



# carter's, inc.

**Fourth Quarter 2017**  
Business Update

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February 27, 2018

# Fourth Quarter 2017 Results (GAAP Basis)



\$ in millions, except EPS

	<b>Q4 2017</b>	% of Sales	<b>Q4 2016</b>	% of Sales	<b>Increase / (Decrease)</b>
Net sales	<b>\$1,027</b>		\$934		<b>10%</b>
Gross profit	<b>460</b>	<b>44.8%</b>	410	<b>43.9%</b>	<b>12%</b>
SG&A	<b>326</b>	31.7%	283	30.3%	<b>15%</b>
Royalty income	<b>(11)</b>	(1.1%)	(12)	(1.2%)	<b>(4%)</b>
Operating income	<b>\$146</b>	<b>14.2%</b>	\$139	<b>14.9%</b>	<b>5%</b>
Interest and other, net	<b>8</b>	0.8%	7	0.7%	<b>15%</b>
Income before taxes	<b>\$138</b>	13.4%	\$132	14.2%	<b>4%</b>
Income taxes	<b>2</b>		45		<b>(95%)</b>
Net income	<b>\$136</b>	<b>13.2%</b>	\$87	<b>9.3%</b>	<b>56%</b>
Diluted EPS	<b>\$2.84</b>		<b>\$1.76</b>		<b>62%</b>
Weighted average shares outstanding	<b>47.5</b>		49.2		<b>(4%)</b>
EBITDA <sup>1</sup>	<b>\$168</b>	<b>16.3%</b>	\$158	<b>16.9%</b>	<b>6%</b>

<sup>1</sup> Non-GAAP measure; see reconciliation to net income on page 34.  
Note: Results may not be additive due to rounding.

# 2017 Full Year Results (GAAP Basis)



\$ in millions, except EPS

	<b>Fiscal 2017</b>	% of Sales	<b>Fiscal 2016</b>	% of Sales	<b>Increase / (Decrease)</b>
Net sales	<b>\$3,400</b>		\$3,199		<b>6%</b>
Gross profit	<b>1,483</b>	<b>43.6%</b>	1,379	<b>43.1%</b>	<b>8%</b>
SG&A	<b>1,107</b>	32.6%	995	31.1%	<b>11%</b>
Royalty income	<b>(43)</b>	(1.3%)	(43)	(1.3%)	<b>1%</b>
Operating income	<b>\$420</b>	<b>12.3%</b>	\$427	<b>13.3%</b>	<b>(2%)</b>
Interest and other, net	<b>29</b>	0.8%	30	1.0%	<b>(6%)</b>
Income before taxes	<b>\$391</b>	11.5%	\$396	12.4%	<b>(1%)</b>
Income taxes	<b>88</b>		138		<b>(36%)</b>
Net income	<b>\$303</b>	<b>8.9%</b>	\$258	<b>8.1%</b>	<b>17%</b>
<b>Diluted EPS</b>	<b>\$6.24</b>		<b>\$5.08</b>		<b>23%</b>
Weighted average shares outstanding	<b>48.1</b>		50.4		<b>(4%)</b>
EBITDA <sup>1</sup>	<b>\$505</b>	<b>14.9%</b>	\$496	<b>15.5%</b>	<b>2%</b>

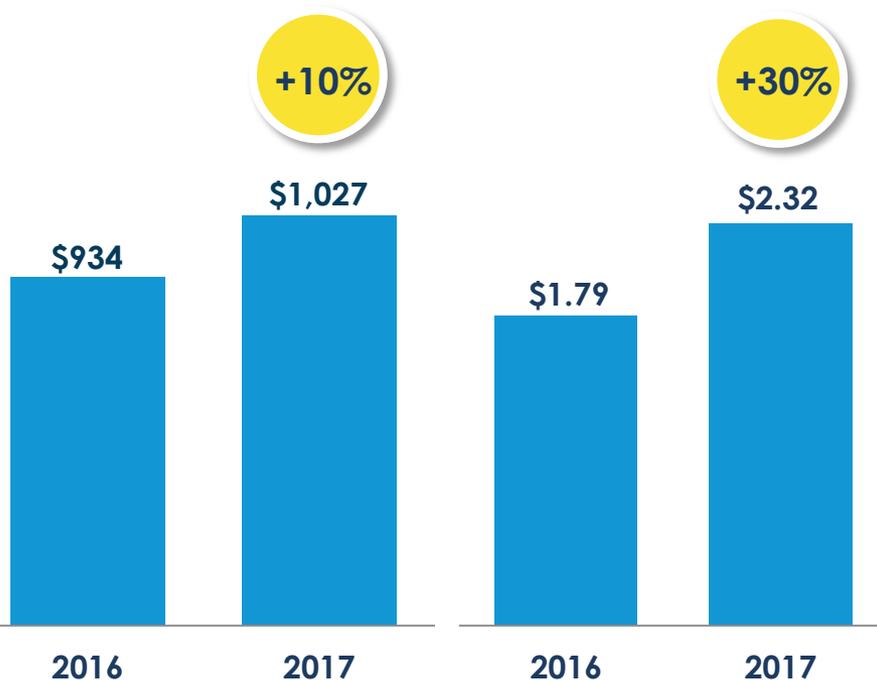
<sup>1</sup> Non-GAAP measure; see reconciliation to net income on page 34.  
Note: Results may not be additive due to rounding.

