



carter's[®]

**First Quarter 2023 Results
& Business Update**

April 28, 2023

First Quarter 2023 Results

(GAAP Basis)



\$ in millions, except EPS

	Q1 2023	<i>% of Sales</i>	Q1 2022	<i>% of Sales</i>	Change
Net sales	\$696		\$781		(11%)
Gross profit	309	44.5%	355	45.4%	(13%)
Royalty income	7	0.9%	7	1.0%	(13%)
SG&A	260	37.3%	260	33.3%	-
Operating income	56	8.1%	103	13.1%	(45%)
Interest and other, net	9	1.2%	14	1.8%	(39%)
Income before taxes	48	6.9%	88	11.3%	(46%)
Income tax provision	12		20		(43%)
Net income	\$36	5.2%	\$68	8.7%	(47%)
Diluted EPS	\$0.95		\$1.66		(43%)
Weighted-average shares outstanding	37		40		(8%)
EBITDA ¹	\$72	10.4%	\$117	15.0%	(38%)

¹ Non-GAAP measure; see reconciliation to GAAP in appendix.
Note: Results may not be additive due to rounding.

Non-GAAP Adjustments¹



\$ in millions, except EPS

	First Quarter									
	2023					2022				
	Operating Income	% Net Sales	Pre-Tax Income	Net Income	Diluted EPS	Operating Income	% Net Sales	Pre-Tax Income	Net Income	Diluted EPS
As reported (GAAP)	\$56.4	8.1%	\$47.7	\$36.0	\$0.95	\$102.6	13.1%	\$88.3	\$67.9	\$1.66
Organizational restructuring	1.2		1.2	0.9	0.03	-		-	-	-
As adjusted	<u>\$57.5</u>	<u>8.3%</u>	<u>\$48.8</u>	<u>\$36.9</u>	<u>\$0.98</u>	<u>\$102.6</u>	<u>13.1%</u>	<u>\$88.3</u>	<u>\$67.9</u>	<u>\$1.66</u>

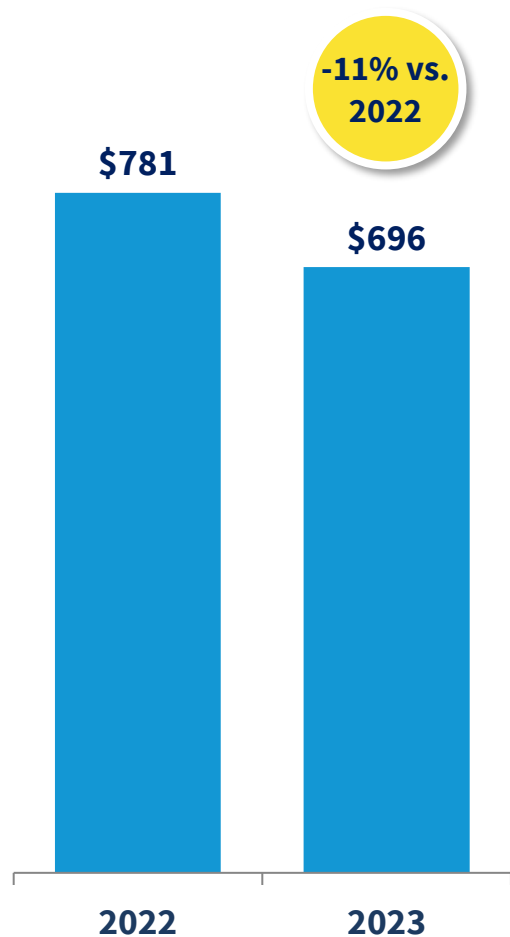
¹ Certain measures are presented on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP in appendix.
Note: Results may not be additive due to rounding.

