



carter's, inc.

Third Quarter 2016
Business Update

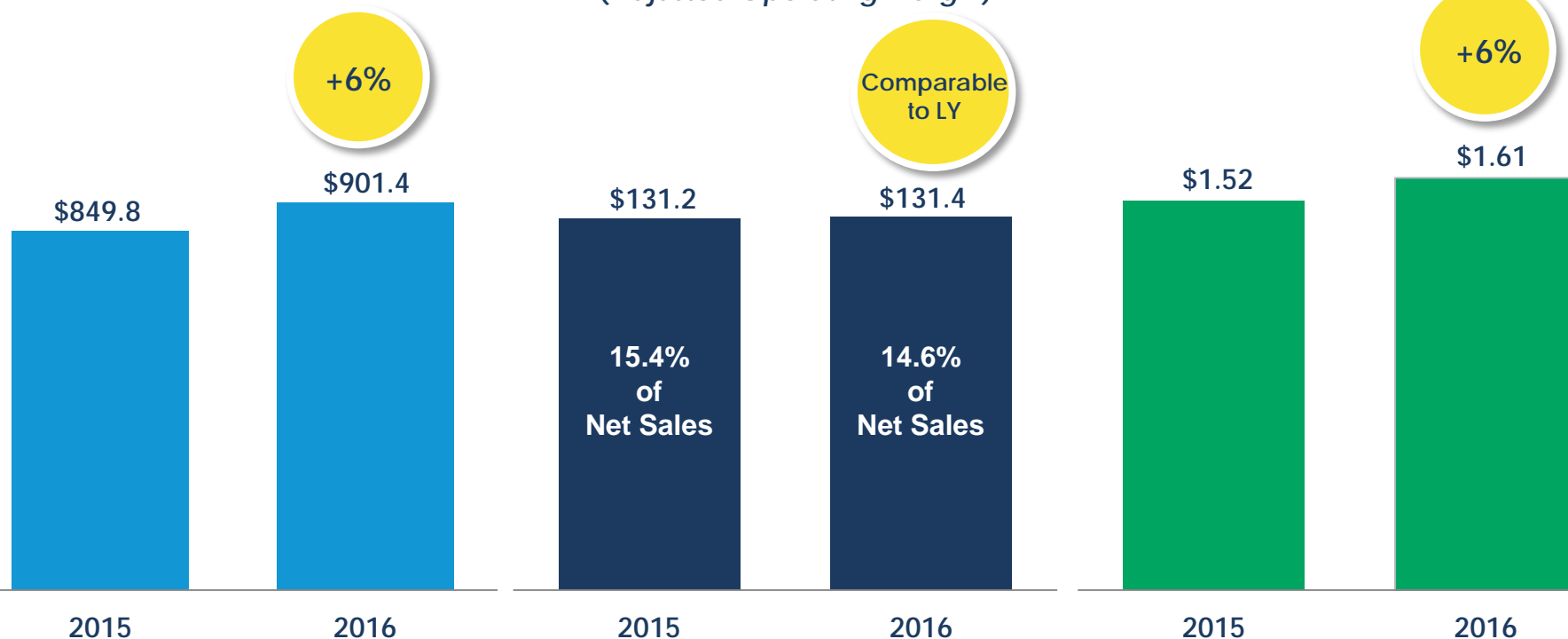
OCTOBER 27, 2016

\$ in millions, except EPS

Net Sales

Adjusted Operating Income* (Adjusted Operating Margin)

