Carbon Arc

Where Are Old Navy's Shoppers Going? Gap Inc. and the Value Trade-Down

Reading Gap Inc.'s third quarter as Old Navy shoppers drift toward off-price stores

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Gap Inc. 3Q tracks below guidance as Old Navy loses premium cross-shoppers

- **Gap Inc. card spend growth in 3Q26 points to net sales growth between –4.4% and +2.3% (midpoint –1.1%), below its +1.5% to +2.5% guide.** Old Navy spend fell 5.6% Y/Y, driven by declines in both transactions and ticket, vs. +4.0% Y/Y growth for Gap.
- **Spend growth decelerated at Gap and Old Navy after the 2Q earnings call.** Old Navy spend growth went from –4.8% Y/Y in the 26 days pre-call to –5.9% Y/Y in the 65 days after, while Gap fell from +8.7% to +2.3% Y/Y. A tougher comp contributed for Old Navy, but its 2-year CAGR also fell to its lowest level since July. Old Navy opens 4Q at –23.8% card spend Y/Y in the 14 days ending November 8; Gap is at –3.2% Y/Y.
- **Cross-shop affinity with Old Navy rose an average of +0.0077 (on a –1 to +1 scale) across 11 value apparel brands,** vs. almost no change across 13 premium apparel brands. Only Aritzia's affinity increased as much as Primark's, Halara's, Ross's, Rainbow's and Burlington's.
- **Old Navy spend from cross-shoppers of 11 premium apparel brands fell a median 14.8% Y/Y,** and spend per shared shopper fell for 10 of the 11, rising only for Ralph Lauren. Gap spend per shopper increased across cross-shoppers of premium and mid-price apparel brands.
- **Discount merchandise retailers grew digital ad spend 38.1% Y/Y in calendar 3Q26,** as Gap and Old Navy increased spend on TikTok (Old Navy +254%, Gap +48%) and YouTube (Old Navy +72%, Gap +111%). Old Navy cut spend on Meta platforms Y/Y for a second straight quarter, even as Gap increased Instagram spend 47% and held Facebook spend about flat.
- **Spend per shopper grew double digits Y/Y at Dollar General, Walmart and Sam's Club,** driving spend growth even as customer counts stayed about flat. Major department stores lost customers but grew spend per shopper, suggesting churn of their lowest-value customers.

Card spend points to Gap Inc. 3Q26 net sales growth in line to below its +1.5% to +2.5% net sales guide

Card spend at Gap Inc.'s brands fell 5.0% in 3Q26. An average gap between card spend growth and reported sales growth of −4pp over the last four quarters gives an estimate of −1.1%, with a margin of error of 3.4pp, from −4.4% to +2.3%. Gap landed at or below the bottom of its quarterly guides in 1Q and 2Q, and cut its full-year guidance twice.

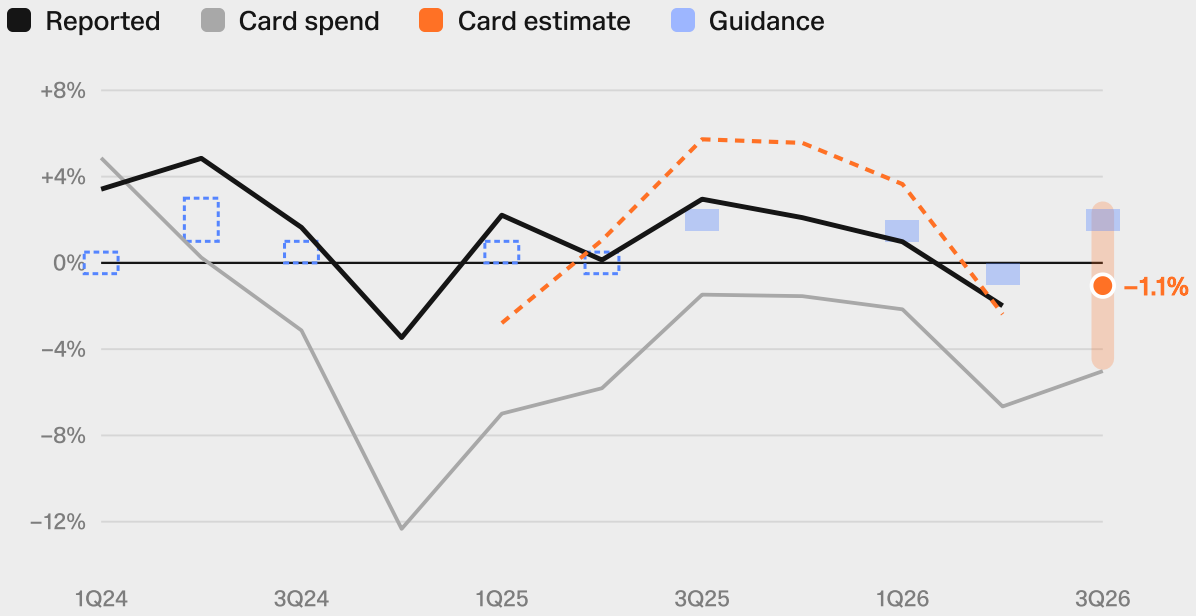
Creating the card read estimate

STEP	VALUE
Card spend Y/Y, 3Q26 (Aug 2–Oct 31, quarter complete)	−5.0%
Correction: average gap to reported, last four quarters (−4.4, −3.6, −3.1, −4.7pp)	+4.0pp
Card-implied net sales growth, 3Q26	**−1.1%**
Company guidance, 3Q26 net sales (Aug 27, 2026)	+1.5% to +2.5%
Estimate vs guidance midpoint	−3.1pp