First Quarter 2023 Performance

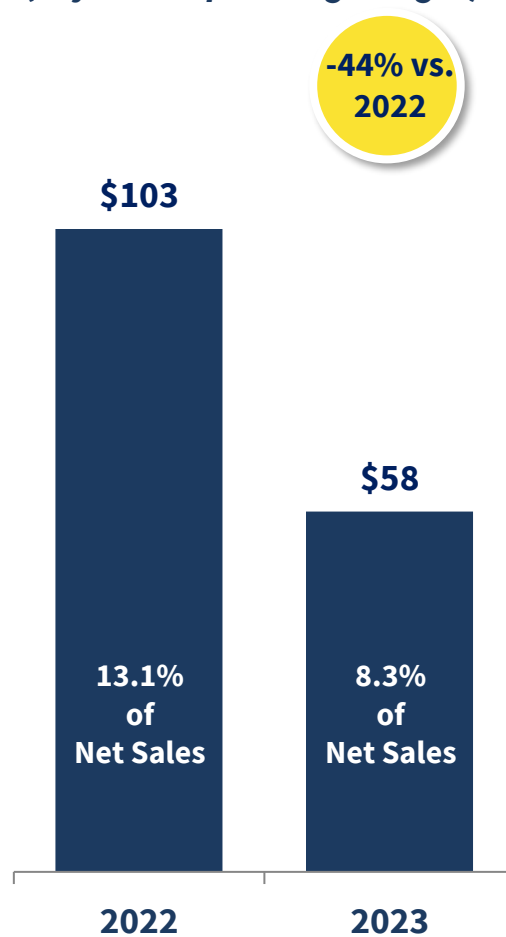


\$ in millions, except EPS

Net Sales



Adjusted Operating Income¹ (Adjusted Operating Margin)



Adjusted Diluted EPS¹



¹ Certain measures are presented on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP in appendix.

Stronger Start to 2023 Than Planned

(Adjusted Basis¹)



\$ in millions, except EPS

	Guidance ²	Actual Results
Net Sales	\$630 - \$650	\$696
U.S. Retail Comparable Sales	Down 10% to 15% vs. LY	Down 13%
U.S. Wholesale	Down 20% to 25% vs. LY	Down 9%
International	Down mid-teens vs. LY	Down 14%
Operating Income	\$30 - \$40	\$58
<i>Operating Margin</i>	<i>4.8% - 6.2%</i>	<i>8.3%</i>
Diluted EPS	\$0.35 - \$0.55	\$0.98

¹ Operating income, operating margin and diluted EPS presented on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP in appendix.

² Guidance provided on Q4 2022 earnings call on 2/24/2023.

First Quarter 2023 Adjusted Results¹



\$ in millions, except EPS

	Q1 2023	<i>% of Sales</i>	Q1 2022	<i>% of Sales</i>	Change
Net sales	\$696		\$781		(11%)
Gross profit	309	44.5%	355	45.4%	(13%)
Royalty income	7	0.9%	7	1.0%	(13%)
Adjusted SG&A	258	37.1%	260	33.3%	(1%)
Adjusted operating income	58	8.3%	103	13.1%	(44%)
Interest and other, net	9	1.2%	14	1.8%	(39%)
Adjusted income before taxes	49	7.0%	88	11.3%	(45%)
Adjusted provision for income taxes	12		20		(41%)
Adjusted net income	\$37	5.3%	\$68	8.7%	(46%)
Adjusted diluted EPS	\$0.98		\$1.66		(41%)
Weighted-average shares outstanding	37		40		(8%)
Adjusted EBITDA	\$74	10.6%	\$117	15.0%	(37%)

¹ Certain measures are presented on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP in appendix.

Note: Results may not be additive due to rounding.