## Q4

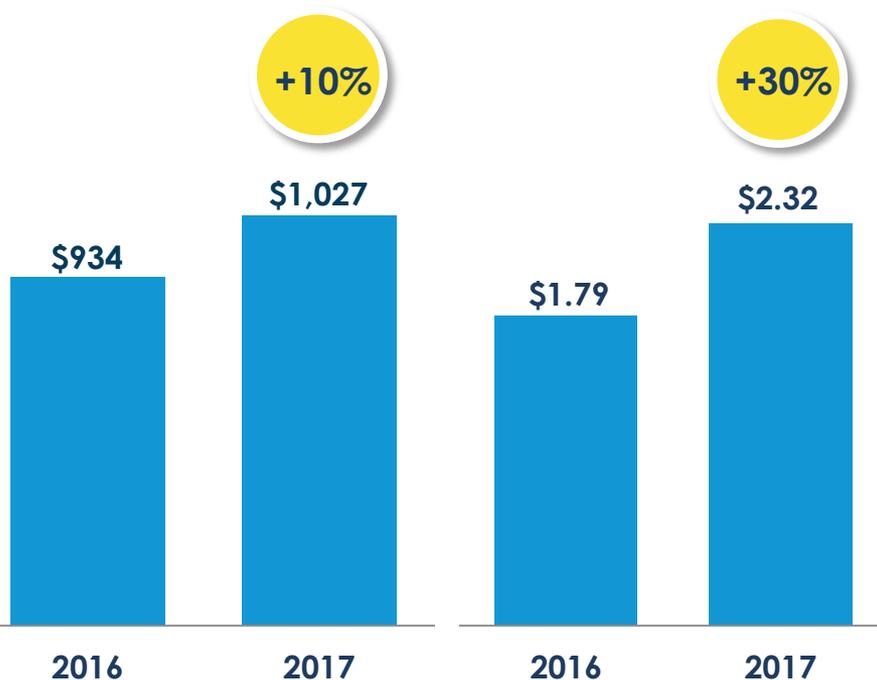
\$ in millions, except EPS

## Full Year

### Net Sales



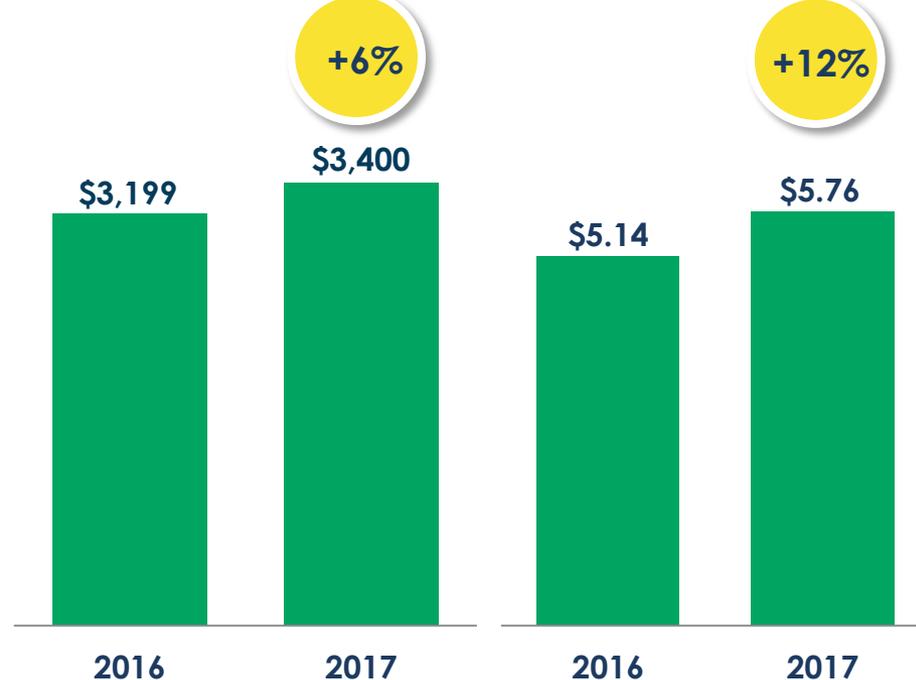
### Adjusted EPS\*



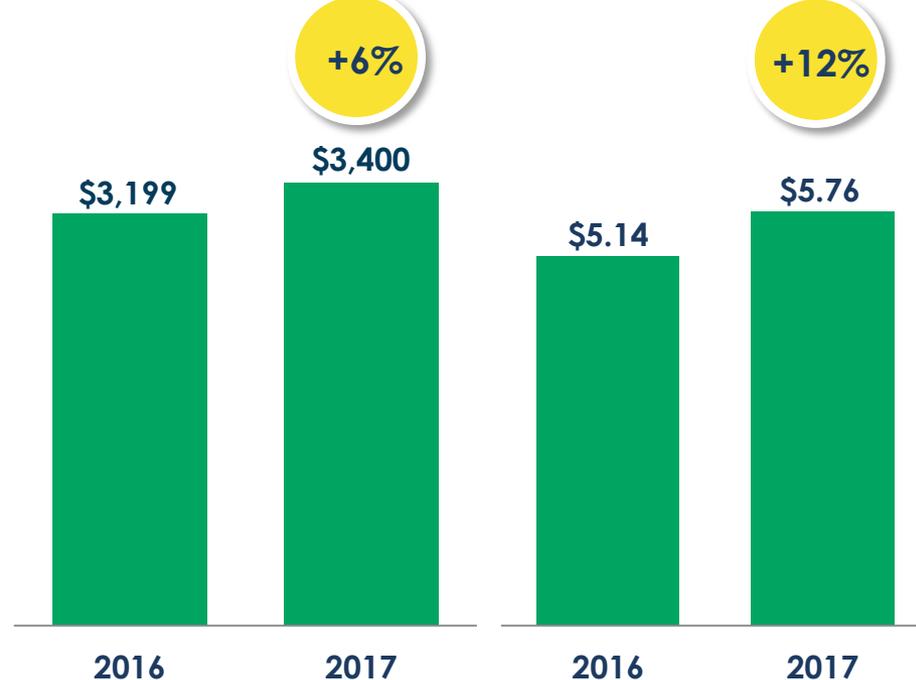
### Q4 Highlights\*

- Net sales +10%; growth in all business segments and benefit of 2017 Skip Hop and Mexico licensee acquisitions
- Adjusted EPS +30%
  - Strong operating income growth, benefit of share repurchases, and lower tax rate

### Net Sales



### Adjusted EPS\*



### Fiscal 2017 Highlights\*

- Net sales +6%; 29<sup>th</sup> consecutive year of growth
- Solid year of investment in growth initiatives
- Adjusted EPS +12%
- \$260 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 30 - 33.

# Fourth Quarter 2017 Net Sales



Constant  
Currency  
+16.6%

Constant  
Currency  
+9.5%

<sup>1</sup>Retail Comp is defined as the combination of store and eCommerce comparable sales.  
Note: Results may not be additive due to rounding.

# Fourth Quarter 2017 Adjusted Results\*



\$ in millions, except EPS

	<b>Q4 2017</b>	% of Sales	<b>Q4 2016</b>	% of Sales	<b>Increase / (Decrease)</b>
Net sales	<b>\$1,027</b>		\$934		<b>10%</b>
Gross profit	<b>461</b>	44.8%	410	43.9%	<b>12%</b>
Adjusted SG&A*	<b>304</b>	29.6%	280	30.0%	<b>9%</b>
Royalty income	<b>(11)</b>	(1.1%)	(12)	(1.2%)	<b>(4%)</b>
Adjusted operating income*	<b>\$167</b>	16.3%	\$142	15.2%	<b>18%</b>
Interest and other, net	<b>8</b>	0.8%	7	0.7%	<b>15%</b>
Income before taxes	<b>\$159</b>	15.5%	\$135	14.5%	<b>18%</b>
Income taxes	<b>48</b>		46		<b>5%</b>
Adjusted net income*	<b>\$111</b>	10.8%	\$89	9.5%	<b>25%</b>
<b>Adjusted diluted EPS*</b>	<b>\$2.32</b>		<b>\$1.79</b>		<b>30%</b>
Weighted average shares outstanding	<b>47.5</b>		49.2		<b>(4%)</b>
Adjusted EBITDA*	<b>\$189</b>	18.4%	\$161	17.2%	<b>18%</b>

\* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 30, 31 and 34.  
Note: Results may not be additive due to rounding.

