carter's, inc.

Third Quarter 2018 Business Update

October 25, 2018

Third Quarter 2018 Results (GAAP Basis)

carter's

$ in millions, except EPS

	Q3 2018	% of Sales	Q3 2017	% of Sales	Increase / (Decrease)
Net sales	$924		$948		(3%)
Gross profit	387	41.9%	404	42.6%	(4%)
Royalty income	10	1.1%	10	1.1%	(1%)
SG&A	294	31.8%	283	29.9%	4%
Operating income	104	11.2%	130	13.8%	(21%)
Interest and other, net	10	1.1%	7	0.8%	35%
Income before taxes	94	10.2%	123	13.0%	(24%)
Income taxes	22		41		(46%)
Net income	$72	7.8%	$82	8.7%	(13%)
Diluted EPS	$1.53		$1.71		(10%)
Weighted average shares outstanding	46		48		(3%)
EBITDA[1]	$126	13.6%	$153	16.1%	(18%)

[1] *Non-GAAP measure; see reconciliation to net income on page 33.*
Note: Results may not be additive due to rounding.

Q3 YTD 2018 Results (GAAP Basis)

carter's

$ in millions, except EPS

	YTD 2018	% of Sales	YTD 2017	% of Sales	Increase / (Decrease)
Net sales	$2,376		$2,373		-
Gross profit	1,030	43.3%	1,023	43.1%	1%
Royalty income	29	1.2%	32	1.4%	(11%)
SG&A	838	35.3%	781	32.9%	7%
Operating income	221	9.3%	273	11.5%	(19%)
Interest and other, net	26	1.1%	21	0.9%	26%
Income before taxes	195	8.2%	253	10.7%	(23%)
Income taxes	43		86		(49%)
Net income	$152	6.4%	$167	7.0%	(9%)
Diluted EPS	$3.20		$3.42		(6%)
Weighted average shares outstanding	47		48		(3%)
EBITDA[1]	$287	12.1%	$337	14.2%	(15%)

[1] *Non-GAAP measure; see reconciliation to net income on page 33.*

Note: Results may not be additive due to rounding.

Third Quarter 2018 Highlights

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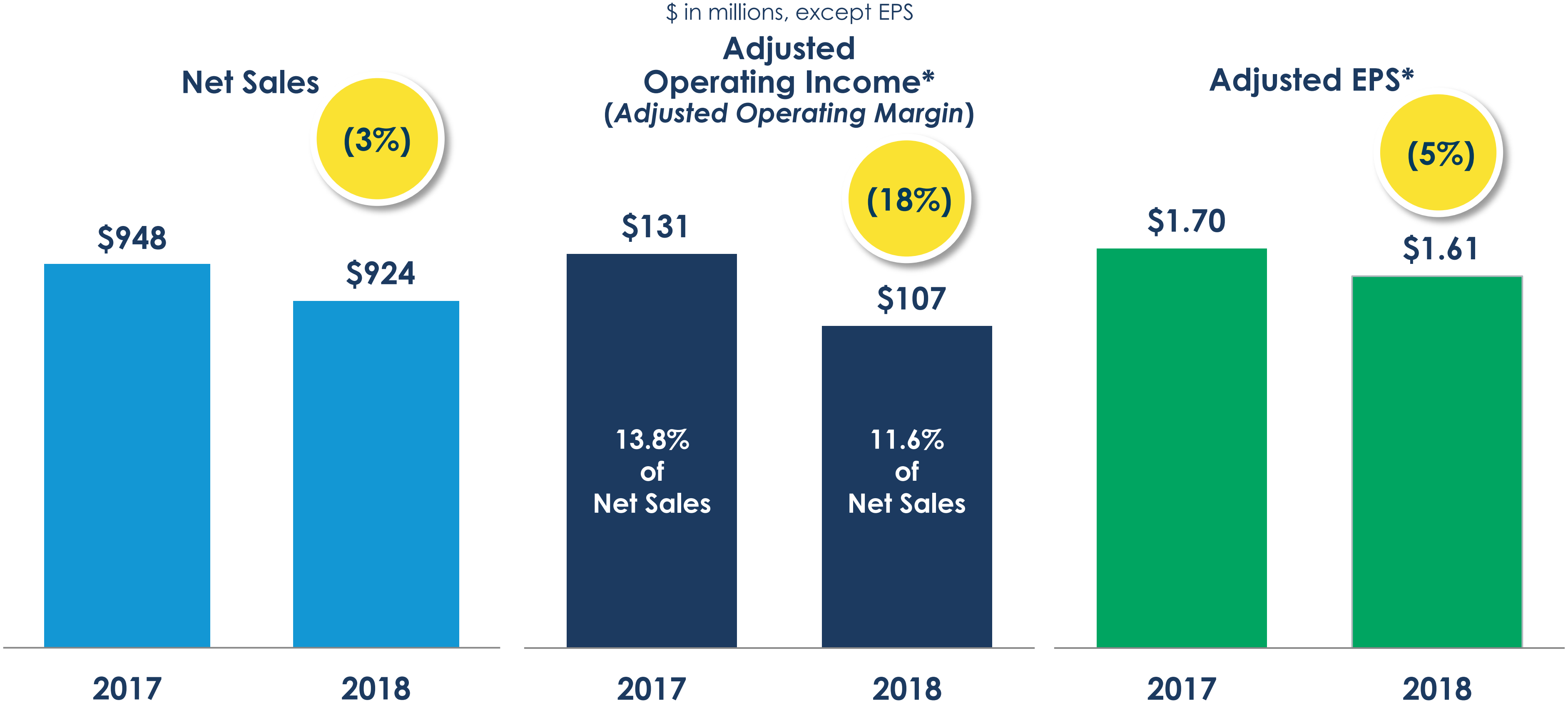

- **Net sales (3%)**
  - Growth in U.S. and Canada Retail businesses and contribution from Mexico offset by discontinued sales to Toys "R" Us and Bon-Ton (combined sales of $32 million in Q3 2017)
- **Adjusted operating profit $107 million (vs. $131 million LY), driven by lower wholesale revenue and investment spending (marketing, expedited fulfillment, and omni-channel capabilities)**
- **Adjusted EPS $1.61; reflects benefit of tax reform and lower share count**

** Results are stated on an adjusted basis; see reconciliation to GAAP on pages 29 and 31.*

Third Quarter 2018 Adjusted Results*

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$ in millions, except EPS

	Q3 2018	% of Sales	Q3 2017	% of Sales	Increase / (Decrease)
Net sales	$924		$948		(3%)
Gross profit	390	42.2%	404	42.6%	(3%)
Royalty income	10	1.1%	10	1.1%	(1%)
Adjusted SG&A*	293	31.7%	283	29.9%	3%
Adjusted operating income*	107	11.6%	131	13.8%	(18%)
Interest and other, net	10	1.1%	7	0.8%	35%
Income before taxes	97	10.5%	124	13.0%	(21%)
Income taxes	22		42		(47%)
Adjusted net income*	$75	8.2%	$82	8.6%	(8%)
Adjusted diluted EPS*	$1.61		$1.70		(5%)
Weighted average shares outstanding	46		48		(3%)
Adjusted EBITDA*	$130	14.0%	$153	16.2%	(15%)

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 29, 31 and 33.*
Note: Results may not be additive due to rounding.