\$ in millions

Balance Sheet (Q1 End)

	2023	2022
Cash	\$158	\$702
Accounts receivable	224	266
Inventory	614	680
Accounts payable	180	284
Total long-term debt, net ¹	577	992
Operating lease liabilities	556	553

- **Strong liquidity: \$923 million³**
- **Lower cash and debt balances vs. 2022 reflect retirement of \$500 million pandemic-related financing in Q2 2022**
- **Inventory down 10% (units -17%)**
 - Better than plan
 - Inventories expected to trend lower over balance of year
- **Accounts payable reflects timing of inventory payments**

Cash Flow (Q1)

	2023	2022
Operating cash flow	\$42	(\$164)
Capital expenditures	(14)	(8)
Free cash flow ²	\$28	(\$171)
	2023	2022
Share repurchases	\$10	\$74
Dividends	28	31
Total	\$38	\$105

- **Operating cash flow improvement reflects:**
 - Changes in working capital
 - Lower payout of annual performance-based compensation
 - Lower net income
- **Forecasting operating cash flow for FY 2023 >\$300 million, driven through inventory reduction initiatives**
- **\$38 million returned to shareholders through share repurchases and dividends in Q1 '23**

¹ Includes current portion of long-term debt, net. ² Non-GAAP measure. ³ Comprised of \$158 million cash and cash equivalents plus \$766 million undrawn availability on revolving credit facility.



Business Segment Performance

First Quarter 2023 Adjusted Segment Performance



\$ in millions

	Net Sales			Adjusted Operating Income ¹			Adjusted Operating Margin ¹	
	2023	2022	\$ Change	2023	2022	\$ Change	2023	2022
U.S. Retail	\$324	\$366	(\$43)	\$26	\$50	(\$24)	8.1%	13.6%
U.S. Wholesale	280	307	(27)	52	61	(9)	18.4%	19.7%
International	92	108	(15)	3	10	(7)	3.3%	9.7%
Total before corporate expenses	696	781	(85)	81	121	(40)	11.6%	15.5%
Corporate expenses				(23)	(18)	(5)	(3.4%)	(2.3%)
Total	<u>\$696</u>	<u>\$781</u>	<u>(\$85)</u>	<u>\$58</u>	<u>\$103</u>	<u>(\$45)</u>	<u>8.3%</u>	<u>13.1%</u>

¹ Certain measures are presented on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP in appendix.

Note: Results may not be additive due to rounding.

U.S. Retail

- **Net sales: -12%**
 - Inflation continued to adversely affect consumer demand
- **Comparable sales: -13%**
 - Better price realization
 - Lower traffic & units per transaction
- **Adjusted operating margin 8.1% (vs. 13.6% LY)¹**
 - Expense deleverage on lower sales
 - Higher product & transportation costs
 - Inventory charges
 - Better price realization

U.S. Wholesale

- **Net sales: -9%**
 - Sales exceeded plan, driven by earlier demand
 - Lower cancellations
 - Growth with Exclusive Brands
 - Conservative customer planning & suspension of buybuy BABY shipments
- **Adjusted operating margin 18.4% (vs. 19.7% LY)¹**
 - Higher product & transportation costs
 - Prior year benefit in bad debt expense
 - Better price realization
 - Lower air freight costs

International

- **Net sales: -14%**
 - Lower demand in Canada and wholesale (ex-North America)
 - Mid-teens growth in Mexico, driven by new stores
- **Net sales constant currency: -12%**
- **Adjusted operating margin 3.3% (vs. 9.7% LY)¹**
 - Expense deleverage on lower sales
 - Higher product & transportation costs
 - Better price realization

¹ Results presented on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP in appendix.