# Adjustments to Q4 2017 GAAP Results – Tax Reform and Special Compensation Provisions



*In millions*

	<u>Income (Expense)</u>
<b>Revaluation of the Company's net deferred tax liabilities - benefit</b>	<b>\$50</b>
<b>One time "toll" tax on accumulated earnings outside of the United States</b>	<u><b>(10)</b></u>
<b>Net benefit</b>	<u><u><b>\$40</b></u></u>
 <b>Special employee compensation provision</b>	 <u><u><b>(\$21)</b></u></u>



*Note: All items above excluded from the Company's adjusted view of Q4 2017 performance; see reconciliation to GAAP on page 31.*

# Balance Sheet and Cash Flow



\$ in millions

## Balance Sheet (at Q4 end)

	2017	2016
Cash	\$178	\$299
Accounts Receivable	241	202
Inventory	549	488
Accounts Payable	182	158
Long-Term Debt	617	580

## Cash Flow (Full year 2017)

	2017	2016
Operating Cash Flow	\$330	\$369
Capital Expenditures	(69)	(89)
Free Cash Flow <sup>1</sup>	\$260	\$281

## Return of Capital (Full year 2017)

	2017	2016
Share Repurchases	\$189	\$300
Dividends	71	66
Total	\$260	\$366

- Inventory +12.5% vs. LY; +4.5% excluding acquisitions
- Higher short term borrowings to support seasonal working capital needs, acquisitions, and return of capital initiatives
- Solid year of cash flow generation
- Returned \$260 million to shareholders through share repurchases and dividends in Fiscal 2017
  - Over the past 10 years, 35% of shares retired at average price of \$62 / share
- New \$500 million share repurchase program authorized by Board of Directors
- Quarterly dividend increased to \$0.45 per share (+22%) beginning Q1 2018

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

# Business Segment Performance



# Fourth Quarter 2017 Adjusted Business Segment Performance\*



\$ in millions

	Net Sales			Adjusted Operating Income*			Adjusted Operating Margin*	
	2017	2016	\$ Growth	2017	2016	\$ Growth	2017	2016
<b>U.S. Retail (a)</b>	\$566	\$528	\$38	\$100	\$85	\$15	17.7%	16.2%
<b>U.S. Wholesale</b>	330	297	33	71	65	6	21.7%	21.9%
<b>International (b)</b>	132	109	23	21	22	(1)	15.8%	20.1%
Total before corporate expenses	\$1,027	\$934	\$93	\$193	\$172	\$20	18.8%	18.5%
<b>Corporate expenses</b>				(25)	(31)	5	(2.5%)	(3.3%)
<b>Total</b>	<b>\$1,027</b>	<b>\$934</b>	<b>\$93</b>	<b>\$167</b>	<b>\$142</b>	<b>\$25</b>	<b>16.3%</b>	<b>15.2%</b>

(a) Results include U.S. stores and eCommerce.

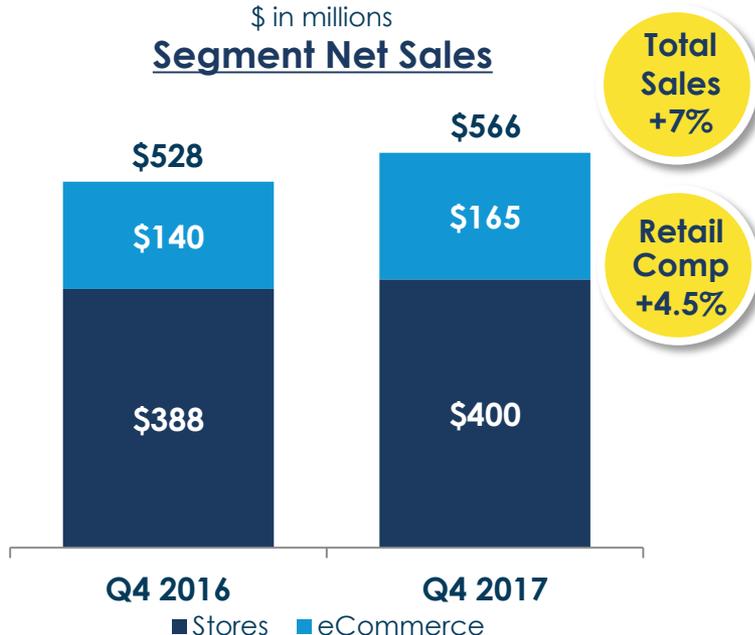
(b) Results include international stores, eCommerce, and wholesale.

\* 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.

\$ in millions

## Segment Net Sales



### Q4 retail comp: +4.5%

- Q4 2016 comp: +5.5%
- Q4 2015 comp: +5.3%

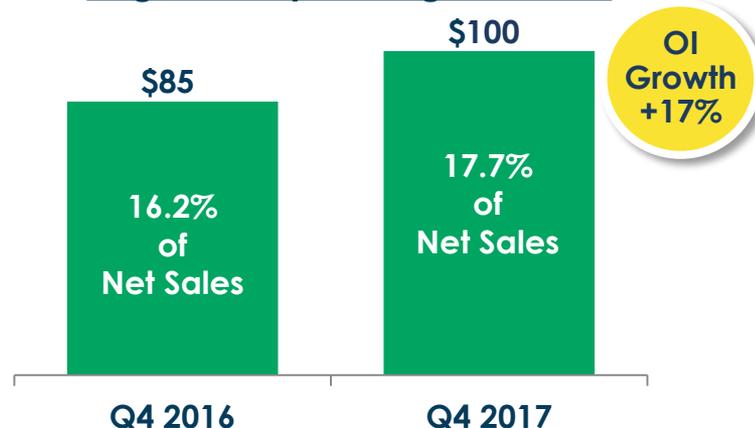
### Continued positive consumer response to omni-channel initiatives

- Solid comps during November / December holiday selling period, +5.6%

### Stores

- Net sales: +3%
- Store Comp: (1.0%)
  - Co-branded format comp +4.1%
- Q4 ending count: 830<sup>1</sup>
  - 597 Single-branded
  - 233 Dual-branded (159 Side-by-Side, 74 Co-branded)

## Segment Operating Income\*



### eCommerce

- Strong sales performance, +18% vs. LY
- Q4 net sales 29% of U.S. Retail segment sales (vs. 27% LY)

### Segment Operating Margin

- +150 bps operating margin expansion; third consecutive quarter of year-over-year improvement
- Increase reflects lower product costs and better inventory performance, partially offset by store expense deleverage and higher distribution / freight costs

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

<sup>1</sup>See store count reconciliation on page 35.

Co-branded Store – Ann Arbor, MI  
(Opened 2017)

carter's



Co-branded Store – Warren, MI  
(Opened 2017)

