



INVEST/STAY CONNECTED

INITIAL REPORT NOVEMBER 28, 2024

LAST UPDATED NOVEMBER 28, 2024

\$24.22 / Recommendation: BUY, target \$31.00



THE GAP, INC.

The Gap, Inc. (GAP) Gap is a well-known global clothing retailer operating under the Old Navy, Gap, Banana Republic, and Athleta brands. The company manages 2,562 company-operated stores and has 998 franchise locations spanning Asia, Europe, Latin America, the Middle East, and Africa. In 2023, Gap reported sales of \$14.9 billion and is currently trading at a cheap 5.3x our 2024 EBITDA estimate.

Historically regarded as a mediocre performer, Gap began a significant turnaround in August 2023 with the appointment of CEO Richard Dickson. Formerly at Mattel, Dickson is credited with revitalizing iconic brands such as Barbie, Hot Wheels, and Fisher-Price while steering Mattel back to growth. Under his leadership, Gap is showing tangible signs of improvement. As of 3rd quarter 2023 net sales, margins, and market share all demonstrated growth. Cash and cash investments surged 64% year-over-year to \$2.2 billion, positioning the company with a net cash surplus. Gap beat earnings expectations in the third quarter and raised its guidance for the full 2024 year. Gap also recently Introduced a \$0.60 annual dividend, signaling confidence in the business trajectory.

CEO Dickson remarked during the Q3 earnings call:

“Our third quarter results reinforce that the execution of our strategic priorities, notably the rigor and discipline we've implemented around our brand reinvigoration playbook, has made us stronger. This gives me confidence that our transformation is taking hold and that we are on our way to becoming a high-performing company and unlocking Gap Inc.'s full potential.”

We initiated a Buy rating with a price target of \$31, reflecting the growing strength and revitalized potential of Gap's brands under Dickson's leadership. We are projecting an 80% increase in earnings to \$3.60 per share and a 50% growth in EBITDA to \$2.4 billion by 2026. We believe that Gap's transformation, driven by CEO Dickson, positions the company for further revenue growth and margin expansion.

Company Stats & Estimates \$	
Shares Outstanding	377
Equity Market Cap	9,131
Enterprise Value	8,401
EBITDA 2024 est.	1,582
EV EBITDA multiple	5.31
2024 EPS	1.92
2025 EPS	2.73
2024 Cash Flow Yield	9.85%
Projected Dividend Coverage %	398%
2025 Current Cash Flow Yield	13.20%
Enterprise Value	8,401
Dividend coverage	398%
Dividend Yield	6.90%

[GAP INVESTOR RELATIONS](#)

Stock Chart GAP



Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. 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