



carter's, inc.

Fourth Quarter 2016
Business Update

FEBRUARY 23, 2017

\$ in millions, except EPS

Q4

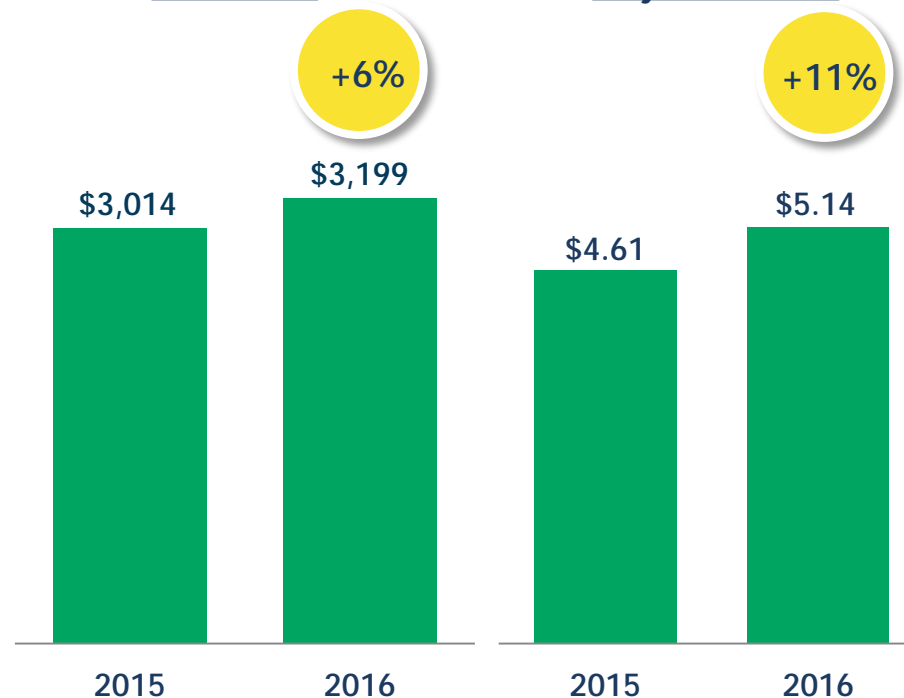
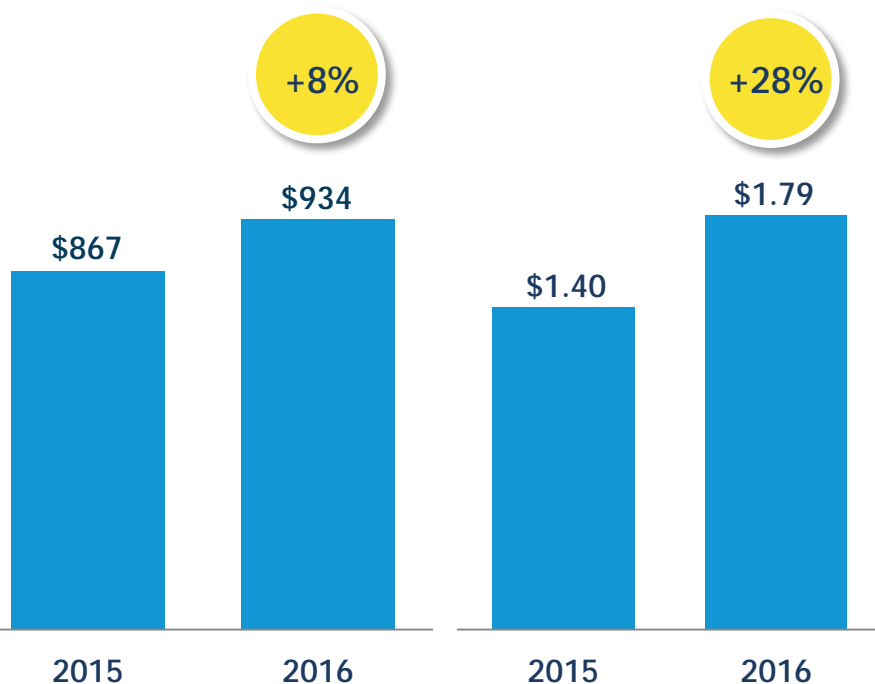
Full Year

Net Sales

Adjusted EPS*

Net Sales

Adjusted EPS*



Q4 Highlights*

Fiscal 2016 Highlights*

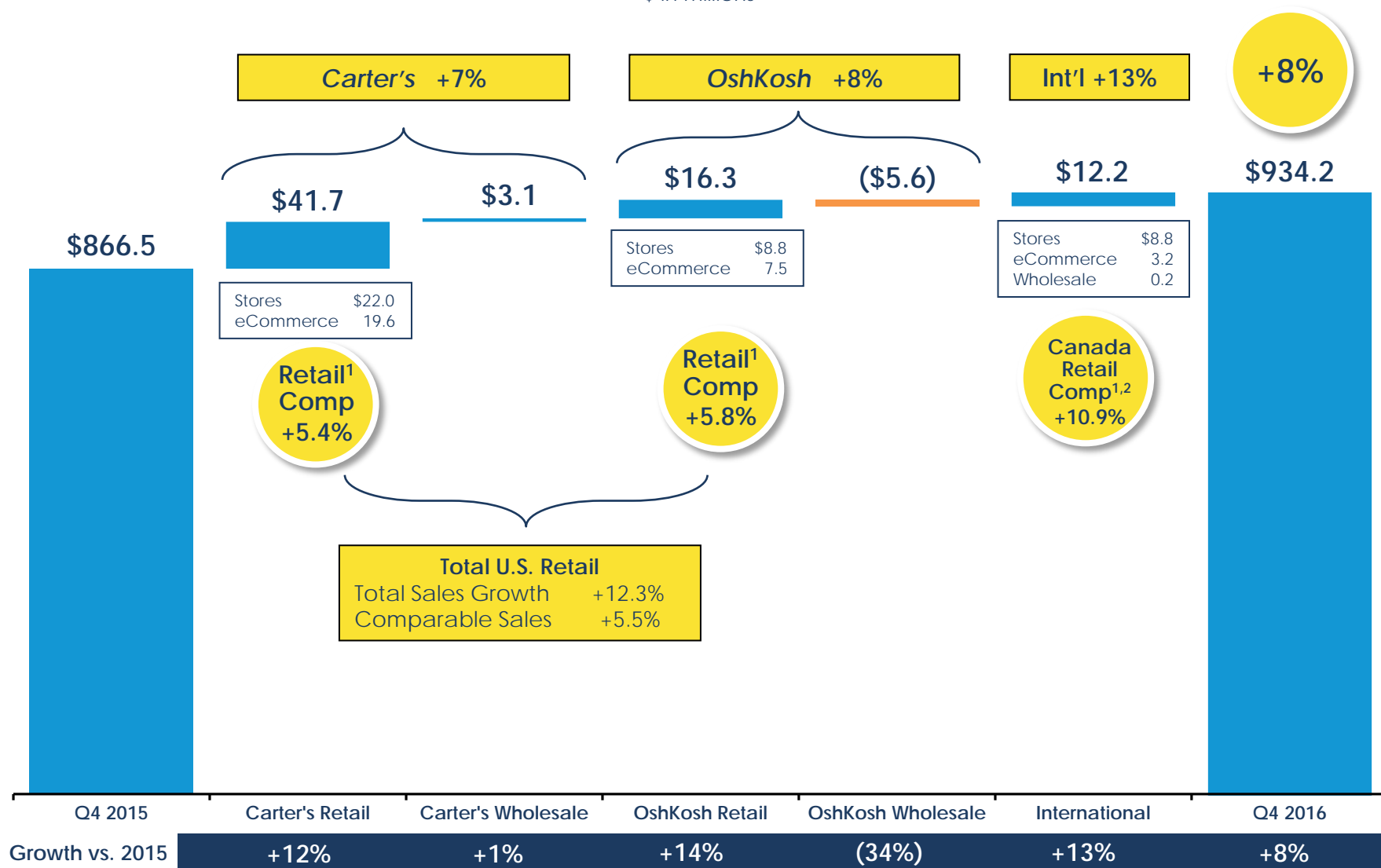
- Net sales +8% led by double digit growth in U.S. Retail and International businesses
- Adjusted operating margin expansion of +170bps, reflecting solid gross margin improvement
- Adjusted EPS growth of +28%