Q3 YTD 2018 Adjusted Results*

carter's

$ in millions, except EPS

	YTD 2018	% of Sales	YTD 2017	% of Sales	Increase / (Decrease)
Net sales	$2,376		$2,373		-
Gross profit	1,032	43.5%	1,023	43.1%	1%
Royalty income	29	1.2%	32	1.4%	(11%)
Adjusted SG&A*	824	34.7%	779	32.8%	6%
Adjusted operating income*	237	10.0%	277	11.7%	(14%)
Interest and other, net	26	1.1%	21	0.9%	26%
Income before taxes	211	8.9%	256	10.8%	(18%)
Income taxes	46		88		(47%)
Adjusted net income*	$165	6.9%	$168	7.1%	(2%)
Adjusted diluted EPS*	$3.48		$3.45		1%
Weighted average shares outstanding	47		48		(3%)
Adjusted EBITDA*	$302	12.7%	$341	14.4%	(11%)

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 30, 32 and 33.*
Note: Results may not be additive due to rounding.

Balance Sheet and Cash Flow

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$ in millions

Balance Sheet (at Q3 end)

	2018	2017
Cash	$124	$105
Accounts Receivable	293	286
Inventory	693	610
Accounts Payable	185	194
Long-Term Debt	798	687

Cash Flow (Q3 YTD)

	2018	2017
Operating Cash Flow	$21	$118
Capital Expenditures	(48)	(52)
Free Cash Flow[1]	($26)	$66

Return of Capital (Q3 YTD)

	2018	2017
Share Repurchases	$145	$151
Dividends	63	53
Total	$209	$204

- Strong liquidity
  - Cash on hand + available revolver capacity $468 million
  - Repatriated $65 million in overseas cash in Q3
- Inventory +14% vs. LY
  - Reflects business growth, timing of receipts, and higher on-hand baby replenishment units
  - Overall quality of inventory is high; adequately reserved for excess
  - Projecting year-end net inventories +~8%
- Q3 YTD operating cash flow reflects lower earnings and higher inventory position
  - Forecasting full year operating cash flow of $300 – $325 million (vs. $330 million LY)
- Returned $209 million to shareholders through share repurchases and dividends year-to-date

[1] *Non-GAAP measure.*
Note: Results may not be additive due to rounding.

Business Segment Performance

Third Quarter 2018
Adjusted Business Segment Performance*

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$ in millions

	Net Sales			Adjusted Operating Income*			Adjusted Operating Margin*	
	2018	2017	$ Growth	2018	2017	$ Growth	2018	2017
U.S. Retail (a)	**$459**	**$454**	**$5**	**$47**	**$58**	**($11)**	**10.3%**	**12.8%**
U.S. Wholesale	**339**	**370**	**(31)**	**68**	**79**	**(11)**	**20.0%**	**21.3%**
International (b)	**126**	**125**	**1**	**16**	**17**	**(1)**	**12.7%**	**13.5%**
Total before corporate expenses	924	948	(24)	131	154	(23)	14.2%	16.2%
Corporate expenses				**(24)**	**(23)**	**(1)**	**(2.6%)**	**(2.4%)**
Total	**$924**	**$948**	**($24)**	**$107**	**$131**	**($24)**	**11.6%**	**13.8%**

(a) Results include U.S. stores and eCommerce.
(b) Results include international stores, eCommerce, and wholesale.

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 31.*
Note: Results may not be additive due to rounding.

Q3 YTD 2018
Adjusted Business Segment Performance*

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$ in millions

	Net Sales			Adjusted Operating Income*			Adjusted Operating Margin*	
	2018	2017	$ Growth	2018	2017	$ Growth	2018	2017
U.S. Retail (a)	**$1,245**	**$1,209**	**$36**	**$122**	**$130**	**($9)**	**9.8%**	**10.8%**
U.S. Wholesale	**829**	**880**	**(51)**	**161**	**185**	**(23)**	**19.4%**	**21.0%**
International (b)	**302**	**284**	**18**	**24**	**28**	**(4)**	**8.0%**	**10.0%**
Total before corporate expenses	2,376	2,373	3	307	343	(36)	12.9%	14.5%
Corporate expenses				**(70)**	**(66)**	**(4)**	**(3.0%)**	**(2.8%)**
Total	**$2,376**	**$2,373**	**$3**	**$237**	**$277**	**($40)**	**10.0%**	**11.7%**

(a) Results include U.S. stores and eCommerce.
(b) Results include international stores, eCommerce, and wholesale.

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 32.*
Note: Results may not be additive due to rounding.

