

carter's, inc.

First Quarter 2016
Business Update

April 28, 2016

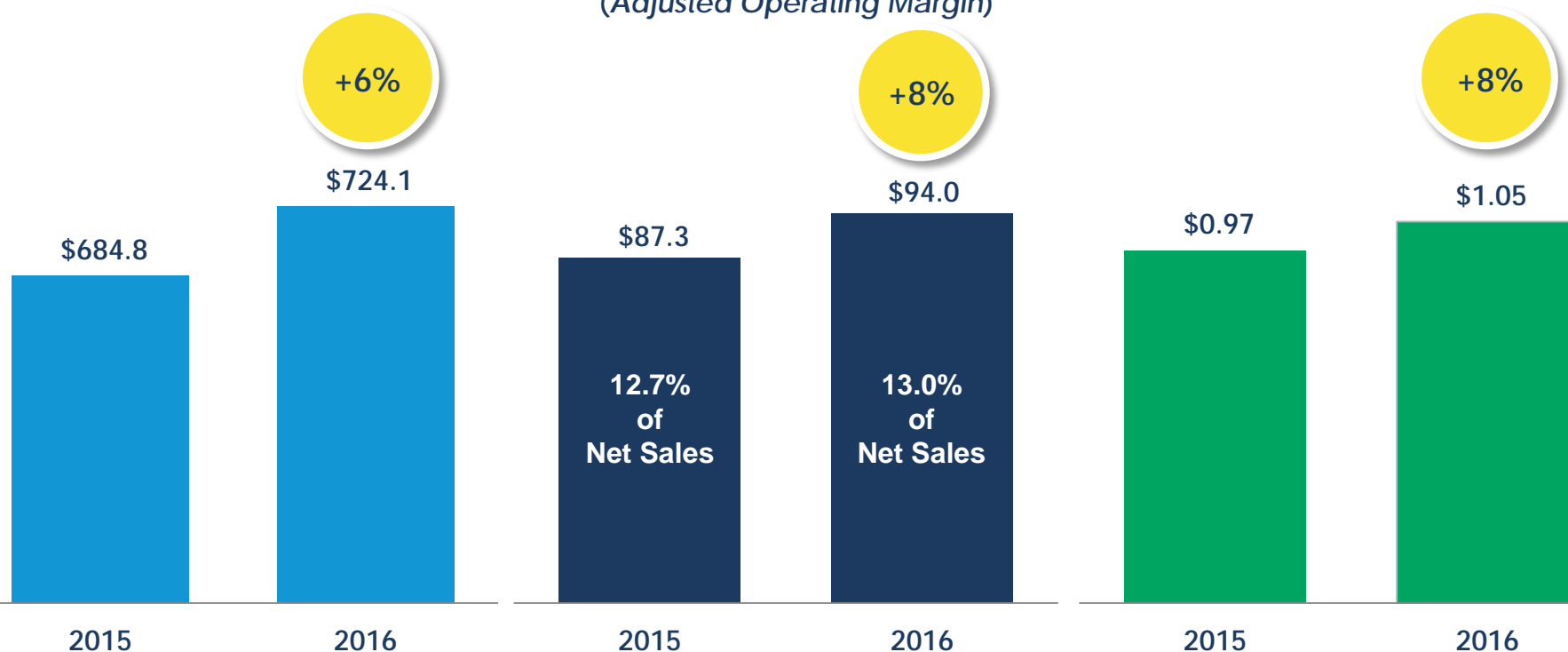


\$ in millions, except EPS

Net Sales

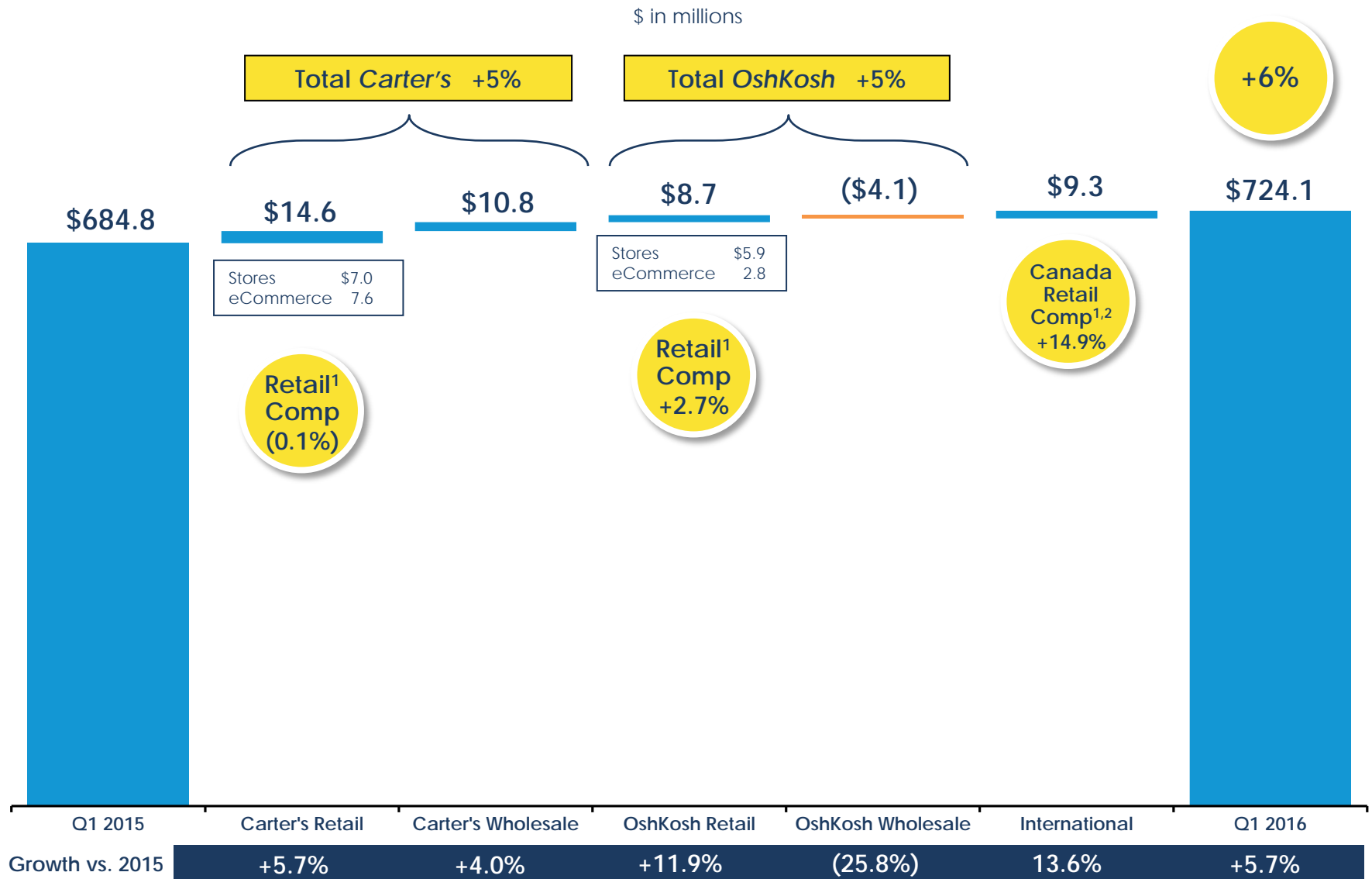
Adjusted Operating Income* (Adjusted Operating Margin)

Adjusted EPS*



- Net sales +6% driven by growth in our U.S. Retail, *Carter's Wholesale*, and International business
- Adjusted operating margin +30 bps, driven by stronger gross margin
- Adjusted EPS growth +8%

First Quarter 2016 Net Sales



Constant Currency	+20.1%	+6.4%
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¹Retail Comp is defined as the combination of store and eCommerce comparable sales.

²Calculated in local currency.

First Quarter 2016 Adjusted Results*

\$ in millions, except EPS

	<u>Q1 2016</u>	<u>% of Sales</u>	<u>Q1 2015</u>	<u>% of Sales</u>	<u>Increase / (Decrease)</u>
Net sales	\$724.1		\$684.8		6%
Gross profit	310.9	42.9%	284.1	41.5%	9%
Adjusted SG&A *	228.0	31.5%	208.4	30.4%	9%
Royalty income	(11.1)	(1.5%)	(11.6)	(1.7%)	(5%)
Adjusted operating income*	94.0	13.0%	87.3	12.7%	8%
Interest and other, net	9.7	1.3%	8.5	1.2%	14%
Income taxes	29.7	4.1%	27.0	3.9%	10%
Adjusted net income*	<u>\$54.6</u>	7.5%	<u>\$51.7</u>	7.6%	6%
Adjusted diluted EPS*	\$1.05		\$0.97		8%
Weighted average shares outstanding	51.6		52.6		(2%)
Adjusted EBITDA*	\$108.0	14.9%	\$100.2	14.6%	8%

* Results are stated on an adjusted basis; see reconciliation to GAAP on pages 26-28.
Note: Results may not be additive due to rounding.