How well card has tracked reported net sales

TEST	RESULT
Correlation, card vs reported Y/Y (10 quarters)	0.83
Direction of change called	7 of 9
Average miss (2 of 6 scored quarters within it)	2.5pp
Worst miss (1Q25, right after the 53-week year)	5.0pp

Net sales growth Y/Y by fiscal quarter (dashed guide box = worded guide, e.g. "roughly flat")



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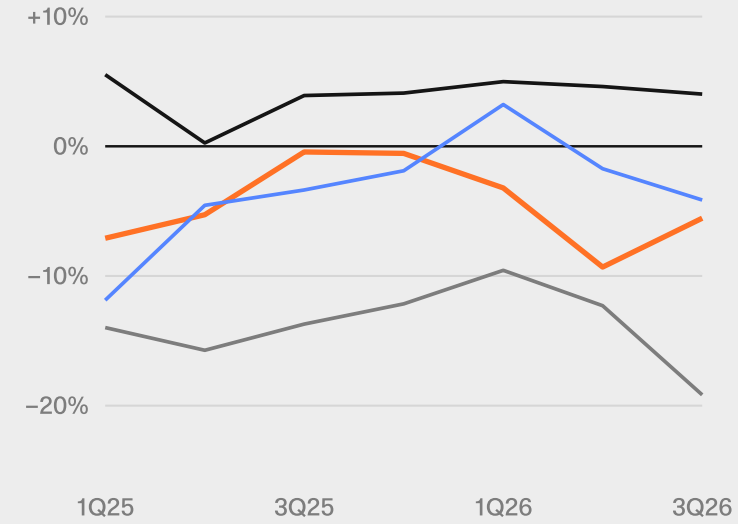
Source: Carbon Arc Credit Card – US Complete Panel – CA0056; Gap Inc. filings

Average ticket +5.3% for Gap as transactions fall; down 2.1% for Old Navy

Gap brand's card spend grew 4% Y/Y in 3Q, driven by +5.3% growth in ticket as transactions fell 1.2%. Old Navy card spend fell 5.6% on both fewer transactions and a smaller average ticket. Athleta card spend fell 19% Y/Y, its worst performance since 3Q23.

