

# carter's®

*Second Quarter 2011*

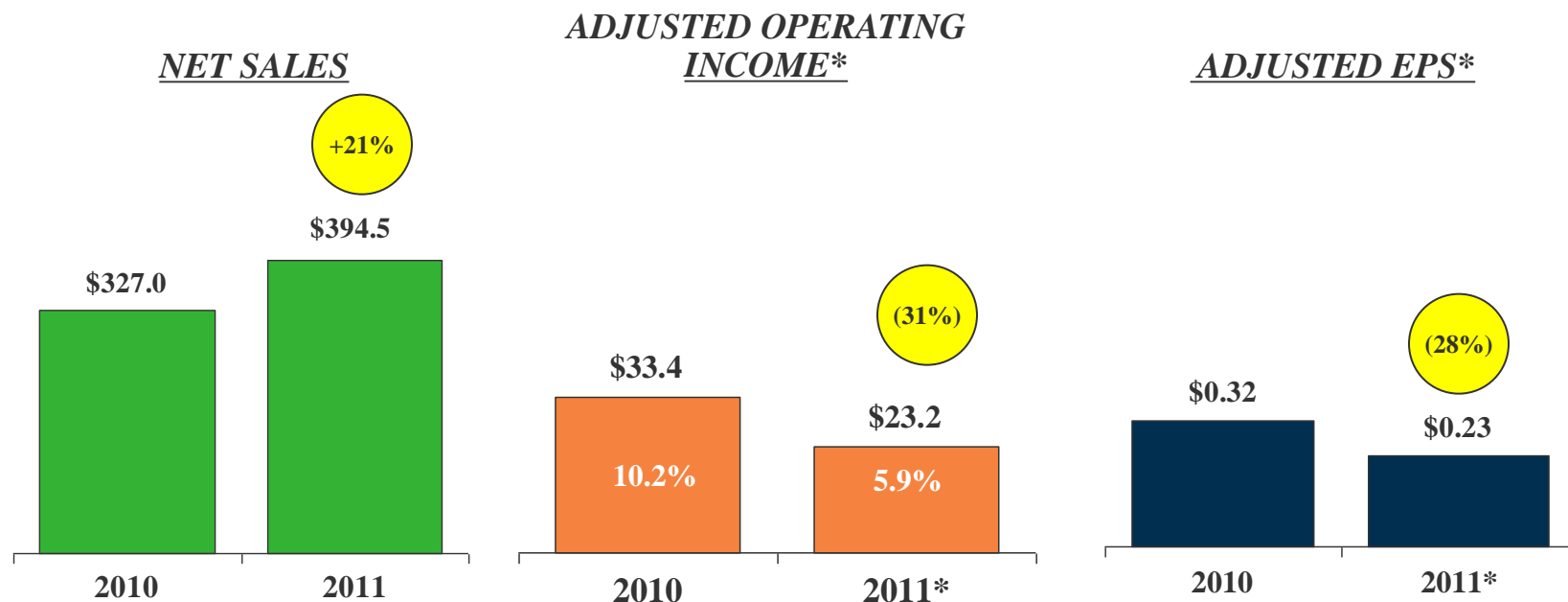
*Business Review*

July 28, 2011



# Second Quarter Highlights

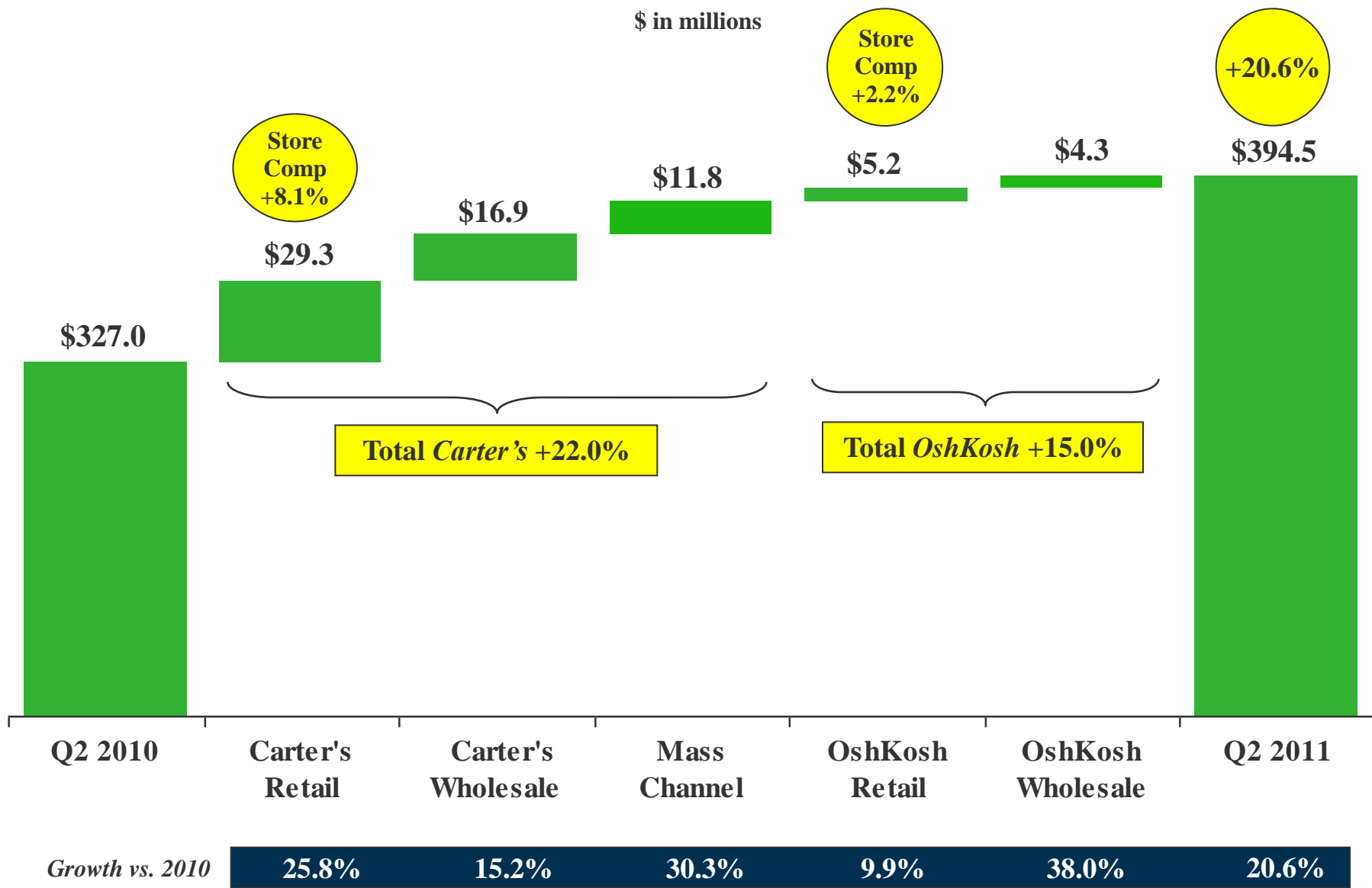
\$ in millions, except EPS



\* Results are stated on an adjusted basis; see reconciliation to GAAP basis on page 9.

- Sales growth in every segment of our business
  - Carter’s brand net sales +22%
  - OshKosh B’gosh brand net sales +15%
- Profitability decline primarily due to higher product costs
- Completed acquisition of Canadian retailer Bonnie Togs