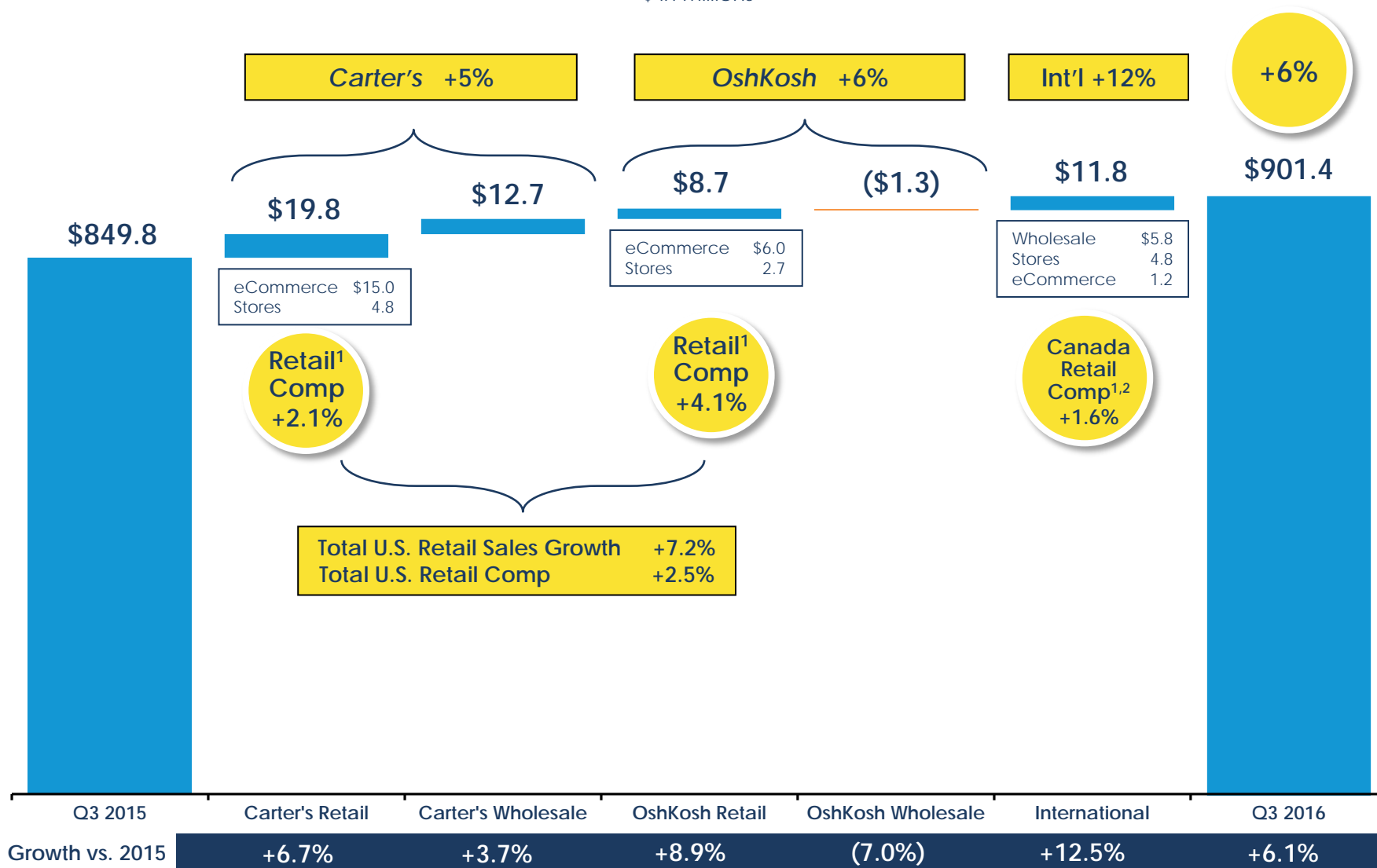
Adjusted EPS*



- Net sales +6% reflecting growth in all channels of distribution
- Operating margin reflects continued investments in growth initiatives, offset in part by gross margin improvements
- Adjusted EPS growth of +6%

Third Quarter 2016 Net Sales

\$ in millions



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.

Third Quarter 2016 Adjusted Results*

\$ in millions, except EPS

	<u>Q3 2016</u>	<u>% of Sales</u>	<u>Q3 2015</u>	<u>% of Sales</u>	<u>Increase / (Decrease)</u>
Net sales	\$901.4		\$849.8		6%
Gross profit	375.5	41.7%	347.5	40.9%	8%
Adjusted SG&A*	254.8	28.3%	229.1	27.0%	11%
Royalty income	<u>(10.7)</u>	(1.2%)	<u>(12.7)</u>	(1.5%)	(16%)
Adjusted operating income*	131.4	14.6%	131.2	15.4%	0%
Interest and other, net	6.7	0.7%	6.2	0.7%	8%
Income before taxes	124.7	13.8%	125.0	14.7%	(0%)
Income taxes	<u>43.6</u>	4.8%	<u>45.1</u>	5.3%	(3%)
Adjusted net income*	<u>\$81.1</u>	9.0%	<u>\$79.9</u>	9.4%	2%
Adjusted diluted EPS*	\$1.61		\$1.52		6%
Weighted average shares outstanding	50.0		52.2		(4%)
Adjusted EBITDA*	\$148.9	16.5%	\$145.6	17.1%	2%

* Results are stated on an adjusted basis; see reconciliation to GAAP on pages 28, 29, and 32.
Note: Results may not be additive due to rounding.

Third Quarter 2016 Adjusted SG&A*



*Results are stated on an adjusted basis; see reconciliation to GAAP on page 29.