carter's

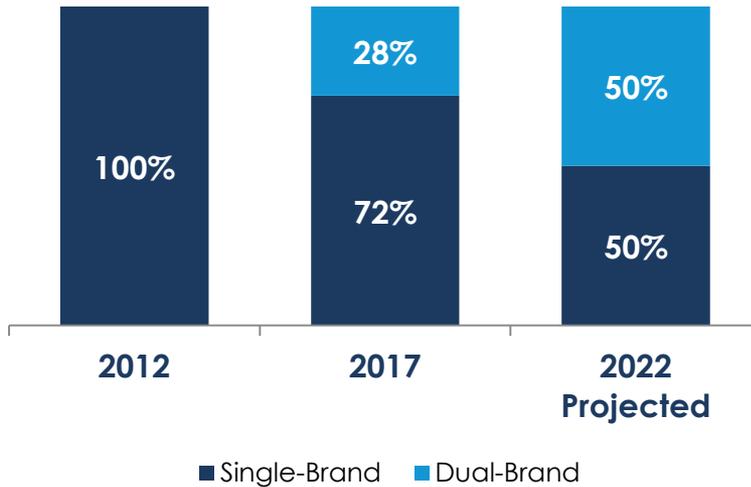
carter's  
babies and kids

OSHKOSH  
B'gosh

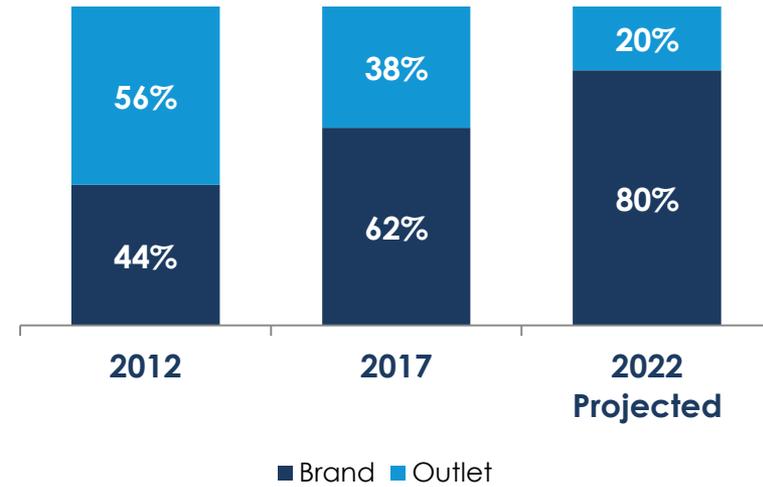


## Portfolio Composition

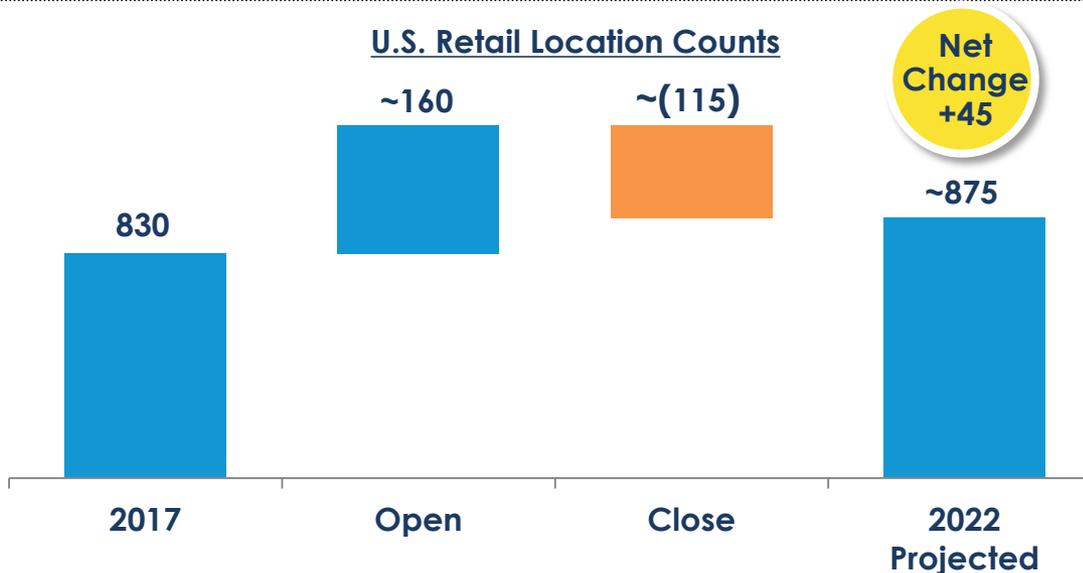
### Single vs. Dual-Brand



### Brand Stores vs. Outlet



### U.S. Retail Location Counts



- Rigorous focus on portfolio optimization
- Close underperforming locations
- Convert ~40 existing stores to co-branded format

