



carter's, inc.

First Quarter 2017
Business Update

APRIL 27, 2017

\$ in millions, except EPS

Net Sales

+1%

\$724.1

\$732.8

2016

2017

Adjusted Operating Income* (Adjusted Operating Margin)

(15%)

\$94.0

13.0%
of
Net Sales

\$80.1

10.9%
of
Net Sales

2016

2017

Adjusted EPS*

(8%)

\$1.05

\$0.97

2016

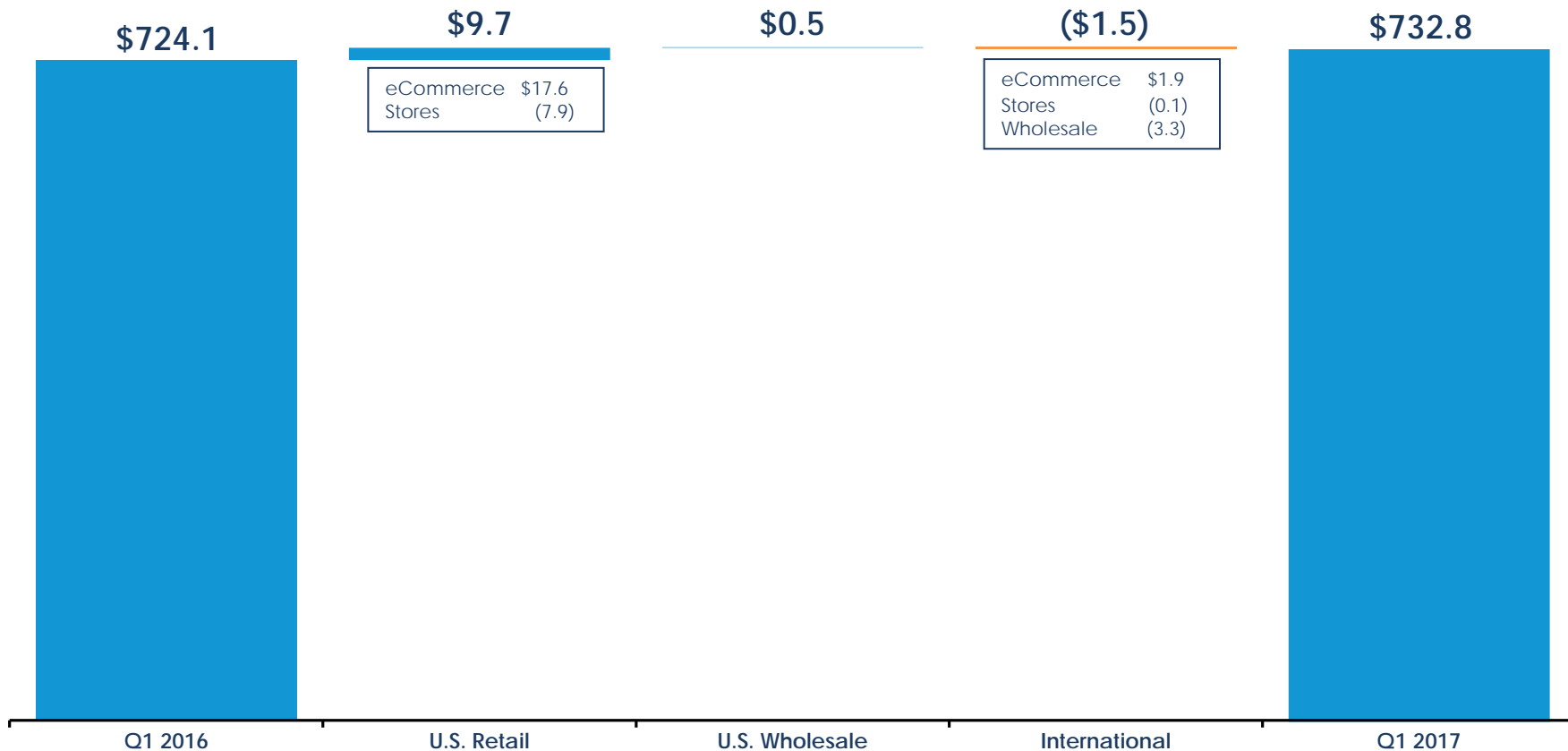
2017

- **Net sales +1%**
 - Strong eCommerce sales (U.S. and Canada)
 - Skip Hop (acquired February 2017) contributed \$10.4 million to Q1 net sales
- **Adjusted operating margin declined 210 bps reflecting increased investments in Retail business, store expense deleverage, offset in part by gross margin improvement**
- **Adjusted EPS declined 8% to \$0.97, exceeding prior guidance of \$0.80 - \$0.85**

