

carter's, inc.

Second Quarter 2017
Business Update

July 27, 2017



\$ in millions, except EPS

Net Sales

+8%

\$639.5

\$692.1

2016

2017

Adjusted Operating Income* (Adjusted Operating Margin)

+2%

\$64.0

\$65.5

10.0%
of
Net Sales

9.5%
of
Net Sales

2016

2017

Adjusted EPS*

+10%

\$0.72

\$0.79

2016

2017

- **Net sales +8%**

- Strong U.S. Retail Sales performance (comparable sales +6.0%)
- Meaningful contribution from *Skip Hop*

- **Adjusted EPS \$0.79 (+10%)**

Second Quarter 2017 Net Sales

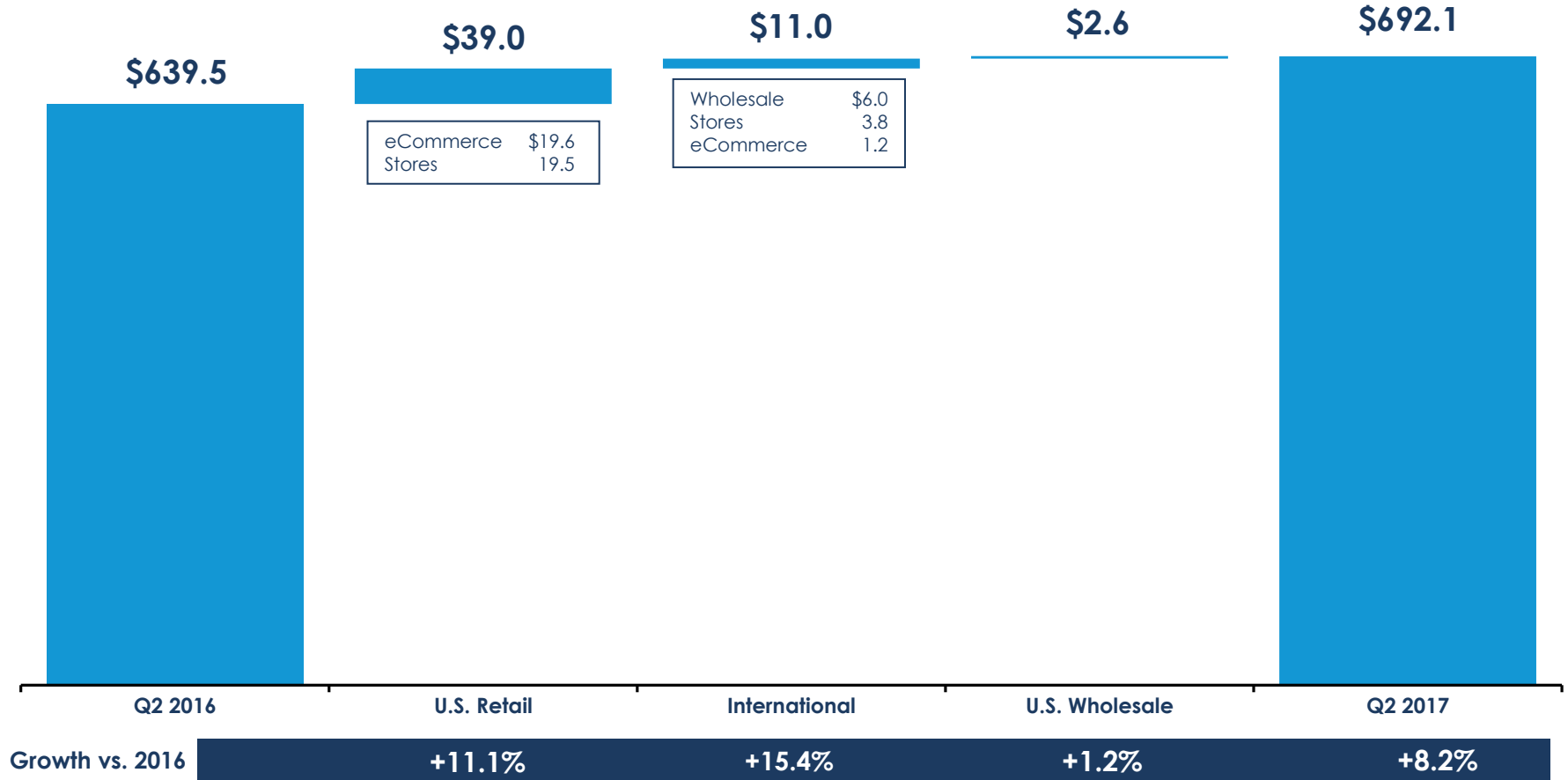
carter's

OSHKOSH *Bigosh*

SKIP*HOP

\$ in millions

+8%



| | |
|-----------|--------|
| eCommerce | \$19.6 |
| Stores | 19.5 |

| | |
|-----------|-------|
| Wholesale | \$6.0 |
| Stores | 3.8 |
| eCommerce | 1.2 |