Carter's is the best selling brand in young children's apparel



#1

Most Purchased
children's apparel brand¹



10 million

active retail customers



#1 Market Share
in children's apparel¹

#1

Most Trusted,
Most Recommended,
and **Most Comfortable**³

#1

Durability and **Quality**³



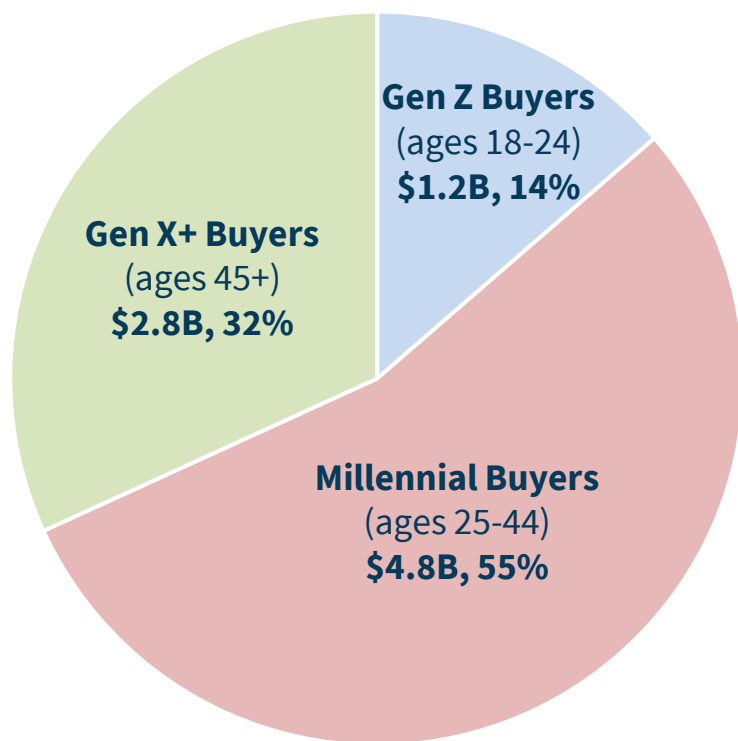
12+ Billion

earned media impressions
in 2022²

\$9B U.S. Baby¹ Market by Generation

Carter's Holds #1 Position With All Generations

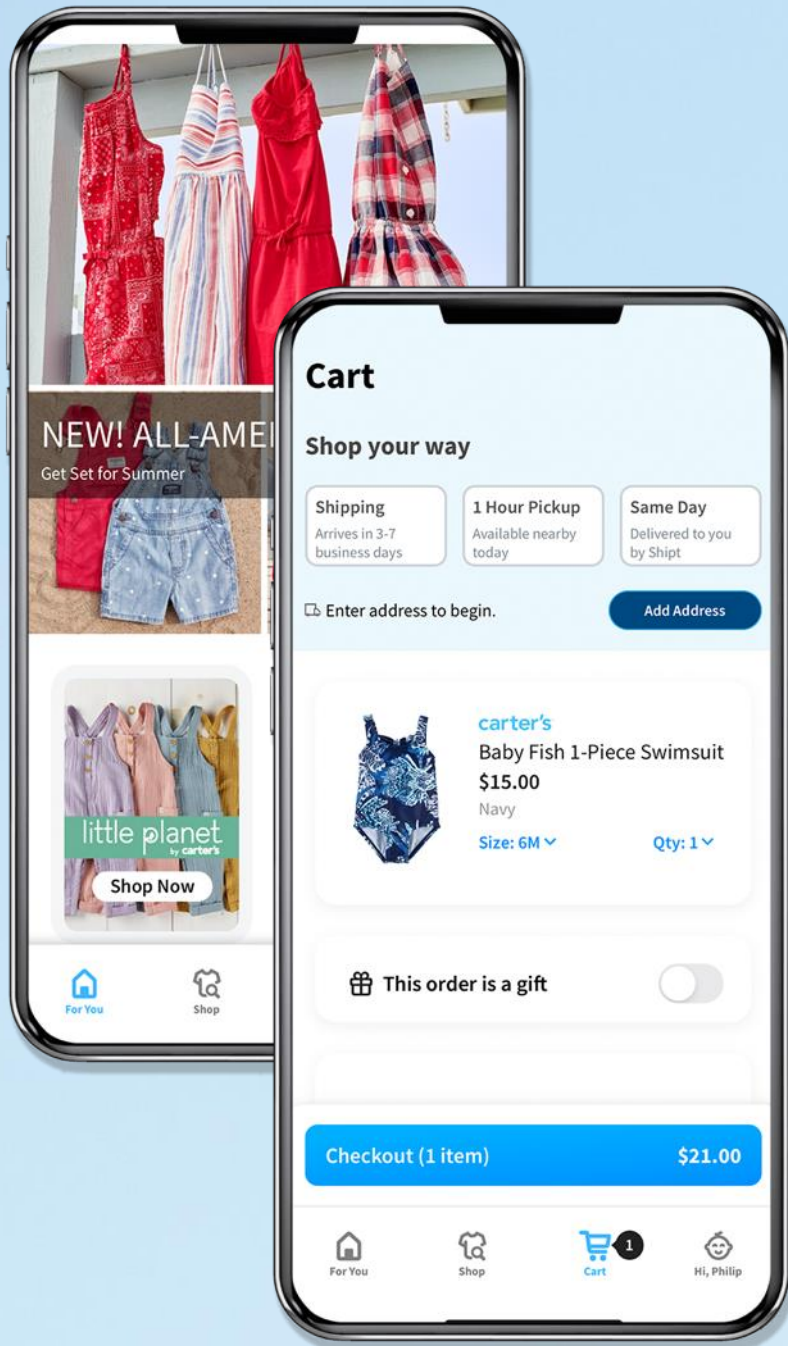
Consumer Sales (Billions)