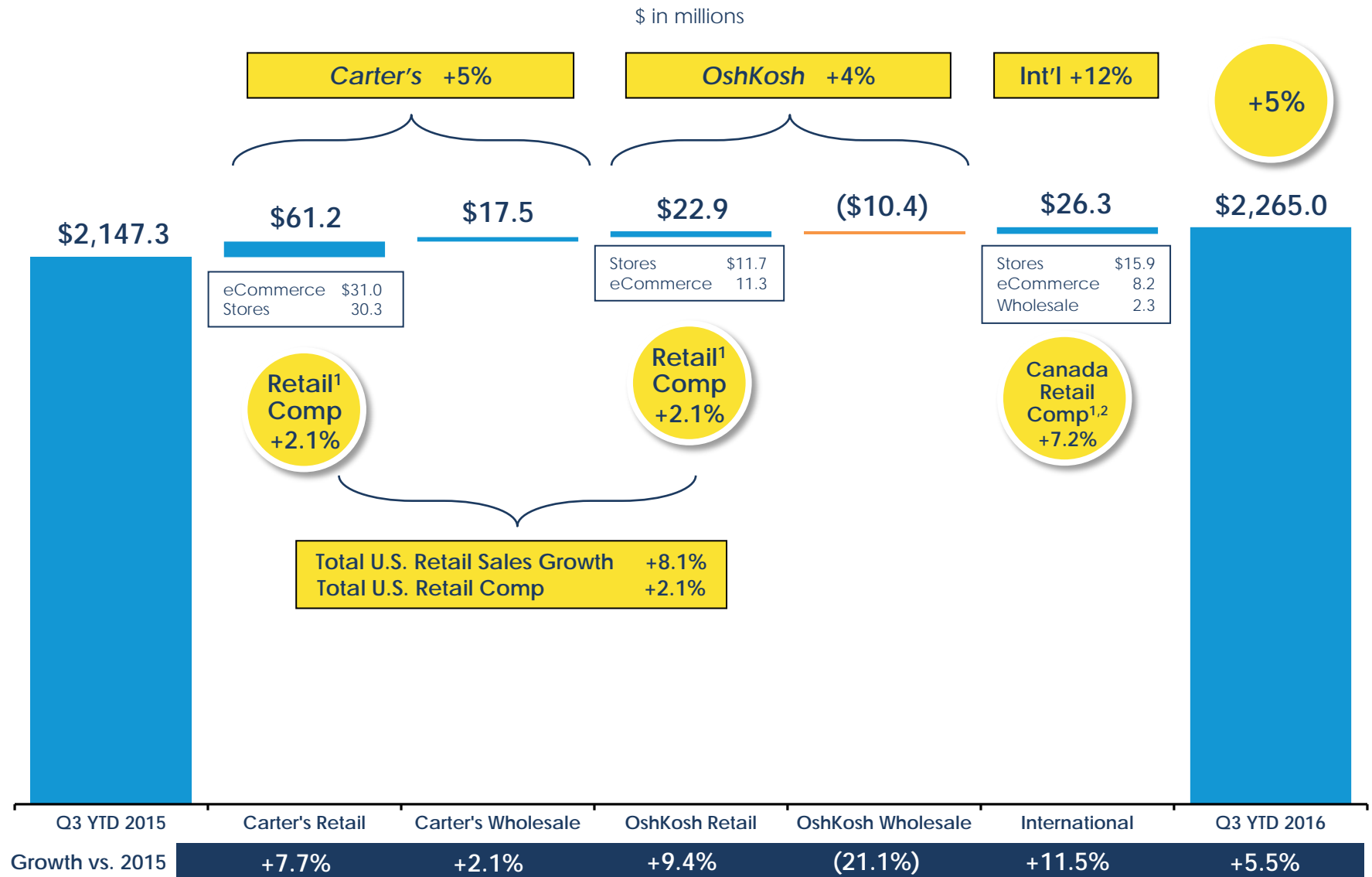
Q3 YTD 2016 Adjusted Results*

\$ in millions, except EPS

	Three Quarters Ended 2016	% of Sales	Three Quarters Ended 2015	% of Sales	Increase / (Decrease)
Net sales	\$2,265.0		\$2,147.3		5%
Gross profit	968.7	42.8%	894.5	41.7%	8%
Adjusted SG&A *	710.5	31.4%	643.3	30.0%	10%
Royalty income	(31.3)	(1.4%)	(32.7)	(1.5%)	(4%)
Adjusted operating income*	289.4	12.8%	283.9	13.2%	2%
Interest and other, net	23.5	1.0%	19.6	0.9%	20%
Income taxes	93.4	4.1%	93.8	4.4%	(0%)
Adjusted net income*	\$172.4	7.6%	\$170.4	7.9%	1%
Adjusted diluted EPS*	\$3.37		\$3.22		5%
Weighted average shares outstanding	50.0		52.2		(4%)
Adjusted EBITDA *	\$338.2	14.9%	\$328.7	15.3%	3%

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

Q3 YTD 2016 Net Sales



Constant Currency	+14.4%	+5.8%
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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.

Balance Sheet and Cash Flow

\$ in millions

Balance Sheet (at Q3 end)

	2016	2015
Cash	\$141	\$288
Accounts Receivable	271	247
Inventory	553	512
Accounts Payable	155	174
Long-Term Debt	581	580

Cash Flow (Q3 YTD)

	2016	2015
Operating Cash Flow	\$117	\$146
Capital Expenditures	(71)	(77)
Free Cash Flow ¹	\$45	\$69

Return of Capital (Q3 YTD)

	2016	2015
Share Repurchases	\$239	\$78
Dividends	50	35
Total	\$289	\$113

- Inventory +8% vs. LY principally due to business growth
- Decline in free cash flow reflects movements in working capital (principally timing of inventory payments)
- Returned \$289 million to shareholders through dividends and share repurchases Q3 YTD (\$75 million in Q3)
- Returned >\$1 billion to shareholders since 2013 through dividends and share repurchases
- Additional \$27 million in share repurchases Q4 QTD
 - Total of \$266 million in share repurchases YTD (through 10/26/16)
 - Approximately \$309 million remaining on share repurchase authorizations

¹ Non-GAAP measure.

Note: Results may not be additive due to rounding.

Business Segment
Performance



Third 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)	\$ 356	\$ 344	\$ 13	\$ 82	\$ 74	\$ 7	22.9%	21.6%
Carter's Retail (b)	315	295	20	48	52	(4)	15.3%	17.5%
Total Carter's	671	638	32	130	126	4	19.3%	19.7%
OshKosh Wholesale	17	19	(1)	4	4	-	25.5%	23.9%
OshKosh Retail (b)	107	98	9	3	6	(4)	2.5%	6.3%
Total OshKosh	124	117	7	7	11	(4)	5.7%	9.1%
International (c)	106	94	12	20	18	1	18.5%	19.3%
Total before corporate expenses	901	850	52	156	155	1	17.3%	18.2%
Corporate expenses (d)				(25)	(24)	(1)	(2.8%)	(2.8%)
Total (d)	\$ 901	\$ 850	\$ 52	\$ 131	\$ 131	\$ -	14.6%	15.4%

(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 29.

Note: Results may not be additive due to rounding.