Third Quarter Highlights – U.S. Retail

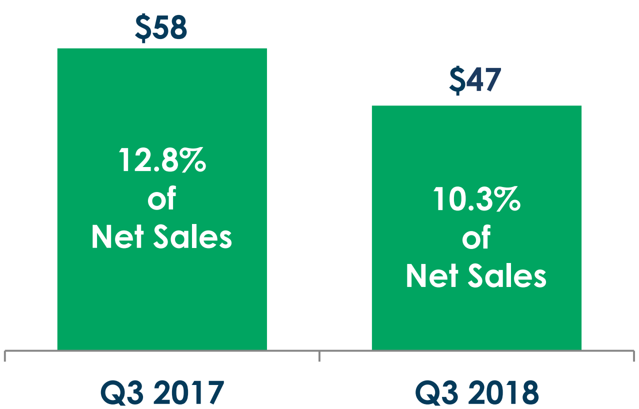
$ in millions

Segment Net Sales

Total Sales +1.2%

Retail Comp +0.5%

Segment Adj. Operating Income*



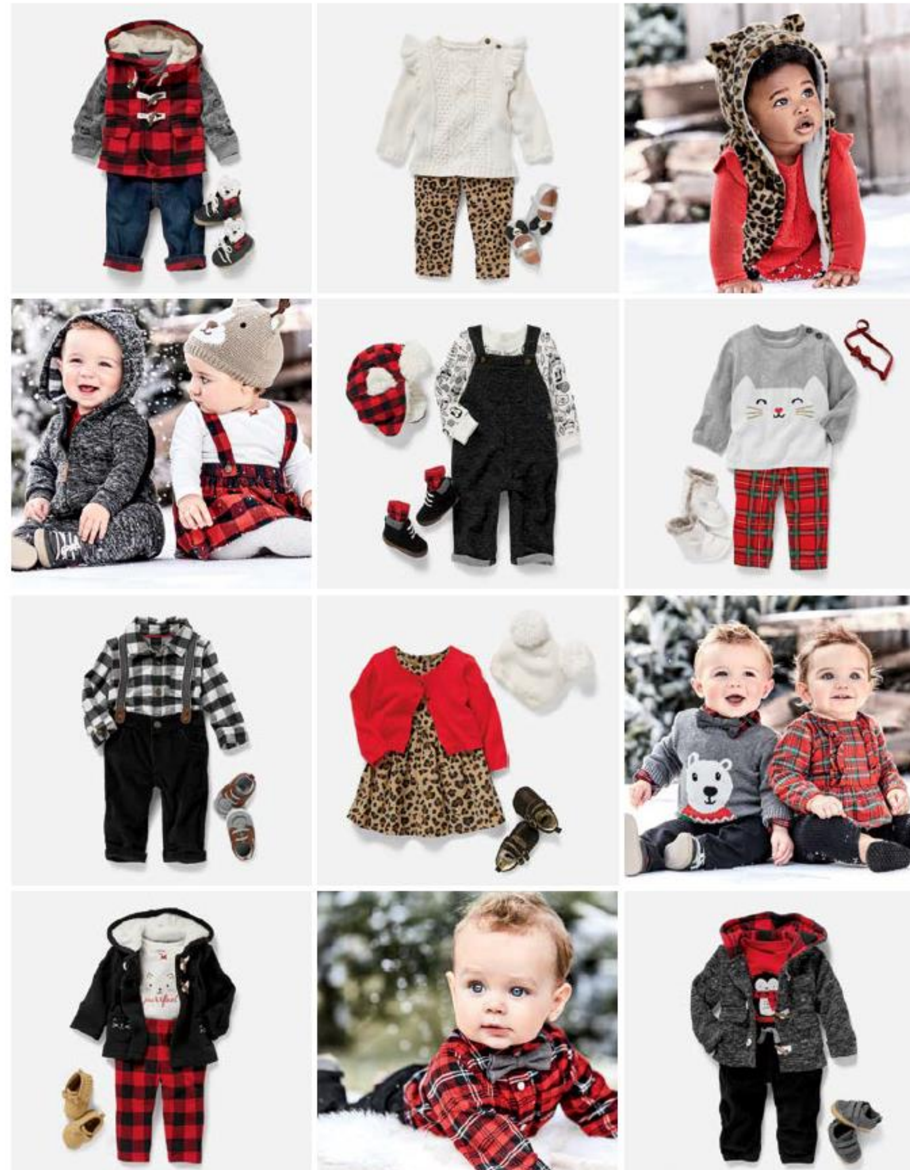
Q3 Highlights

- **Q3 Retail comp +0.5% (YTD comp +1.4%)**
  - Slow start to September; meaningful improvement in trend post-Labor Day (double digit comps)
  - eCommerce business negatively affected by stronger U.S. Dollar
    - International demand down ~10%
    - Domestic demand +13%
  - Strong *OshKosh B'gosh* Back-to-School performance
- **Solid October QTD comp performance (double digit growth)**
- **Co-branded format best performing store model (mid-single digit comp in Q3)**
- **Portfolio optimization initiative**
  - YTD opened 41 stores, closed 36
  - Continued strong sales transfer from closed doors
- **Segment adj. operating margin 10.3% vs. 12.8% LY**
  - Reflects higher eCommerce fulfillment expenses and higher spending on marketing and technology
- **Expecting Q4 retail comps +~4%**
  - Strong demand for Fall and Holiday product
  - *Carter's KID* age-up initiative (sizes 4-14)
  - Contribution from *Skip Hop*
  - Co-branded store performance
  - Additional marketing spend

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 31.*

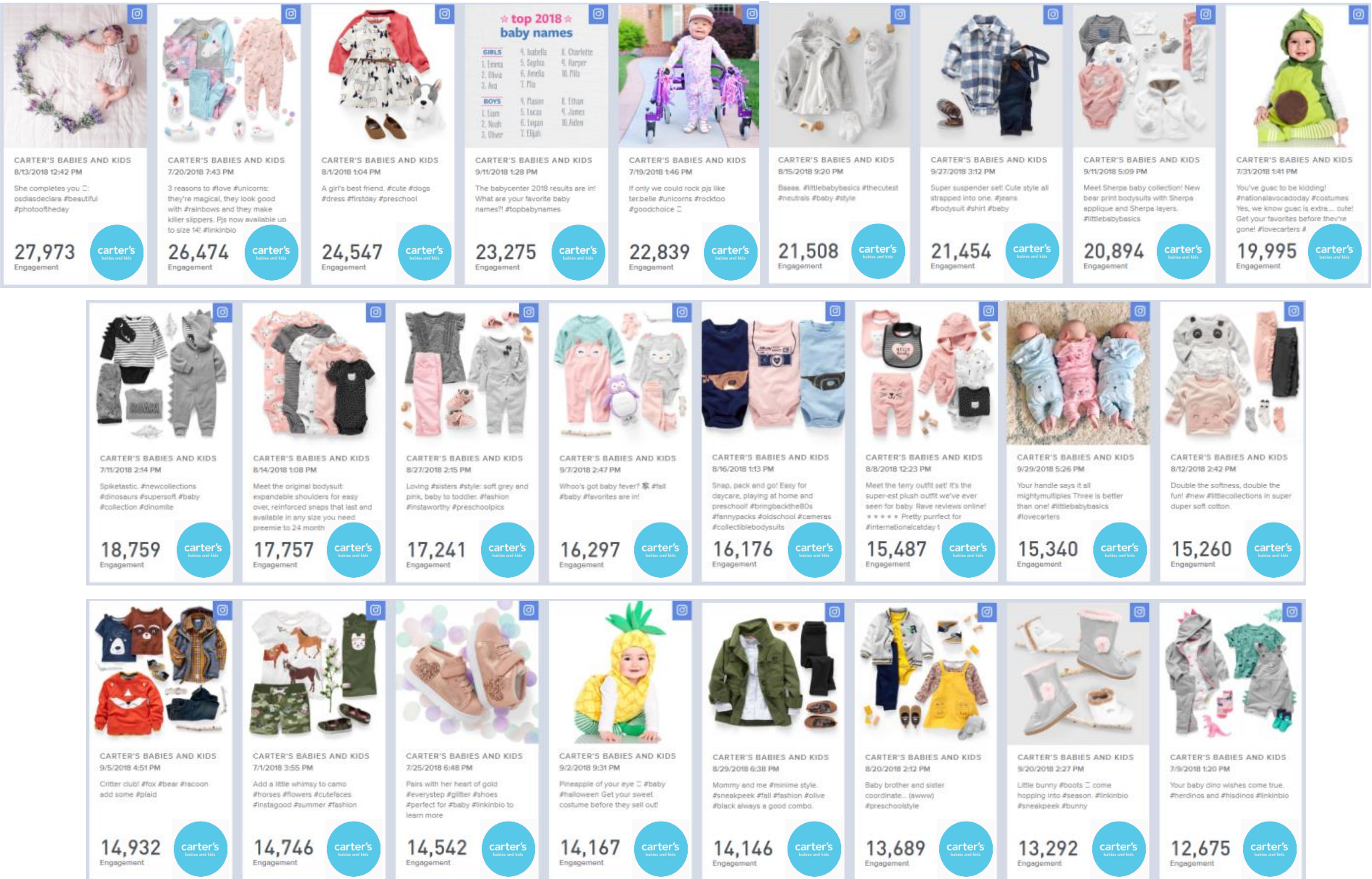
Carter's Holiday Marketing

Carter's Holiday Marketing



Carter's Holiday eCommerce

Carter's Instagram Posts Earned All 25 of the Top 25 Engagement Scores Among Peers in Q3