Generation (age of buyer)	Carter's Ranking
Gen X+ (ages 45+)	#1
Millennial (ages 25-44)	#1
Gen Z (ages 18-24)	#1

¹ Ages 0-2

Source: Circana/Consumer Tracking Service, U.S. Dollar Sales. Market size 12ME January 2023. Buyer segment percentage estimates 24 ME January 2023.



Carter's mobile app has grown to 25% of U.S. eCommerce sales in <2 years

- 4.8 star rating in app store
- Growth principally driven by our most loyal customers
- Strong online conversion
- Developing enhanced personalization capabilities
- Piloting same-day delivery with Shipt





little planet

Little Planet

Continues Accelerated Growth

- Eco-friendly, accessible premium brand
- Sales doubled in 2022
- Plan to expand distribution from 785 to over 2,000 doors in 2023
- Introduced new Mommy & Me collection



TARGET



The market leader in
Holiday Outfitting





Fresh spring styles and swimwear at **Target**



TARGET.

carter's
— just one you —



New baby collection arrives at **Walmart**



carter's
— child of mine —

**Sunny styles
for little sprouts**

Shop warm looks for baby

[Shop now](#)

Walmart 

Walmart 

carter's
— child of mine —

Enhanced digital experience for Simple Joys on Amazon



Alpharetta, GA



- **Stores are an important component of our growth strategy**
 - Plan to open over 50 new stores in U.S. in 2023
- **Stores play a key role in supporting omni-channel sales**
 - 35% of digital orders in FY22 (28% in FY21)
- **Stores are our #1 source of our new customer acquisition**
- **Nearly 70% of children's apparel in U.S. market is sold in stores**
- **Store portfolio concentrated in high traffic centers**
- **New stores achieving high returns on investment**



Brazil

- **\$3.0B market**
- **Partnership with Riachuelo**
 - ~50 free standing Carter's stores
 - ~260 shop-in-shop locations
- **Additional retail growth opportunity in the coming years**

Mexico

- **\$2.9B market**
- **Multi-channel operations**
 - ~50 Company-operated stores
 - eCommerce
 - Wholesale
- **Plan to open 12 stores in 2023**



2023 Outlook



Sales

- **Strength of product offering**
- **Improved on-time shipping performance**
- **Inflation moderating**
- **Contribution of new stores in North America (~70)**
- **Expanded *Little Planet* product offering and distribution**
- **Favorable replenishment trends**
- **Lower wholesale order cancellations**