\$ in millions

Balance Sheet (at Q1 end)

	2016	2015
Cash	\$395	\$377
Accounts Receivable	193	196
Inventory	376	358
Accounts Payable	90	94
Long-Term Debt	580	580

Cash Flow (Q1)

	2016	2015
Operating Cash Flow	\$128	\$87
Capital Expenditures	(26)	(21)
Free Cash Flow ¹	\$103	\$66

- Strong liquidity
- Inventory +5% vs. LY due to business growth
- Returned \$89 million to shareholders in Q1
 - \$72 million in share repurchases
 - \$17 million in dividends
- Additional \$54 million in share repurchases Q2 QTD
 - Total of \$125 million in share repurchases YTD (through 4/27/16)
 - Approximately \$449 million remaining on share repurchase authorizations
- Free cash flow improvement reflects higher earnings and favorable changes in net working capital, offset in part by increased capital expenditures

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

Business Segment Performance



First Quarter Adjusted Business Segment Performance*

\$ in millions

	Net Sales			Adjusted Operating Income (Loss)*			Adjusted Operating Margin*	
	2016	2015	\$ Growth	2016	2015	\$ Growth	2016	2015
Carter's Wholesale (a)	\$ 280	\$ 269	\$ 11	\$ 66	\$ 58	\$ 8	23.6%	21.5%
Carter's Retail (b)	272	258	15	41	44	(3)	15.1%	17.3%
Total Carter's	552	527	25	107	102	5	19.5%	19.4%
OshKosh Wholesale	12	16	(4)	2	3	(1)	18.5%	18.6%
OshKosh Retail (b)	82	73	9	(2)	(1)	(1)	(2.2%)	(1.3%)
Total OshKosh	94	89	5	0	2	(2)	0.4%	2.3%
International (c)(d)	78	69	9	8	7	1	10.8%	10.2%
Total before corporate expenses	724	685	39	116	111	5	16.1%	16.3%
Corporate expenses (d)				(22)	(24)	2	(3.1%)	(3.5%)
Total (d)	\$ 724	\$ 685	\$ 39	\$ 94	\$ 87	\$ 7	13.0%	12.7%

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

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

(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.

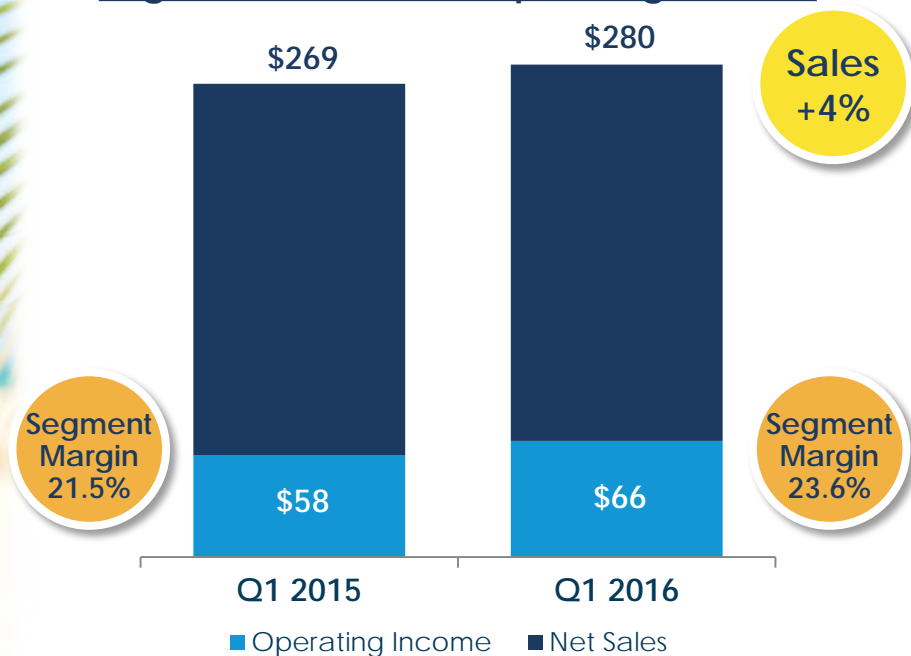
* Results are stated on an adjusted basis; see reconciliation to GAAP on page 27.

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\$ in millions

Segment Net Sales & Operating Income



- Net sales +4%, reflecting increased product demand, in part due to timing of orders, and new playwear initiative
- Segment operating margin increase reflects strong product demand, lower product costs, favorable distribution expenses, and lower bad debt provisions
- Fall 2016 bookings up modestly vs. prior year
- 2016 full-year net sales outlook: low single digit growth



There's a moment for every parent when they fall in love.

Maybe it's hearing that first giggle. Or feeling that first kick. Or that fresh new baby smell. At Carter's, we put that love into everything we designed for our newest arrival. Little baby basics.

babysoft knits  color-coordinated sets  aww-inspiring quality

little baby basics

Fall in ve.