- Net sales +6%
- Adjusted operating margin 13.5% (+20bps)
- Adjusted EPS +11%
- \$367 million returned to shareholders through dividends and share repurchases

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 34 - 37.

Fourth Quarter 2016 Net Sales

\$ in millions



Segment	Q4 2016 Sales (\$M)	Q4 2016 Growth (%)
Constant Currency	\$934.2	+8%

¹Retail Comp is defined as the combination of store and eCommerce comparable sales.

²Calculated in local currency.

Note: Results may not be additive due to rounding.

Fourth Quarter 2016 Adjusted Results*

\$ in millions, except EPS

	<u>Q4 2016</u>	<u>% of Sales</u>	<u>Q4 2015</u>	<u>% of Sales</u>	<u>Increase / (Decrease)</u>
Net sales	\$934.2		\$866.5		8%
Gross profit	410.5	43.9%	363.5	42.0%	13%
Adjusted SG&A*	280.1	30.0%	257.8	29.7%	9%
Royalty income	(11.5)	(1.2%)	(11.4)	(1.3%)	1%
Adjusted operating income*	142.0	15.2%	117.1	13.5%	21%
Interest and other, net	6.9	0.7%	5.1	0.6%	37%
Income before taxes	135.0	14.5%	112.0	12.9%	21%
Income taxes	46.3	5.0%	38.9	4.5%	19%
Adjusted net income*	\$88.7	9.5%	\$73.2	8.4%	21%
Adjusted diluted EPS*	\$1.79		\$1.40		28%
Weighted average shares outstanding	49.2		51.9		(5%)
Adjusted EBITDA*	\$160.8	17.2%	\$136.3	15.7%	18%

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 34, 35, and 38.
Note: Results may not be additive due to rounding.

Fourth Quarter 2016 Adjusted SG&A*



*Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 35.

Balance Sheet and Cash Flow

\$ in millions

Balance Sheet (at Q4 end)

	2016	2015
Cash	\$299	\$381
Accounts Receivable	202	208
Inventory	488	470
Accounts Payable	158	158
Long-Term Debt	580	579

Cash Flow (Fiscal Year)

	2016	2015
Operating Cash Flow	\$369	\$308
Capital Expenditures	(89)	(103)
Free Cash Flow ¹	\$281	\$204

Return of Capital (Fiscal Year)

	2016	2015
Share Repurchases	\$300	\$110
Dividends	66	46
Total	\$367	\$156

- Inventory +4% vs. LY principally due to business growth
- Record free cash flow – \$281 million
 - Increase reflects higher net income, favorable changes in net working capital, and lower capital expenditures
- Significant capital returned to shareholders in fiscal 2016 – \$367 million in share repurchases and dividends
 - Returned over \$1.1 billion to shareholders since 2013
 - Additional \$30 million in share repurchases in Q1 2017 quarter-to-date
- Quarterly dividend increased to \$0.37 per share (+12%) beginning Q1 2017

¹ Non-GAAP measure.

Note: Results may not be additive due to rounding.

Business Segment Performance



Fourth Quarter Adjusted Business Segment Performance*

\$ in millions

	Net Sales			Adjusted Operating Income (Loss)*			Adjusted Operating Margin*	
	2016	2015	\$ Growth	2016	2015	\$ Growth	2016	2015
Carter's Retail (a)	\$ 393	\$ 352	\$ 42	\$ 74	\$ 64	\$ 10	18.9%	18.3%
Carter's Wholesale (b)	286	283	3	62	60	2	21.8%	21.2%
Total <i>Carter's</i>	680	635	45	137	124	12	20.1%	19.6%
OshKosh Retail (a)	135	118	16	11	9	2	8.2%	7.2%
OshKosh Wholesale	11	16	(6)	3	4	(1)	23.5%	21.6%
Total <i>OshKosh</i>	145	135	11	14	12	1	9.3%	9.0%
International (c)	109	97	12	22	16	6	20.1%	16.5%
Total before corporate expenses	934	867	68	172	153	20	18.5%	17.6%
Corporate expenses (d)				(31)	(35)	5	(3.3%)	(4.1%)
Total (d)	\$ 934	\$ 867	\$ 68	\$ 142	\$ 117	\$ 25	15.2%	13.5%

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

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

(c) Includes international stores, eCommerce, and wholesale sales. Adjusted operating income includes international licensing income.