First Quarter 2017 Net Sales

\$ in millions

+1%



eCommerce	\$17.6
Stores	(7.9)

eCommerce	\$1.9
Stores	(0.1)
Wholesale	(3.3)

Growth vs. 2016

+3%	Comparable	(2%)	+1%
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Constant Currency	(4%)	+1%
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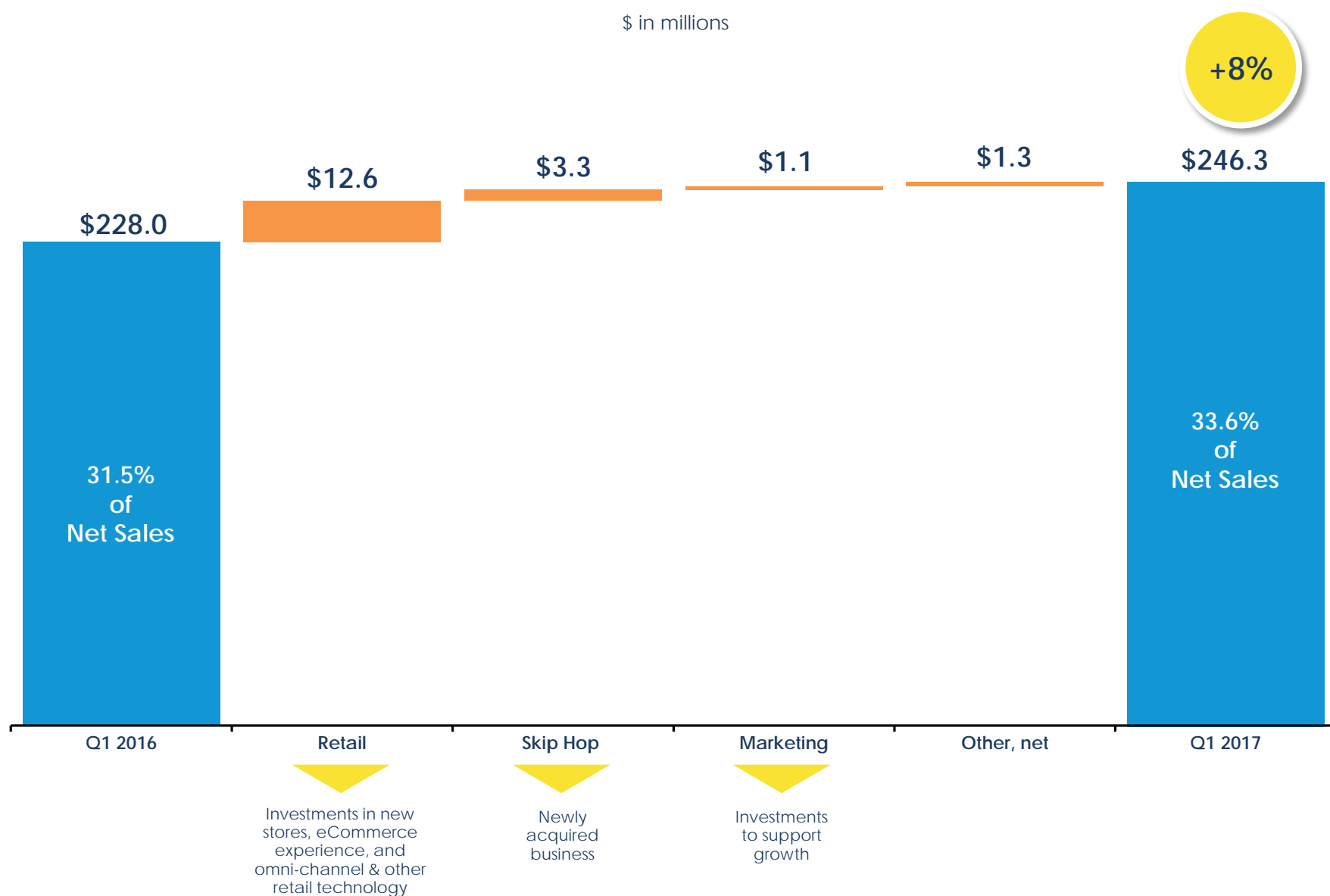
First Quarter 2017 Adjusted Results*