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our
newest arrival
little baby basics



To see more, visit [carters.com](https://www.carters.com)

little lambie collection

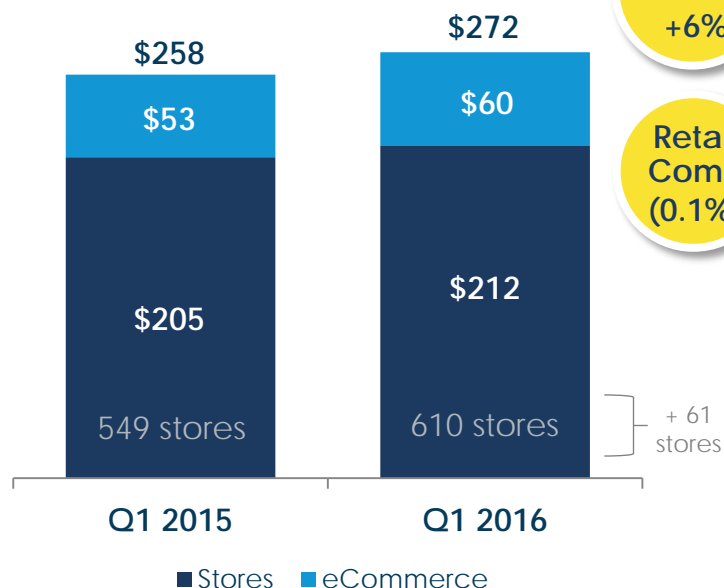
neutral + nice

Heathered oatmeal and gray with a little lamb for boy, girl or surprise-to-be.

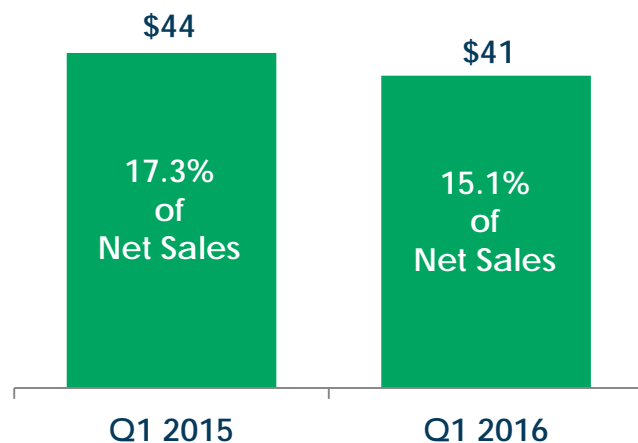


\$ in millions

Segment Net Sales



Segment Operating Income



Stores

- Net sales +3%
 - Opened 61 net new stores in last 12 months
 - New stores achieving ROI > 20%
 - Q1 ending store count: 610
 - 415 Brand (73 Side-by-Side)
 - 195 Outlet (34 Side-by-Side)
- Comp sales declined (4.0%)
 - Reflects lower consumer traffic (which we believe includes lower demand from international consumers shopping in the U.S.) and a weaker Easter holiday period
 - 13% of stores represented 100% of the comp decline

eCommerce

- Solid net sales growth, +14% (+15.2% comp)
- Q1 net sales 22% of retail segment sales (vs. 20% LY)

Segment Operating Margin

- Decrease in operating margin reflects store expense deleverage, higher promotional activity due to lower international demand, and increased marketing spend, partially offset by lower product costs

We Believe the Stronger U.S. Dollar and Lower International Consumer Traffic Continued to Negatively Affect Our Business in Q1

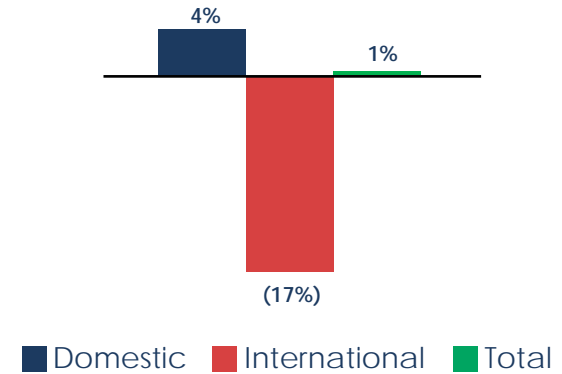
The USD appreciated against a number of foreign currencies vs. LY...