# Second Quarter Net Sales



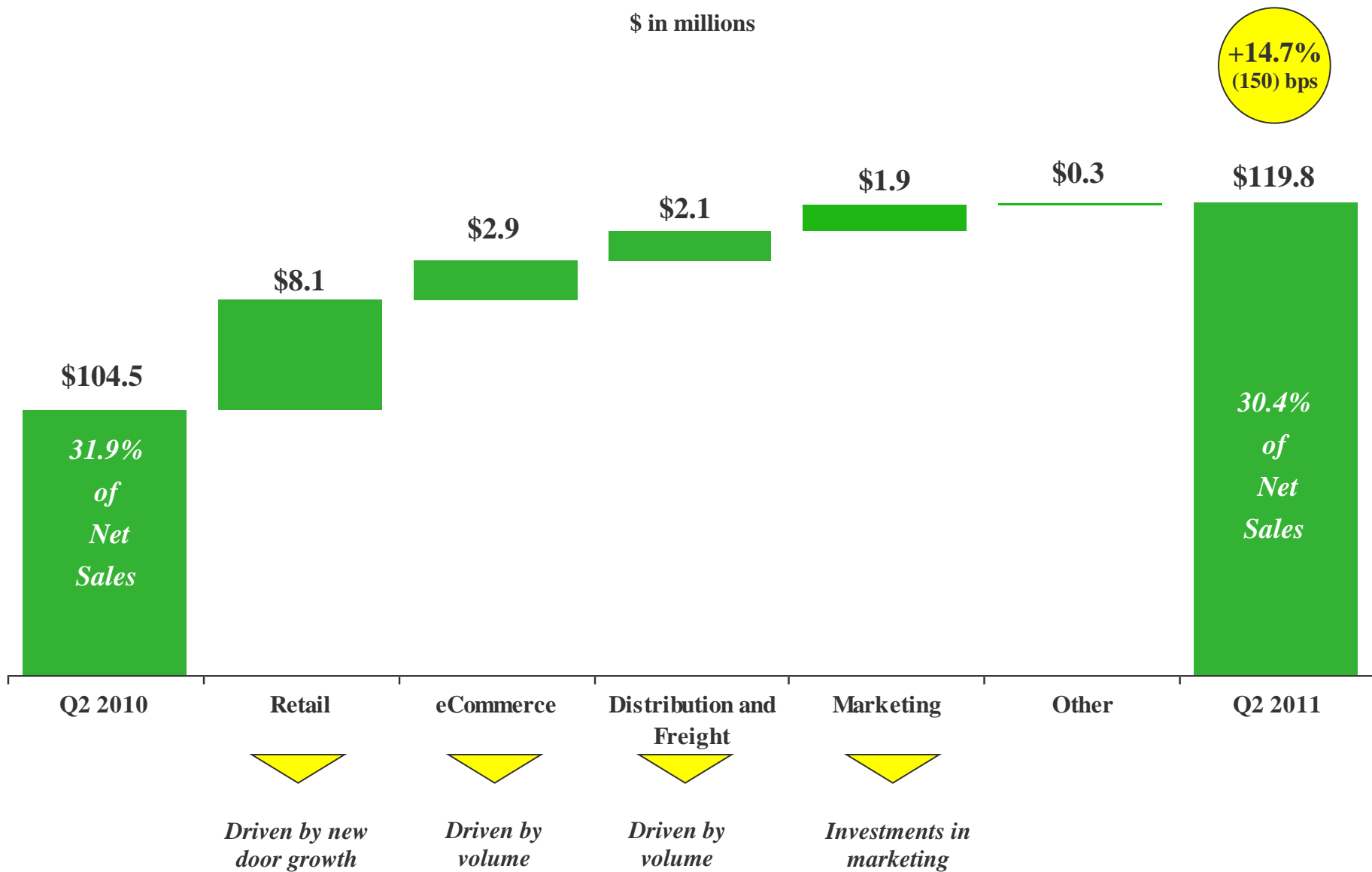
# Second Quarter Results

\$ in millions, except EPS

	<b>Q2 2011*</b>	<i>% of sales</i>	<b>Q2 2010</b>	<i>% of sales</i>	<b>Increase (Decrease)</b>
Net sales	<b>\$394.5</b>		<b>\$327.0</b>		<b>21%</b>
Gross profit	<b>134.7</b>	<b>34.2%</b>	130.3	<b>39.8%</b>	<b>3%</b>
SG&A	<b>119.8</b>	30.4%	104.5	31.9%	<b>15%</b>
Royalty income	<b>(8.3)</b>	(2.1%)	<b>(7.6)</b>	(2.3%)	<b>8%</b>
Adjusted operating income	<b>23.2</b>	<b>5.9%</b>	33.4	<b>10.2%</b>	<b>(31%)</b>
Interest, net	<b>1.5</b>	0.4%	<b>2.7</b>	0.8%	<b>(43%)</b>
Income before taxes	<b>21.7</b>	5.5%	30.8	9.4%	<b>(30%)</b>
Income taxes	<b>8.3</b>	2.1%	<b>11.7</b>	3.6%	<b>(29%)</b>
Adjusted net income	<b>\$13.4</b>	<b>3.4%</b>	<b>\$19.1</b>	<b>5.8%</b>	<b>(30%)</b>
Adjusted earnings per diluted share	<b>\$0.23</b>		<b>\$0.32</b>		<b>(28%)</b>
Weighted average diluted share count	<b>58.1</b>		59.8		

\* Results are stated on an adjusted basis; see reconciliation to GAAP basis on page 9.

# Second Quarter SG&A



# Second Quarter Business Segment Performance

\$ in millions

	Net Sales			Operating Income (Loss)			Operating Margin		
	2011	2010	\$ Growth	2011	2010	\$ Growth	2011	2010	
<b><u>Carter's</u></b>									