Source: Third-party engagement scoring on Instagram from 7/1/18 through 9/29/18.
Note: Peer set includes The Children's Place, Gymboree, Hanna Andersson, Gap Kids, OshKosh B'gosh, and Skip Hop

Third Quarter Highlights – U.S. Wholesale

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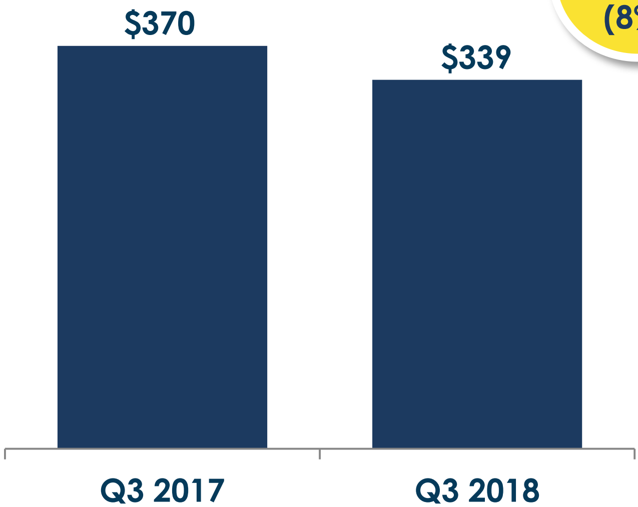
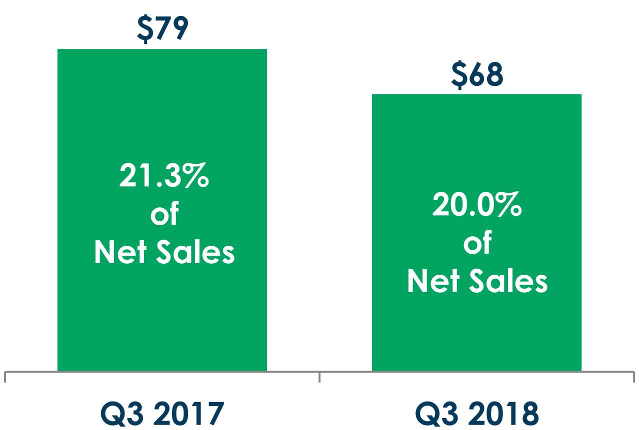
$ in millions

Segment Net Sales

Total Sales (8%)



Segment Adj. Operating Income*



Q3 Highlights

- **U.S. Wholesale segment net sales (8%)**
  - Reflects lower shipments principally due to discontinued sales to Toys "R" Us and Bon-Ton (~$32 million net sales Q3 2017)
  - Forecasting ~50% recapture of planned sales ($80 million Q2 – Q4 2018) to Toys "R" Us and Bon-Ton
- **Q3 segment adj. operating margin 20.0% vs. 21.3% LY**
  - Reflects additional investments in marketing, changes in customer mix, and additional provisions for bad debt and inventory
- **Strong over-the-counter selling trends October QTD**
  - Expecting good growth in Q4 (up mid-single digits)
- **Full year 2018 segment outlook**
  - Net sales down low single digits vs. 2017
  - Operating margin ~20%
- **Preliminary 2019 net sales outlook: low single-digit growth**

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 31.*

U.S. Wholesale – Kohl's Baby Shop Rollout

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KOHL'S

U.S. Wholesale – *Child of Mine*

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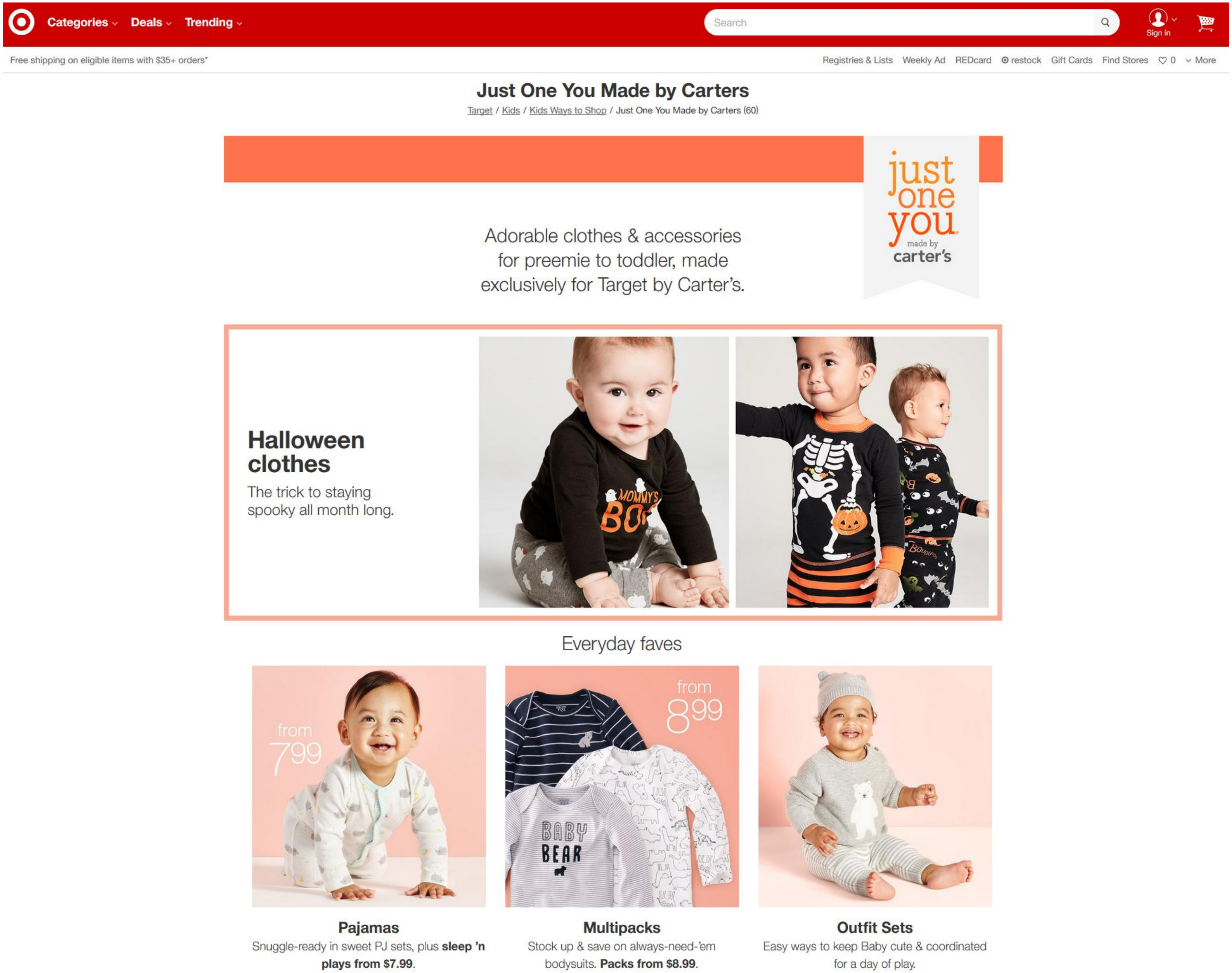
child of mine
made by carter's