Q3 YTD 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)	\$ 842	\$ 825	\$ 18	\$ 188	\$ 172	\$ 15	22.3%	20.9%
Carter's Retail (b)	861	800	61	128	135	(7)	14.8%	16.8%
Total Carter's	1,703	1,624	79	315	307	8	18.5%	18.9%
OshKosh Wholesale	39	49	(10)	8	10	(1)	21.3%	19.8%
OshKosh Retail (b)	268	245	23	(1)	3	(4)	(0.2%)	1.4%
Total OshKosh	306	294	13	8	13	(5)	2.5%	4.5%
International (c)(d)	256	229	26	37	33	4	14.6%	14.3%
Total before corporate expenses	2,265	2,147	118	360	353	7	15.9%	16.4%
Corporate expenses (d)				(71)	(69)	(2)	(3.1%)	(3.2%)
Total (d)	\$ 2,265	\$ 2,147	\$ 118	\$ 289	\$ 284	\$ 6	12.8%	13.2%

(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.

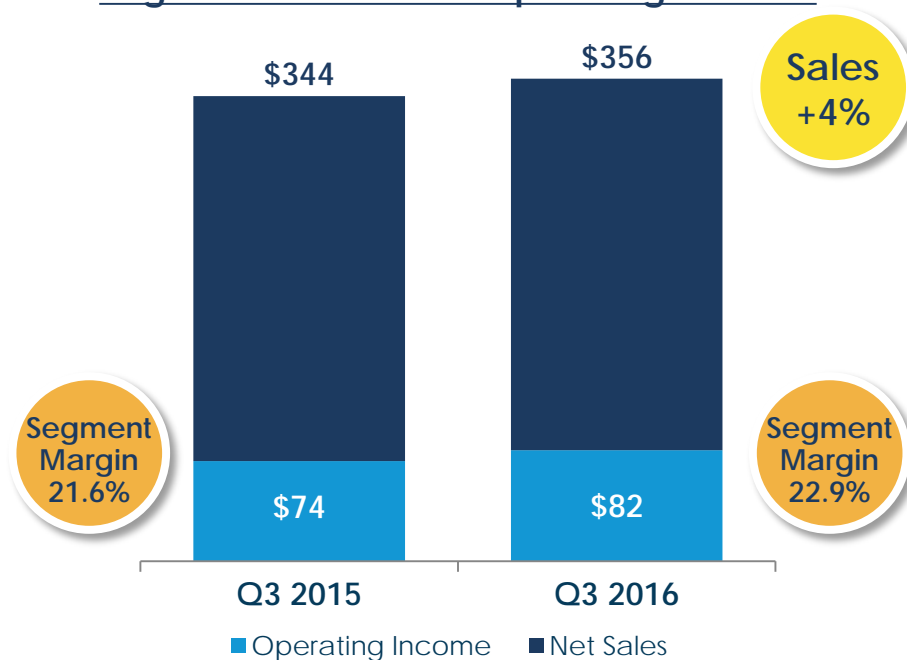
* Results are stated on an adjusted basis; see reconciliation to GAAP on page 31.

Note: Results may not be additive due to rounding.



\$ in millions

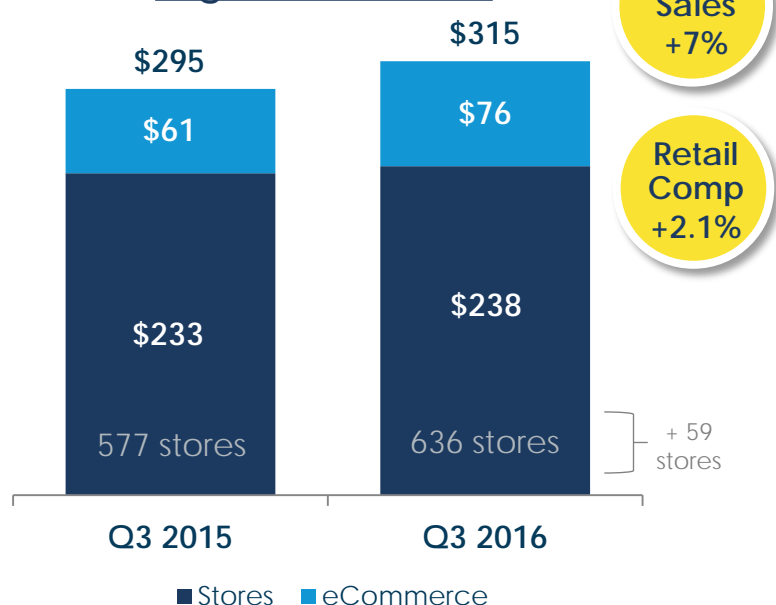
Segment Net Sales & Operating Income



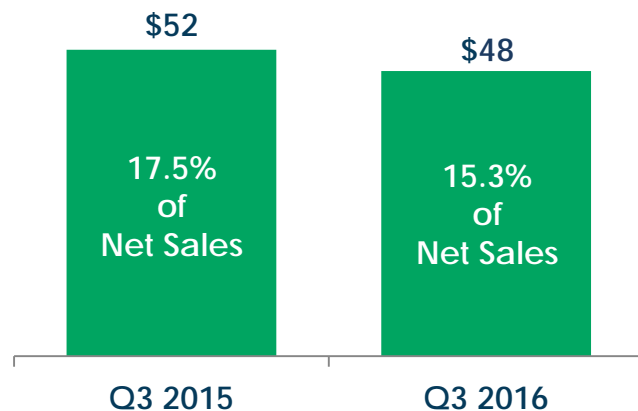
- Q3 net sales growth reflects earlier demand
- Segment operating margin improvement reflects favorable product mix and supply chain efficiencies
- 2016 full-year net sales outlook: comparable to up slightly vs. LY
- Spring 2017 bookings planned down mid-single digits vs. 2016