Wholesale	\$128	\$111	\$17	\$16	\$23	(\$7)	12.5%	21.0%	
Retail (a)	143	114	29	20	19	1	14.0%	16.4%	
Mass	51	39	12	7	7	(0)	13.1%	17.7%	
<b>Total Carter's</b>	<b>\$322</b>	<b>\$264</b>	<b>\$58</b>	<b>\$43</b>	<b>\$49</b>	<b>(\$6)</b>	<b>13.3%</b>	<b>18.5%</b>	<b>(520) bps</b>
<b><u>OshKosh</u></b>									
Wholesale	\$16	\$11	\$4	(\$1)	(\$2)	\$1	(9.4%)	(20.8%)	
Retail (a)	57	52	5	(6)	(1)	(5)	(11.1%)	(1.7%)	
Mass				1	0	0	(b)	(b)	
<b>Total OshKosh</b>	<b>\$73</b>	<b>\$63</b>	<b>\$9</b>	<b>(\$7)</b>	<b>(\$3)</b>	<b>(\$4)</b>	<b>(9.8%)</b>	<b>(4.4%)</b>	<b>(540) bps</b>
<b>Corporate expenses</b>				<b>(14)</b>	<b>(13)</b>	<b>(1)</b>	<b>(3.5%)</b>	<b>(3.9%)</b>	
<b>Total, as reported</b>	<b>\$394</b>	<b>\$327</b>	<b>\$67</b>	<b>\$22</b>	<b>\$33</b>	<b>(\$11)</b>	<b>5.6%</b>	<b>10.2%</b>	<b>(460) bps</b>
<b>Acquisition-related expenses (c)</b>				1		1	0.3%		
<b>Total, as adjusted</b>	<b>\$394</b>	<b>\$327</b>	<b>\$67</b>	<b>\$23</b>	<b>\$33</b>	<b>(\$10)</b>	<b>5.9%</b>	<b>10.2%</b>	<b>(430) bps</b>

(a) Includes eCommerce results.

(b) Not applicable - OshKosh Mass channel operating income represents royalty income.

(c) These reconciling items are included in Corporate expenses above. See reconciliation of reported (GAAP) results to results as adjusted on page 9.