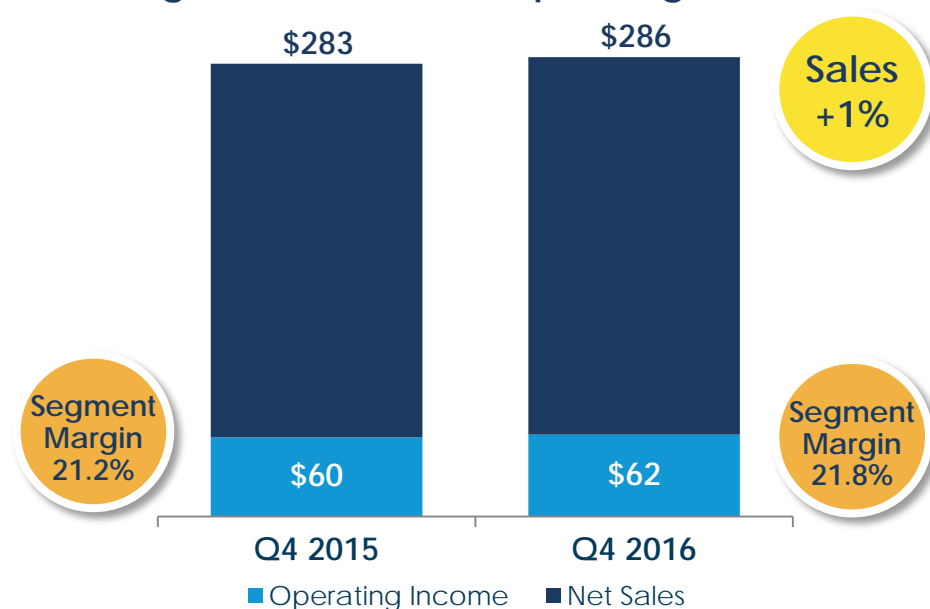
(d) See reconciliation of reported (GAAP) results to adjusted results.

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 35.

Note: Results may not be additive due to rounding.

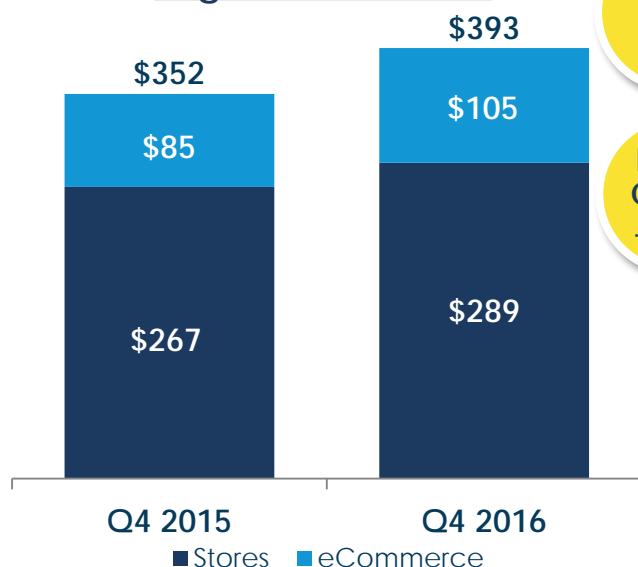
\$ in millions

Segment Net Sales & Operating Income



- Sales growth reflects higher shipments of fall product and the benefit of in-sourcing certain previously licensed products, partially offset by lower Spring shipments
- Full year 2016: +2% sales growth
- Segment operating margin improvement reflects lower product costs and supply chain efficiencies
- 2017 outlook:
 - Spring 2017 bookings: down mid-single digits
 - Fall 2017 bookings: down mid-single digits vs. LY
 - U.S. Wholesale (Carter’s + OshKosh) full year net sales: down low-single digits

\$ in millions
Segment Net Sales



Total Sales
+12%

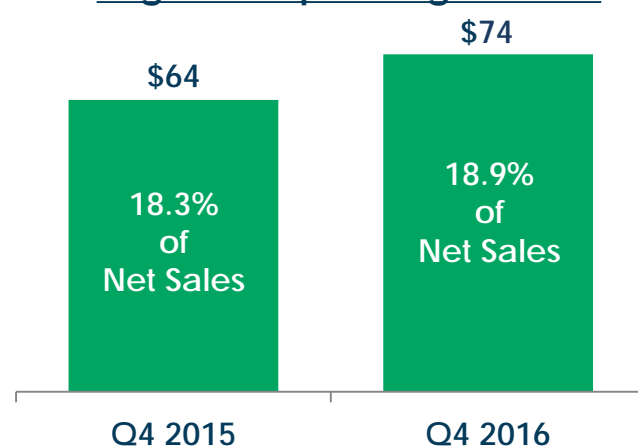
Retail Comp
+5.4%

- **Strong Retail comp: +5.4% (+5.7% comp Q4 2015)**

Stores

- Net sales +8%
- Store Comp: +0.1%
 - Reflects increased demand from domestic consumers, offset by lower demand from international consumers
 - Side-by-Side & Co-branded¹ stores comped positively
- Q4 ending store count: 654*
 - 495 Stand-alone
 - 159 Dual-branded (140 Side-by-Side, 19 Co-branded*)

Segment Operating Income



eCommerce

- Strong sales performance (+21.7% comp)
- Q4 net sales 27% of retail segment sales (vs. 24% LY)

Segment Operating Margin

- Operating margin improvement reflects stronger gross margin, offset in part by higher distribution and marketing expenses

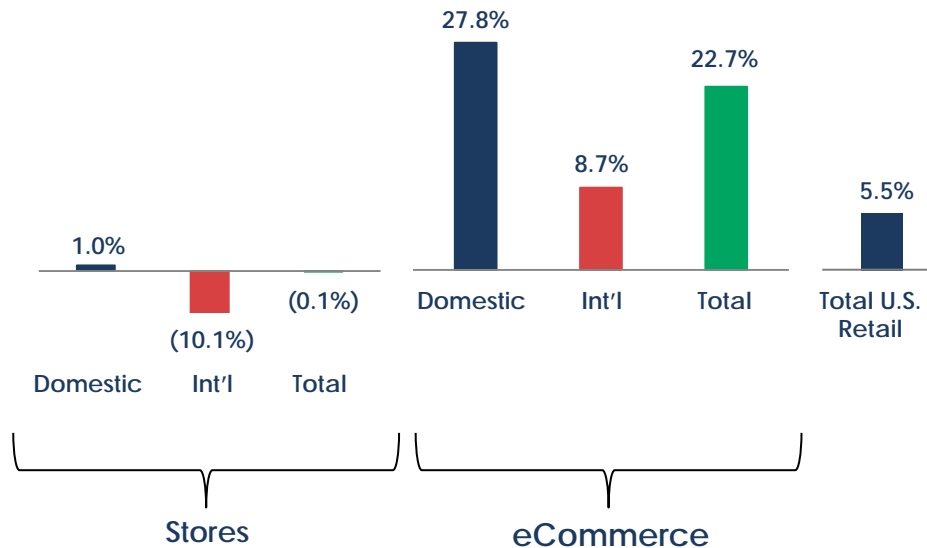
*See store count reconciliation on page 39.

Note: Results may not be additive due to rounding.