\$ in millions, except EPS

	<u>Q1 2017</u>	<u>% of Sales</u>	<u>Q1 2016</u>	<u>% of Sales</u>	<u>Increase / (Decrease)</u>
Net sales	\$732.8		\$724.1		1%
Gross profit	315.8	43.1%	310.9	42.9%	2%
Adjusted SG&A*	246.3	33.6%	228.0	31.5%	8%
Royalty income	(10.6)	(1.4%)	(11.1)	(1.5%)	(5%)
Adjusted operating income*	80.1	10.9%	94.0	13.0%	(15%)
Interest and other, net	6.7	0.9%	9.7	1.3%	(31%)
Income before taxes	73.3	10.0%	84.2	11.6%	(13%)
Income taxes	25.7	3.5%	29.7	4.1%	(13%)
Adjusted net income*	\$47.6	6.5%	\$54.6	7.5%	(13%)
Adjusted diluted EPS*	\$0.97		\$1.05		(8%)
Weighted average shares outstanding	48.9		51.6		(5%)
Adjusted EBITDA*	\$100.0	13.7%	\$108.0	14.9%	(7%)

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 21, 22, and 23.
Note: Results may not be additive due to rounding.

First Quarter 2017 Adjusted SG&A*



*Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 22.

Balance Sheet and Cash Flow

\$ in millions

		2017	2016
Balance Sheet (at Q1 end)	Cash	\$154	\$395
	Accounts Receivable	207	193
	Inventory	435	376
	Accounts Payable	101	90
	Long-Term Debt	582	580
Cash Flow (Q1)	Operating Cash Flow	\$84	\$128
	Capital Expenditures	(18)	(26)
	Free Cash Flow ¹	\$66	\$103
Return of Capital (Q1)	Share Repurchases	\$47	\$72
	Dividends	18	17
	Total	\$65	\$89

- Q1 2017 balance sheet reflects purchase of Skip Hop
- Inventory +15% vs. LY
 - Excluding Skip Hop acquisition, net inventories +8% vs. LY, driven by business growth
- Decline in free cash flow reflects lower net income and unfavorable movements in working capital, offset in part by lower capital expenditures
- Returned \$65 million to shareholders through share repurchases and dividends in Q1 2017
- Additional \$14 million in share repurchases Q2 2017 quarter-to-date with approximately \$214 million remaining under share repurchase authorizations

¹ Non-GAAP measure.

Note: Results may not be additive due to rounding.

Business Segment Performance



First Quarter Adjusted Business Segment Performance*

\$ in millions

	Net Sales			Adjusted Operating Income (Loss)*			Adjusted Operating Margin*	
	2017	2016	\$ Growth	2017	2016	\$ Growth	2017	2016
U.S. Retail (a)	\$ 364	\$ 354	\$ 10	\$ 30	\$ 39	\$ (10)	8.2%	11.1%
U.S. Wholesale (b)	293	292	1	70	68	1	23.8%	23.4%
International (c)	76	78	(2)	4	8	(5)	5.1%	10.8%
Total before corporate expenses	733	724	9	104	116	(13)	14.1%	16.1%
Corporate expenses				(24)	(22)	(1)	(3.2%)	(3.1%)
Total	\$ 733	\$ 724	\$ 9	\$ 80	\$ 94	\$ (14)	10.9%	13.0%

(a) Includes U.S. stores and eCommerce results.