\$ in millions

Segment Net Sales



Segment Operating Income



Stores

- Net sales +2%
- Store Comp: (4.1%)
 - Reflects lower demand for fall seasonal products from domestic customers, which we attribute to unseasonably warm weather
- Opened 59 net new stores in last 12 months
- Q3 ending store count: 636
 - 440 Brand (90 Side-by-Side)
 - 196 Outlet (37 Side-by-Side)
 - Side-by-Side stores represent 20% of Carter’s store base

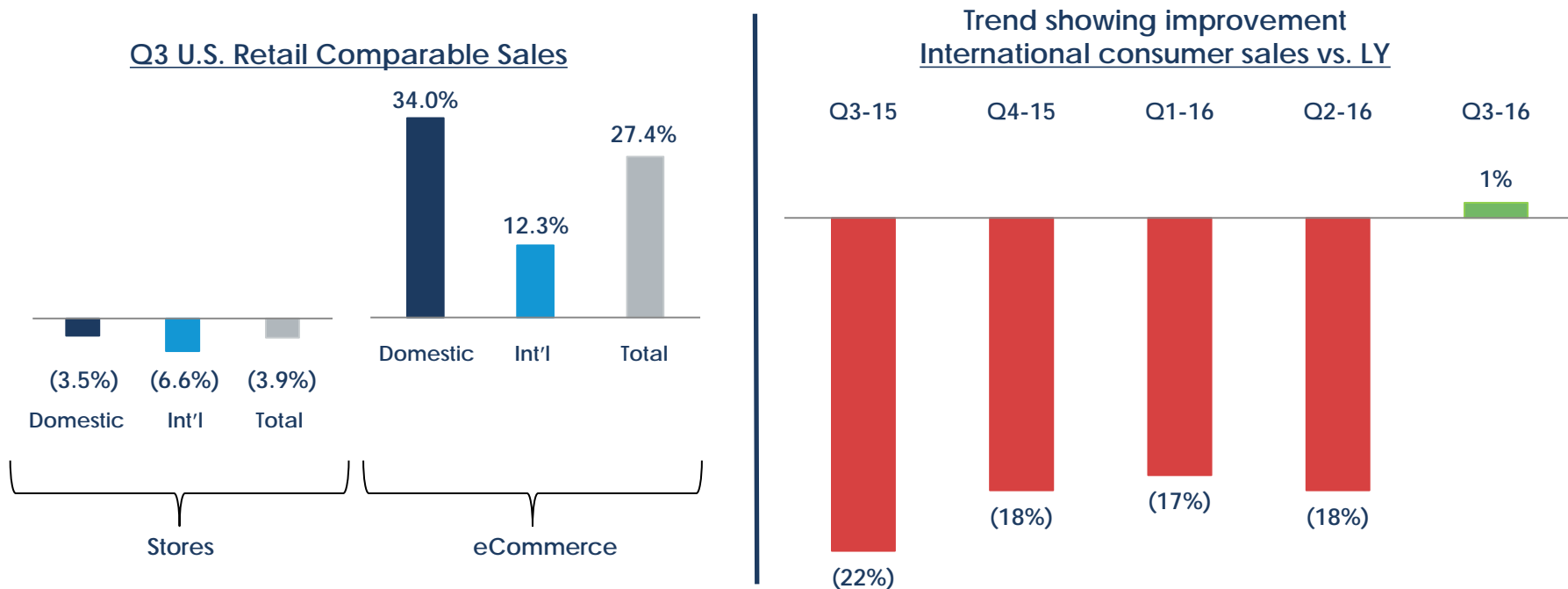
eCommerce

- Continued strong sales growth, +25.2% comp
- Q3 net sales 24% of retail segment sales (vs. 21% LY)

Segment Operating Margin

- Decrease in operating margin reflects store expense deleverage, increased promotions, and higher distribution expenses

Significant improvement in traffic/sales from International consumers compared to prior quarters; domestic demand weakened in Q3



- Q3 international total retail comp was positive for the first time in over a year
- International comp improved over Q2 for both stores and eCommerce, with positive international comp in eCommerce
- Impact to brick and mortar stores continues to be more significant than eCommerce; eCommerce trend improving at faster pace than stores
- Strongest sources of increased international eCommerce demand: Brazil (+40%), Argentina (+27%), Russia (+66%), Mexico (+20%), Ukraine (+40%)



LITTLE
collections®

40% OFF

Instant style + all-day comfy in cozy cute fabrics like sherpa fleece, thermal and flannel for baby's first wintry wardrobe.



COZY CUTE LITTLE COLLECTIONS (nb-24m) **SALE \$14⁰⁰-24** MSRP** \$24-40
Selection varies by store
CRIB SHOES (0-12m, select styles nb & 18m) **SALE \$12-13²⁰** 40% OFF MSRP** \$20-22