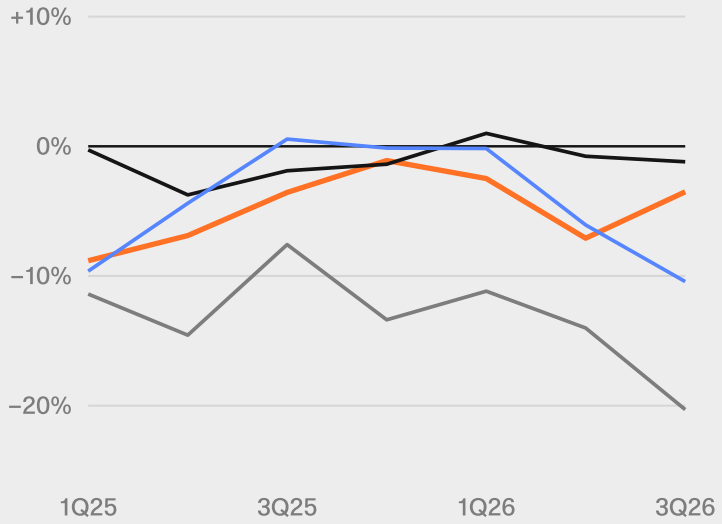
Card spend, Y/Y

3Q26: Old –5.6% · Gap +4.0% · BR –4.1% · Athleta –19.2%



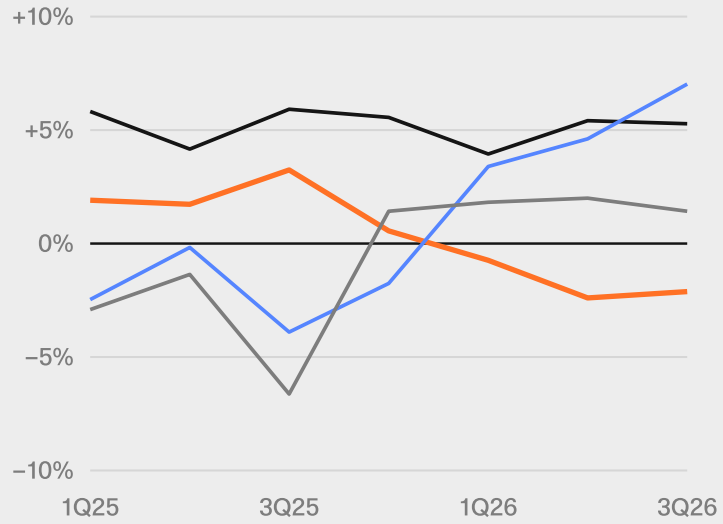
Card transactions, Y/Y

3Q26: Old –3.5% · Gap –1.2% · BR –10.4% · Athleta –20.3%



Average ticket, Y/Y

3Q26: Old –2.1% · Gap +5.3% · BR +7.0% · Athleta +1.4%

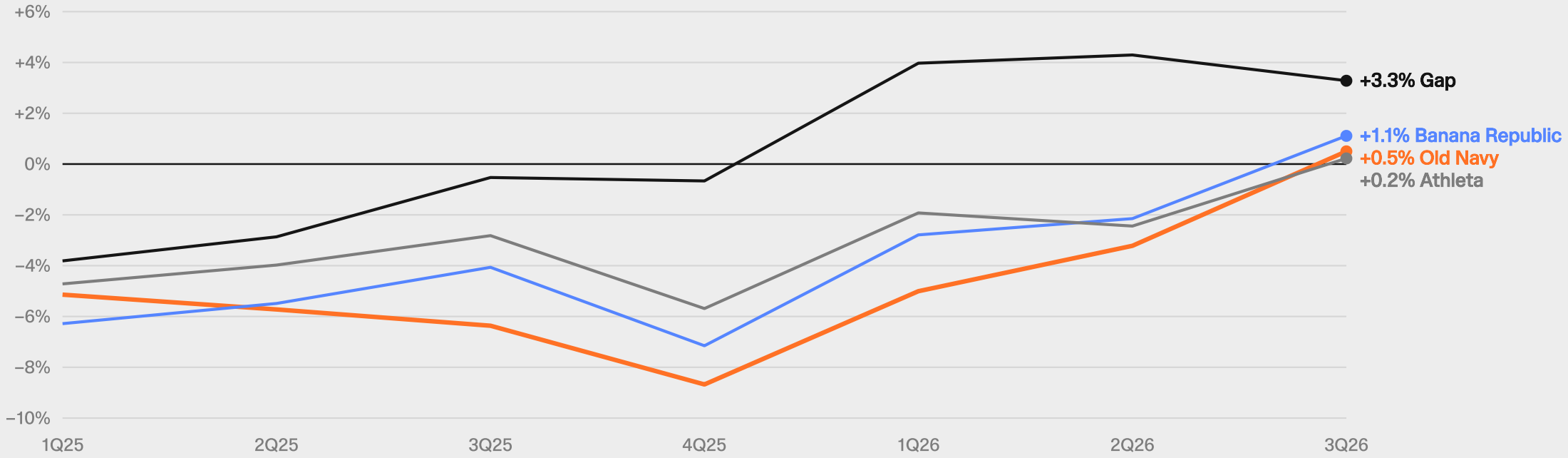


Source: Carbon Arc Credit Card – US Complete Panel – CA0056

Store traffic turned positive at all 4 brands in 3Q, led by Gap

Visits per store rose Y/Y at each brand in 3Q26, the first time since 1Q22. Gap brand foot traffic has been positive since 1Q26, while Old Navy traffic accelerated from –3.2% to +0.5% growth Y/Y.

Visits per store Y/Y growth



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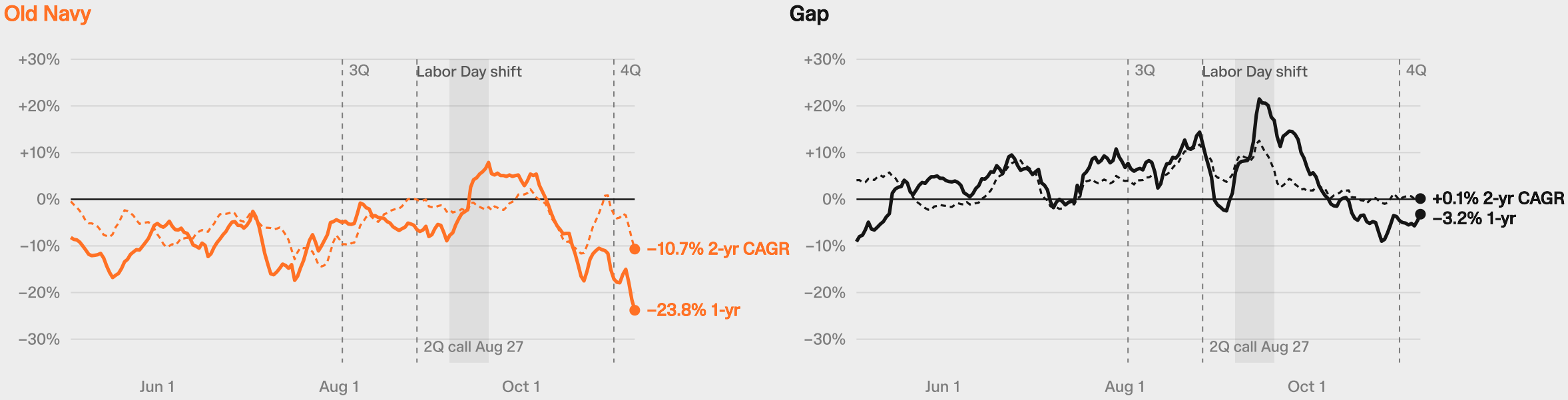
Source: Carbon Arc Foot Traffic – CA0060

Momentum deteriorates for Old Navy in October and early November

After near-flat growth through September, spend momentum deteriorated for Old Navy throughout October and into early November. While weakness in late October was exacerbated by a difficult 2025 comp, Y/Y growth at Old Navy was –23.8% in the 14 days ending November 8, and the 2-year CAGR was still –10.7%. In the 26 days before Gap's 2Q earnings call, Old Navy card spend fell 4.8% Y/Y, vs. 5.9% Y/Y after the call. Gap spend growth fell further, from +8.7% to +2.3%.