Walmart

U.S. Wholesale – *Just One You*



U.S. Wholesale – *Simple Joys*

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simple joys by carter's

Simple Joys by Carter's Boys' Toddler 3-Pack Graphic Long-Sleeve Tees

5 customer reviews

Price: $20.99 & Free Return on some sizes and colors

Fit: As expected (85%)

Special Size: Toddler

Size:

Select Size Chart

Color: Crocodile/Rockets/Genius

simple joys by carter's™

amazon

U.S. Wholesale – SKIP*HOP

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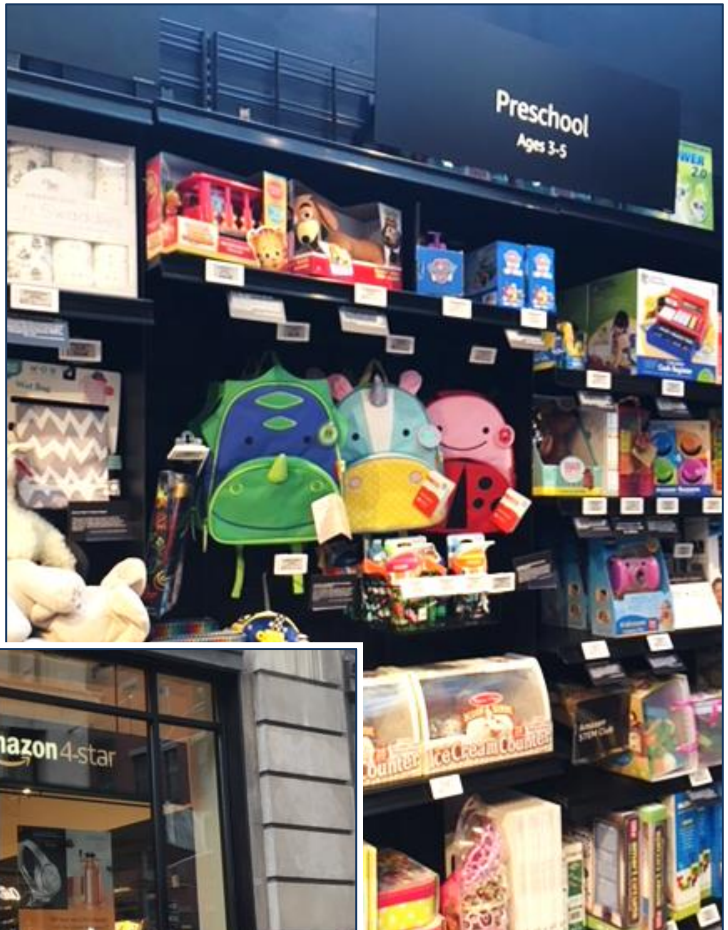

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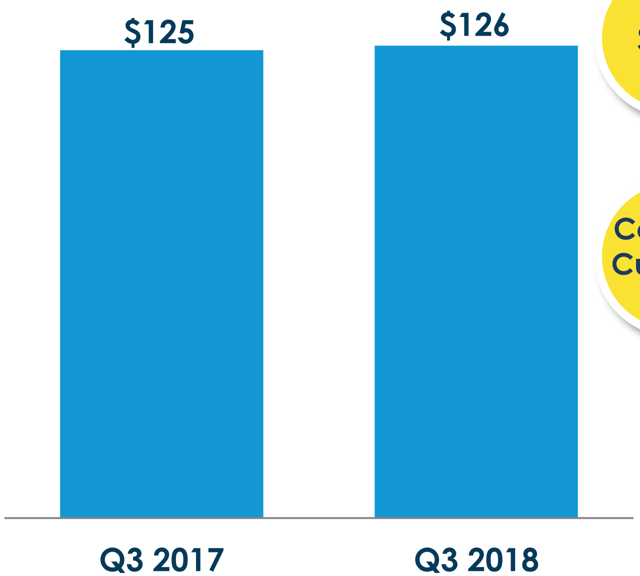
Third Quarter Highlights – International

$ in millions

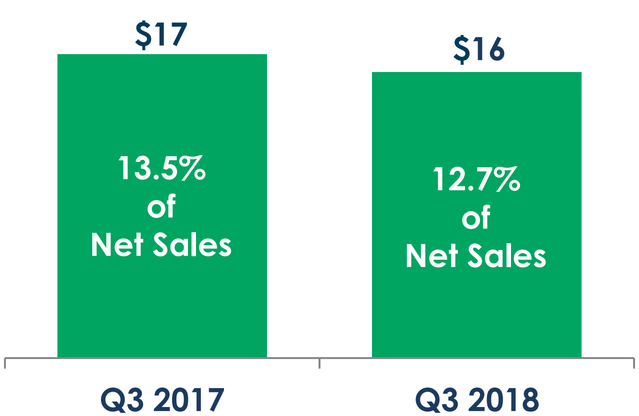
Segment Net Sales



Total Sales +1%

Constant Currency +4%

Segment Adj. Operating Income*



Q3 Highlights

- **International segment net sales +1%**
  - Unfavorable effect of foreign currency exchange rate movements (net sales +4% constant currency)
  - Q3 year-to-date segment net sales +6%
- **Canada**
  - Total net sales growth in local currency: +3%
  - Q3 retail comp +3%
  - Strong start to Q4 (double digit retail comp)
- **Mexico**
  - Total market sales $17M, +29% vs. LY
  - Good progress in developing new and existing wholesale relationships
  - Will test new co-branded store format in 2019
- **Q3 segment adj. operating margin 12.7% vs. 13.5% LY**
  - Lower profitability in China and Canada partially offset by improved contributions from other international markets
- **Expecting good growth in International segment net sales in 2019**
  - Canada and Mexico growth
  - New wholesale partners in India, U.K., Russia, Greece, and Ukraine (among others)

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 31.*

International Partner Store – Dubai, UAE

International Partner Store – Perth, Australia

Guidance

2018 Outlook
(Adjusted Basis)

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Q4 2018

- **Net sales: growth of ~5%**
  - Expecting growth in all business segments
  - ~4% comps in U.S. Retail and Canada Retail
- **Adjusted EPS: growth of ~10% (vs. $2.33 Q4 2017[1]). Outlook reflects:**
  - SG&A leverage
  - Continued benefit of tax reform, cumulative share repurchases

Fiscal Year 2018

- **Net sales: growth of ~1.5%**
- **Adjusted EPS: growth of ~5% (vs. $5.77 in 2017[1])**
- **Operating cash flow ~ $300 to $325 million**
- **CapEx ~$75 million**

[1] *Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 34 and 35.*


thank you.

appendix

Third Quarter Reconciliation of Net Income Allocable to Common Shareholders

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	Fiscal Quarter Ended	
	September 29, 2018	September 30, 2017
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	45,990,039	47,303,074
Dilutive effect of equity awards	490,283	541,325
Diluted number of common and common equivalent shares outstanding	46,480,322	47,844,399

	Fiscal Quarter Ended			
	As reported on a GAAP Basis		As adjusted (a)	
$ in thousands, except EPS	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Basic net income per common share:				
Net income	$ 71,770	$ 82,316	$ 75,301	$ 82,000
Income allocated to participating securities	(540)	(651)	(567)	(649)
Net income available to common shareholders	$ 71,230	$ 81,665	$ 74,734	$ 81,351
Basic net income per common share	$1.55	$1.73	$1.63	$1.72
Diluted net income per common share:				
Net income	$ 71,770	$ 82,316	$ 75,301	$ 82,000
Income allocated to participating securities	(536)	(645)	(563)	(643)
Net income available to common shareholders	$ 71,234	$ 81,671	$ 74,738	$ 81,357
Diluted net income per common share	$1.53	$1.71	$1.61	$1.70

(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 per share data excluding the adjustments discussed in following slides. The Company has excluded $3.5 million in after-tax expenses and $0.3 million in after-tax income from these results for the fiscal quarters ended September 29, 2018 and September 30, 2017, respectively .