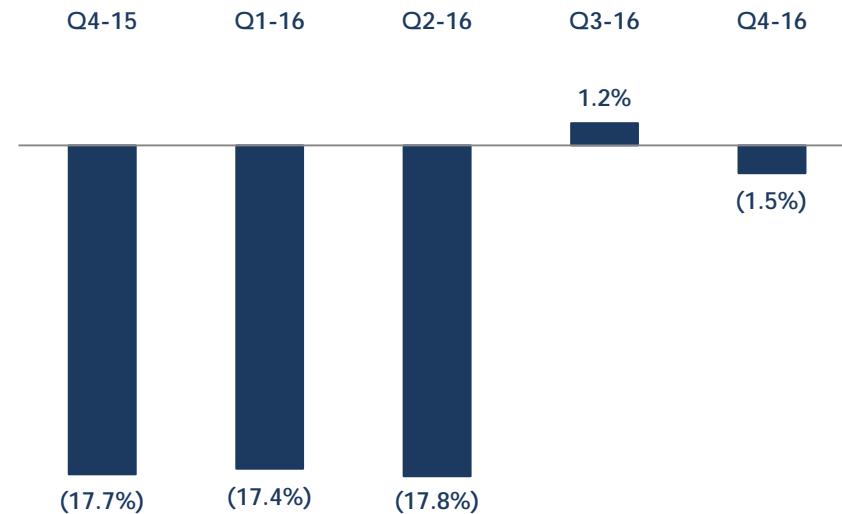
¹Co-branded results reflect combined Carter’s and OshKosh performance in converted locations.

Q4 2016 international comp lower than Q3 2016, but significant improvement over 1H 2016

Q4 U.S. Retail Comparable Sales



International Consumer Comparable Sales vs. LY



- We believe the recent improvement in international comps was affected by significant strengthening of the U.S. Dollar following the U.S. presidential election
 - Weakening of the Mexican Peso vs. the U.S. Dollar (-10.3% following the U.S. election) was a key driver of the negative Q4 international stores comp
 - Impact to brick and mortar stores continues to be more significant than eCommerce
- Largest contributors to improved international eCommerce demand: Brazil (+87%), Argentina (+33%), Russia (+43%), Ukraine (+42%)



BABY SLEEPS, BABY PLAYS

baby needs something
perfect for both!



footless + fancy-free
for spring



COTTON SLEEP & PLAY (nb-9m)
\$7 DOORBUSTER MSRP** \$16

semi-annual **BIG BABY SALE**

in store + online at carters.com



40% off

BABY'S FIRST SPRING

is fresh to go packed with little details in lemon and denim!



LEMON & DENIM, ROAD TRIP LITTLE COLLECTIONS* (nb-24m) SALE \$14⁴⁰-24 MSRP** \$24-40
Selection varies by store.

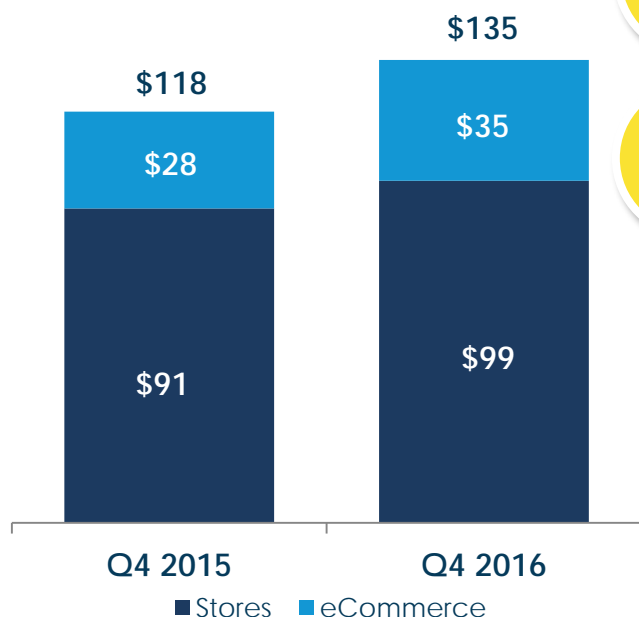


semi-annual **BIG BABY SALE**

in store + online at carter's.com

\$ in millions

Segment Net Sales



Total Sales
+14%

Retail Comp
+5.8%

- Strong Retail comp: +5.8% (+4.0% comp Q4 2015)

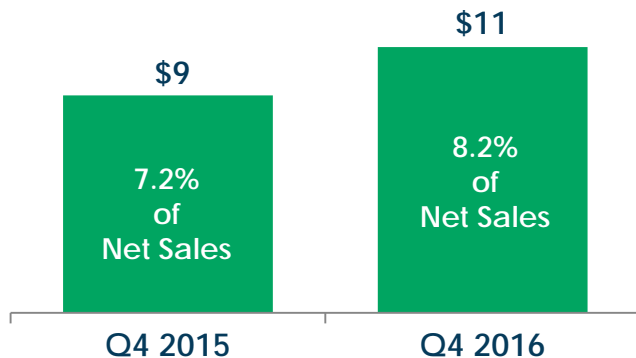
Stores

- Net sales: +10%
- Comp sales declined (0.6%)
 - Reflects lower demand from international consumers, offset in part by improved demand from domestic consumers
 - Side-by-Side & Co-branded¹ stores comped positively
- Q4 ending store count: 297*
 - 138 Stand-alone
 - 159 Dual-branded (140 Side-by-Side, 19 Co-branded*)

eCommerce

- Strong sales performance (+25.9% comp)
- Q4 eCommerce sales 26% of retail segment sales (vs. 23% LY)

Segment Operating Income



Segment Operating Margin

- Increase in operating margin reflects stronger gross margin, offset in part by increased marketing spend and new store expenses

*See store count reconciliation on page 39.

Note: Results may not be additive due to rounding.

¹Co-branded results reflect combined Carter's and OshKosh performance in converted locations.

40%
OFF



Every stitch is a little sweeter,
every fabric a little friendlier.

PRETTY PINT-SIZED



Style in a snap!
Baby's first denim,
plus bubble shorts.

A tiny bit
boko all
around.

PEPLUM TOPS^o SALE \$12 0-5t, MSRP* \$20 BUBBLE SHORTS^o SALE \$13.20-14.40 0-5t, MSRP* \$22-24
 EYELET-SLEEVE TEES^o SALE \$12 0-5t, MSRP* \$20 EYELET TOPS SALE \$14.40-15.60 0-5t, MSRP* \$24-26
 DENIM JACKETS SALE \$24-25.20 0-5t, MSRP* \$40-42 DRESSES SALE \$15.60-24 0-5t, MSRP* \$26-40
 HEADBANDS SALE \$8.40 30% off MSRP* \$12 EYELET BUCKET HATS SALE \$14 0-9m; 12-24m, 30% off MSRP* \$20
 CRIB SHOES SALE \$16.50 nb-4, 25% off MSRP* \$22
^oBaby & toddler styles vary

LITTLE-MAN LOOKS

Crisp button-fronts
just like Dad's!



Tiny
suspenders
are never
too much.