Card spend over the trailing 14 days vs a year earlier, stepped daily, May 3–Nov 8, 2026

1-yr: vs the same 14 days last year 2-yr CAGR: annualized growth vs the same 14 days two years earlier (dashed)



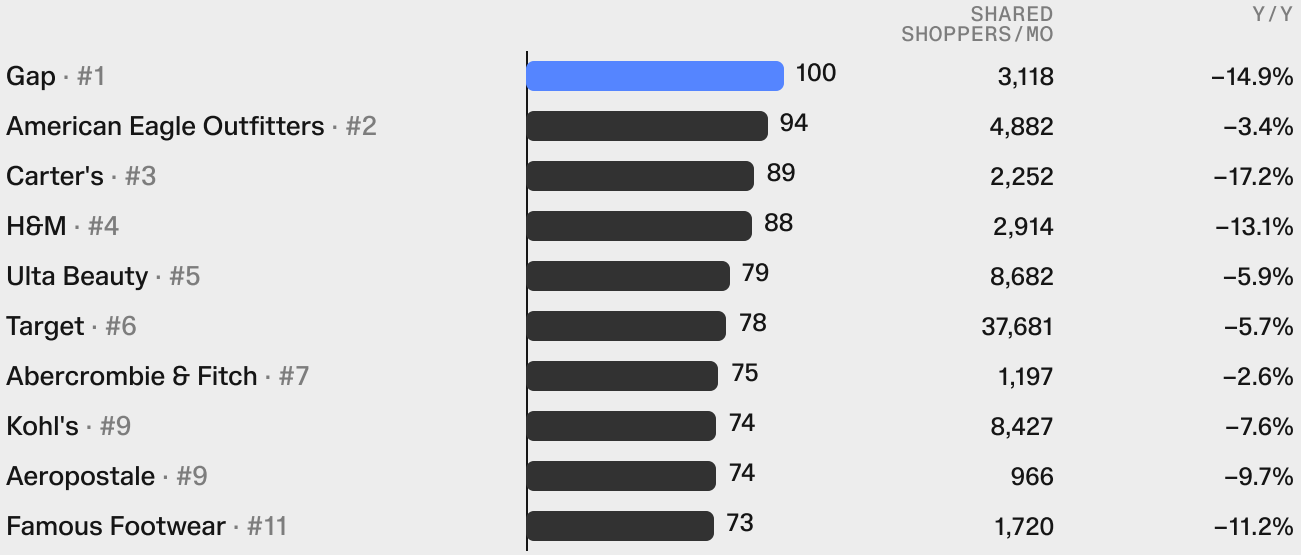
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Source: Carbon Arc Credit Card – US Complete Panel – CA0056

Gap, American Eagle and Carter's overlap most with Old Navy shoppers

Cross-shop nPMI measures how likely an Old Navy card shopper is to also shop the other brand, adjusted for brand size. Gap, American Eagle, Carter's and H&M have the greatest cross-shop affinity with Old Navy. From 3Q25 to 3Q26, shared shoppers with Athleta fell 25.3%, even as total Athleta shoppers fell only 18.4%.

Indexed nPMI score with Old Navy, Jul–Oct 2026 (Gap = 100)



Athleta, Jul–Oct average per month

	2025	2026	Y/Y
Athleta card shoppers/mo	9,307	7,596	–18.4%
...who also shop Old Navy	922	690	–25.3%
...who also shop Gap	669	560	–16.3%
...who also shop Banana Republic	316	268	–15.1%
Share of Athleta shoppers who also shop Old Navy	9.9%	9.1%	

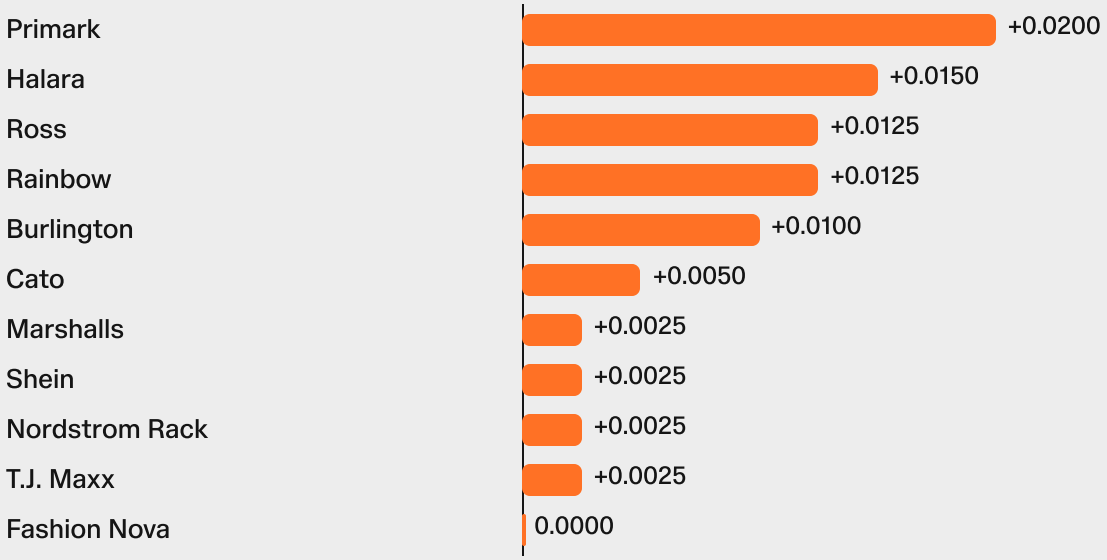
Source: Carbon Arc Credit Card – US Complete Panel – CA0056