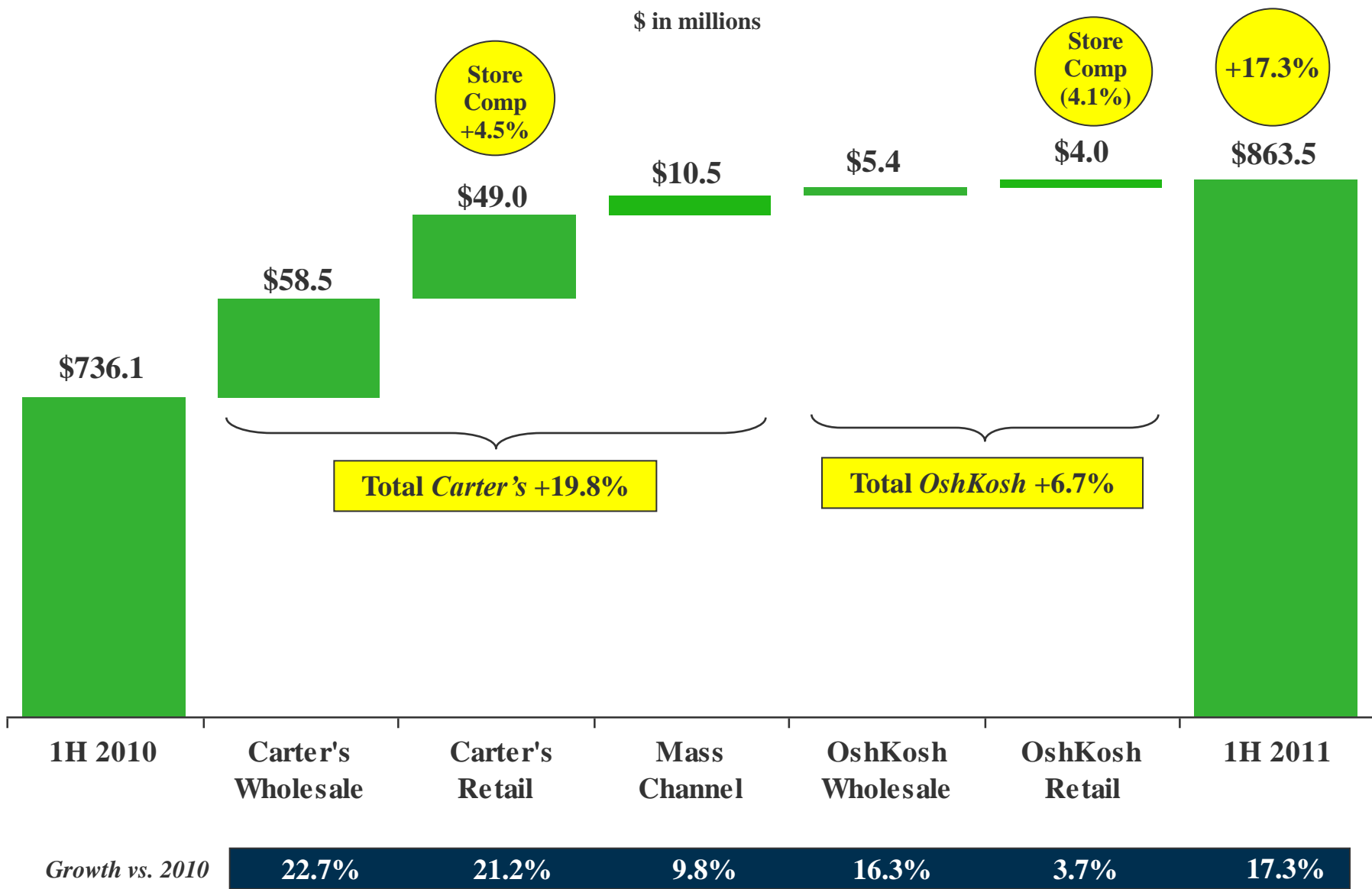
# First Half Results

\$ in millions, except EPS

	First Half 2011*	% of sales	First Half 2010	% of sales	Increase (Decrease)
Net sales	<b>\$863.5</b>		\$736.1		<b>17%</b>
Gross profit	<b>292.5</b>	<b>33.9%</b>	297.1	<b>40.4%</b>	<b>(2%)</b>
SG&A	<b>232.3</b>	26.9%	209.8	28.5%	<b>11%</b>
Royalty income	<b>(17.6)</b>	(2.0%)	(17.3)	(2.3%)	<b>2%</b>
Adjusted operating income	<b>77.9</b>	<b>9.0%</b>	104.6	<b>14.2%</b>	<b>(26%)</b>
Interest, net	<b>3.4</b>	0.4%	5.1	0.7%	<b>(34%)</b>
Income before taxes	<b>74.5</b>	8.6%	99.5	13.5%	<b>(25%)</b>
Income taxes	<b>28.3</b>	3.3%	37.6	5.1%	<b>(25%)</b>
Adjusted net income	<b>\$46.2</b>	<b>5.3%</b>	<b>\$61.9</b>	<b>8.4%</b>	<b>(25%)</b>
Adjusted earnings per diluted share	<b>\$0.79</b>		\$1.03		<b>(23%)</b>
Weighted average diluted share count	<b>58.0</b>		59.6		

\* Results are stated on an adjusted basis; see reconciliation to GAAP basis on page 9.

# First Half Net Sales





# Reconciliation of GAAP to Adjusted Earnings

\$ in millions, except EPS

Second Quarter of Fiscal 2011	Operating Income	Net Income	Diluted EPS	First Half of Fiscal 2011	Operating Income	Net Income	Diluted EPS
<b>Income, as reported (GAAP)</b>	<b>\$22.0</b>	<b>\$12.7</b>	<b>\$0.22</b>	<b>Income, as reported (GAAP)</b>	<b>\$75.7</b>	<b>\$44.8</b>	<b>\$0.76</b>
Acquisition-related expenses (a)	1.2	0.7	0.01	Acquisition-related expenses (a)	2.2	1.4	0.03
<b>Income, as adjusted (b)</b>	<b>\$23.2</b>	<b>\$13.4</b>	<b>\$0.23</b>	<b>Income, as adjusted (b)</b>	<b>\$77.9</b>	<b>\$46.2</b>	<b>\$0.79</b>

(a) Professional service fees related to the Company's acquisition of Bonnie Togs, a childrens apparel retailer based in Toronto, Canada.