Free shipping on \$50+ | 11



\$8 COZY FLEECE
DOORBUSTER sleep & play

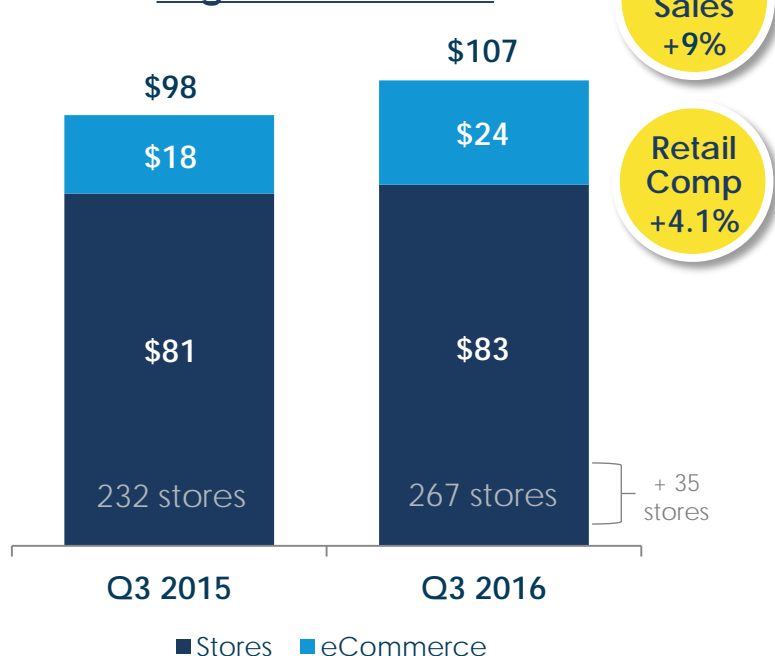
A comfier, looser fit in babysoft fleece designed especially for babies newborn to 9 months.



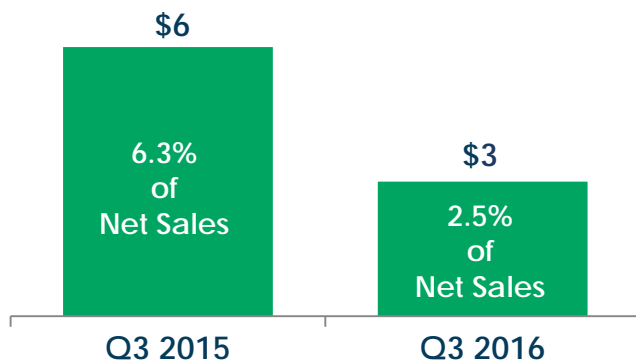
FLEECE SLEEP & PLAY (nb-9m) DOORBUSTER \$8 MSRP \$18

\$ in millions

Segment Net Sales



Segment Operating Income



Stores

- Net sales: +3%
- Comp sales declined (3.0%)
 - Reflects lower demand for fall seasonal products from domestic customers, which we attribute to unseasonably warm weather
- Opened 35 net new stores in last 12 months
- Q3 ending store count: 267
 - 110 Brand (90 Side-by-Side)
 - 157 Outlet (37 Side-by-Side)
 - Side-by-Side stores represent 48% of OshKosh store base

eCommerce

- Continued double digit sales growth, +34.8% comp
- Q3 eCommerce sales 22% of retail segment sales (vs. 18% LY)

Segment Operating Margin

- Decrease in operating margin reflects store expense deleverage, increased promotions, and higher distribution expenses



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B'gosh oshkosh.com

HAPPY FALL-IDAYS!
Up to
50% off

sizes 0-14

FOR OUR BEST-EST CUSTOMERS (THAT'S YOU!)

extra **25% ENTIRE**
off **PURCHASE***

ends 10/31 coupon inside!

*Excludes doorbusters, clearance and online exclusive brands.



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BOYS & GIRLS FALL FAVES
50% OFF | NOW \$11-22 | 6-14, 16-18, 19-22

A LITTLE SPARKLE
and a lot of fringe make our fair isle cardis and ponchos special.



YOU'RE IT!
Grab a flannel or sweater tunic to pair with our sparkle leggings.

COZY fleece-lined bomber jacket with sherpa-lined collar.

up to
HAPPY FALL-IDAYS! 50% off
NEW ARRIVALS TO LOVE



COZY TUNICS & LEGGINGS
40% OFF | NOW \$12-25.20 | 6-14, 16-18, 19-22



Our **BUNNY** wears a gold foil crown!