OXFORD SHIRTS^o SALE \$15.60-16.80 0-5t, MSRP* \$26-28 GRAPHIC TEES & BODYSUITS^o SALE \$12 0-5t, MSRP* \$20 BUTTON-FRONT^s SALE \$13.20-14.40 0-5t, MSRP* \$22-24 SUSPENDER PANTS SALE \$20.40-21.60 0-5t, MSRP* \$34-36 CHAMBRAY SHIRTS SALE \$15.60-16.80 0-5t, MSRP* \$26-28 JERSEY POLOS^o SALE \$12 0-5t, MSRP* \$20 FLAT-FRONT SHORTS SALE \$14.40-15.60 0-5t, MSRP* \$24-26 CANVAS PULL-ON SHORTS SALE \$14.40-15.60 0-5t, MSRP* \$24-26 JERSEY HOODIES SALE \$18-19.20 0-5t, MSRP* \$30-32 JERSEY JOGGERS SALE \$13.20 0-24m, MSRP* \$22 BUCKET HATS SALE \$14 0-9m, 12-24m, 30% off MSRP* \$20 SLIP-ON SHOES SALE \$16.50 nb-4, 25% off MSRP* \$22 ^oBaby & toddler styles vary ^oStyles vary by store

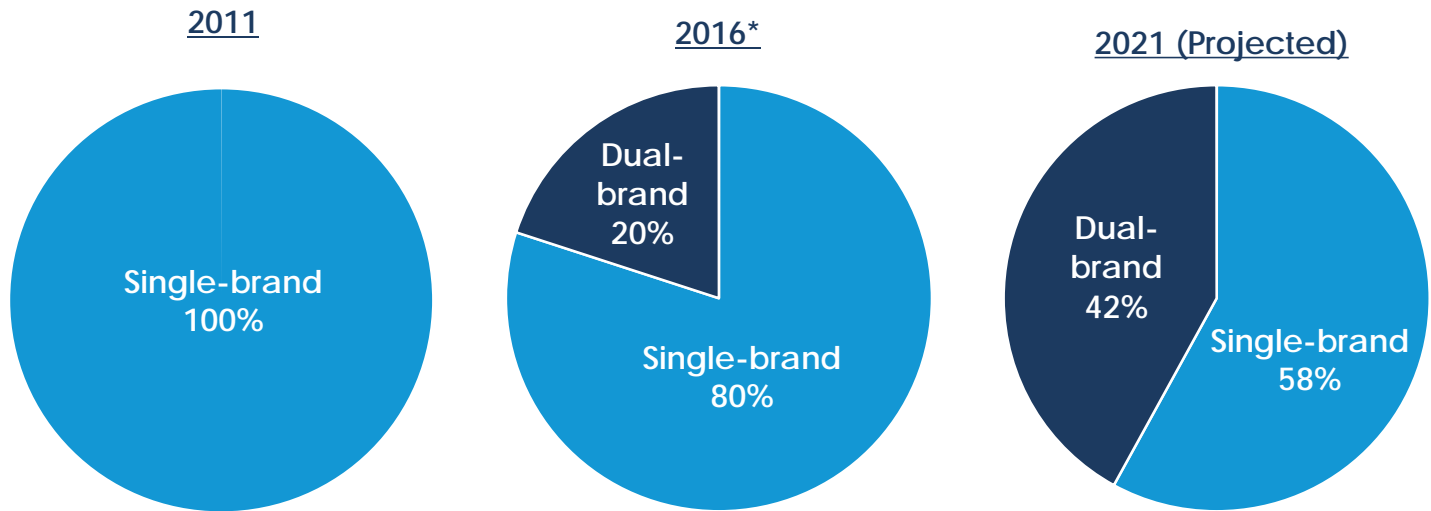


40%
OFF



Lots more to drool over at oshkosh.com/babybgosh

The Composition of Our Store Portfolio Continues to Shift



Store Performance Initiatives

Store Model

- Co-branded format
 - Smaller
 - More productive
 - Greater ROI
- Other
 - New store build-out and remodel cost reductions

Enhance Customer Experience

- Rewarding Moments loyalty program
- Omni-channel capabilities
- New stores in more convenient locations
- Improve in-stocks and localize assortments

Technology Investments To Improve Productivity

- Workforce management
- Assortment planning & buying
- Inventory allocation
- Price optimization

*See store count reconciliation on page 39.

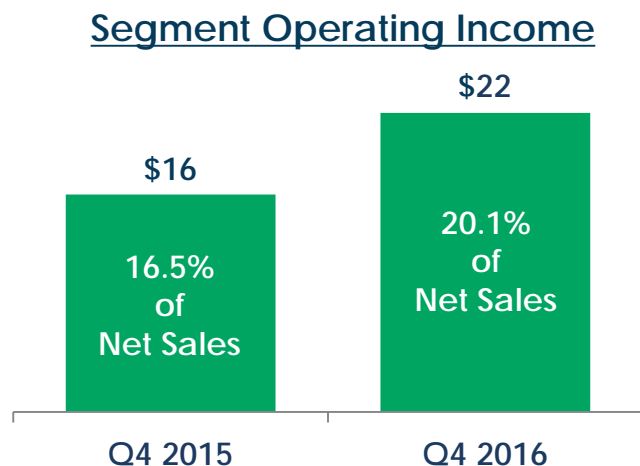
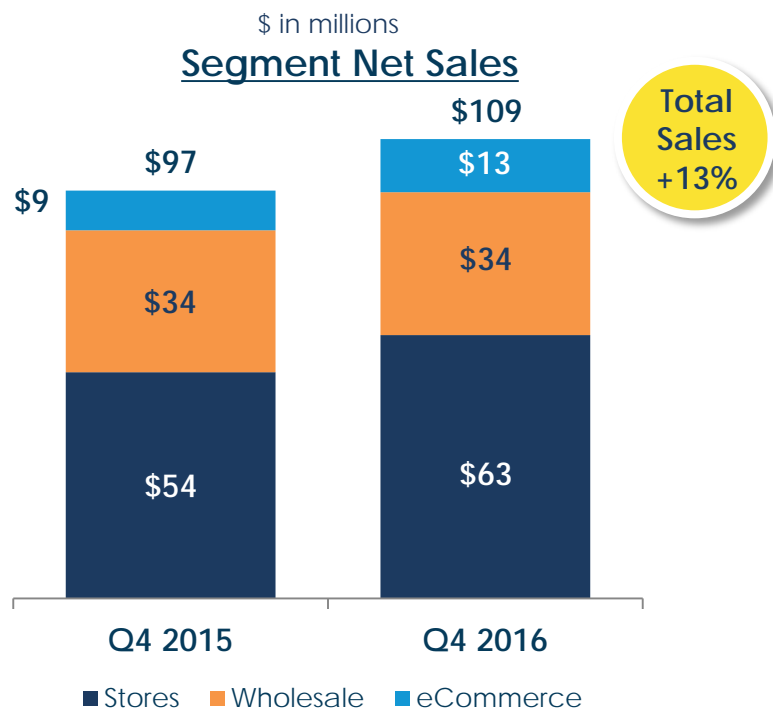
Co-branded Store – Louisville, KY
(opened July 2016)