(b) The Company has provided adjusted, non-GAAP financial measurements that present operating income, net income, and net income on a diluted share basis excluding the adjustments discussed above. These adjustments, which the Company does not believe to be indicative of on-going business trends, are excluded from these calculations. The Company believes these adjustments provide a meaningful comparison of the Company's results. The adjusted, non-GAAP financial measurements should not be considered as alternatives 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.

# Balance Sheet and Cash Flow

\$ in millions

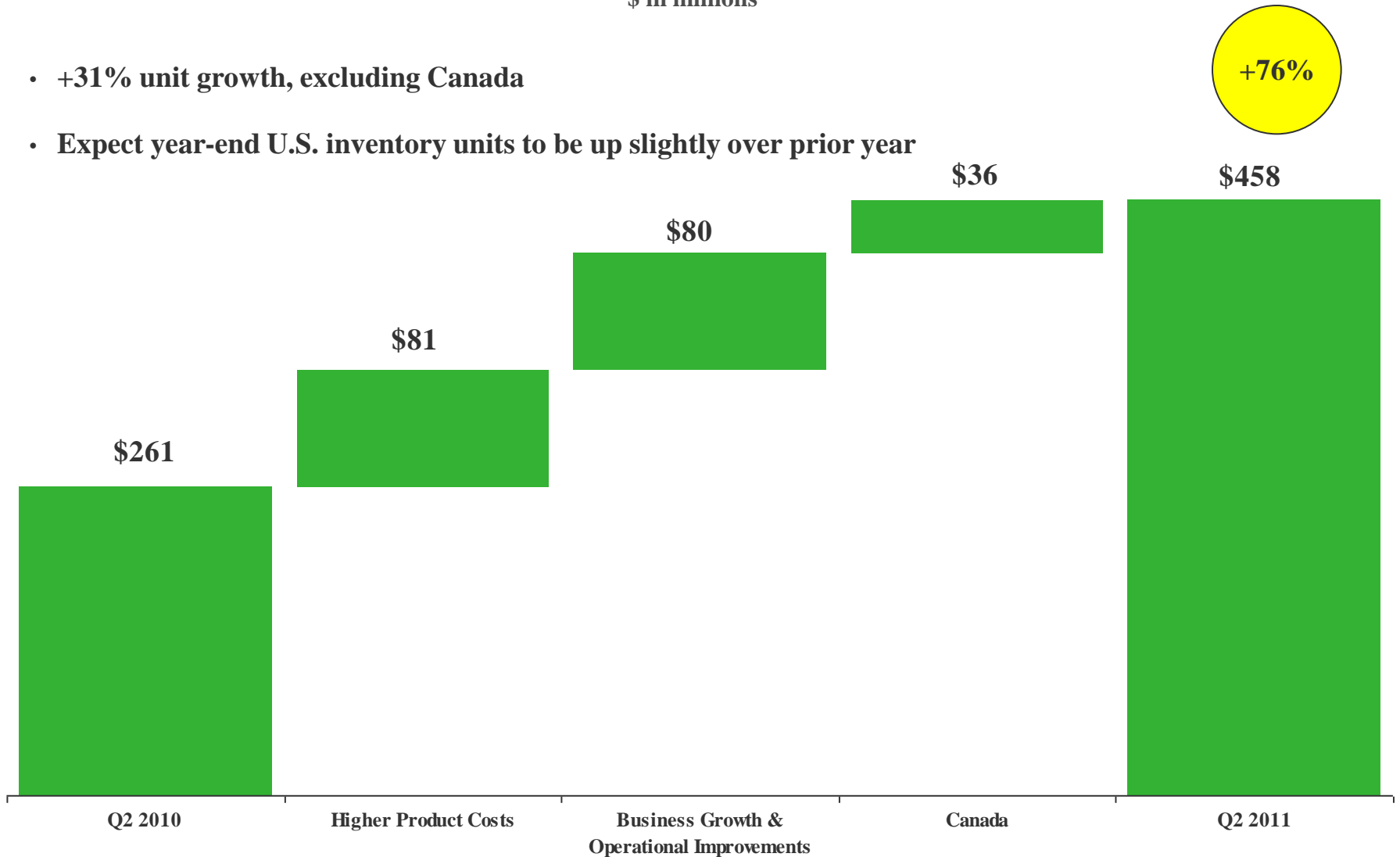
	2011	2010	
<b>Balance Sheet</b>	Cash	\$86.7	\$245.0
	Accounts Receivable	\$124.7	\$99.5
	Inventories	\$458.1	\$260.7
	Long-Term Debt	\$236.0	\$232.8
	Lease Adjusted Leverage Ratio	2.1x	1.8x
<b>Cash Flow</b>	Operating Cash Flow	(\$86.3)	\$15.3
	CapEx	(16.1)	(20.7)
	Free Cash Flow	<u>(\$102.4)</u>	<u>(\$5.4)</u>

- Bonnie Togs acquisition completed on 6/30/11
  - Balance sheet reflects initial estimated assets and liabilities of Bonnie Togs, subject to finalization of purchase accounting
  - \$62 million cash consideration paid at closing
- Accounts receivable increase due to higher wholesale and mass channel sales and timing of shipments
- Inventory increase driven primarily by higher product costs, planned growth, timing of shipments, and improved supply chain performance
- CapEx spending primarily represents new Carter's retail stores