(b) Includes U.S. wholesale sales of Carter's, Child of Mine, Just One You, Precious Firsts, Skip Hop, and Simple Joys.

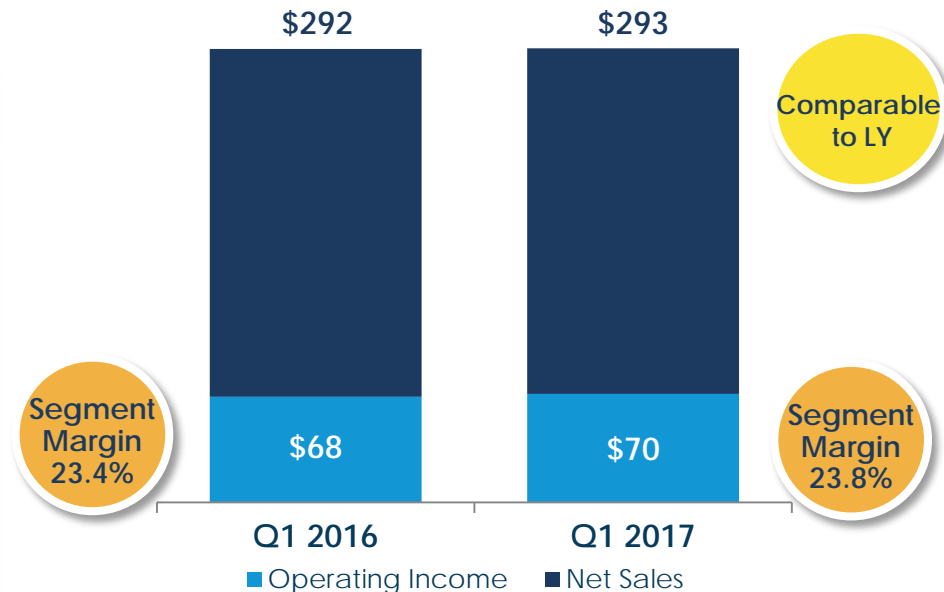
(c) Includes international stores, eCommerce, and wholesale sales.

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 22.

Note: Results may not be additive due to rounding.



\$ in millions
Segment Net Sales & Operating Income



- Sales performance reflects benefit of Skip Hop acquisition, offset in part by lower demand for Spring products
 - Skip Hop contributed \$6.8 million to net sales
 - Organic net sales down 2%, reflecting lower Spring bookings
- Segment operating margin improvement reflects lower product costs and expense leverage
- 2017 outlook:
 - Fall 2017 bookings: down mid-single digits vs. LY
 - U.S. Wholesale full year net sales (including Skip Hop): up low-single digits

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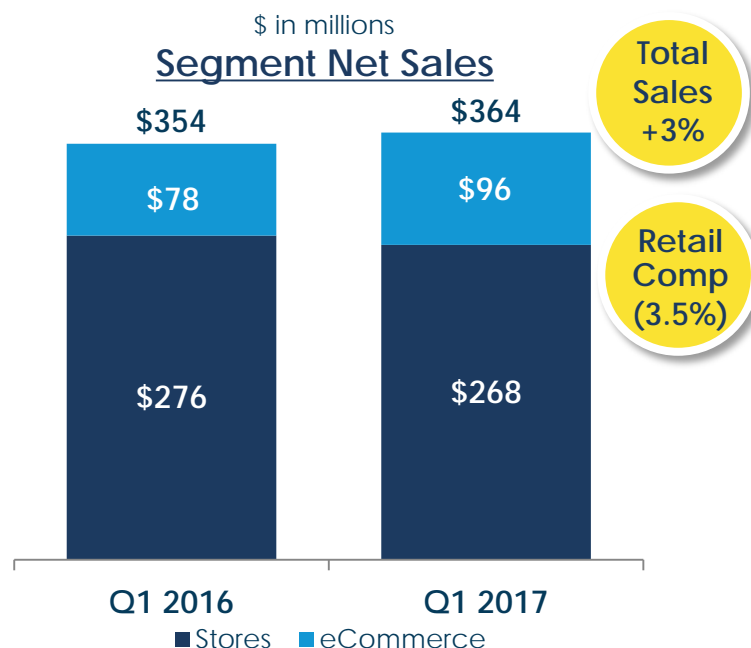
simple
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- Q1 retail comp (3.5%); April YTD approximately +2%¹