Side-by-Side store – La Habra, CA
(opened October 2016)

carter's | OSHKOSH
B'gosh





Net Sales

- **Solid International segment growth**
 - Reported and constant currency net sales: +13%
 - Canada Retail comp: +10.9% (+14.6% comp Q4 2015)
- **Canada Stores**
 - Net sales +16%
 - Store comp +6.9%
 - Opened 17 net new stores in fiscal 2016
- **eCommerce**
 - Net sales +34%, driven by growth in Canada (+61.1% comp) and China
- **Wholesale**
 - Net sales +1%: reflects increased demand in Canada and new wholesale business in China, offset by lower demand from other international partners due to the strengthening of the U.S. Dollar

Segment Operating Margin

- Operating margin improvement reflects stronger gross margin, store expense leverage, and distribution efficiencies, partially offset by China wholesale start up costs

New Store Opening – Brandon, Canada
(opened December 2016)





Beijing

- 1,500 sq. ft.
- Opened December 2016



Full Year Performance



Financial Results

- 28th consecutive year of sales growth: +6% vs. LY
- Continued adjusted operating margin expansion: +20 bps to 13.5%
- Achieved record adjusted operating income \$431 million
- Record adjusted EPS \$5.14, +11%
- Record operating and free cash flow
- Returned \$367 million to shareholders

Key Milestones

- Maintained leading market share in the U.S. (17.8%) and expanded share in Canada by +280bps to 18.9%¹
- Introduced new co-branded store format in U.S.
- Opened 54 net new stores in the U.S. (64 openings and 9 closings) and 17 in Canada*
- Launched wholesale business in China
- Extended OshKosh product offering to include size 14
- Strengthened our omni-channel capabilities
- Increased direct sourcing mix to 47% (vs. 39% LY)

¹ Source: the NPD Group/Consumer Tracking Service for the 12-months-ending December 2016 vs. 2015, all channels of distribution for ages 0-7. Please note that NPD revised its Fashion Consumer Tracker methodology in the U.S., effective with the most recent data release for annual 2016 and restated 2015 data. NPD data cited in prior communications and SEC filings are based on an alternate methodology no longer employed by NPD and are not comparable to current year presentation.

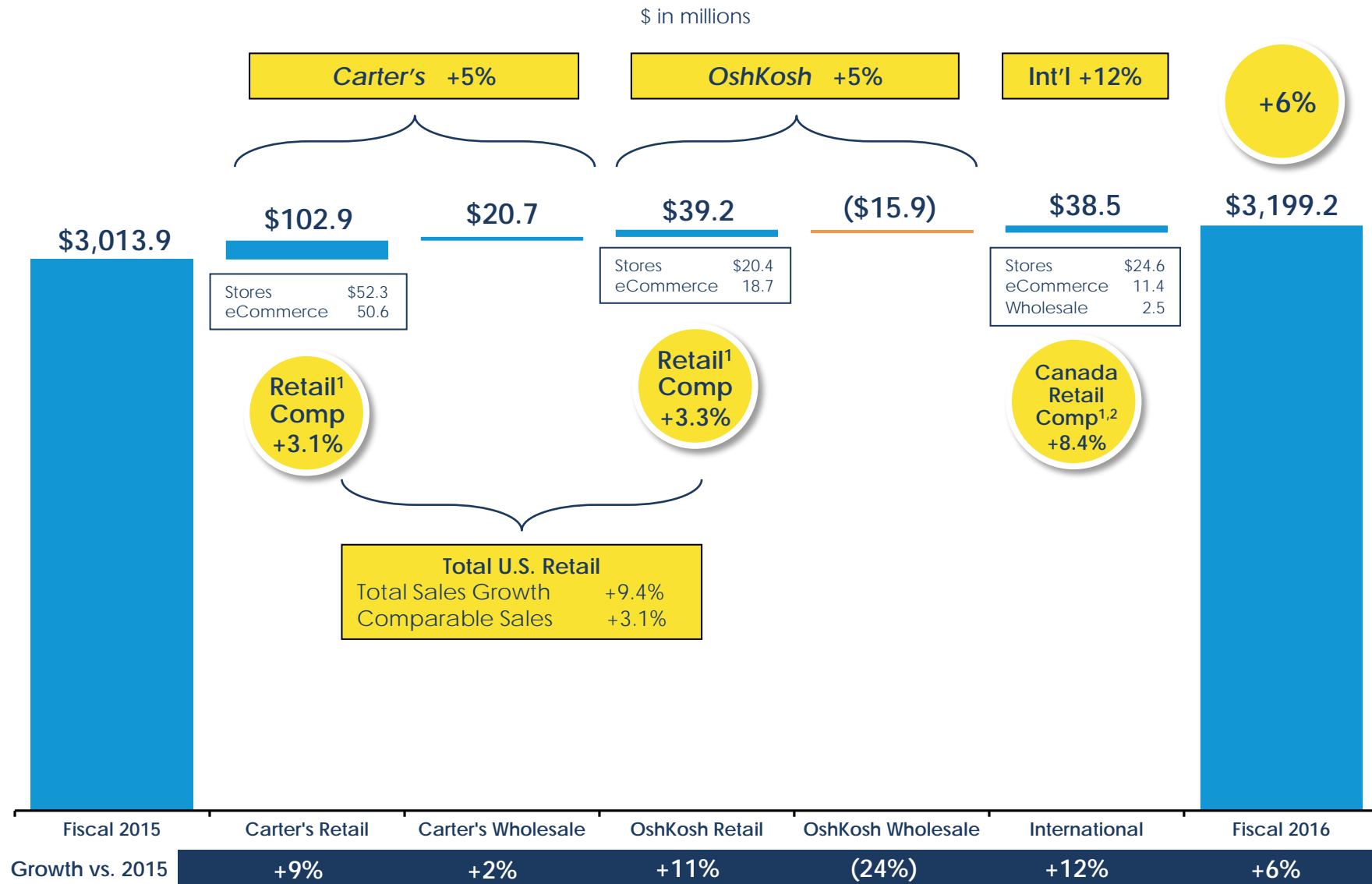
*See store count reconciliation on page 39.