Old Navy shoppers increasingly likely to cross-shop value brands, while overlap with premium brands is unchanged

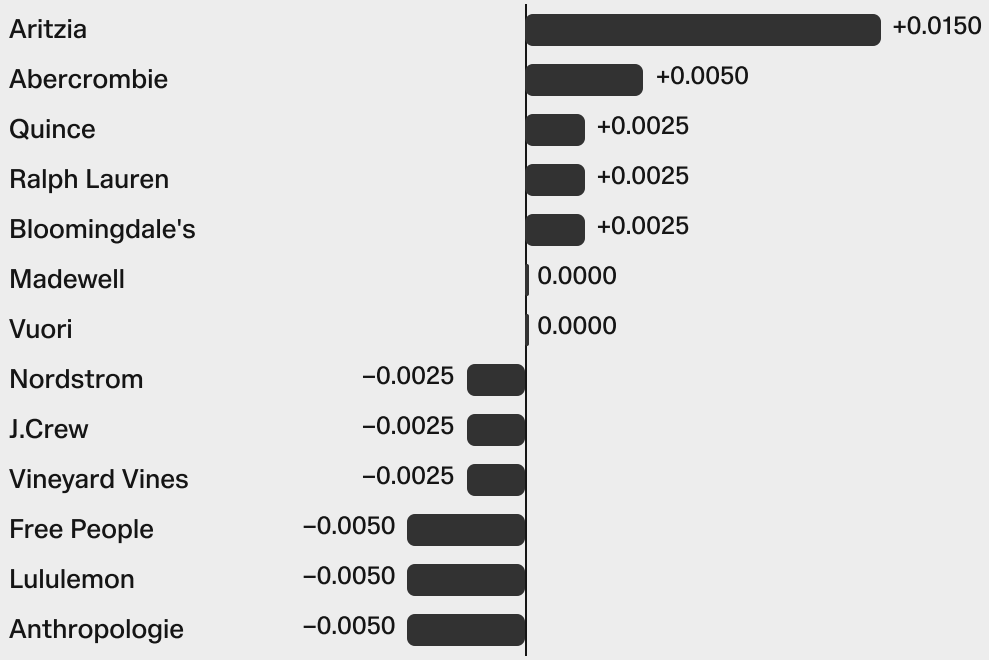
Cross-shop nPMI measures how likely an Old Navy card shopper is to also shop the other brand, adjusted for brand size. Across 11 value apparel brands, cross-shop affinity with Old Navy rose an average of +0.0077 (on a –1 to +1 scale), led by Primark, Halara, Ross and Rainbow. Among premium apparel brands, only overlap with Aritzia increased as much, while the 13-brand sample averaged almost no change.

Change in monthly nPMI with Old Navy, Jul–Oct 2026 vs 2025 (–1 to +1 scale)

11 value apparel brands: average +0.0077



13 premium apparel brands: average +0.0004



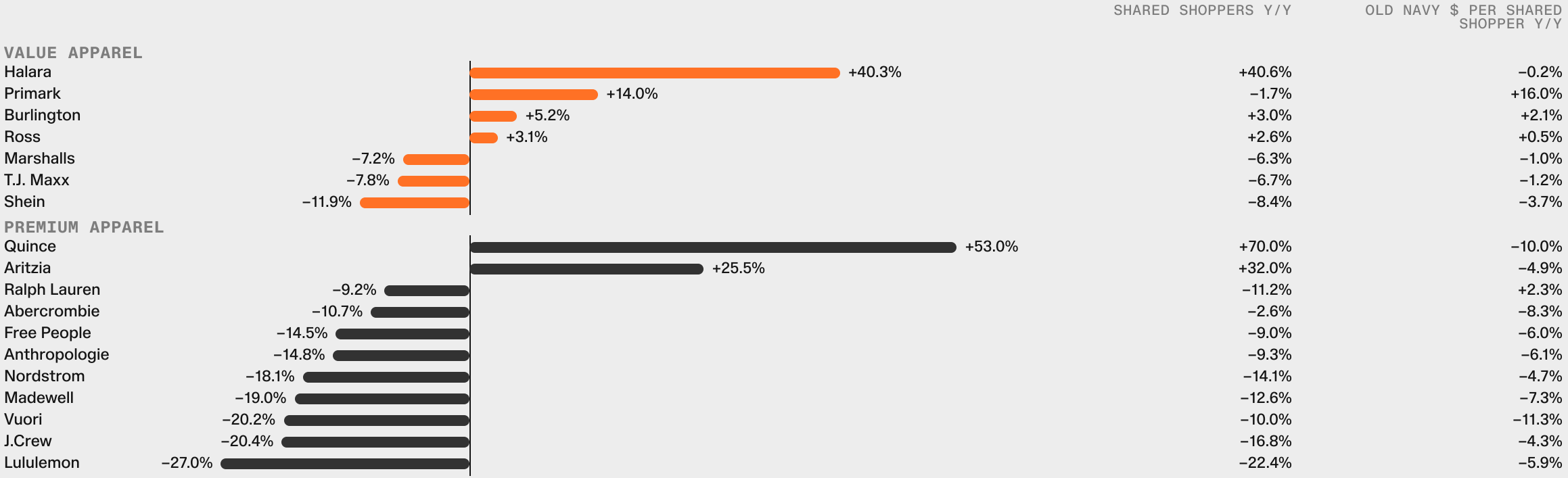
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Source: Carbon Arc Credit Card – US Complete Panel – CA0056

Old Navy is losing spend from shoppers who also buy premium brands

Old Navy's card spend fell 5.2% in Jul–Oct. Spend from cross-shoppers of 11 premium apparel brands fell a median 14.8%, with fewer shared shoppers for 9 of the 11 brands, the exceptions being Quince and Aritzia. Spend per shared shopper also fell for 10 of the 11 brands, with a median of –6.0% Y/Y.