## U.S. Retail Store Growth Outlook

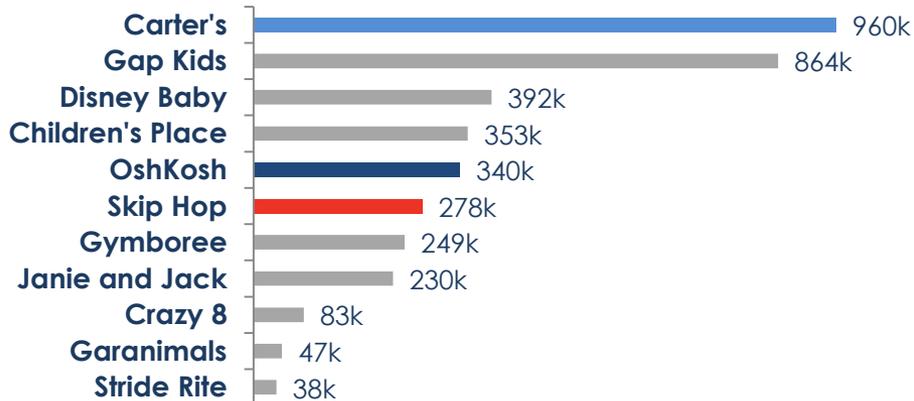


# Highest Social Media Engagement in Young Children's Apparel

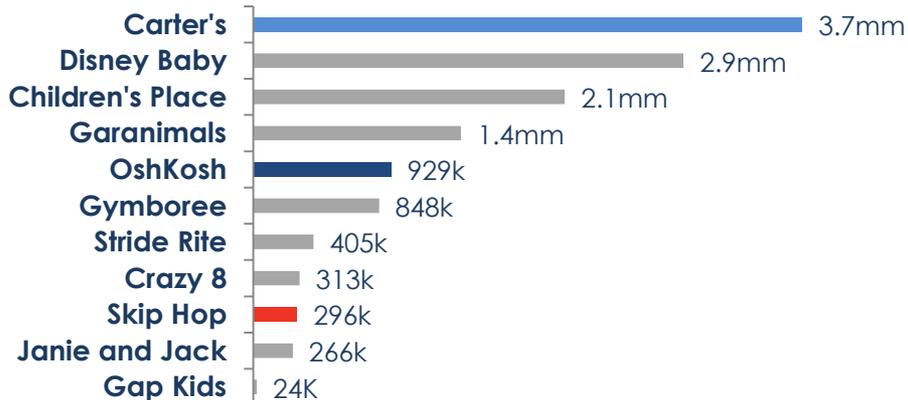


## Carter's, OshKosh, and Skip Hop – Strong Consumer Following on Instagram & Facebook

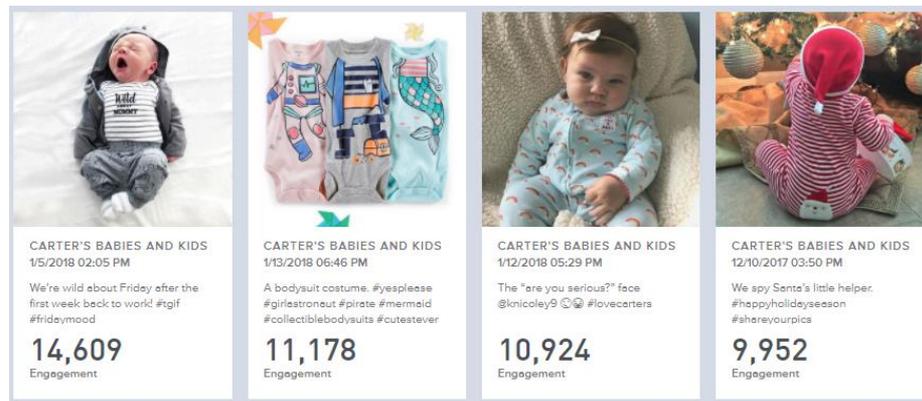
### Instagram Followers



### Facebook Followers



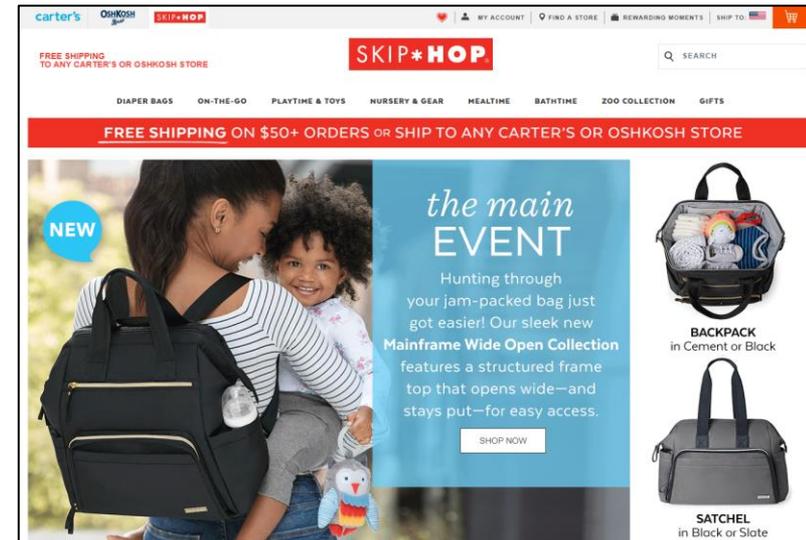
## Carter's Achieved 8 of the Top 10 Instagram Consumer Engagement Scores over the December/January Period



In our U.S. stores



Skip Hop tab on [carter's.com](http://carter's.com)  
launched July 2017



Entire Skip Hop assortment  
now available online



\$ in millions  
**Segment Net Sales & Operating Income\***

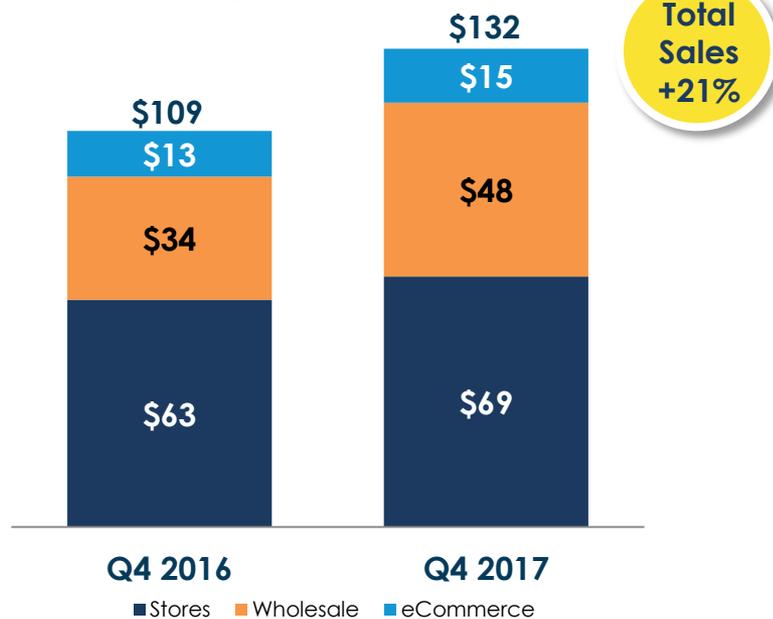


- Sales growth reflects strength of the product offering, favorable shipment timing, and the benefit of the *Skip Hop* acquisition
  - *Skip Hop* contributed \$17.5 million to net sales
  - Excluding *Skip Hop*, net sales +5%
- Segment operating margin reflects improved core business profitability, offset by impact of *Skip Hop* business
- Full year 2018 net sales outlook: low single digit growth

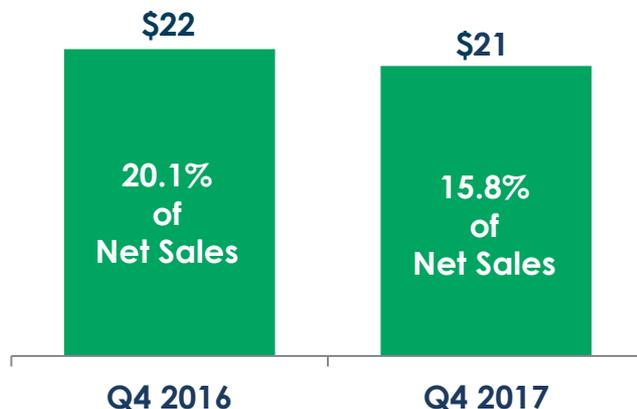
\* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 31.

\$ in millions

## Segment Net Sales



## Segment Operating Income\*



## Net Sales

- **International segment net sales: +21% (+16.6% constant currency)**
  - Skip Hop and Mexico acquisitions contributed \$18 million to net sales
  - Canada total Retail comp: (0.2%)
- **Canada Stores**
  - Net sales: +10%
  - Store comp: (2.6%); believe unseasonably warm weather adversely affected traffic
  - Opened 15 net new stores in 2017 (179 locations at year end)
- **eCommerce**
  - Net sales: +17%, driven by strong Canada performance
- **Wholesale**
  - Net sales: +41%; reflects 2017 acquisitions and growth in Canada and China, partially offset by lower demand in other markets
  - 51 stores operated by partner in China at Q4 end

## Segment Operating Margin

- Operating margin decline driven by impact of acquisitions, unfavorable changes in sales mix, lower comparable store sales in Canada, and China operating loss

<sup>1</sup> Local currency

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

# International Partner Store – Nanjing, China

(Opened Q4 2017)

**carter's**



# Full Year Performance





## Financial Results

- 29th consecutive year of sales growth: +6% vs. 2016
- Achieved record adjusted operating income, \$445 million
- Record adjusted EPS, \$5.76, +12% vs. 2016
- Returned \$260 million to shareholders (share repurchases & dividends)

## Key Milestones

- Continue to lead U.S. market with 18% share; expanded leading market share in Canada by 310 bps to 26%<sup>1</sup>
- Strengthened business with acquisition of *Skip Hop and Company's* largest international licensee in Mexico
- Net sales growth across all segments, including contributions from new businesses – Amazon, *Skip Hop*, and Mexico
- International segment achieved net sales in excess of \$400 million
- Opened 38 net new stores in the U.S. and 15 in Canada<sup>2</sup>
- Launched mobile app
- Increased direct sourcing mix to over 60% (vs. 47% LY)

<sup>1</sup> Source: The NPD Group/Consumer Tracking Service/ U.S. Dollar Sales, 12-months-ending December 2017, ages 0-7 children's apparel. Please note that NPD revised its Fashion Consumer Tracking methodology in the U.S., effective in early 2017. 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. Canada share reflects 12-months-ending November 2017, ages 0-7 children's apparel.