Note: Results may not be additive due to rounding.

Q3 YTD 2018 Reconciliation of Net Income Allocable to Common Shareholders

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	Three Fiscal Quarters Ended	
	September 29, 2018	September 30, 2017
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	46,399,746	47,829,794
Dilutive effect of equity awards	538,422	549,213
Diluted number of common and common equivalent shares outstanding	46,938,168	48,379,007

	Three Fiscal Quarters Ended			
	As reported on a GAAP Basis		As adjusted (a)	
$ in thousands, except EPS	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Basic net income per common share:				
Net income	$ 151,506	$ 166,703	$ 164,525	$ 168,368
Income allocated to participating securities	(1,142)	(1,311)	(1,244)	(1,325)
Net income available to common shareholders	$ 150,364	$ 165,392	$ 163,281	$ 167,043
Basic net income per common share	$3.24	$3.46	$3.52	$3.49
Diluted net income per common share:				
Net income	$ 151,506	$ 166,703	$ 164,525	$ 168,368
Income allocated to participating securities	(1,134)	(1,301)	(1,235)	(1,315)
Net income available to common shareholders	$ 150,372	$ 165,402	$ 163,290	$ 167,053
Diluted net income per common share	$3.20	$3.42	$3.48	$3.45

(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 per share data excluding the adjustments discussed in following slides. The Company has excluded $13.0 million and $1.7 million in after-tax expenses from these results for the three fiscal quarters ended September 29, 2018 and September 30, 2017, respectively .

Note: Results may not be additive due to rounding.

Third Quarter Reconciliation of Reported to Adjusted Earnings

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$ in millions, except EPS

Third Quarter of Fiscal 2018	Gross Margin	% of net sales	SG&A	% of net sales	Operating Income	% of net sales	Net Income	Diluted EPS	Segment Reporting: U.S. Retail Operating Income	% of segment net sales	U.S. Wholesale Operating Income	% of segment net sales	International Operating Income	% of segment net sales	Corporate Operating Expenses	% of total net sales
As reported (GAAP) *(a)*	**$387.5**	*41.9%*	**$294.1**	*31.8%*	**$103.6**	*11.2%*	**$71.8**	**$1.53**	**$47.1**	*10.3%*	**$67.8**	*20.0%*	**$12.4**	*9.9%*	**($23.8)**	*(2.6%)*
China business model change *(c) (e)*	2.5		(1.1)		3.5		3.5	0.08	-		-		3.5		-	
As adjusted *(b)*	**$389.9**	*42.2%*	**$293.0**	*31.7%*	**$107.1**	*11.6%*	**$75.3**	**$1.61**	**$47.1**	*10.3%*	**$67.8**	*20.0%*	**$16.0**	*12.7%*	**($23.8)**	*(2.6%)*

Third Quarter of Fiscal 2017	Gross Margin	% of net sales	SG&A	% of net sales	Operating Income	% of net sales	Net Income	Diluted EPS	Segment Reporting: U.S. Retail Operating Income	% of segment net sales	U.S. Wholesale Operating Income	% of segment net sales	International Operating Income	% of segment net sales	Corporate Operating Expenses	% of total net sales
As reported (GAAP) *(a)*	**$403.6**	*42.6%*	**$283.5**	*29.9%*	**$130.4**	*13.8%*	**$82.3**	**$1.71**	**$55.5**	*12.2%*	**$78.6**	*21.3%*	**$16.7**	*13.4%*	**($20.4)**	*(2.1%)*
Store restructuring costs *(e)*	-		(2.7)		2.7		2.0	0.04	2.7		-		-		-	
Acquisition-related costs *(d) (e)*	0.4		(0.8)		1.2		1.2	0.02	-		0.2		0.1		0.8	
Direct sourcing initiative *(e)*	-		(0.1)		0.1		0.1	-	-		-		-		0.1	
Acquisition contingency fair value adjustment *(e)*	-		3.6		(3.6)		(3.6)	(0.07)	-		-		-		(3.6)	
As adjusted *(b)*	**$404.0**	*42.6%*	**$283.4**	*29.9%*	**$130.9**	*13.8%*	**$82.0**	**$1.70**	**$58.3**	*12.8%*	**$78.8**	*21.3%*	**$16.9**	*13.5%*	**($23.1)**	*(2.4%)*

(a) Beginning in fiscal 2018, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification No. 606, *Revenue from Contracts with Customers*, and related amendments ("ASC 606") using the full retrospective adoption method. All periods in fiscal 2017 and fiscal 2016 were amended to reflect these provisions, and retained earnings at January 2, 2016 (beginning of fiscal 2016) were adjusted for the cumulative effect of periods prior to fiscal 2016. The adoption of ASC 606 had no material effect on the Company's consolidated financial position, results of operations, and cash flows.
(b) 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 gross margin, SG&A, operating income, net income, and net income on a diluted share basis excluding the adjustments discussed below. The Company believes these adjustments provide a meaningful comparison of the Company's results and afford investors a view of what management considers to be the Company's core performance. The adjusted, non-GAAP financial measurements included in this earnings release should not be considered as an alternative to net income or as any other measurement of performance derived in accordance with GAAP. The adjusted, non-GAAP financial measurements are presented for informational purposes only and are not necessarily indicative of the Company's future condition or results of operations.
(c) Costs associated with changes to the Company's business model in China.
(d) Non-recurring costs related to the Skip Hop and Mexico acquisitions.
(e) The difference between the impacts on operating income and net income represents the income taxes related to the adjustment item (calculated using the applicable tax rate of the underlying jurisdiction).

Note: Results may not be additive due to rounding.