BABY FALL FAVES
40% OFF | NOW \$10.00-36 | 0-24, 18-24, 25-48

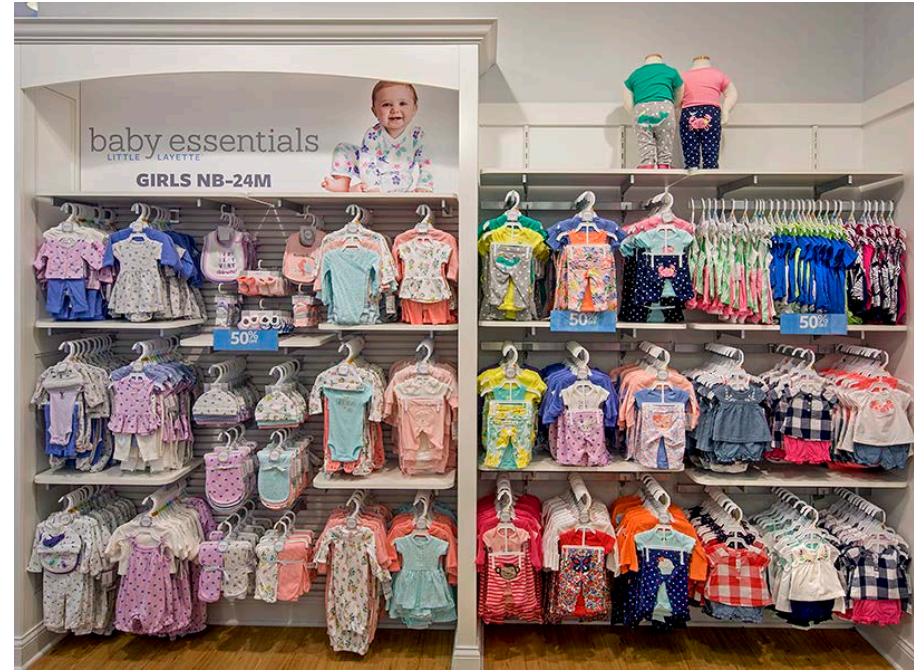


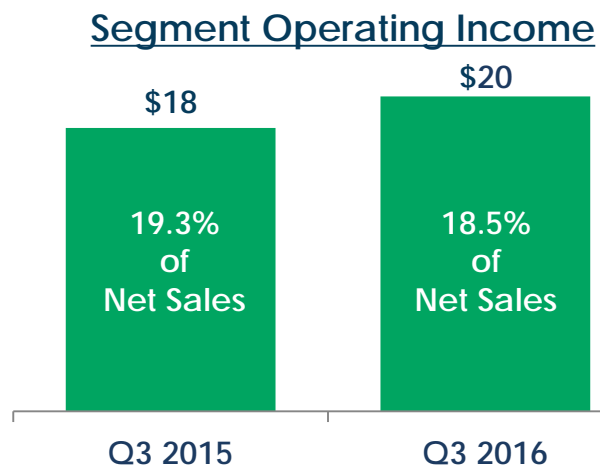
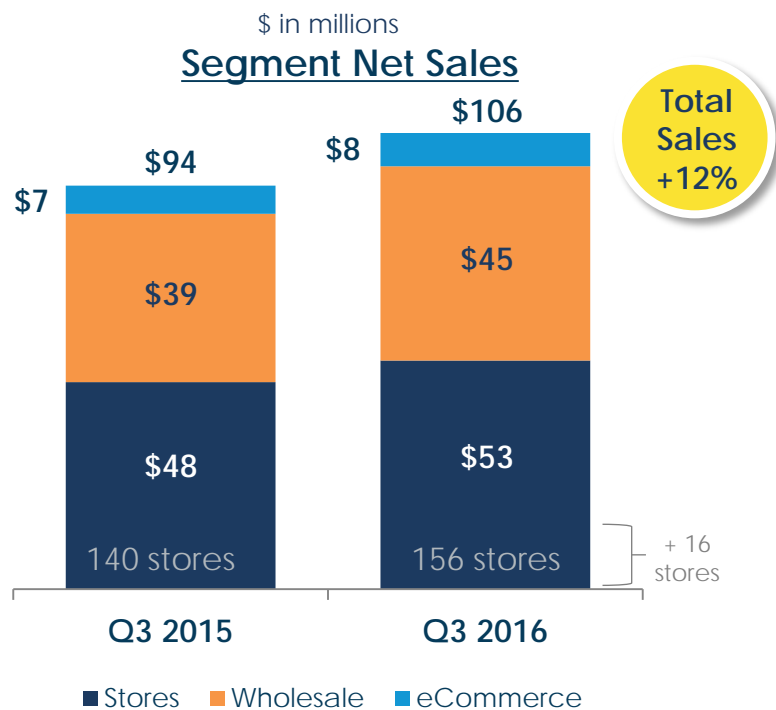
MATCHING flannel-lined overalls and button-front bodysuit.

WORLD'S BEST OVERALLS
50% OFF | NOW \$11-22 | 6-14, 16-18, 19-22



Co-branded Store – Newnan, GA





Net Sales

- **Solid International segment growth**
 - Reported and constant currency net sales: +12%
 - Canada retail comp +1.6%
- **Canada Stores**
 - Net sales +10%
 - Store comp (0.5%), driven by lighter traffic reflecting warmer than usual weather
 - Opened 16 net new stores in last 12 months
- **eCommerce**
 - Net sales +18%, driven by growth in Canada (+37.2% comp) and China
- **Wholesale**
 - Net sales +15% primarily driven by higher demand in international markets

Segment Operating Margin

- Operating margin decline reflects store expense deleverage, China wholesale start up costs, and the relocation of our Canadian office, partially offset by stronger gross margins

China Store Opening – Nanjing

(opened September 2016)

carter's | **OSHKOSH**
Bjgosh



China Store Opening – Xiamen

(opened October 2016)



Q4 2016

- Net sales growth of approximately 5% to 6%
- Adjusted EPS between \$1.65 - \$1.70 (vs. \$1.40 LY) (growth of ~18% to 21%)

Fiscal Year 2016

- Net sales increase of approximately 5% to 6%
- Adjusted EPS growth of approximately 9% to 10% (vs. \$4.61 LY)
- New stores:
 - Carter's ~64
 - OshKosh ~43
 - Canada ~16
- Operating Cash Flow approximately \$290 to \$320 million
- CapEx approximately \$105 million





thank you.

appendix



Third Quarter Reconciliation of Net Income Allocable to Common Shareholders

	Fiscal Quarter End	
	October 1, 2016	October 3, 2015
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	49,526,480	51,740,523
Dilutive effect of equity awards	460,271	507,815
Diluted number of common and common equivalent shares outstanding	<u>49,986,751</u>	<u>52,248,338</u>

	Fiscal Quarter Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 80,811	\$ 79,326	\$ 81,135	\$ 79,925
Income allocated to participating securities	(632)	(675)	(634)	(681)
Net income available to common shareholders	<u>\$ 80,179</u>	<u>\$ 78,651</u>	<u>\$ 80,501</u>	<u>\$ 79,244</u>
Basic net income per common share	\$1.62	\$1.52	\$1.63	\$1.53
Diluted net income per common share:				
Net income	\$ 80,811	\$ 79,326	\$81,135	\$79,925
Income allocated to participating securities	(627)	(669)	(629)	(675)
Net income available to common shareholders	<u>\$ 80,184</u>	<u>\$ 78,657</u>	<u>\$ 80,506</u>	<u>\$ 79,250</u>
Diluted net income per common share	\$1.60	\$1.51	\$1.61	\$1.52

(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 \$0.3 million and \$0.6 million in after-tax expenses from these results for the fiscal quarters ended October 1, 2016 and October 3, 2015, respectively.