Card spend at Old Navy by shoppers who also shop each brand, Jul–Oct 2026 vs 2025



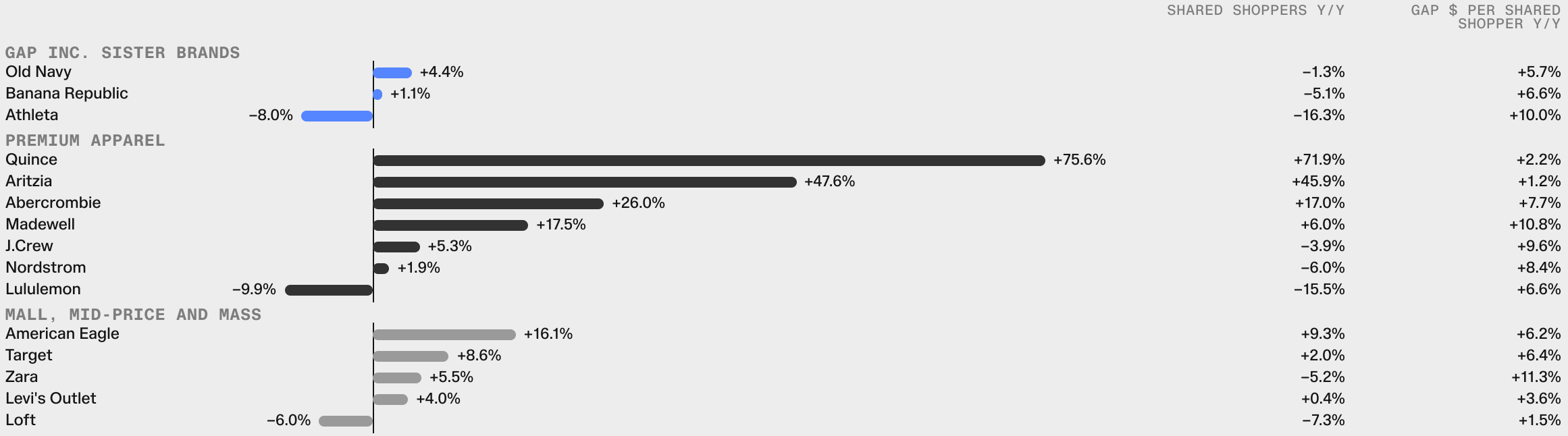
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Source: Carbon Arc Credit Card – US Complete Panel – CA0056

Gap brand’s spend per shopper rose across overlap groups

Gap brand’s card spend per shopper rose 6.2% Y/Y in Jul–Oct, increasing for cross-shoppers of every brand shown. It grew most among shoppers who also shop at Zara, Madewell, Athleta and J.Crew. Growth from Quince, Aritzia and Abercrombie shoppers came mainly from more shared shoppers (+17–72%), with spend per shopper up only 1–8%.

Card spend at Gap brand by shoppers who also shop each brand, Jul–Oct 2026 vs 2025



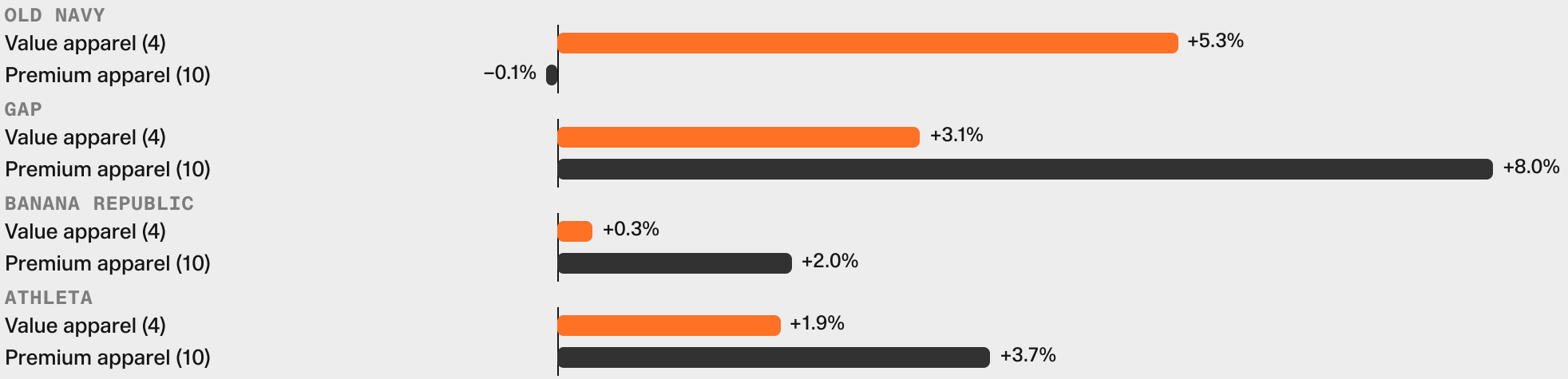
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Source: Carbon Arc Credit Card – US Complete Panel – CA0056

Old Navy shoppers shifting toward value; Gap shoppers toward premium brands

Measured against the same set of 4 value brands and 10 premium brands, Old Navy shoppers' affinity with value apparel brands rose 5.3% Y/Y in 3Q26, more than value apparel affinity growth for any other Gap Inc. brand. Affinity with premium apparel brands fell 0.1%, while rising 8.0% for Gap, 3.7% for Athleta and 2.0% for Banana Republic.