...contributing to declines in traffic from international customers to our U.S. stores and website

YoY Change vs. USD	
Q1	
Brazilian Real	-26%
Canadian Dollar	-9%
South Korean Won	-8%
Mexican Peso	-17%



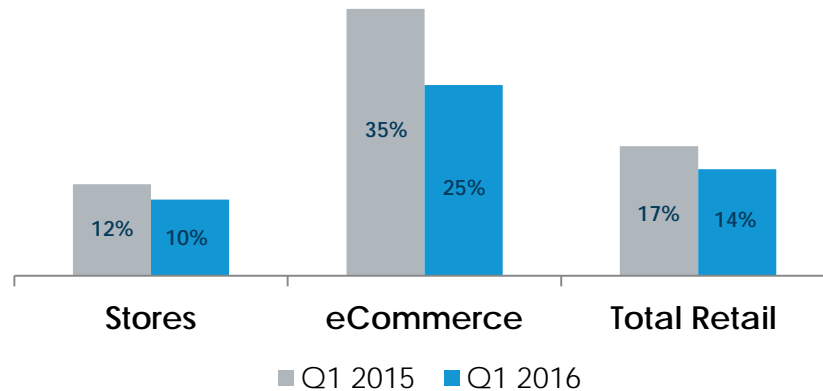
Estimated Q1 U.S. Retail (Carter's + OshKosh)
Comp Sales By Customer Type



- International and domestic customer comp sales estimates derived from credit card transaction and other data
- Notable year-over-year decline in international customer sales mix:

International Sales Mix

(% of Channel and Segment Total)



Most significant sources of international comp sales decline in Q1 2016:

Stores

- Brazil
- Canada
- Venezuela
- Mexico

eCommerce

- China
- Brazil
- Venezuela
- South Korea

\$**10**
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get hooked on our easy 2-piece sets

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\$7
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POLOS or SHORTS
baby sizes **\$6**

POLOS
DOORBUSTER
(3m-24m) **\$6** MSRP[®] \$14
(2t-8) **\$7** MSRP[®] \$16-18

EASY-ON SHORTS
DOORBUSTER
(3m-24m) **\$6** MSRP[®] \$14
(2t-8) **\$7** MSRP[®] \$16-18



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50% off
ALL SWIM

 carter.com/swim
the one-stop shop for rashguards,
flip-flops, hats + more!

LOVE to SPLASH
UPF 50+ swimsuits sun up to sun down!

GIRLS SWIMSUITS (3m-8)
SALE \$14-19 MSRP** \$28-38

BOYS SWIMSUITS (3m-8)
SALE \$12-15 MSRP** \$24-30

JERSEY TEES (3m-8)
SALE \$7-9 MSRP** \$14-18

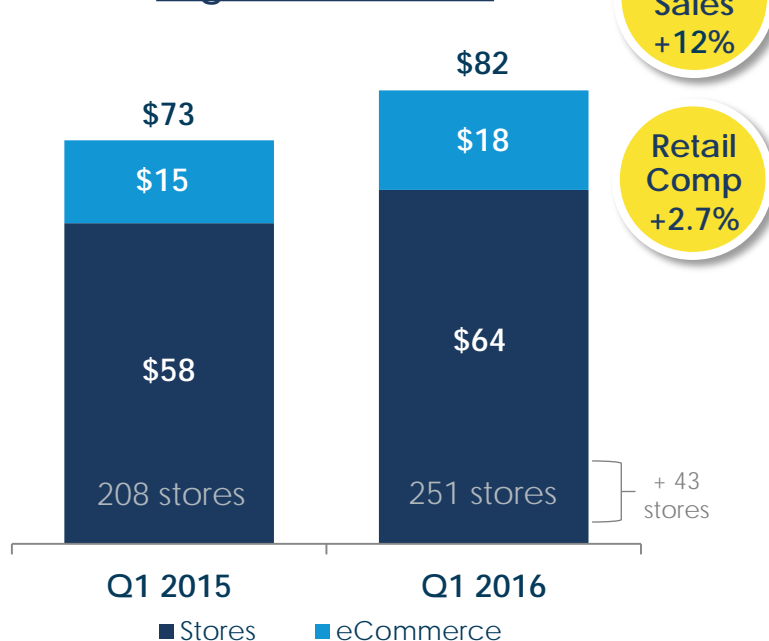
SUNGLASSES (0-8y)
DOORBUSTER \$5 MSRP** \$10

HATS (0-8y)
SALE \$13⁹⁹ 25% OFF MSRP** \$18

16 | Visit carter.com for additional sizes and styles or to find a location near you.

\$ in millions

Segment Net Sales

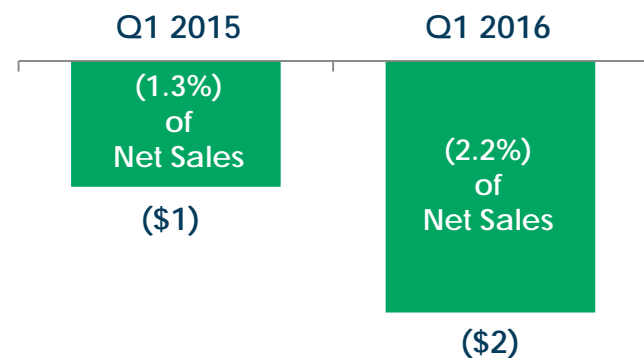


Q1 2015

Q1 2016

■ Stores ■ eCommerce

Segment Operating Loss



Q1 2015

Q1 2016

Stores

- Net sales: +10%
 - Opened 43 net new stores in last 12 months
 - New stores achieving ROI > 15%
 - Q1 ending store count: 251
 - 93 Brand (73 Side-by-Side)
 - 158 Outlet (34 Side-by-Side)
- Comp sales declined (1.9%)
 - Reflects lower consumer traffic (which we believe includes lower demand from international consumers shopping in the U.S.) and a weaker Easter holiday period
 - 5% of stores represented 100% of comp decline
 - Brand stores comped positively

eCommerce

- Double digit net sales growth, +19% (+19.8% comp)
- Q1 eCommerce sales 22% of retail segment sales (vs. 21% LY)