# Second Quarter 2011 Results - Ending Net Inventory vs. LY

\$ in millions

- +31% unit growth, excluding Canada
- Expect year-end U.S. inventory units to be up slightly over prior year



# Carter's Wholesale Results

## *KEY METRICS*

	<u>Growth vs. LY</u>	
	<u>Q2</u>	<u>1<sup>st</sup> Half</u>
Net Sales	15%	23%
Units	11%	24%
Average Price	4%	(1%)

## *HIGHLIGHTS*

- Continued strong demand across the wholesale channel, including higher off-price channel sales
- Q2 average prices up 8%, excluding impact of off-price sales
- Spring 2012 bookings up high single-digits

# Mass Channel Results

## KEY METRICS

	Growth vs. LY	
	Q2	1 <sup>st</sup> Half
Net Sales	30%	10%
Units	32%	5%
Average Price	(2%)	5%

## HIGHLIGHTS

- Q2 growth in sales led by *Child of Mine*
  - Expanded doors and additional floor space
  - Earlier demand
- *Just One You* net sales down slightly in Q2 due principally to timing of orders
- Lower average price driven by product mix

# Carter's Retail Store Results

## KEY METRICS

### Growth

	Q2		1H	
	TY	LY	TY	LY
Sales*	18.5%	1.3%	14.0%	8.2%
Comps	8.1%	(4.3%)	4.5%	1.7%
UPTs	4.7%	0.2%	4.6%	1.4%
Average Price	4.1%	0.1%	1.2%	1.4%
Transactions (#)	(0.7%)	(4.7%)	(1.3%)	(1.1%)
Inventory/Door:				
Cost	36.5%	(1.1%)		
Units	10.4%	7.4%		

Brand stores	150
Outlet stores	<u>178</u>
Total stores	<u><u>328</u></u>

**+22 net  
stores  
YTD**

## HIGHLIGHTS

- Strong comparable store sales performance despite overall flat consumer traffic for the quarter
- Strong in-store execution, achieving increases in UPTs and AUR
- All regions posted comp store gains, led by the South and East regions
- Strong comp performance in Brand stores (+8.9%) which now represent nearly 40% of the comp store base

\* Excludes eCommerce sales, see page 25 for a reconciliation

# OshKosh Wholesale Results

## KEY METRICS

	Growth vs. LY	
	Q2	1 <sup>st</sup> Half
Net Sales	38%	16%
Units	23%	11%
Average Price	12%	5%

## HIGHLIGHTS

- Spring over-the-counter performance
  - Good performance in Boys
  - Girls below expectations
- Q2 sales increase driven by major wholesale customers and increased off-price channel sales
- Fall shipments planned up 8%, excluding off-price
- Spring 2012 bookings up low single-digits

# OshKosh Retail Store Results

## KEY METRICS

### Growth

	Q2		1H	
	TY	LY	TY	LY
Sales*	5.5%	(1.9%)	(0.9%)	2.2%
Comps	2.2%	(4.9%)	(4.1%)	(0.7%)
UPTs	8.4%	1.5%	3.8%	4.0%
Average Price	(6.2%)	(1.2%)	(4.2%)	(1.8%)
Transactions (#)	0.5%	(5.1%)	(3.5%)	(2.7%)
Inventory/Door:				
Cost	15.3%	(10.8%)		
Units	3.0%	(7.8%)		

## HIGHLIGHTS

- Comparable store sales increases across all store formats; Brand stores were best performing format
- Boys Playwear strongest category
- Increased inventory clearance activity at quarter end drove decrease in AUR
- Inventory levels well positioned heading into Q3

Brand stores	20
Outlet stores	<u>157</u>
Total stores	<u><u>177</u></u>

(3) net stores YTD

\* Excludes eCommerce sales, see page 25 for a reconciliation



## *ECOMMERCE NET SALES*

\$ in millions

	<u>Q2</u>	<u>1<sup>st</sup> Half</u>
Carter's	\$10.8	\$19.1
OshKosh B'Gosh	<u>3.1</u>	<u>5.8</u>
Total	<u>\$13.9</u>	<u>\$24.9</u>
Change vs. LY	\$11.1	\$21.8

## **HIGHLIGHTS**

- Q2 sales grew to 7% of total Retail segment sales
- Reaching new customers
  - 70% of Q2 shoppers were new to channel, 48% new to file
- Multi-brand and multi-channel buyers continue to be our best customers
- Continuing to enhance product offerings and site experience

**carter's** baby toddler kid little layette baby gift shop accessory shop store locator

little layette 20% off on carter's online orders of \$50 or more

Home > Little Layette

● baby girl ● baby boy ● baby neutral

*everything you need for baby*  
just what you'd expect from carter's

When you're done counting little fingers and toes, you can count on carter's to take care of the rest. We have everything from essential bodysuits and adorable outfits to bundles that arrive carefully packaged with everything baby needs, so you can focus on what really matters: enjoying every moment with your new bundle of joy.