Average change in affinity across sets of value and premium apparel brands



Value apparel: Marshalls, Nordstrom Rack, Ross, T.J. Maxx. Premium apparel: Abercrombie, Anthropologie, Aritzia, Free People, J.Crew, Lululemon, Madewell, Nordstrom, Quince, Vuori.

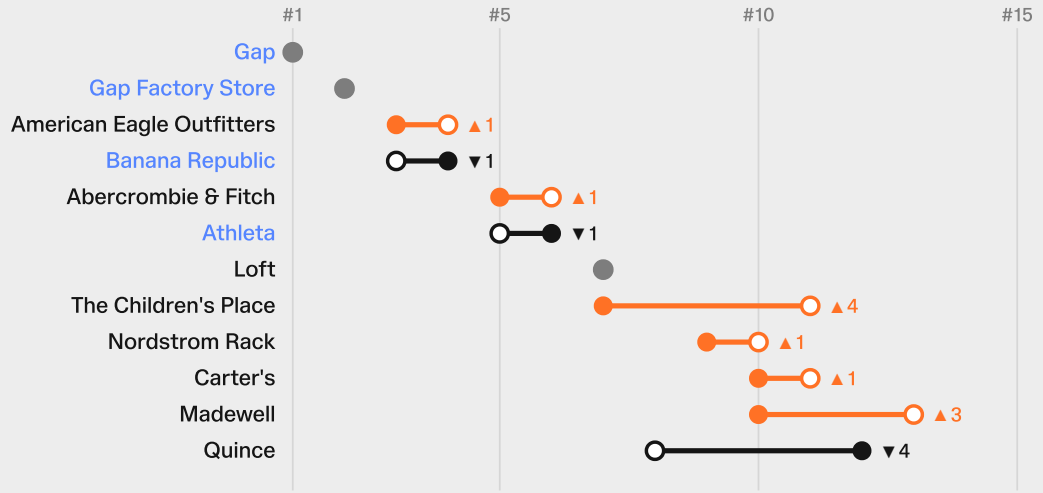
Source: Carbon Arc Credit Card – US Complete Panel – CA0056

Online, Gap and Old Navy visitors overlap most with their sister brands, American Eagle and Abercrombie

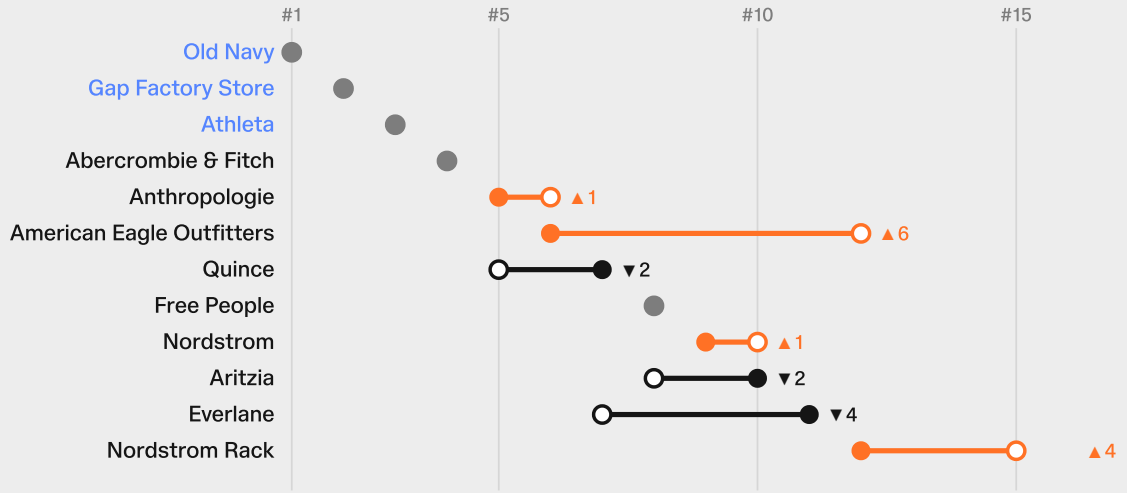
Web browsing overlap shows Gap and Old Navy customers have the highest affinity for their sister brands, American Eagle and Abercrombie & Fitch. Browsing overlap with American Eagle increased in 2025–2026, while it decreased for Quince. Old Navy visitors were more likely to also visit Banana Republic than Gap visitors, despite Banana Republic's positioning as the premium brand in Gap Inc.'s portfolio.