Segment Operating Margin

- Segment operating margin reflects store expense deleverage, higher promotional activity due to lower international demand, partially offset by distribution expense leverage and lower product costs



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\$6 AND UP
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SUNNY STYLE

The easy tanks, comfy shorts and twirly skirts she'll live to play in.



Top this:
Polka dots,
tie-dye and
bows!



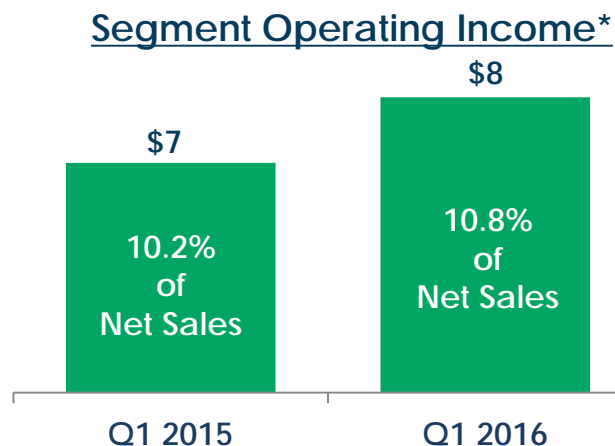
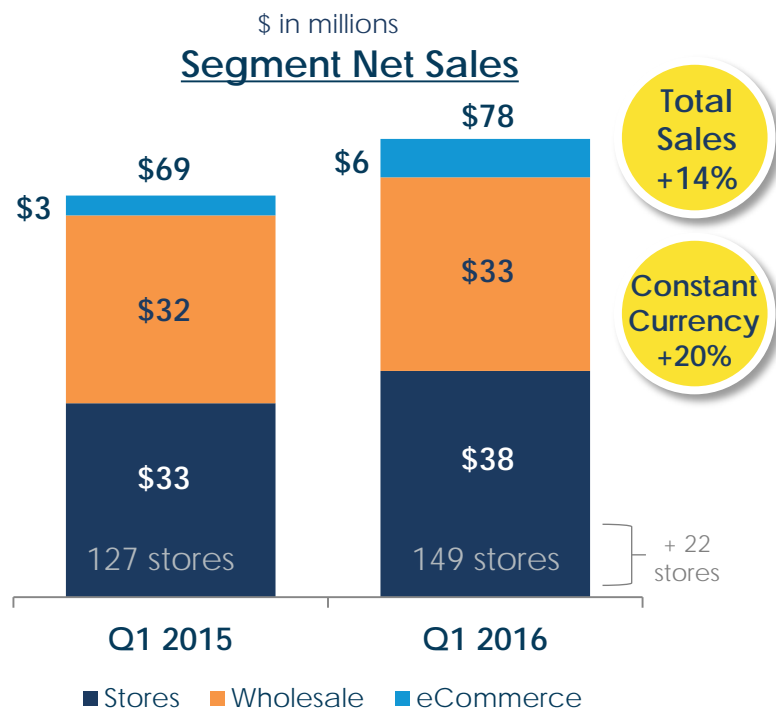
TANKS, SHORTS & SKIRTS
\$6 AND UP
DOORBUSTER



TANKS* DOORBUSTER \$6-8 6m-12, MSRP \$16-20 PLAYGROUND SHORTS* DOORBUSTER \$6-7 6m-12, MSRP \$14-16
SKOOTER SKIRTS DOORBUSTER \$7-8 6m-12, MSRP \$16-20 *Sizes and styles vary by store.

FREE SHIPPING ON YOUR \$50+ ORDER AT OSHKOSH.COM

TEES, TANKS, SHORTS & SKIRTS: \$6 AND UP DOORBUSTER



Net Sales

- **Strong double digit sales growth**
 - Reported net sales: +14%
 - Constant currency net sales: +20%
 - Canada retail comp +14.9%
- **Canada Stores**
 - Net sales +17% (+28% constant currency)
 - Store comp +12.8%, reflecting pricing improvements and higher traffic
 - Opened 22 net new stores in last 12 months
- **eCommerce**
 - Net sales nearly doubled vs. LY (+90%), driven by new China business (Tmall site launched Q2 2015) and growth in Canada; +46.6% comp in Canada
- **Wholesale**
 - Sales increase reflects the addition of new international partners and growth with multi-national retailers

Segment Operating Margin

- Operating margin increase reflects strong comp sales and margin performance in Canada, partially offset by unfavorable foreign currency effects

* Results are stated on an adjusted basis; see reconciliation to GAAP on page 27.
Note: Results may not be additive due to rounding.