Q3 YTD 2018 Reconciliation of Reported to Adjusted Earnings

carter's

$ in millions, except EPS

									Segment Reporting							
Q3 YTD of 2018	**Gross Margin**	*% of net sales*	**SG&A**	*% of net sales*	**Operating Income**	*% of net sales*	**Net Income**	**Diluted EPS**	**U.S. Retail Operating Income**	% of segment net sales	**U.S. Wholesale Operating Income**	% of segment net sales	**International Operating Income**	% of segment net sales	**Corporate Operating Expenses**	% of total net sales
As reported (GAAP) *(a)*	**$1,029.9**	*43.3%*	**$837.6**	*35.3%*	**$220.8**	*9.3%*	**$151.5**	**$3.20**	**$122.1**	*9.8%*	**$148.4**	*17.9%*	**$20.5**	*6.8%*	**($70.2)**	*(3.0%)*
Customer bankruptcy charges *(c) (h)*	-		(12.8)		12.8		9.8	0.21	-		12.8		-		-	
China business model change *(d) (h)*	2.5		(1.1)		3.5		3.5	0.07	-		-		3.5		-	
Store restructuring costs *(e) (h)*	-		0.4		(0.4)		(0.3)	(0.01)	(0.4)		-		-		-	
As adjusted *(b)*	**$1,032.3**	*43.5%*	**$824.1**	*34.7%*	**$236.8**	*10.0%*	**$164.5**	**$3.48**	**$121.7**	*9.8%*	**$161.2**	*19.4%*	**$24.0**	*8.0%*	**($70.2)**	*(3.0%)*

									Segment Reporting							
Q3 YTD of 2017	**Gross Margin**	*% of net sales*	**SG&A**	*% of net sales*	**Operating Income**	*% of net sales*	**Net Income**	**Diluted EPS**	**U.S. Retail Operating Income**	% of segment net sales	**U.S. Wholesale Operating Income**	% of segment net sales	**International Operating Income**	% of segment net sales	**Corporate Operating Expenses**	% of total net sales
As reported (GAAP) *(a)*	**$1,022.5**	*43.1%*	**$781.4**	*32.9%*	**$273.2**	*11.5%*	**$166.7**	**$3.42**	**$127.4**	*10.5%*	**$184.1**	*20.9%*	**$28.0**	*9.9%*	**($66.3)**	*(2.8%)*
Acquisition costs *(f) (h)*	0.8		(3.3)		4.1		3.3	0.07	-		0.5		0.3		3.3	
Store restructuring costs *(h)*	-		(2.7)		2.7		1.7	0.04	2.7		-		-		-	
Direct sourcing initiative *(g) (h)*	-		(0.3)		0.3		0.2	-	-		-		-		0.3	
Acquisition contingency fair value adjustment *(h)*	-		3.6		(3.6)		(3.6)	(0.07)	-		-		-		(3.6)	
As adjusted *(b)*	**$1,023.3**	*43.1%*	**$778.6**	*32.8%*	**$276.8**	*11.7%*	**$168.4**	**$3.45**	**$130.2**	*10.8%*	**$184.5**	*21.0%*	**$28.3**	*10.0%*	**($66.3)**	*(2.8%)*

(a) Beginning in fiscal 2018, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification No. 606, *Revenue from Contracts with Customers*, and related amendments ("ASC 606") using the full retrospective adoption method. All periods in fiscal 2017 and fiscal 2016 were amended to reflect these provisions, and retained earnings at January 2, 2016 (beginning of fiscal 2016) were adjusted for the cumulative effect of periods prior to fiscal 2016. The adoption of ASC 606 had no material effect on the Company's consolidated financial position, results of operations, and cash flows.

(b) 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 gross margin, SG&A, operating income, net income, and net income on a diluted share basis excluding the adjustments discussed below. The Company believes these adjustments provide a meaningful comparison of the Company's results and afford investors a view of what management considers to be the Company's core performance. The adjusted, non-GAAP financial measurements included in this earnings release should not be considered as an alternative to net income or as any other measurement of performance derived in accordance with GAAP. The adjusted, non-GAAP financial measurements are presented for informational purposes only and are not necessarily indicative of the Company's future condition or results of operations.

(c) Related to the Toys "R" Us bankruptcy.

(d) Costs associated with changes to the Company's business model in China.

(e) Insurance recovery associated with unusual storm-related closures.

(f) Non-recurring costs related to the Skip Hop and Mexico acquisitions.

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

(h) The difference between the impacts on operating income and net income represents the income taxes related to the adjustment item (calculated using the applicable tax rate of the underlying jurisdiction).

Note: Results may not be additive due to rounding.

Reconciliation of Net Income to Adjusted EBITDA

carter's

$ in millions

	Fiscal Quarter Ended		Three Fiscal Quarters Ended		Four Fiscal Quarters Ended
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017	September 29, 2018
Net income	$71.8	$82.3	$151.5	$166.7	$287.7
Interest expense	9.9	8.1	25.8	22.4	33.5
Interest income	(0.1)	-	(0.5)	(0.3)	(0.6)
Tax expense	22.1	40.9	43.5	86.0	45.7
Depreciation and amortization	22.4	21.5	66.2	62.1	88.5
EBITDA	**$126.0**	**$152.8**	**$286.5**	**$336.9**	**$454.8**
Adjustments to EBITDA					
Special employee compensation provision *(a)*	$ -	$ -	$ -	$ -	$21.2
Customer bankruptcy charges *(b)*	-	-	12.8	-	12.8
China business model change *(c)*	3.5	-	3.5	-	3.5
Acquisition-related costs *(d)*	-	1.2	-	4.1	0.5
Store restructuring costs *(e)*	-	2.7	(0.4)	2.7	(0.5)
Direct sourcing initiative *(f)*	-	0.1	-	0.3	-
Acquisition contingency fair value adjustment *(g)*	-	(3.6)	-	(3.6)	-
Adjusted EBITDA	**$129.5**	**$153.2**	**$302.5**	**$340.5**	**$492.3**

(a) Special employee compensation provision related to significant benefit related to the enactment of the Tax Cuts and Jobs Act of 2017; includes $1.2 million in related payroll taxes.
(b) Related to the Toys "R" Us bankruptcy.
(c) Costs associated with changes to the Company's business model in China.
(d) Non-recurring costs incurred in connection with the Skip Hop and Mexico business acquisitions.
(e) Net costs arising from unusual storm damage and related store closures.
(f) Costs associated with the Company's direct sourcing initiative, which include severance and relocation.
(g) Revaluation of the contingent consideration liability associated with the Company's acquisition of Skip Hop.

Note: Results may not be additive due to rounding.

Fourth Quarter Reconciliation of Reported to Adjusted Earnings

carter's

$ in millions, except EPS

Fourth Quarter of Fiscal 2017	Gross Margin	% of net sales	SG&A	% of net sales	Operating Income	% of net sales	Net Income	Diluted EPS	U.S. Retail Operating Income (Segment Reporting)	% of segment net sales	U.S. Wholesale Operating Income	% of segment net sales	International Operating Income	% of segment net sales	Corporate Operating Expenses	% of total net sales
As reported (GAAP) *(a)*	**$460.8**	*44.8%*	**$325.5**	*31.7%*	**$146.4**	*14.2%*	**$136.1**	**$2.85**	**$88.2**	*15.6%*	**$68.0**	*20.6%*	**$18.4**	*14.0%*	**($28.2)**	*(2.7%)*
Special employee compensation provision *(c) (g)*	-		(21.2)		21.2		15.1	0.32	12.7		3.3		2.3		2.9	
Acquisition-related costs *(d) (g)*	0.4		(0.1)		0.5		0.3	0.01	0.1		0.2		0.1		0.1	
Store restructuring cost *(e) (g)*	-		-		-		(0.2)	(0.01)	-		-		-		-	
Tax reform *(f)*	-		-		-		(40.0)	(0.84)	-		-		-		-	
As adjusted *(b)*	**$461.2**	*44.9%*	**$304.3**	*29.6%*	**$168.0**	*16.3%*	**$111.4**	**$2.33**	**$101.0**	*17.8%*	**$71.5**	*21.7%*	**$20.8**	*15.8%*	**($25.2)**	*(2.5%)*

(a) Beginning in fiscal 2018, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification No. 606, *Revenue from Contracts with Customers*, and related amendments ("ASC 606") using the full retrospective adoption method. All periods in fiscal 2017 and fiscal 2016 were amended to reflect these provisions, and retained earnings at January 2, 2016 (beginning of fiscal 2016) were adjusted for the cumulative effect of periods prior to fiscal 2016. The adoption of ASC 606 had no material effect on the Company's consolidated financial position, results of operations, and cash flows.

