	10.5%	10.6%	10.8%	10.7%
EBIT Margin	7.3%	7.7%	7.5%	7.6%	7.8%	7.6%
Revenue Growth	1.3%	2.1%	3.0%	3.1%	3.3%	2.6%
EBIT Growth	76.8%	7.3%	0.8%	4.8%	4.9%	18.9%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	9.9x	10.1x	10.6x	10.1x	9.7x	10.1x
EV/Sales	0.8x	0.8x	0.7x	0.7x	0.7x	0.7x
EV/EBITDA	7.4x	6.8x	7.1x	6.8x	6.5x	6.9x
FCF Yield	10.1%	9.9%	9.4%	9.9%	10.3%	9.9%

About $GAP

GAP Inc. ($GAP), founded in 1969, operates as a global apparel and accessories retailer. It sells clothing and accessories for men, women, and children through its brands, Gap, Old Navy, Banana Republic, and Athleta, in stores and online worldwide. The company's goal is to provide accessible, stylish, and sustainable fashion while driving growth.

Disclosures & Ratings

Overweight means the analyst team believes the stock price will materially outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

The Gap, Inc

Discounted Cash Flow

Active Case: 2 Base

Current Share Price $23.27

DCF Analysis ($mm)	FY2020 12/31/2020	FY2021 12/31/2021	FY2022 12/31/2022	FY2023 12/31/2023	FY2024 12/31/2024	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/31/2030
Stub						0.83	1.83	2.83	3.83	4.83	5.83
Discount Period						0.08	0.67	1.67	2.67	3.67	4.67
Revenue	13,800	16,670	15,616	14,889	15,086	15,400	15,862	16,358	16,889	17,459	18,070
Revenue Growth	*0%*	*21%*	*-6%*	*-5%*	*1%*	*2%*	*3%*	*3%*	*3%*	*3%*	*3%*
Sales	13,800	16,670	15,616	14,889	15,086	15,400	15,862	16,358	16,889	17,459	18,070
0.00	584	334	51	71	(49)	0	0	0	0	0	0
0.00	(25)	21	79	9	(37)	0	0	0	0	0	0
EBIT	(311)	798	(97)	622	1,100	1,180	1,190	1,247	1,309	1,375	1,446
EBIT Margin	*-2%*	*5%*	*-1%*	*4%*	*7%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*
Tax Expense	(437)	67	63	54	293	315	297	315	334	354	376
Effective Tax Rate	*141%*	*8%*	*-65%*	*9%*	*27%*	*27%*	*25%*	*25%*	*26%*	*26%*	*26%*
NOPAT	126.00	731.00	(160.00)	568.00	807.00	865.00	892.24	932.34	975.15	1,020.88	1,069.77
D&A	507	504	540	522	500	550	476	491	507	524	542
Capex	392	694	685	420	447	460	397	409	422	436	452
Changes in NWC	(172)	(467)	197	500	(7)	100	159	164	169	175	181
UFCF	413	1,008	(502)	170	867	855	813	851	891	934	979
PV of FCF						848	763	727	694	662	632

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	2.16
Risk Free Rate	4.39%
Cost of Equity	8.26%
Weighted Average Cost of Debt	5.22%
Tax Rate	25.00%
Cost of Debt	1.56%
Total Equity	$8,632
Total Debt	$3,143
Equity/Total Capitalization	60.07%
Debt/Total Capitalization	39.93%
WACC	9.83%

Terminal Value Perpetuity Growth Method	
2034 FCF	$979
Growth	2.00%
Terminal Value	$12,516
PV of Terminal Value	$8,080
PV of Projection Period	$4,327
PV of Terminal Value	$8,080
Implied TEV	$12,407
(-) Debt	$5,470
(+) Cash	$2,327
Implied Equity Value	$9,264
Basic Shares Outstanding	371
Implied Share Price	$24.97
Upside/Downside	7.31%

Implied Exit BF EV/EBIT	8.6x

Terminal Value Exit Multiple Method	
2034 EBIT	$1,446
EV/EBIT Exit Multiple	8.5x
Terminal Value	$12,288
PV of Terminal Value	$7,932
PV of Projection Period	$4,327
PV of Terminal Value	$7,932
Implied TEV	$12,259
(-) Debt	$5,470
(+) Cash	$2,327
Implied Equity Value	$9,116
Diluted Shares Outstanding	371
Implied Share Price	$24.57
Upside/Downside	5.6%

Implied PGR	-2.2%

Blended Share Price	
Perpetutity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	$24.57
Upside/Downside	5.60%