Earnings

- **Higher mix of omni-channel sales**
- **Improved price realization**
- **Closure of low-margin stores (~20)**
- **Conservative inventory commitments & better sell throughs**
- **Lower product costs & freight rates**
- **Lower discretionary spending**
- **Lower share count**

Fiscal Year 2023 Objectives

- **Net sales: ~\$3 billion**
((\$3.2 billion in fiscal 2022))
 - U.S. Retail: down high single-digits
 - U.S. Wholesale: down high single-digits
 - International: comparable
- **Adjusted operating income: ~\$350 million**
((\$388 million in fiscal 2022))
- **Adjusted diluted EPS: ~\$6.15**
((\$6.90 in fiscal 2022))
- **Operating cash flow: >\$300 million**
- **CapEx: ~\$75 million**



¹ See reconciliations to GAAP in Appendix. The Company's forecast for fiscal year 2023 excludes charges of approximately \$1.2 million related to organizational restructuring. Forward-looking adjusted operating income and adjusted diluted EPS have not been reconciled to their most directly comparable GAAP measures – see page 33.

- **Outlook assumes:**
 - Earlier Wholesale demand (Q2 to Q1 shift ~\$35 million)
 - Continued inflationary pressure on consumer demand
 - Lower inventory-related costs and lower freight costs driving improved gross margin
 - Comparable SG&A
 - Higher interest expense & tax rate
 - Lower shares outstanding
- **Net sales: ~\$590 – \$605 million** (\$701 million Q2 2022)
 - U.S. Retail comps down mid-teens
 - U.S. Wholesale sales down ~20% to 25% (Q2 to Q1 shift ~\$35 million)
 - International sales down mid-single digits
- **Adjusted operating income: ~\$30 – \$35 million** (\$75 million Q2 2022)
- **Adjusted diluted EPS: ~\$0.40 – \$0.50** (\$1.30 Q2 2022)



¹ See reconciliations to GAAP in Appendix. Forward-looking adjusted operating income and adjusted diluted EPS have not been reconciled to their most directly comparable GAAP measures – see page 33.

Thank You!



Appendix



First Quarter 2023 Reconciliation of Adjusted Net Income Allocable to Common Shareholders



	Fiscal Quarter Ended	
	April 1, 2023	April 2, 2022
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	37,104,527	40,270,895
Dilutive effect of equity awards	8,063	77,437
Diluted number of common and common equivalent shares outstanding	<u>37,112,590</u>	<u>40,348,332</u>

<i>\$ in thousands, except EPS</i>	Fiscal Quarter Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	April 1, 2023	April 2, 2022	April 1, 2023	April 2, 2022
Basic net income per common share:				
Net income	\$35,996	\$67,933	\$36,879	\$67,933
Income allocated to participating securities	(576)	(921)	(592)	(921)
Net income available to common shareholders	<u>\$35,420</u>	<u>\$67,012</u>	<u>\$36,287</u>	<u>\$67,012</u>
Basic net income per common share	\$0.95	\$1.66	\$0.98	\$1.66
Diluted net income per common share:				
Net income	\$35,996	\$67,933	\$36,879	\$67,933
Income allocated to participating securities	(576)	(920)	(592)	(920)
Net income available to common shareholders	<u>\$35,420</u>	<u>\$67,013</u>	<u>\$36,287</u>	<u>\$67,013</u>
Diluted net income per common share	\$0.95	\$1.66	\$0.98	\$1.66

(a) In addition to the results provided in this presentation in accordance with GAAP, the Company has provided adjusted, non-GAAP financial measurements that present per share data excluding the adjustments discussed in the appendix. The Company has excluded \$0.9 million in after-tax expenses from these results for the fiscal quarter ended April 1, 2023.