(b) 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 gross margin, SG&A, operating income, net income, and net income on a diluted share basis excluding the adjustments discussed below. The Company believes these adjustments provide a meaningful comparison of the Company's results and afford investors a view of what management considers to be the Company's core performance. The adjusted, non-GAAP financial measurements included in this earnings release should not be considered as an alternative to net income or as any other measurement of performance derived in accordance with GAAP. The adjusted, non-GAAP financial measurements are presented for informational purposes only and are not necessarily indicative of the Company's future condition or results of operations.

(c) Special employee compensation provided as a result of the significant benefit related to the enactment of the Tax Cuts and Jobs Act of 2017.

(d) Non-recurring costs incurred in connection with the *Skip Hop* and Mexico business acquisitions.

(e) Amount for fiscal quarter ended December 30, 2017 reflects tax credit received for certain payroll costs incurred during unusual storm-related closures.

(f) Reflects the $40 million net benefit of the Tax Cuts and Jobs Act of 2017.

(g) The difference between the impacts on operating income and net income represents the income taxes related to the adjustment item (calculated using the applicable tax rate of the underlying jurisdiction).

Note: Results may not be additive due to rounding.

2017 Full Year Reconciliation of Reported to Adjusted Earnings

carter's

$ in millions, except EPS

Fiscal 2017	Gross Margin	% of net sales	SG&A	% of net sales	Operating Income	% of net sales	Net Income	Diluted EPS	Segment Reporting: U.S. Retail Operating Income	% of segment net sales	U.S. Wholesale Operating Income	% of segment net sales	International Operating Income	% of segment net sales	Corporate Operating Expenses	% of total net sales
As reported (GAAP) ***(a)***	**$1,483.4**	*43.6%*	**$1,106.9**	*32.6%*	**$419.6**	*12.3%*	**$302.8**	**$6.24**	**$215.6**	*12.1%*	**$252.1**	*20.8%*	**$46.4**	*11.2%*	**($94.5)**	*(2.8%)*
Special employee compensation provision *(c) (h)*	-		(21.2)		21.2		15.1	0.31	12.7		3.3		2.3		2.9	
Store restructuring costs *(d) (h)*	-		(2.7)		2.7		1.5	0.03	2.7		-		-		-	
Acquisition costs (e) *(h)*	1.2		0.2		1.0		0.2	-	0.1		0.7		0.4		(0.2)	
Direct sourcing initiative *(f) (h)*	-		(0.3)		0.3		0.2	-	-		-		-		0.3	
Tax reform *(g) (h)*	-		-		-		(40.0)	(0.83)	-		-		-		-	
As adjusted ***(b)***	**$1,484.6**	*43.7%*	**$1,082.9**	*31.8%*	**$444.8**	*13.1%*	**$279.8**	**$5.77**	**$231.2**	*13.0%*	**$256.0**	*21.2%*	**$49.1**	*11.8%*	**($91.5)**	*(2.7%)*

(a) Beginning in fiscal 2018, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification No. 606, *Revenue from Contracts with Customers*, and related amendments ("ASC 606") using the full retrospective adoption method. All periods in fiscal 2017 and fiscal 2016 were amended to reflect these provisions, and retained earnings at January 2, 2016 (beginning of fiscal 2016) were adjusted for the cumulative effect of periods prior to fiscal 2016. The adoption of ASC 606 had no material effect on the Company's consolidated financial position, results of operations, and cash flows.

(b) 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 gross margin, SG&A, operating income, net income, and net income on a diluted share basis excluding the adjustments discussed below. The Company believes these adjustments provide a meaningful comparison of the Company's results and affords investors a view of what management considers to be the Company's core performance. The adjusted, non-GAAP financial measurements included in this earnings release should not be considered as an alternative to net income or as any other measurement of performance derived in accordance with GAAP. The adjusted, non-GAAP financial measurements are presented for informational purposes only and are not necessarily indicative of the Company's future condition or results of operations.

(c) Special employee compensation provision related to significant benefit related to the enactment of the Tax Cuts and Jobs Act of 2017.

(d) Amount for fiscal year ended December 30, 2017 reflects net costs arising from unusual storm damage and related store closures.

(e) Non-recurring costs related to the Skip Hop and Mexico acquisitions.

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

(g) Reflects the $40 million net benefit of the Tax Cuts and Jobs Act of 2017.

(h) The difference between the impacts on operating income and net income represents the income taxes related to the adjustment item (calculated using the applicable tax rate of the underlying jurisdiction).

Note: Results may not be additive due to rounding.

Store Count Data

carter's

	Single-brand	Dual-brand			Dual-brand			
	U.S. Stand-alone Format	U.S. Side-by-Side Format	U.S. Co-branded Format	Total U.S. Retail	Canada Co-branded Format	Mexico [1]	Total International	Total Consolidated Retail Stores
Store count at September 30, 2017	**603**	**154**	**59**	**816**	**172**	**40**	**212**	**1,028**
Openings	9	8	43	60	12	2	14	74
Closings	(41)	-	-	(41)	-	-	-	(41)
Conversions to dual-brand formats	(38)	1	37	-	-	-	-	-
Store count at September 29, 2018	**533**	**163**	**139**	**835**	**184**	**42**	**226**	**1,061**

[1] *Includes single brand and co-branded formats.*

Forward-looking Statements and Other Information

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 October 25, 2018 which is available at www.carters.com. 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 fourth quarter of fiscal 2018 and fiscal year 2018, 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 headings "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; our products not being accepted in the marketplace due to quality concerns, changes in consumer preference and fashion trends, or otherwise; a failure to meet regulatory requirements, including those relating to product quality and safety; negative publicity, including as a result of product recalls or otherwise; a 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; disruptions, slow-downs, or strikes in the Company's supply chain, including disruptions resulting from increases in the cost of raw materials or labor, foreign supply sources, the Company's distribution centers, or in-sourcing capabilities; extreme or unseasonable weather conditions; unsuccessful expansion into international markets or failure to successfully manage legal, regulatory, political and economic risks of the Company's existing operations, including unexpected changes in regulatory requirements, new tariffs, and maintaining compliance with worldwide anti-bribery laws; failure to successfully integrate acquired businesses; fluctuations in foreign currency exchange rates; the imposition of new regulations relating to imports, duties, or taxes; and an inability to obtain additional financing on favorable terms. The Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.