Stores

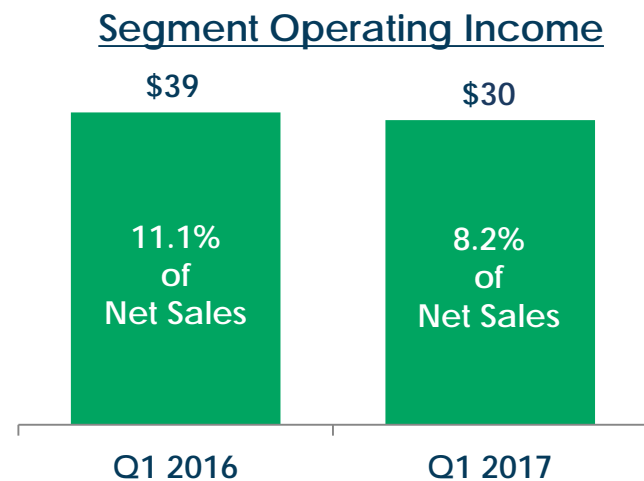
- Net sales (3%)
- Store Comp: (10.4%)
 - Reflects Easter holiday demand shift to Q2 and lost sales from delays in income tax refunds
 - Co-branded stores best performing store model
- Q1 ending store count: 802*
 - 622 Stand-alone
 - 180 Dual-branded (145 Side-by-Side, 35 Co-branded)

eCommerce

- Strong sales performance (+19.9% comp)
- Q1 net sales 26% of retail segment sales (vs. 22% LY)

Segment Operating Margin

- Decline in operating margin reflects store expense deleverage as well as investments in new stores and technology
 - eCommerce operating margin improved vs. LY



¹Comparable retail sales through April 25, 2017

*See store count reconciliation on page 24.

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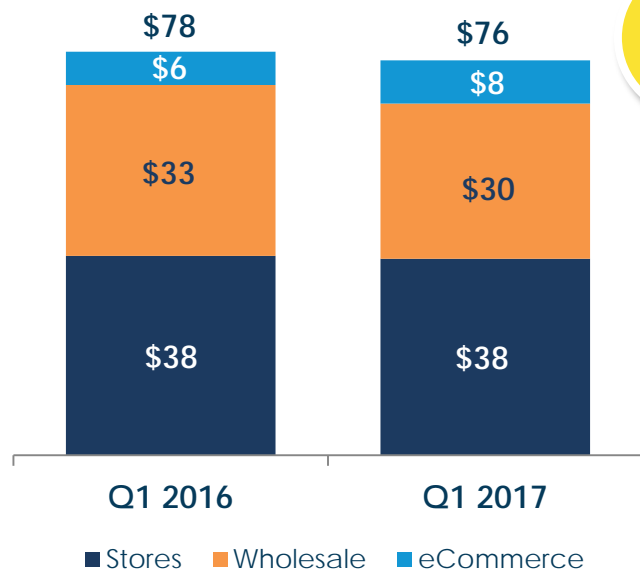


Co-branded Store – Orchard Park, NY
(opened March 2017)



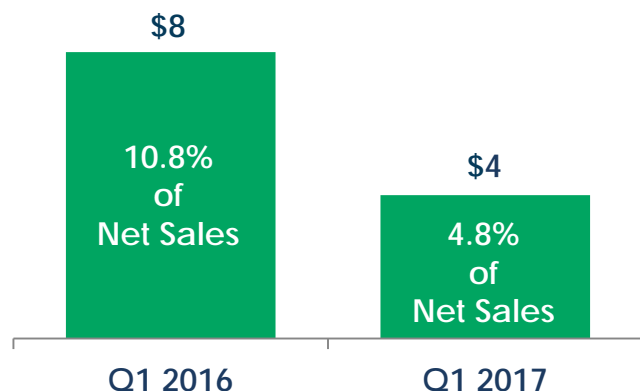
\$ in millions

Segment Net Sales



Total Sales (2%)