Reconciliation of Adjusted to Reported Earnings¹



\$ in millions, except EPS

						Segment Reporting							
	Operating Income	% of net sales	Income Tax Provision	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
First Quarter of Fiscal 2023													
As reported (GAAP)	\$56.4	8.1%	\$11.7	\$36.0	\$0.95	\$26.9	8.3%	\$52.1	18.6%	\$3.1	3.4%	(\$25.8)	(3.7%)
Organizational restructuring (b)	1.2		0.3	0.9	0.03	(0.8)		(0.5)		(0.1)		2.4	
As adjusted (a)	\$57.5	8.3%	\$12.0	\$36.9	\$0.98	\$26.2	8.1%	\$51.6	18.4%	\$3.1	3.3%	(\$23.4)	(3.4%)

						Segment Reporting							
	Operating Income	% of net sales	Income Tax Provision	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
Second Quarter of Fiscal 2022													
As reported (GAAP)	\$75.4	10.8%	\$10.1	\$37.0	\$0.93	\$55.5	14.7%	\$33.6	15.0%	\$12.2	12.5%	(\$25.9)	(3.7%)
Loss on extinguishment of debt (c)	-		4.8	15.2	0.38	-		-		-		-	
As adjusted (a)	\$75.4	10.8%	\$14.9	\$52.1	\$1.30	\$55.5	14.7%	\$33.6	15.0%	\$12.2	12.5%	(\$25.9)	(3.7%)

						Segment Reporting							
	Operating Income	% of net sales	Income Tax Provision	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
Fiscal Year 2022													
As reported (GAAP)	\$379.2	11.8%	\$66.7	\$250.0	\$6.34	\$252.5	15.0%	\$161.7	15.0%	\$56.6	12.5%	(\$91.6)	(2.9%)
Loss on extinguishment of debt (c)	-		4.8	15.2	0.38	-		-		-		-	
Intangible asset impairment (d)	9.0		2.1	6.9	0.17	0.4		5.6		3.0		-	
As adjusted (a)	\$388.2	12.1%	\$73.6	\$272.0	\$6.90	\$252.9	15.0%	\$167.2	15.5%	\$59.7	13.2%	(\$91.6)	(2.9%)

¹No adjustments were made to Q1 fiscal 2022 GAAP financial measures.
Note: Results may not be additive due to rounding.

Reconciliation of Adjusted to Reported Earnings

(Continued)



-
- (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 SG&A, operating income, income tax, net income, and net income on a diluted share basis excluding the adjustments discussed above. 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.
 - (b) Net expenses related to organizational restructuring and related corporate office lease amendment actions.
 - (c) Related to the redemption of the \$500 million aggregate principal amount of senior notes due 2025 in April 2022 that were previously issued by a wholly-owned subsidiary of the Company.
 - (d) Related to the write-down of the *Skip Hop* tradename asset.

Reconciliation of Net Income to Adjusted EBITDA



\$ in millions

	Fiscal Quarter Ended		Four Fiscal Quarters Ended
	April 2, 2023	April 1, 2022	April 2, 2023
Net income	\$36.0	\$67.9	\$218.1
Interest expense	9.6	15.1	37.3
Interest income	(0.7)	(0.3)	(1.6)
Tax expense	11.7	20.4	58.0
Depreciation and amortization	15.7	14.2	66.8
EBITDA	\$72.4	\$117.3	\$378.5
Adjustments to EBITDA			
Organizational restructuring (a)	\$1.2	\$ -	\$1.2
Loss on extinguishment of debt (b)	-	-	19.9
Intangible asset impairment (c)	-	-	9.0
Total adjustments	1.2	-	30.1
Adjusted EBITDA	\$73.5	\$117.3	\$408.6

- (a) Net expensed related to organizational restructuring and related corporate office lease amendment actions.
- (b) Related to the redemption of the \$500 million aggregate principal amount of senior notes due 2025 in April 2022 that were previously issued by a wholly-owned subsidiary of the Company.
- (c) Related to the write-down of the *Skip Hop* tradename asset.

