

# Equity analysis of gap inc

Business



The strength of the company lies in its 3, 000+ retail outlets, strong internet presence via its web stores, and its frequent-customer loyalty programs.

Gap, Inc. has a very strong market presence and delivers a quality product, but the organization is not without some key challenges; primarily strong competition within the apparel industry and the need to accurately predict consumer preferences in the world of fashion trends (Gap, 6-9). Corporate objectives are focused upon continuing to deliver shareholder value through profitable operations (margins of 10-11%), increased consumer marketing and positive in-store experiences, as well as international expansion (Gap, 881). Gap, Inc. has very strong brand and franchise values that are sustainable over the long-term, particularly as the organization focuses upon its marketing, product quality, and expansion opportunities. The company's growth outlook is also good, as it seeks to increase its EPS and operational efficiencies.

Management Overview. The top three executives are Paul Pressler, CEO/President since 2002; Cynthia Harris, the President of Gap North America since 2005; and Byron Pollitt, the Chief Financial Officer since 2003. Mr. Pressler has a base salary of \$1. 5MM plus bonuses and owns 3. 4 million shares of stock. Ms. Harris makes over \$700, 000 per year and owns 330, 000 shares, while Mr. Pollitt makes \$675, 000 per year and has a little over 600, 000 shares. This management team is relatively new, but their past performance has shown growth in the company's product development and sales, as well as growth in earnings per share. Their performance, compensation, and stock ownership strongly align their interests with shareholders and provide sufficient incentive to perform well. (Gap (2), 23-33)

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Industry Overview. The top three competitors for Gap, Inc. are Abercrombie & Fitch, American Eagle Outfitters, and J. Crew. All three of these companies are well-known suppliers of similar products and compete head-to-head with Gap, Inc. through retail outlets and internet-based sales. Gap Inc. is a major player within the industry, ranked # 139 by Fortune 500 (Biesada, 1).

Valuation. On the comparative numbers, Gap Inc. returns favorable results. It has a lower P/E Ratio than the industry average (14.3 to 19.7) and its P/B Ratio is similarly lower when compared to both the industry and the S&P 500. The ROE is about 10% higher than the industry average, demonstrating that Gap Inc. has strong earnings relative to its share price. Its position in the industry and the overall market is positive. In terms of revenue and earnings, Gap Inc.'s short term results are not impressive. With a 60-Month Beta of 1.8, the company is carrying a little higher volatility than the market in general, but nothing that is out of line with the industry. Both EPS and Revenue growth are down for the last year, but over a three year timeframe, they remain strong. Coupled with a %122 growth in dividends, management believes earnings are strong enough to engage in share buybacks. Overall, long-term growth looks good.

Technical Analysis. The one- and five-year charts show.