Canada New Store Opening – Markville Mall (opened April 2016)





Q2 2016

- Net sales growth of approximately 3% to 4%
- Adjusted EPS decline of approximately 10% to 15% (vs. \$0.73 LY)

1H 2016

- Net sales growth of approximately 4% to 5%
- 2016 first half adjusted EPS approximately comparable to LY

Fiscal Year 2016

- Net sales increase of approximately 6% to 7%
- Raising EPS outlook
 - Current: growth of approximately 10% to 12% (vs. \$4.61 LY)
 - Previous: growth of approximately 8% to 10%
- New stores:
 - Carter's ~60
 - OshKosh ~50
 - Canada ~20
- Operating Cash Flow approximately \$290 to \$320 million
- CapEx approximately \$115 million



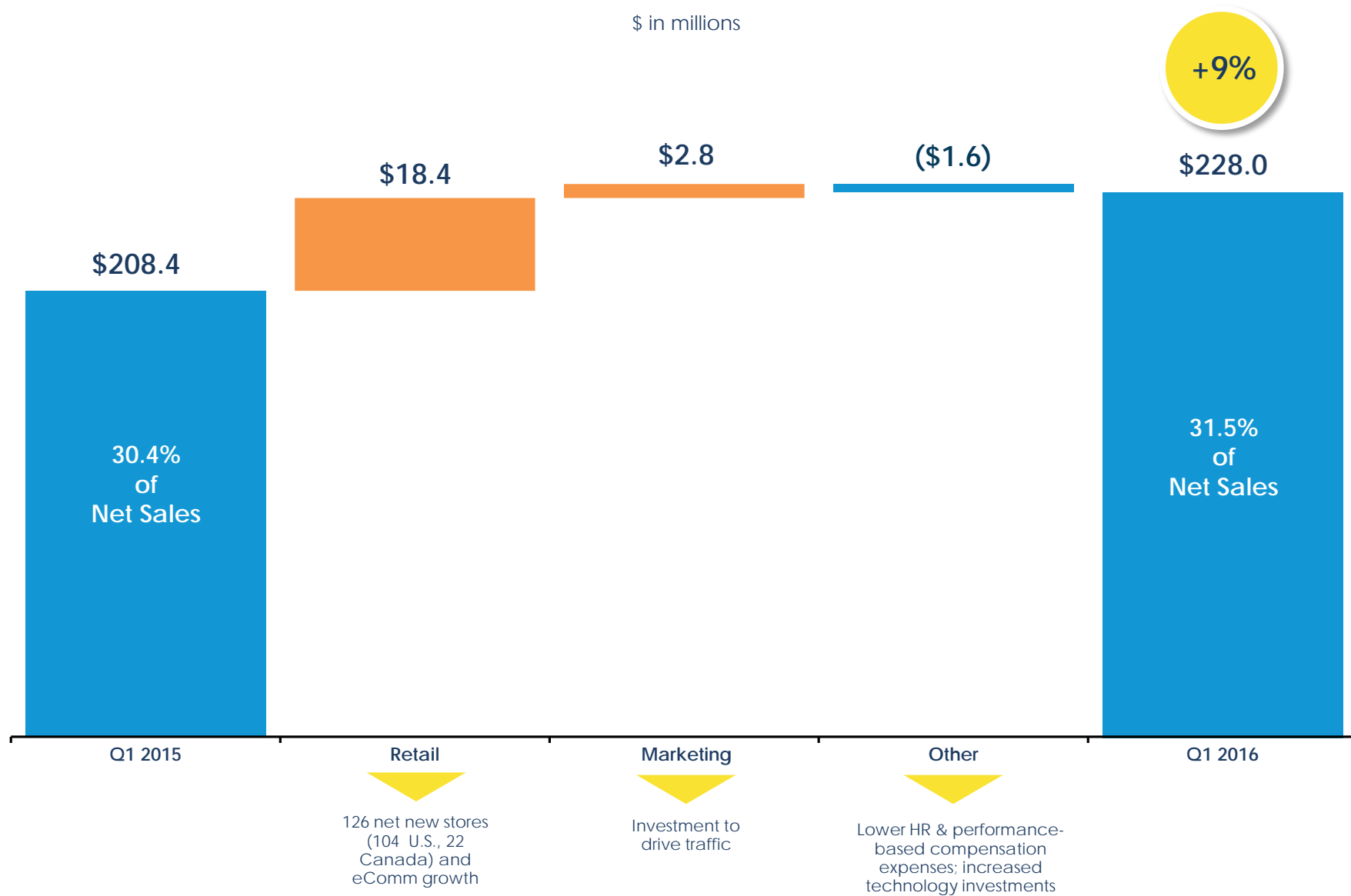
thank you.



appendix



First Quarter 2016 Adjusted SG&A*



*Results are stated on an adjusted basis; see reconciliation to GAAP on page 27.