<sup>2</sup> See store count reconciliation on page 35.

# 2017 Full Year Adjusted Results\*



\$ in millions, except EPS

	<b>Fiscal 2017</b>	% of Sales	<b>Fiscal 2016</b>	% of Sales	<b>Increase / (Decrease)</b>
Net sales	<b>\$3,400</b>		\$3,199		<b>6%</b>
Gross profit	<b>1,485</b>	<b>43.7%</b>	1,379	<b>43.1%</b>	<b>8%</b>
Adjusted SG&A*	<b>1,083</b>	31.8%	991	31.0%	<b>9%</b>
Royalty income	<b>(43)</b>	(1.3%)	(43)	(1.3%)	<b>1%</b>
Adjusted operating income*	<b>\$445</b>	<b>13.1%</b>	\$431	<b>13.5%</b>	<b>3%</b>
Interest and other, net	<b>29</b>	0.8%	30	1.0%	<b>(6%)</b>
Income before taxes	<b>\$416</b>	12.2%	\$401	12.5%	<b>4%</b>
Income taxes	<b>137</b>		140		<b>(2%)</b>
Adjusted net income*	<b>\$280</b>	<b>8.2%</b>	\$261	<b>8.2%</b>	<b>7%</b>
<b>Adjusted diluted EPS*</b>	<b>\$5.76</b>		<b>\$5.14</b>		<b>12%</b>
Weighted average shares outstanding	<b>48.1</b>		50.4		<b>(4%)</b>
Adjusted EBITDA*	<b>\$530</b>	<b>15.6%</b>	\$499	<b>15.6%</b>	<b>6%</b>

\* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 32 - 34.  
Note: Results may not be additive due to rounding.

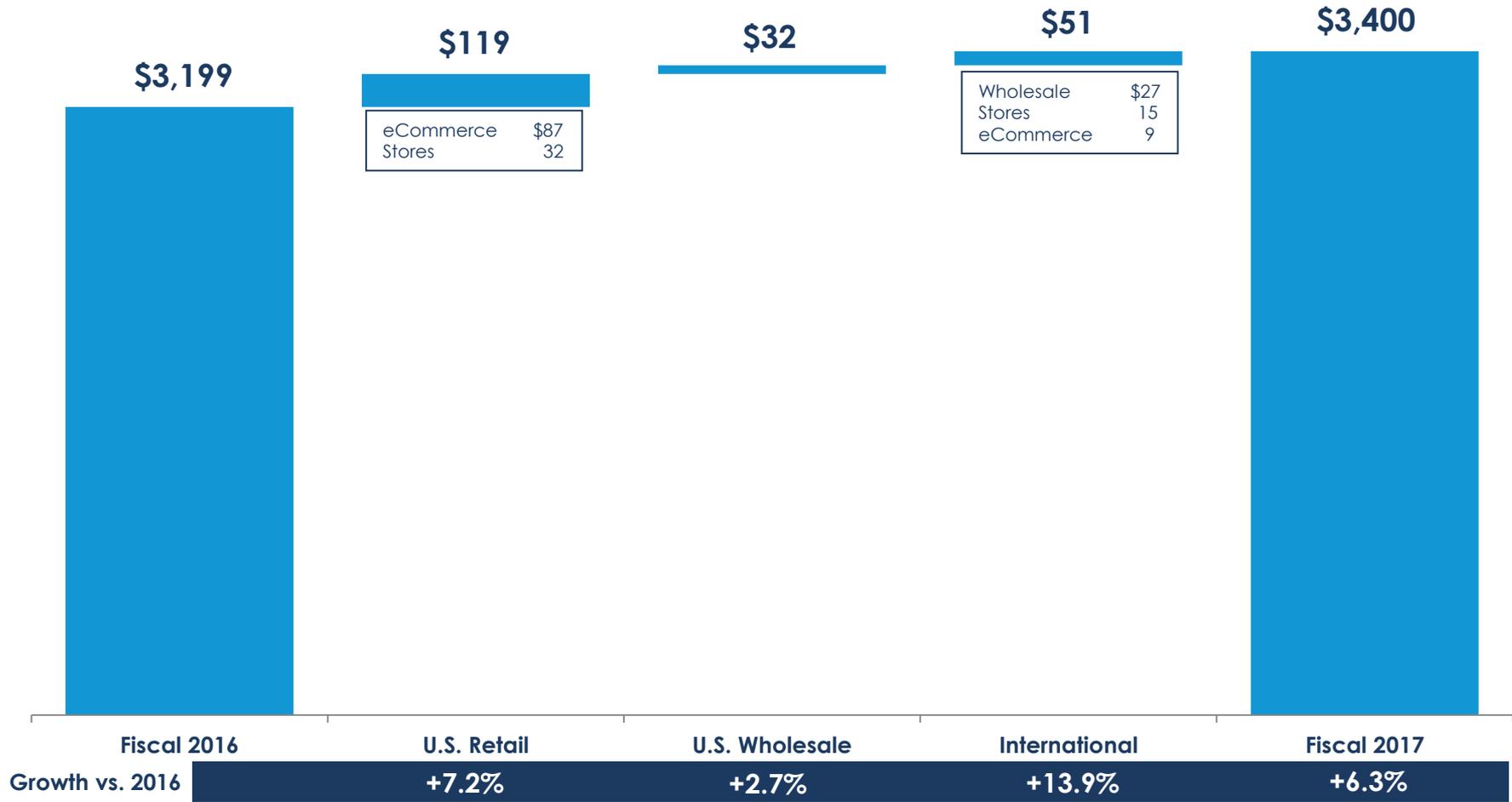
# Fiscal 2017 Net Sales



\$ in millions

**Retail<sup>1</sup>  
Comp  
+2.7%**

**+6%**



eCommerce	\$87
Stores	32

Wholesale	\$27
Stores	15
eCommerce	9

Constant Currency	+12.1%	+6.1%
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<sup>1</sup>Retail Comp is defined as the combination of store and eCommerce comparable sales.  
Note: Results may not be additive due to rounding.

# 2017 Full Year Adjusted Business Segment Performance\*



\$ in millions

	Net Sales			Adjusted Operating Income*			Adjusted Operating Margin*	
	2017	2016	\$ Growth	2017	2016	\$ Growth	2017	2016
<b>U.S. Retail (a)</b>	\$1,775	\$1,656	\$119	\$231	\$213	\$19	13.0%	12.8%
<b>U.S. Wholesale</b>	1,210	1,178	32	256	261	(5)	21.2%	22.2%
<b>International (b)</b>	415	365	51	49	59	(10)	11.8%	16.2%
Total before corporate expenses	\$3,400	\$3,199	\$201	\$536	\$533	\$4	15.8%	16.7%
<b>Corporate expenses</b>				(91)	(101)	10	(2.7%)	(3.2%)
<b>Total</b>	<b>\$3,400</b>	<b>\$3,199</b>	<b>\$201</b>	<b>\$445</b>	<b>\$431</b>	<b>\$13</b>	<b>13.1%</b>	<b>13.5%</b>

(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 33.