Moved up Moved down Gap Inc. site

Old Navy web traffic nPMI, rank Jul–Sep 2025 ○ → 2026 ●



Gap web traffic nPMI, rank Jul–Sep 2025 ○ → 2026 ●



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Source: Carbon Arc Clickstream – CA0030

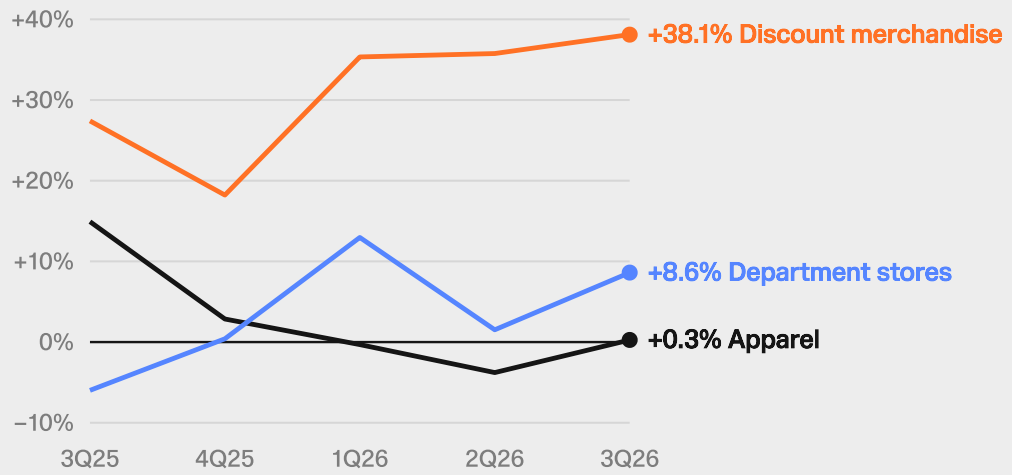
Discount retailers step up digital ad spend as Gap and Old Navy invest in digital formats in 3Q26

In calendar 3Q26 (Jul–Sep), Old Navy and Gap cut ad spend on OTT streaming and Pinterest and shifted toward social video: YouTube spend rose 72% Y/Y for Old Navy and 111% for Gap, while TikTok spend rose 254% Y/Y for Old Navy and 48% for Gap. Old Navy cut Meta spend Y/Y for a second consecutive quarter, while Gap grew it. Category-wide apparel ad spend is about flat Y/Y, but discount merchandise ad spend is accelerating, reaching +38.1% Y/Y in 3Q.

Old Navy and Gap digital ad spend growth Y/Y by platform, calendar quarters

PLATFORM	OLD NAVY 1Q26	OLD NAVY 2Q26	OLD NAVY 3Q26	GAP 1Q26	GAP 2Q26	GAP 3Q26
Instagram	+52%	−14%	−11%	+11%	−14%	+47%
Facebook	+6%	−11%	−18%	+4%	−13%	+2%
TikTok	−27%	−92%	+254%	+167%	+111%	+48%
YouTube	+21%	+95%	+72%	−26%	+62%	+111%
Pinterest	+60%	−52%	−64%	+22%	−29%	−43%
OTT streaming	+103%	−69%	−37%	+70%	−65%	−61%

Category digital ad spend growth Y/Y, calendar quarters



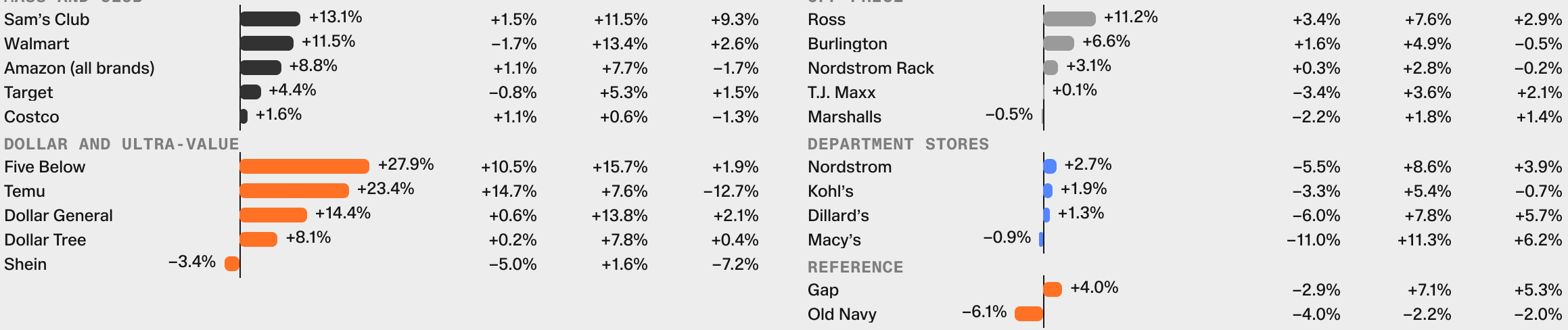
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Source: Carbon Arc Digital Advertising – CA009

The wider wallet is moving to mass, club and dollar retail formats

3Q26 (Gap fiscal quarter) card spend grew fastest at Five Below (+28%), Temu (+23%), Dollar General (+14%), Sam's Club (+13%), Walmart (+11.5%), Ross (+11.2%) and Amazon (+9%). Five Below and Temu are buoyed by growth in distinct shoppers (Five Below also grew spend per shopper 15.7%), but spend per shopper grew double digits at Dollar General, Walmart and Sam's Club to offset flat shopper growth. Department stores appear to be churning their lowest-value customers: customer counts fell, but spend per shopper and ticket rose Y/Y. Old Navy is the only brand shown where spend per shopper fell Y/Y.

Total card spend Y/Y at each retailer, 3Q26 (Aug 2–Oct 31) vs the same weeks a year earlier



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Source: Carbon Arc Credit Card – US Complete Panel – CA0056