Fiscal 2016 Adjusted Results*

	\$ in millions, except EPS				
	Fiscal 2016	% of Sales	Fiscal 2015	% of Sales	Increase / (Decrease)
Net sales	\$3,199.2		\$3,013.9		6%
Gross profit	1,379.1	43.1%	1,258.0	41.7%	10%
Adjusted SG&A*	990.6	31.0%	901.1	29.9%	10%
Royalty income	(42.8)	(1.3%)	(44.1)	(1.5%)	(3%)
Adjusted operating income*	431.4	13.5%	401.0	13.3%	8%
Interest and other, net	30.5	1.0%	24.7	0.8%	24%
Income before taxes	400.9	12.5%	376.3	12.5%	7%
Income taxes	139.7	4.4%	132.7	4.4%	5%
Adjusted net income*	\$261.1	8.2%	\$243.6	8.1%	7%
Adjusted diluted EPS*	\$5.14		\$4.61		11%
Weighted average shares outstanding	49.2		51.9		(5%)
Adjusted EBITDA*	\$499.1	15.6%	\$465.0	15.4%	7%

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 36-38.
Note: Results may not be additive due to rounding.

Fiscal 2016 Net Sales



Constant Currency	+14%	+6%
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¹Retail Comp is defined as the combination of store and eCommerce comparable sales.

²Calculated in local currency.

Note: Results may not be additive due to rounding.

Fiscal 2016 Adjusted Business Segment Performance*

\$ in millions

	Net Sales			Adjusted Operating Income (Loss)*			Adjusted Operating Margin*	
	2016	2015	\$ Growth	2016	2015	\$ Growth	2016	2015
Carter's Retail (a)	\$ 1,254	\$ 1,151	\$ 103	\$ 202	\$ 199	\$ 3	16.1%	17.3%
Carter's Wholesale (b)	1,128	1,108	21	250	232	18	22.2%	21.0%
Total Carter's	2,383	2,259	124	452	432	21	19.0%	19.1%
OshKosh Retail (a)	402	363	39	10	12	(2)	2.6%	3.3%
OshKosh Wholesale	50	66	(16)	11	13	(2)	21.8%	20.2%
Total OshKosh	452	429	23	21	25	(4)	4.7%	5.9%
International (c)(d)	365	326	39	59	49	10	16.2%	15.0%
Total before corporate expenses	3,199	3,014	185	533	506	27	16.7%	16.8%
Corporate expenses (d)				(101)	(105)	3	(3.2%)	(3.5%)
Total (d)	\$ 3,199	\$ 3,014	\$ 185	\$ 431	\$ 401	\$ 30	13.5%	13.3%

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

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

(c) Includes international retail, eCommerce and wholesale sales. Adjusted operating income includes international licensing income.

(d) See reconciliation of reported (GAAP) results to adjusted results.

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 37.

Note: Results may not be additive due to rounding.

Acquisition of Skip Hop



SKIP*HOP®

Company Background

- Global lifestyle brand for families with young children. Founded in 2003.
- Offers key essentials that are re-imagined and differentiated from a design and function perspective
- Product categories include: diaper bags, backpacks, travel accessories, home gear, and hardlines for play/meal/bath time
- Currently distributed in 5,000 doors in the U.S. and in 60+ countries

Recent Financial Performance

- 2016 Net Sales ~\$86 million¹

Link to Skip Hop overview video:
https://youtu.be/_v1KCJA7Q0

Strategic Rationale

- **Transaction meets our M&A criteria**
 - ✓ Young children's apparel or related products
 - ✓ Track record of growth; strong forward prospects
 - ✓ Good management team willing to remain with us post-acquisition
 - ✓ Immediately accretive to earnings
- **Close product adjacency – key essentials for parents, babies and toddlers**
 - Complements Carter's strong core apparel business
 - Diversifies product base with the addition of baby / children's hardlines
- **Strong consumer proposition – "Must Haves Made Better"**
 - Recognized brand name in marketplace
 - Product development / innovation 'DNA'
- **Growth opportunities**
 - Wholesale channel - growth with existing and new customers
 - New product innovation
 - Sales of Skip Hop products on carters.com and in our stores
 - International expansion

Segment Reporting Changes

Former Segments

- Carter's Retail
(stores/eCommerce)
- Carter's Wholesale
- OshKosh Retail
(stores/eCommerce)
- OshKosh Wholesale
- International



New Segments

- U.S. Retail
- U.S. Wholesale
- International

Timing

- New reporting begins in Q1 2017
- Prior year period segment data will be recast to conform to new reporting convention

Q1 2017

- **Net sales down low-single digits to Q1 2016**
 - Forecasting growth in U.S. Retail and declines in U.S. and International Wholesale businesses
- **Adjusted EPS approximately \$0.80 to \$0.85 (vs. \$1.05 LY)**
 - Reflects lower net sales and increased investments in the Company's growth agenda

Fiscal Year 2017

- **Net sales growth of approximately 4% to 6%**
- **Adjusted EPS growth of approximately 8% to 10% (vs. \$5.14 LY)**
 - Guidance reflects anticipated Skip Hop benefit (approximately \$90 million net sales, earnings contribution not significant)
- **Store openings / closures**
 - U.S.: ~62 new stores (31 Co-branded, 17 Side-by-Side, 14 Carter's Stand-alone); ~11 closures
 - Canada: ~15 new stores; ~2 closures
- **Operating Cash Flow approximately \$325 to \$350 million**
- **CapEx approximately \$100 million**



thank you.



appendix



Fourth Quarter Reconciliation of Net Income Allocable to Common Shareholders

	Fiscal Quarter End	
	December 31, 2016	January 2, 2016
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	48,824,395	51,460,090
Dilutive effect of equity awards	422,205	460,432
Diluted number of common and common equivalent shares outstanding	<u>49,246,600</u>	<u>51,920,522</u>

	Fiscal Quarter Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	December 31, 2016	January 2, 2016	December 31, 2016	January 2, 2016
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 87,117	\$ 72,600	\$ 88,736	\$ 73,198
Income allocated to participating securities	(686)	(613)	(698)	(618)
Net income available to common shareholders	<u>\$ 86,431</u>	<u>\$ 71,987</u>	<u>\$ 88,038</u>	<u>\$ 72,580</u>
Basic net income per common share	\$1.77	\$1.40	\$1.80	\$1.41
Diluted net income per common share:				
Net income	\$ 87,117	\$ 72,600	\$ 88,736	\$ 73,198
Income allocated to participating securities	(681)	(609)	(693)	(613)
Net income available to common shareholders	<u>\$ 86,436</u>	<u>\$ 71,991</u>	<u>\$ 88,043</u>	<u>\$ 72,585</u>
Diluted net income per common share	\$1.76	\$1.39	\$1.79	\$1.40

(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 \$1.6 million and \$0.6 million in after-tax expenses from these results for the fiscal quarters ended December 31, 2016 and January 2, 2016, respectively.