Note: Results may not be additive due to rounding.

# Longer-Term Growth Opportunities (2017 – 2022)

In billions



CAGR  
'17-'22  
5%

**Net Sales  
Objective:  
\$4.4 Billion by  
2022**

## EPS Objective & Drivers

- **EPS growth (2017-2022): double digit CAGR**
- **Earnings growth drivers:**
  - Net sales growth
  - Operating margin expansion driven by direct sourcing, inventory management, and scaling of new growth initiatives (*Skip Hop, Simple Joys / Amazon, China, and Mexico*)
  - Lower effective tax rate
  - Return of capital to shareholders through share repurchases

## Q1 2018

- **Net sales growth of approximately 2%**
  - Growth driven by U.S. Retail and International
- **EPS approximately comparable (vs. \$0.97 Q1 2017<sup>1</sup>)**
  - Effective tax rate ~22%

## Fiscal Year 2018

- **Net sales growth of approximately 5%**
  - Growth driven by U.S. Retail and International businesses
- **Operating income approximately comparable (vs. \$445 million in 2017<sup>1</sup>)**
  - Expect to invest ~\$20 million (~50% of savings resulting from new effective tax rate) in brand marketing and strengthening our eCommerce capabilities
- **EPS growth of approximately 15% (vs. \$5.76 in 2017<sup>1</sup>)**
  - Effective tax rate ~23%
- **Store openings / closings**
  - U.S.: ~50 openings, ~35 closings
- **Operating cash flow approximately \$375 to \$400 million**
- **CapEx approximately \$115 million**
  - Represents ~3% of net sales (in-line with historical spending)



thank you.



# appendix



# Fourth Quarter Reconciliation of Net Income Allocable to Common Shareholders



	Fiscal Quarter Ended	
	December 30, 2017	December 31, 2016
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	46,883,462	48,824,395
Dilutive effect of equity awards	575,843	422,205
Diluted number of common and common equivalent shares outstanding	47,459,305	49,246,600

	Fiscal Quarter Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 135,689	\$ 87,117	\$ 110,983	\$ 88,736
Income allocated to participating securities	(1,090)	(685)	(889)	(697)
Net income available to common shareholders	<u>\$ 134,599</u>	<u>\$ 86,431</u>	<u>\$ 110,094</u>	<u>\$ 88,038</u>
Basic net income per common share	\$2.87	\$1.77	\$2.35	\$1.80
Diluted net income per common share:				
Net income	\$ 135,689	\$ 87,117	\$ 110,983	\$ 88,736
Income allocated to participating securities	(1,078)	(681)	(880)	(692)
Net income available to common shareholders	<u>\$ 134,611</u>	<u>\$ 86,436</u>	<u>\$ 110,103</u>	<u>\$ 88,043</u>
Diluted net income per common share	\$2.84	\$1.76	\$2.32	\$1.79

(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 the information above excluding \$15.3 million and \$1.6 million in after-tax expenses from these results for the fiscal quarters ended December 30, 2017 and December 31, 2016, respectively. In addition, a \$40.0 million preliminary income tax benefit related to the accounting for the implementation of the Tax Cuts and Jobs Act of 2017 was excluded from these results for the fiscal quarter ended December 30, 2017.

Note: Results may not be additive due to rounding.

# Fourth Quarter Reconciliation of Reported to Adjusted Earnings



\$ 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	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
<b>As reported (GAAP)</b>	<b>\$460.2</b>	<b>44.8%</b>	<b>\$325.5</b>	<b>31.7%</b>	<b>\$145.8</b>	<b>14.2%</b>	<b>\$135.7</b>	<b>\$2.84</b>	<b>\$87.6</b>	<b>15.5%</b>	<b>\$68.0</b>	<b>20.6%</b>	<b>\$18.4</b>	<b>14.0%</b>	<b>(\$28.2)</b>	<b>(2.7%)</b>
Acquisition costs (b) (c)	0.4		(0.1)		0.5		0.3	0.01	0.1		0.2		0.1		0.1	
Special employee compensation provision (b) (d)	-		(21.2)		21.2		15.1	0.32	12.7		3.3		2.3		2.9	
Tax reform (e)	-		-		-		(40.0)	(0.84)	-		-		-		-	
Store restructuring costs (b) (f)	-		-		-		(0.2)	(0.01)	-		-		-		-	
<b>As adjusted (a)</b>	<b>\$460.6</b>	<b>44.8%</b>	<b>\$304.3</b>	<b>29.6%</b>	<b>\$167.4</b>	<b>16.3%</b>	<b>\$111.0</b>	<b>\$2.32</b>	<b>\$100.3</b>	<b>17.7%</b>	<b>\$71.5</b>	<b>21.7%</b>	<b>\$20.8</b>	<b>15.8%</b>	<b>(\$25.2)</b>	<b>(2.5%)</b>

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

- (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 gross margin, SG&A expenses, operating income, net income, and diluted EPS excluding the adjustment items noted above and discussed above. The Company believes these non-GAAP measurements provide investors with a meaningful view of the Company's core operating results, and are the same measurements used by the Company's executive management to assess the Company's performance. The adjusted, non-GAAP financial measurements included in this presentation 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) 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).
- (c) Non-recurring costs related to the acquisitions of *Skip Hop* and *Carter's Mexico*.
- (d) Special employee compensation provided as a result of the significant benefit related to the enactment of the Tax Cuts and Jobs Act of 2017.
- (e) Reflects the \$40 million net benefit of the Tax Cuts and Jobs Act of 2017.
- (f) Tax credit received for certain payroll costs incurred during unusual storm-related closures.
- (g) Costs associated with the Company's direct sourcing initiative, which include severance and relocation.
- (h) Transaction costs associated with the *Skip Hop* acquisition.

Note: Results may not be additive due to rounding.

# 2017 Full Year Reconciliation of Net Income Allocable to Common Shareholders



	Fiscal Year Ended	
	December 30, 2017	December 31, 2016
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	47,593,211	49,917,858
Dilutive effect of equity awards	552,864	457,849
Diluted number of common and common equivalent shares outstanding	<u>48,146,075</u>	<u>50,375,707</u>

	Four Fiscal Quarters Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 302,764	\$ 258,106	\$ 279,722	\$ 261,147
Income allocated to participating securities	(2,406)	(2,049)	(2,219)	(2,074)
Net income available to common shareholders	<u>\$ 300,358</u>	<u>\$ 256,057</u>	<u>\$ 277,503</u>	<u>\$ 259,074</u>
Basic net income per common share	\$6.31	\$5.13	\$5.83	\$5.19
Diluted net income per common share:				
Net income	\$ 302,764	\$ 258,106	\$ 279,722	\$ 261,147
Income allocated to participating securities	(2,385)	(2,035)	(2,200)	(2,059)
Net income available to common shareholders	<u>\$ 300,379</u>	<u>\$ 256,071</u>	<u>\$ 277,522</u>	<u>\$ 259,088</u>
Diluted net income per common share	\$6.24	\$5.08	\$5.76	\$5.14

(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 the information above excluding \$17.0 million and \$3.1 million in after-tax expenses from these results for the fiscal years ended December 30, 2017 and December 31, 2016, respectively. In addition, a \$40.0 million preliminary income tax benefit related to the accounting for the implementation of the Tax Cuts and Jobs Act of 2017 was excluded from these results for the fiscal year ended December 30, 2017.