Third Quarter Reconciliation of Reported to Adjusted Earnings

\$ in millions, except EPS

Third 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)	\$375.5	41.7%	\$255.3	28.3%	\$130.9	14.5%	\$80.8	\$1.60	(\$25.5)	(2.8%)
Direct sourcing initiative (a)	-		(0.5)		0.5		0.3	0.01	0.5	
As adjusted	\$375.5	41.7%	\$254.8	28.3%	\$131.4	14.6%	\$81.1	\$1.61	(\$25.0)	(2.8%)

Third 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)	\$347.5	40.9%	\$230.0	27.1%	\$130.2	15.3%	\$79.3	\$1.51	(\$24.7)	(2.9%)
Amortization of tradenames	-		(1.0)		1.0		0.6	(0.01)	1.0	
As adjusted	\$347.5	40.9%	\$229.1	27.0%	\$131.2	15.4%	\$79.9	\$1.52	(\$23.8)	(2.8%)

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

Q3 YTD Reconciliation of Net Income Allocable to Common Shareholders

	Three Fiscal Quarters Ended	
	October 1, 2016	October 3, 2015
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	50,282,345	51,960,041
Dilutive effect of equity awards	470,050	512,861
Diluted number of common and common equivalent shares outstanding	<u>50,752,395</u>	<u>52,472,902</u>

	Three Fiscal Quarters Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 170,989	\$ 165,223	\$ 172,411	\$ 170,443
Income allocated to participating securities	(1,359)	(1,557)	(1,371)	(1,607)
Net income available to common shareholders	<u>\$ 169,630</u>	<u>\$ 163,666</u>	<u>\$ 171,040</u>	<u>\$ 168,836</u>
Basic net income per common share	\$3.37	\$3.15	\$3.40	\$3.25
Diluted net income per common share:				
Net income	\$ 170,989	\$ 165,223	\$ 172,411	\$ 170,443
Income allocated to participating securities	(1,350)	(1,545)	(1,362)	(1,595)
Net income available to common shareholders	<u>\$ 169,639</u>	<u>\$ 163,678</u>	<u>\$ 171,049</u>	<u>\$ 168,848</u>
Diluted net income per common share	\$3.34	\$3.12	\$3.37	\$3.22

(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 \$1.4 million and \$5.2 million in after-tax expenses from these results for the first three fiscal quarters ended October 1, 2016 and October 3, 2015, respectively.

Q3 YTD Reconciliation of Reported to Adjusted Earnings

\$ in millions, except EPS

Three Quarters Ended 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)	\$968.7	42.8%	\$712.8	31.5%	\$287.1	12.7%	\$171.0	\$3.34	\$37.0	14.6%	(\$73.1)	(3.2%)
Amortization of tradenames	-		(1.7)		1.7		1.1	0.02	-		1.7	
Direct sourcing initiative (a)	-		(0.5)		0.5		0.3	0.01	-		0.5	
As adjusted	\$968.7	42.8%	\$710.5	31.4%	\$289.4	12.8%	\$172.4	\$3.37	\$37.0	14.6%	(\$70.9)	(3.1%)

Three Quarters Ended 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)	\$894.5	41.7%	\$650.5	30.3%	\$276.7	12.9%	\$165.2	\$3.12	\$31.0	13.5%	(\$74.4)	(3.5%)
Amortization of tradenames	-		(5.3)		5.3		3.3	0.06	-		5.3	
Revaluation of contingent consideration (b)	-		(1.9)		1.9		1.9	0.04	1.9		-	
As adjusted	\$894.5	41.7%	\$643.3	30.0%	\$283.9	13.2%	\$170.4	\$3.22	\$32.9	14.3%	(\$69.2)	(3.2%)

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

(b) 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		Three Fiscal Quarters Ended		Four Fiscal Quarters Ended
	October 1,	October 3,	October 1,	October 3,	October 1,
	2016	2015	2016	2015	2016
Net income	\$ 80.8	\$ 79.3	\$ 171.0	\$ 165.2	\$ 243.6
Interest expense	6.8	6.9	20.3	20.5	26.8
Interest income	(0.1)	(0.1)	(0.5)	(0.4)	(0.6)
Tax expense	43.4	44.7	92.6	91.9	131.1
Depreciation and amortization	17.5	14.8	54.3	49.6	73.0
EBITDA	\$ 148.4	\$ 145.6	\$ 337.7	\$ 326.8	\$ 474.0
Adjustments to EBITDA					
Direct Sourcing Initiative (a)	\$ 0.5	\$ -	\$ 0.5	\$ -	\$ 0.5
Revaluation of contingent consideration (b)	-	-	-	1.9	-
Adjusted EBITDA	\$ 148.9	\$ 145.6	\$ 338.2	\$ 328.7	\$ 474.5

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

(b) 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 October 27, 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 fourth 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 October 27, 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.