● let's begin

welcome! checklist right size fundamentals head to toe gifts

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bodysuits	sleep & play	2-pack pants	easy outfitting sets	take-me-home sets
preemie	blankets	bibs & burp cloths	bath time	caps, mittens & booties

EVERYDAY \$6 FLAT RATE SHIPPING

**OSHKOSH** EST. 1895 *B'gosh*

BABY BOY NB-5T BOY 4-12 BABY GIRL NB-5T GIRL 4-12 DENIM SHOP B'GOSH BASICS™ CLEARANCE STORE LOCATOR

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# Acquisition of Bonnie Togs

## Strategic Rationale

- Large, attractive market
  - Under-stored vs. United States
  - Similar consumer tastes and preferences
- Strong performing licensee
- Good growth opportunities
  - Plan to open ~20 stores per year for the next several years
  - Expect \$200 million+ revenue opportunity by 2015

## Current Business Performance

- Q2 comparable store sales up high single-digits
- Expect to open 6 stores in the second half of 2011; 18 to 20 in 2012



# Bonnie Togs Co-branded Store – Toronto, Canada



## Third Quarter 2011

- Net sales +16% to +19% vs. LY (excluding Canada +9% to +12%)
  - Sales growth forecasted to be led by Canada, Carter's wholesale, Carter's retail, and eCommerce
  - Canadian revenue projected to be approximately \$30 million
  - Mass channel revenues forecasted down due to customer acceleration of shipments into Q2
- Adjusted EPS \$0.50 to \$0.60
  - \$0.03 – \$0.05 expected contribution from Canada

## Second Half Fiscal 2011

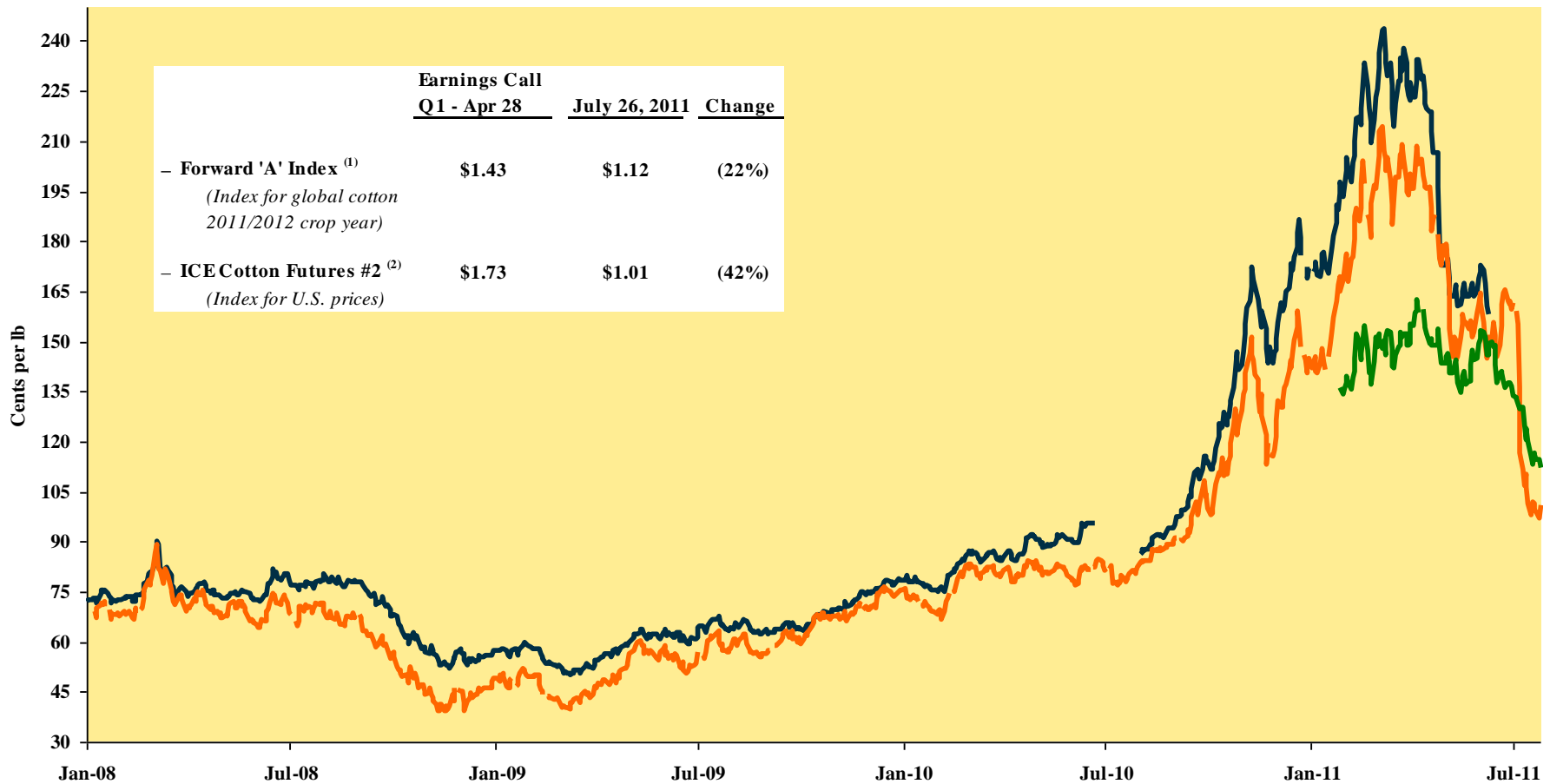
- New retail stores: Carter's 31, OshKosh 1, Canada 6
- Year-over-year increases in inventory expected to moderate in second half
- Full year CapEx of approximately \$55 million
- Full year operating cash flow \$80 to \$100 million



*Appendix*



# Cotton Price Trend



\* As a result of insufficient volumes, the 'A' Index ceased to be reported on June 10, having fallen by 9% from its value on April 28 (date of our Q1 2011 earnings call).