Note: Results may not be additive due to rounding.

# 2017 Full Year Reconciliation of Reported to Adjusted Earnings



\$ 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
<b>As reported (GAAP)</b>	<b>\$1,483.3</b>	<b>43.6%</b>	<b>\$1,106.9</b>	<b>32.6%</b>	<b>\$419.6</b>	<b>12.3%</b>	<b>\$302.8</b>	<b>\$6.24</b>	<b>\$215.6</b>	<b>12.1%</b>	<b>\$252.1</b>	<b>20.8%</b>	<b>\$46.4</b>	<b>11.2%</b>	<b>(\$94.5)</b>	<b>(2.8%)</b>
Acquisition costs (b) (c)	1.2		0.2		1.0		0.2	-	0.1		0.7		0.4		(0.2)	
Special employee compensation provision (b) (d)	-		(21.2)		21.2		15.1	0.31	12.7		3.3		2.3		2.9	
Tax reform (e)	-		-		-		(40.0)	(0.83)	-		-		-		-	
Direct sourcing initiative (b) (f)	-		(0.3)		0.3		0.2	-	-		-		-		0.3	
Store restructuring costs (b)	-		(2.7)		2.7		1.5	0.03	2.7		-		-		-	
<b>As adjusted (a)</b>	<b>\$1,484.5</b>	<b>43.7%</b>	<b>\$1,082.9</b>	<b>31.8%</b>	<b>\$444.8</b>	<b>13.1%</b>	<b>\$279.7</b>	<b>\$5.76</b>	<b>\$231.1</b>	<b>13.0%</b>	<b>\$256.0</b>	<b>21.2%</b>	<b>\$49.1</b>	<b>11.8%</b>	<b>(\$91.5)</b>	<b>(2.7%)</b>

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

- (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 gross margin, SG&A expenses, operating income, net income, and diluted EPS excluding the adjustment items noted above and discussed above. The Company believes these non-GAAP measurements provide investors with a meaningful view of the Company's core operating results, and are the same measurements used by the Company's executive management to assess the Company's performance. The adjusted, non-GAAP financial measurements included in this presentation 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) 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).
- (c) Non-recurring costs related to the acquisitions of Skip Hop and Carter's Mexico.
- (d) Special employee compensation provided as a result of the significant benefit related to the enactment of the Tax Cuts and Jobs Act of 2017.
- (e) Reflects the \$40 million net benefit of the Tax Cuts and Jobs Act of 2017.
- (f) Costs associated with the Company's direct sourcing initiative, which include severance and relocation.
- (g) Transaction costs associated with the Skip Hop acquisition.

Note: Results may not be additive due to rounding.

# Reconciliation of Net Income to Adjusted EBITDA



\$ in millions

	Fiscal Quarter Ended		Fiscal Year Ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Net income	\$ 135.7	\$ 87.1	\$ 302.8	\$ 258.1
Interest expense	7.7	6.7	30.0	27.0
Interest income	(0.1)	(0.1)	(0.3)	(0.6)
Tax expense	2.1	45.3	88.3	138.0
Depreciation and amortization (a)	22.3	19.2	84.4	73.4
<b>EBITDA</b>	<b>\$ 167.6</b>	<b>\$ 158.3</b>	<b>\$ 505.1</b>	<b>\$ 496.0</b>
<b>Adjustments to EBITDA</b>				
Revaluation of contingent consideration (b)	\$ -	\$ -	\$ (3.6)	\$ -
Store restructuring costs (c)	-	-	2.7	-
Special employee compensation provision (d)	21.2	-	21.2	-
Direct sourcing initiative (e)	-	0.2	0.3	0.7
Acquisition costs (f)	0.4	2.4	4.6	2.4
<b>Adjusted EBITDA</b>	<b>\$ 189.2</b>	<b>\$ 160.8</b>	<b>\$ 530.3</b>	<b>\$ 499.1</b>

(a) Includes amortization of acquired finite-life tradenames and customer relationship intangible assets.

(b) Revaluation of the contingent consideration liability associated with the Company's acquisition of Skip Hop.

(c) Net costs arising from unusual storm damage and related closures.

(d) 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.

(e) Pre-tax costs associated with the Company's direct sourcing initiative, which includes severance and relocation.

(f) Non-recurring costs incurred in connection with the Skip Hop and Carter's Mexico business acquisitions.

Note: Results may not be additive due to rounding.

# Store Count Data



	Single-brand	Dual-brand		Total U.S. Retail	Dual-brand	Mexico <sup>1</sup>	Total International	Total Consolidated Retail Stores
	U.S. Stand-alone Format	U.S. Side-by-Side Format	U.S. Co-branded Format		Canada Co-branded Format			
<b>Store count at December 31, 2016</b>	<b>633</b>	<b>140</b>	<b>19</b>	<b>792</b>	<b>164</b>	<b>N/A</b>	<b>164</b>	<b>956</b>
Openings	11	15	31	57	17	2	17	74
Closings	(19)	-	-	(19)	(2)	-	(2)	(21)
Conversions to dual-brand formats	(28)	4	24	-	-	-	-	-
Acquired	-	-	-	-	-	39	39	39
<b>Store count at December 30, 2017</b>	<b>597</b>	<b>159</b>	<b>74</b>	<b>830</b>	<b>179</b>	<b>41</b>	<b>220</b>	<b>1,050</b>

<sup>1</sup> Includes single brand and co-branded formats

# 2017 First Quarter Reconciliation of Reported to Adjusted Earnings



\$ in millions, except EPS

First 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	
									Corporate Operating Expenses	% of total net sales
<b>As reported (GAAP)</b>	<b>\$315.8</b>	43.1%	<b>\$247.8</b>	33.8%	<b>\$78.6</b>	10.7%	<b>\$46.7</b>	<b>\$0.95</b>	<b>(\$24.7)</b>	<b>(3.4%)</b>
Acquisition related costs (b) (c)	-		(1.3)		1.3		0.8	0.01	1.3	
Direct sourcing initiative (b) (d)	-		(0.2)		0.2		0.2	-	0.2	
<b>As adjusted (a)</b>	<b>\$315.8</b>	43.1%	<b>\$246.3</b>	33.6%	<b>\$80.1</b>	10.9%	<b>\$47.6</b>	<b>\$0.97</b>	<b>(\$23.2)</b>	<b>(3.2%)</b>

(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 gross margin, SG&A expenses, operating income, net income, and diluted EPS excluding the adjustment items noted above and discussed above. The Company believes these non-GAAP measurements provide investors with a meaningful view of the Company's core operating results, and are the same measurements used by the Company's executive management to assess the Company's performance. The adjusted, non-GAAP financial measurements included in this presentation 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) 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).

(c) Transaction costs associated with the Skip Hop acquisition.

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

Note: Results may not be additive due to rounding.

# 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 February 27, 2018 which is available at [www.carters.com](http://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 first 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; 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; fluctuations in foreign currency exchange rates; 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.