Fourth Quarter Reconciliation of Reported to Adjusted Earnings

\$ in millions, except EPS

Fourth Quarter of Fiscal 2016	Gross Margin	% of sales	SG&A	% of sales	Operating Income	% of sales	Net Income	Diluted EPS	Segment Reporting	
									Corporate Operating Expenses	% of total net sales
As reported (GAAP)	\$410.5	43.9%	\$282.6	30.3%	\$139.4	14.9%	\$87.1	\$1.76	(\$33.1)	(3.5%)
Direct sourcing initiative (a)	-		(0.2)		0.2		0.1	-	0.2	
Acquisition related costs (b)	-		(2.4)		2.4		1.5	0.03	2.4	
As adjusted	\$410.5	43.9%	\$280.1	30.0%	\$142.0	15.2%	\$88.7	\$1.79	(\$30.5)	(3.3%)

Fourth Quarter of Fiscal 2015	Gross Margin	% of sales	SG&A	% of sales	Operating Income	% of sales	Net Income	Diluted EPS	Segment Reporting	
									Corporate Operating Expenses	% of total net sales
As reported (GAAP)	\$363.5	42.0%	\$258.7	29.9%	\$116.2	13.4%	\$72.6	\$1.39	(\$36.4)	(4.2%)
Amortization of tradenames	-		(1.0)		1.0		0.6	0.01	1.0	
As adjusted	\$363.5	42.0%	\$257.8	29.7%	\$117.1	13.5%	\$73.2	\$1.40	(\$35.5)	(4.1%)

- (a) Costs associated with the Company's direct sourcing initiative, to include severance and relocation.
 (b) Advisory fees incurred in connection with announced Skip Hop transaction.

Note: Results may not be additive due to rounding.

Fiscal 2016 Reconciliation of Net Income Allocable to Common Shareholders

	Fiscal Year Ended	
	December 31, 2016	January 2, 2016
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	49,917,858	51,835,053
Dilutive effect of equity awards	457,849	499,583
Diluted number of common and common equivalent shares outstanding	<u>50,375,707</u>	<u>52,334,636</u>

	Four Fiscal Quarters Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	December 31, 2016	January 2, 2016	December 31, 2016	January 2, 2016
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 258,106	\$ 237,822	\$ 261,147	\$ 243,641
Income allocated to participating securities	(2,049)	(2,184)	(2,073)	(2,238)
Net income available to common shareholders	<u>\$ 256,057</u>	<u>\$ 235,638</u>	<u>\$ 259,074</u>	<u>\$ 241,403</u>
Basic net income per common share	\$5.13	\$4.55	\$5.19	\$4.66
Diluted net income per common share:				
Net income	\$ 258,106	\$ 237,822	\$ 261,147	\$ 243,641
Income allocated to participating securities	(2,035)	(2,167)	(2,059)	(2,221)
Net income available to common shareholders	<u>\$ 256,071</u>	<u>\$ 235,655</u>	<u>\$ 259,088</u>	<u>\$ 241,420</u>
Diluted net income per common share	\$5.08	\$4.50	\$5.14	\$4.61

(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 \$3.1 million and \$5.8 million in after-tax expenses from these results for the fiscal year ended December 31, 2016 and January 2, 2016, respectively.

Fiscal 2016 Reconciliation of Reported to Adjusted Earnings

\$ in millions, except EPS

Fiscal 2016	Gross Margin	% of sales	SG&A	% of sales	Operating Income	% of sales	Net Income	Diluted EPS	Segment Reporting			
									International Operating Income	% of segment net sales	Corporate Operating Expenses	% of total net sales
As reported (GAAP)	\$1,379.1	43.1%	\$995.4	31.1%	\$426.6	13.3%	\$258.1	\$5.08	\$59.2	16.2%	(\$106.2)	(3.3%)
Amortization of tradenames	-		(1.7)		1.7		1.1	0.02	-		1.7	
Direct sourcing initiative (a)	-		(0.7)		0.7		0.5	0.01	-		0.7	
Acquisition related costs (b)	-		(2.4)		2.4		1.5	0.03	-		2.4	
As adjusted	\$1,379.1	43.1%	\$990.6	31.0%	\$431.4	13.5%	\$261.1	\$5.14	\$59.2	16.2%	(\$101.4)	(3.2%)

Fiscal 2015	Gross Margin	% of sales	SG&A	% of sales	Operating Income	% of sales	Net Income	Diluted EPS	Segment Reporting			
									International Operating Income	% of segment net sales	Corporate Operating Expenses	% of total net sales
As reported (GAAP)	\$1,258.0	41.7%	\$909.2	30.2%	\$392.9	13.0%	\$237.8	\$4.50	\$47.0	14.4%	(\$110.9)	(3.7%)
Amortization of tradenames	-		(6.2)		6.2		3.9	0.08	-		6.2	
Revaluation of contingent consideration (c)	-		(1.9)		1.9		1.9	0.04	1.9		-	
As adjusted	\$1,258.0	41.7%	\$901.1	29.9%	\$401.0	13.3%	\$243.6	\$4.61	\$48.9	15.0%	(\$104.6)	(3.5%)

- (a) Costs associated with the Company's direct sourcing initiative, to include severance and relocation.
 (b) Advisory fees incurred in connection with announced Skip Hop transaction.
 (c) Revaluation of contingent consideration liability associated with the Company's 2011 acquisition of Bonnie Togs.

Reconciliation of Net Income to Adjusted EBITDA

\$ in millions

	Fiscal Quarter Ended		Fiscal Year
	December 31, 2016	January 2, 2016	Ended December 31, 2016
Net income	\$ 87.1	\$ 72.6	\$ 258.1
Interest expense	6.7	6.5	27.0
Interest income	(0.1)	(0.1)	(0.6)
Tax expense	45.3	38.5	138.0
Depreciation and amortization	19.2	18.8	73.4
EBITDA	\$ 158.3	\$ 136.3	\$ 496.0
Adjustments to EBITDA			
Direct sourcing initiative (a)	\$ 0.2	\$ -	\$ 0.7
Acquisition related costs (b)	2.4	-	2.4
Adjusted EBITDA	\$ 160.8	\$ 136.3	\$ 499.1

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

(b) Advisory fees incurred in connection with announced Skip Hop transaction.

Store Count Data

	Single-brand		Dual-brand		Canada Co-branded Format	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		
Store count at January 3, 2015	480	149	51	—	124	804
Openings	34	3	31	—	23	91
Closings	(4)	(6)	—	—	—	(10)
Conversions to dual-branded formats	(13)	(2)	15	—	—	—
Store count at January 2, 2016	497	144	97	—	147	885
Openings	23	1	30	10	17	81
Closings	(4)	(5)	—	—	—	(9)
Conversions to dual-branded formats	(21)	(2)	13	9	—	(1)
Store count at December 31, 2016	495	138	140	19	164	956

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 February 23, 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 first 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 headings "Risk Factors" and "Forward-Looking Statements." 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 February 23, 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.