Source: <sup>(1)</sup> Cotton Outlook and <sup>(2)</sup> ICE. Breaks in the price curves represent dates where indices were not reported

# First Half Business Segment Performance

\$ in millions

	Net Sales			Operating Income (Loss)			Operating Margin		
	2011	2010	\$ Growth	2011	2010	\$ Growth	2011	2010	
<b><u>Carter's</u></b>									
Wholesale	\$316	\$258	\$59	\$51	\$64	(\$13)	16.1%	24.7%	
Retail (a)	281	232	49	47	45	2	16.8%	19.3%	
Mass	117	107	11	12	20	(8)	10.3%	18.4%	
<b>Total Carter's</b>	<b>\$714</b>	<b>\$596</b>	<b>\$118</b>	<b>\$110</b>	<b>\$128</b>	<b>(\$18)</b>	<b>15.4%</b>	<b>21.5%</b>	<b>(610) bps</b>
<b><u>OshKosh</u></b>									
Wholesale	\$38	\$33	\$5	\$1	\$1	(\$0)	3.0%	3.7%	
Retail (a)	111	107	4	(12)	1	(13)	(11.0%)	1.0%	
Mass				2	1	0	(b)	(b)	
<b>Total OshKosh</b>	<b>\$149</b>	<b>\$140</b>	<b>\$9</b>	<b>(\$10)</b>	<b>\$4</b>	<b>(\$13)</b>	<b>(6.4%)</b>	<b>2.5%</b>	<b>(890) bps</b>
Corporate expenses				(25)	(27)	2	(2.9%)	(3.7%)	
<b>Total, as reported</b>	<b>\$863</b>	<b>\$736</b>	<b>\$127</b>	<b>\$76</b>	<b>\$105</b>	<b>(\$29)</b>	<b>8.8%</b>	<b>14.2%</b>	<b>(540) bps</b>
Acquisition-related expenses (c)				2		2	0.3%		
<b>Total, as adjusted</b>	<b>\$863</b>	<b>\$736</b>	<b>\$127</b>	<b>\$78</b>	<b>\$105</b>	<b>(\$27)</b>	<b>9.0%</b>	<b>14.2%</b>	<b>(520) bps</b>

(a) Includes eCommerce results.

(b) Not applicable - OshKosh Mass channel operating income represents royalty income.

(c) These reconciling items are included in Corporate expenses above. See reconciliation of reported (GAAP) results to results as adjusted on page 9.



# Retail Store and eCommerce Net Sales

	\$ in millions		Variance	
	Q2		\$	%
	2011	2010		
Carter's Retail Segment Sales:				
Retail	\$132	\$112	\$21	18.5%
eCommerce	11	2	9	430.6%
<b>Total Carter's</b>	<b>\$143</b>	<b>\$114</b>	<b>\$29</b>	<b>25.8%</b>
OshKosh Retail Segment Sales:				
Retail	\$54	\$51	\$3	5.5%
eCommerce	3	1	2	301.4%
<b>Total OshKosh</b>	<b>\$57</b>	<b>\$52</b>	<b>\$5</b>	<b>9.9%</b>
<hr/>				
	First Half		Variance	
	2011	2010	\$	%
	2011	2010		
Carter's Retail Segment Sales:				
Retail	\$262	\$229	\$32	14.0%
eCommerce	19	2	17	747.3%
<b>Total Carter's</b>	<b>\$281</b>	<b>\$232</b>	<b>\$49</b>	<b>21.2%</b>
OshKosh Retail Segment Sales:				
Retail	\$105	\$106	(\$1)	(0.9%)
eCommerce	6	1	5	584.2%
<b>Total OshKosh</b>	<b>\$111</b>	<b>\$107</b>	<b>\$4</b>	<b>3.7%</b>

# Carter's Retail Store – Stamford, Connecticut





# OshKosh Retail Store – Locust Grove, Georgia



# 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 July 28, 2011, which is available at [www.carters.com](http://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 outlook and future performance, including, without limitation, statements with respect to the Company's anticipated financial results for the third quarter of fiscal 2011 and fiscal 2011, or any other future period, assessment 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 should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. Factors that could cause actual results to materially differ include: the acceptance of the Company's products in the marketplace; changes in consumer preference and fashion trends; seasonal fluctuations in the children's apparel business; negative publicity; the breach of the Company's consumer databases; increased production costs; deflationary pricing pressures and customer acceptance of higher selling prices; a continued decrease in the overall level of consumer spending; the Company's dependence on foreign supply sources; failure of foreign supply sources to meet the Company's quality standards or regulatory requirements; the impact of governmental regulations and environmental risks applicable to the Company's business; the loss of a sourcing agent; increased competition in the baby and young children's apparel market; the ability of the Company to identify new retail store locations, and negotiate appropriate lease terms for the retail stores; the ability of the Company to adequately forecast demand, which could create significant levels of excess inventory; failure to successfully integrate Bonnie Togs into our existing business and realize growth opportunities and other benefits from the acquisition; failure to achieve sales growth plans, cost savings, and other assumptions that support the carrying value of the Company's intangible assets; and the ability to attract and retain key individuals within the organization. Many of these risks are further described in the Company's most recently filed Annual Report on Form 10-K and other reports filed with the Securities and Exchange Commission under the heading "Risk Factors" and "Forward-Looking Statements." All information is provided as of July 28, 2011. The Company undertakes no obligation to publicly update or revise any forward-looking statements or other information, whether as a result of new information, future events, or otherwise.





OshKosh  
B'gosh