Segment Operating Income



Net Sales

- **International segment net sales declined (2%) on a reported basis and (4%) in constant currency**
 - Canada Retail comp: (8.0%)
 - Skip Hop contributed \$3.3 million to segment net sales in Q1 2017
- **Canada Stores**
 - Net sales comparable to LY
 - Store comp: (11.7%)
 - Opened 14 net new stores in last 12 months
- **eCommerce**
 - Net sales +29%, driven by continued growth in Canada (+40% comp) and China (+31% comp)
- **Wholesale**
 - Net sales (10%): reflects decline in demand from international partners due to the strengthening of the U.S. Dollar and weakness in local economies, offset in part by Skip Hop contribution

Segment Operating Margin

- Operating margin decline reflects China operating loss and store expense deleverage in Canada

China Store Opening – Chongqing (opened March 2017)





- Acquired in February 2017
- Integration efforts underway
- Contributed \$10M to Q1 consolidated net sales
- Expect Skip Hop to contribute ~\$90M in net sales in 2017
- Modest contribution to earnings in 2017

Q2 2017

- **Net sales growth of approximately 6% to 8%**
 - Forecasting growth in all segments (inclusive of Skip Hop contribution)
- **Adjusted EPS approximately \$0.65 to \$0.70 (vs. \$0.72 LY)**

Fiscal Year 2017

- **Reaffirming full year guidance**
 - Net sales growth of approximately 4% to 6%
 - Adjusted EPS growth of approximately 8% to 10% (vs. \$5.14 LY)
- **Store openings / closures**
 - U.S.: ~60 new stores; ~12 closures
 - Canada: ~15 new stores; ~2 closures
- **Operating Cash Flow approximately \$325 to \$350 million**
- **CapEx approximately \$90 million**





thank you.

appendix



First Quarter Reconciliation of Net Income Allocable to Common Shareholders

	Fiscal Quarter Ended	
	April 1, 2017	April 2, 2016
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	48,322,692	51,176,987
Dilutive effect of equity awards	554,994	467,103
Diluted number of common and common equivalent shares outstanding	<u>48,877,686</u>	<u>51,644,090</u>

	Fiscal Quarter Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 46,664	\$ 53,980	\$ 47,608	\$ 54,578
Income allocated to participating securities	(370)	(444)	(377)	(448)
Net income available to common shareholders	<u>\$ 46,294</u>	<u>\$ 53,536</u>	<u>\$ 47,230</u>	<u>\$ 54,130</u>
Basic net income per common share	\$0.96	\$1.05	\$0.98	\$1.06
Diluted net income per common share:				
Net income	\$ 46,664	\$ 53,980	\$ 47,608	\$ 54,578
Income allocated to participating securities	(367)	(441)	(375)	(445)
Net income available to common shareholders	<u>\$ 46,297</u>	<u>\$ 53,539</u>	<u>\$ 47,233</u>	<u>\$ 54,133</u>
Diluted net income per common share	\$0.95	\$1.04	\$0.97	\$1.05

(a) In addition to the results provided in this earnings release in accordance with GAAP, the Company has provided adjusted, non-GAAP financial measurements that present the information above excluding \$0.9 million and \$0.6 million in after-tax expenses from these results for the fiscal quarters ended April 1, 2017 and April 2, 2016, respectively.

First Quarter Reconciliation of Reported to Adjusted Earnings

\$ in millions, except EPS

First Quarter of Fiscal 2017	Gross Margin	% of sales	SG&A	% of sales	Operating Income	% of sales	Net Income	Diluted EPS	Corporate Operating Expenses	% of total net sales
As reported (GAAP)	\$315.8	43.1%	\$247.8	33.8%	\$78.6	10.7%	\$46.7	\$0.95	(\$24.7)	(3.4%)
Acquisition related costs (a)	-		(1.3)		1.3		0.8	0.01	1.3	
Direct sourcing initiative (b)	-		(0.2)		0.2		0.2	-	0.2	
As adjusted	\$315.8	43.1%	\$246.3	33.6%	\$80.1	10.9%	\$47.6	\$0.97	(\$23.2)	(3.2%)