First Quarter Reconciliation of Net Income Allocable to Common Shareholders

	<u>Fiscal Quarter Ended</u>	
	<u>April 2, 2016</u>	<u>April 4, 2015</u>
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	51,176,987	52,119,215
Dilutive effect of equity awards	467,103	495,386
Diluted number of common and common equivalent shares outstanding	<u>51,644,090</u>	<u>52,614,601</u>

	<u>Fiscal Quarter Ended</u>			
	<u>As reported on a GAAP Basis</u>		<u>As adjusted (a)</u>	
	<u>April 2, 2016</u>	<u>April 4, 2015</u>	<u>April 2, 2016</u>	<u>April 4, 2015</u>
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 53,980	\$ 49,792	\$ 54,578	\$ 51,713
Income allocated to participating securities	(444)	(560)	(449)	(582)
Net income available to common shareholders	<u>\$ 53,536</u>	<u>\$ 49,232</u>	<u>\$ 54,130</u>	<u>\$ 51,131</u>
Basic net income per common share	\$ 1.05	\$ 0.94	\$ 1.06	\$ 0.98
Diluted net income per common share:				
Net income	\$ 53,980	\$ 49,792	\$ 54,578	\$ 51,713
Income allocated to participating securities	(441)	(556)	(446)	(577)
Net income available to common shareholders	<u>\$ 53,539</u>	<u>\$ 49,236</u>	<u>\$ 54,133</u>	<u>\$ 51,136</u>
Diluted net income per common share	\$ 1.04	\$ 0.94	\$ 1.05	\$ 0.97

(a) In addition to the results provided in this earnings release in accordance with GAAP, the Company has provided adjusted, non-GAAP financial measurements that present the information above excluding \$0.6 million and \$1.9 million in after-tax expenses from these results for the fiscal quarters ended April 2, 2016 and April 4, 2015, respectively.

Note: Results may not be additive due to rounding.

First Quarter Reconciliation of Reported to Adjusted Earnings

\$ in millions, except EPS

First Quarter of 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)	\$310.9	42.9%	\$229.0	31.6%	\$93.0	12.8%	\$54.0	\$1.04	\$8.4	10.8%	(\$23.3)	(3.2%)
Amortization of tradenames	-		(1.0)		1.0		0.6	0.01	-		1.0	
As adjusted	\$310.9	42.9%	\$228.0	31.5%	\$94.0	13.0%	\$54.6	\$1.05	\$8.4	10.8%	(\$22.4)	(3.1%)

First Quarter of 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)	\$284.1	41.5%	\$211.2	30.8%	\$84.5	12.3%	\$49.8	\$0.94	\$6.5	9.5%	(\$26.4)	(3.9%)
Amortization of tradenames	-		(2.3)		2.3		1.4	0.03	-		2.3	
Revaluation of contingent consideration (a)	-		(0.5)		0.5		0.5	0.01	0.5		-	
As adjusted	\$284.1	41.5%	\$208.4	30.4%	\$87.3	12.7%	\$51.7	\$0.97	\$7.0	10.2%	(\$24.2)	(3.5%)

(a) 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		Four fiscal quarters ended
	April 2, 2016	April 4, 2015	April 2, 2016
	Net income	\$54.0	\$49.8
Interest expense	6.7	6.7	\$27.0
Interest income	(0.2)	(0.1)	(\$0.6)
Tax expense	29.3	26.2	\$133.5
Depreciation and amortization	18.2	17.2	\$69.4
EBITDA	\$108.0	\$99.7	\$471.4
Adjustments to EBITDA			
Revaluation of contingent consideration (a)	-	0.5	1.4
Adjusted EBITDA	\$108.0	\$100.2	\$472.8

(a) Revaluation of contingent consideration liability associated with the Company's 2011 acquisition of Bonnie Togs.

Results provided in this presentation are preliminary and unaudited. This presentation should be read in conjunction with the audio broadcast or transcript of the Company's earnings call, held on April 28, 2016 which is available at www.carters.com. Also, this presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 relating to the Company's future performance, including, without limitation, statements with respect to the Company's anticipated financial results for the second quarter of fiscal 2016 and fiscal year 2016, 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 April 28, 2016. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.