Constant Currency Reconciliation



\$ in millions

	Fiscal Quarter Ended					
	Reported Net Sales April 1, 2023	Impact of Foreign Currency Translation	Constant- Currency Net Sales April 1, 2023	Reported Net Sales April 2, 2022	Reported Net Sales % Change	Constant- Currency Net Sales % Change
Consolidated net sales	\$695.9	(\$2.2)	\$698.0	\$781.3	(10.9%)	(10.7%)
International segment net sales	\$92.2	(\$2.2)	\$94.3	\$107.6	(14.4%)	(12.3%)

The Company evaluates its net sales on both an “as reported” and a “constant currency” basis. The constant currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates that occurred between the comparative periods. Constant currency net sales results are calculated by translating current period net sales in local currency to the U.S. dollar amount by using the currency conversion rate for the prior comparative period. The Company consistently applies this approach to net sales for all countries where the functional currency is not the U.S. dollar. The Company believes that the presentation of net sales on a constant currency basis provides useful supplemental information regarding changes in our net sales that were not due to fluctuations in currency exchange rates and such information is consistent with how the Company assesses changes in its net sales between comparative periods.

	<u>U.S.</u>	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Store count at April 2, 2022	740	185	44	969
Openings	25	2	11	38
Closings	(8)	-	(6)	(14)
Store count at December 31, 2022	757	187	49	993
Openings	7	-	3	10
Closings	(4)	-	(3)	(7)
Store count at April 1, 2023	760	187	49	996
<i>Balance of 2023 Forecast</i>				
Openings	46	7	9	62
Closings	(7)	(4)	(5)	(16)
Estimated store count at December 30, 2023	799	190	53	1,042

Statements contained in this presentation that are not historical fact and use predictive words such as “estimates”, “outlook”, “guidance”, “expect”, “believe”, “intend”, “designed”, “target”, “plans”, “may”, “will”, “are confident” and similar words are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). These forward-looking statements and related assumptions involve risks and uncertainties that could cause actual results and outcomes to differ materially from any forward-looking statements or views expressed in this press release. These risks and uncertainties include, but are not limited to, the factors disclosed in Part I, Item 1A. “Risk Factors” of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022, and otherwise in our reports and filings with the Securities and Exchange Commission, as well as the following factors: the continuing effects of the novel coronavirus (COVID-19) pandemic; macroeconomic factors, including inflationary pressures; the impact of supply chain delays; financial difficulties for one or more of our major customers; an overall decrease in consumer spending; our products not being accepted in the marketplace; increased competition in the market place; diminished value of our brands; the failure to protect our intellectual property; the failure to comply with applicable quality standards or regulations; unseasonable or extreme weather conditions; pending and threatened lawsuits; a breach of our information technology systems and the loss of personal data; increased margin pressures, including increased cost of materials and labor; our foreign sourcing arrangements; disruptions in our supply chain, including increased transportation and freight costs; the management and expansion of our business domestically and internationally; the acquisition and integration of other brands and businesses; changes in our tax obligations, including additional customs, duties or tariffs; our ability to achieve our forecasted financial results for the fiscal year; our continued ability to declare and pay a dividend and conduct share repurchases in future periods; our planned opening and closing of stores during the fiscal year; and other risks detailed in the Company’s periodic reports as filed in accordance with the Securities Exchange Act of 1934, as amended. 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.

We have not reconciled forward-looking adjusted operating income or adjusted diluted earnings per share to their most directly comparable GAAP measures because we cannot predict with reasonable certainty the ultimate outcome of certain components of such reconciliations that are not within our control including due to factors described above, or others that may arise, without unreasonable effort. For these reasons, we are unable to assess the probable significance of the unavailable information, which could materially impact the amount of future operating income or diluted EPS, the most directly comparable GAAP metrics to adjusted operating income and adjusted diluted earnings per share, respectively.