First Quarter of Fiscal 2016	Gross Margin	% of sales	SG&A	% of sales	Operating Income	% of sales	Net Income	Diluted EPS	Corporate Operating Expenses	% of total net sales
As reported (GAAP)	\$310.9	42.9%	\$229.0	31.6%	\$93.0	12.8%	\$54.0	\$1.04	(\$23.3)	(3.2%)
Amortization of tradenames	-		(1.0)		1.0		0.6	0.01	1.0	
As adjusted	\$310.9	42.9%	\$228.0	31.5%	\$94.0	13.0%	\$54.6	\$1.05	(\$22.4)	(3.1%)

(a) Advisory fees incurred in connection with the Skip Hop transaction.

(b) Costs associated with the Company's direct sourcing initiative, to include severance and relocation.

Reconciliation of Net Income to Adjusted EBITDA

\$ in millions

	Fiscal Quarter Ended		Four Fiscal Quarters Ended
	April 1, 2017	April 2, 2016	April 1, 2017
	Net income	\$ 46.7	\$ 54.0
Interest expense	7.1	6.7	27.4
Interest income	(0.1)	(0.2)	(0.5)
Tax expense	25.2	29.3	133.8
Depreciation and amortization	19.8	18.2	75.0
EBITDA	\$ 98.5	\$ 108.0	\$ 486.6
Adjustments to EBITDA			
Acquisition related costs (a)	\$ 1.3	\$ -	\$ 3.6
Direct sourcing initiative (b)	0.2	-	1.0
Adjusted EBITDA	\$ 100.0	\$ 108.0	\$ 491.1

(a) Advisory fees incurred in connection with the Skip Hop transaction.

(b) Costs associated with the Company's direct sourcing initiative, to include severance and relocation.

Store Count Data

	Single-brand		Dual-brand			Total Retail Stores
	U.S. Carter's Stand-alone	U.S. OshKosh Stand-alone	U.S. Side-by-Side Format	U.S. Co-branded Format	Canada Co-branded Format	
Store count at April 2, 2016	499	144	107	4	149	903
Openings	20	—	26	15	15	76
Closings	(6)	(7)	—	—	(1)	(14)
Conversions to dual-branded formats	(26)	(2)	12	16	—	—
Store count at April 1, 2017	487	135	145	35	163	965

Results provided in this presentation are preliminary and unaudited. This presentation should be read in conjunction with the audio broadcast or transcript of the Company's earnings call, held on April 27, 2017 which is available at www.carters.com. Also, this presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 relating to the Company's future performance, including, without limitation, statements with respect to the Company's anticipated financial results for the second quarter of fiscal 2017 and fiscal year 2017, or any other future period, assessments of the Company's performance and financial position, and drivers of the Company's sales and earnings growth. Such statements are based on current expectations only, and are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize or not materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. Certain of the risks and uncertainties that could cause actual results and performance to differ materially are described in the Company's most recently filed Annual Report on Form 10-K and other reports filed with the Securities and Exchange Commission from time to time under the heading "Risk Factors." Included among the risks and uncertainties that may impact future results are the risks of: losing one or more major customers, vendors, or licensees, due to competition, inadequate quality of the Company's products, or otherwise; financial difficulties for one or more of the Company's major customers, vendors, or licensees, or an overall decrease in consumer spending; fluctuations in foreign currency exchange rates; our products not being accepted in the marketplace, due to quality concerns, changes in consumer preference and fashion trends, or otherwise; negative publicity, including as a result of product recalls or otherwise; failure to protect the Company's intellectual property; various types of litigation, including class action litigation brought under various consumer protection, employment, and privacy and information security laws; a breach of the Company's consumer databases, systems, or processes; the risk of slow-downs, disruptions, or strikes along the Company's supply chain, including disruptions resulting from foreign supply sources, the Company's distribution centers, or in-sourcing capabilities; unsuccessful expansion into international markets or failure to successfully manage legal, regulatory, political and economic risks of the Company's existing international operations, including maintaining compliance with worldwide anti-bribery laws; and an inability to obtain additional financing on favorable terms. All information is provided as of April 27, 2017. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.