**Constant
Currency
+19.0%**

**Constant
Currency
+8.6%**

Second Quarter 2017 Adjusted Results*

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\$ in millions, except EPS

| | Q2 2017 | % of Sales | Q2 2016 | % of Sales | Increase / (Decrease) |
|-------------------------------------|--------------------|-----------------------|--------------------|-----------------------|----------------------------------|
| Net sales | \$692.1 | | \$639.5 | | 8% |
| Gross profit* | 303.9 | 43.9% | 282.2 | 44.1% | 8% |
| Adjusted SG&A* | 249.5 | 36.1% | 227.7 | 35.6% | 10% |
| Royalty income | (11.2) | (1.6%) | (9.5) | (1.5%) | 18% |
| Adjusted operating income* | 65.5 | 9.5% | 64.0 | 10.0% | 2% |
| Interest and other, net | 6.6 | 0.9% | 7.1 | 1.1% | (8%) |
| Income before taxes | 59.0 | 8.5% | 56.9 | 8.9% | 4% |
| Income taxes | 20.4 | 2.9% | 20.2 | 3.2% | 1% |
| Adjusted net income* | \$38.6 | 5.6% | \$36.7 | 5.7% | 5% |
| Adjusted diluted EPS* | \$0.79 | | \$0.72 | | 10% |
| Weighted average shares outstanding | 48.4 | | 50.6 | | (4%) |
| Adjusted EBITDA* | \$86.9 | 12.6% | \$81.3 | 12.7% | 7% |

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 32, 33, and 36.
Note: Results may not be additive due to rounding.

Second Quarter 2017 Adjusted SG&A*



*Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 33.

Comprehensive Investment Agenda

| | | |
|---|--|--|
| eCommerce | <ul style="list-style-type: none">• Braselton distribution center capacity expansion• Website refresh & Skip Hop tab• Mobile App | <ul style="list-style-type: none">• 2017• 2017• 2017 |
| Omni-channel | <ul style="list-style-type: none">• New point of sale system enabling:<ul style="list-style-type: none">– Buy online, ship to store– In store access to full online assortment• Improved integrated digital loyalty program (<i>Rewarding Moments</i>) | <ul style="list-style-type: none">• 2015 - 2017• 2017 |
| Retail Technology & Process | <ul style="list-style-type: none">• Inventory management• Assortment planning• Price optimization• Workforce management system | <ul style="list-style-type: none">• 2017• 2017• 2017• 2017 - 2018 |
| China | <ul style="list-style-type: none">• In-country staffing• Distribution center capacity | <ul style="list-style-type: none">• 2015 - 2017• 2016 |
| Enhanced Enterprise Capabilities | <ul style="list-style-type: none">• New product lifecycle management system• Hong Kong direct sourcing operations• SAP financial systems• New demand planning system | <ul style="list-style-type: none">• 2013 - 2019• Initiated 2012; now ~50% of FOB• 2015 - 2016• 2016 |

Balance Sheet and Cash Flow

\$ in millions

| | | 2017 | 2016 |
|-------------------------------------|---------------------|-------|-------|
| Balance Sheet (at Q2 end) | Cash | \$174 | \$205 |
| | Accounts Receivable | 165 | 151 |
| | Inventory | 610 | 587 |
| | Accounts Payable | 217 | 190 |
| | Total Debt | 662 | 581 |

| | | 2017 | 2016 |
|------------------------------|-----------------------------|-------|------|
| Cash Flow (Q2 YTD) | Operating Cash Flow | \$107 | \$86 |
| | Capital Expenditures | (34) | (50) |
| | Free Cash Flow ¹ | \$73 | \$36 |

| | | 2017 | 2016 |
|--------------------------------------|-------------------|-------|-------|
| Return of Capital (Q2 YTD) | Share Repurchases | \$98 | \$180 |
| | Dividends | 36 | 34 |
| | Total | \$134 | \$214 |

- Inventory +4% vs. LY; excluding *Skip Hop*, inventories decreased 1%
- Increase in debt balance reflects short term borrowings to support seasonal working capital needs, the purchase of *Skip Hop*, and return of capital initiatives
- Free cash flow improvement reflects favorable movements in working capital and lower capital expenditures
- Returned \$134 million to shareholders through share repurchases and dividends in H1 2017

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

Business Segment Performance



Second Quarter Adjusted Business Segment Performance*

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\$ in millions

| | Net Sales | | | Adjusted Operating Income* | | | Adjusted Operating Margin* | |
|---------------------------------|---------------|---------------|--------------|----------------------------|--------------|-------------|----------------------------|--------------|
| | 2017 | 2016 | \$ Growth | 2017 | 2016 | \$ Growth | 2017 | 2016 |
| U.S. Retail (a) | \$ 392 | \$ 353 | \$ 39 | \$ 42 | \$ 37 | \$ 5 | 10.8% | 10.5% |
| U.S. Wholesale (b) | 218 | 215 | 3 | 36 | 42 | (6) | 16.6% | 19.3% |
| International (c) | 83 | 72 | 11 | 8 | 9 | (1) | 9.4% | 12.7% |
| Total before corporate expenses | 692 | 640 | 53 | 86 | 88 | (1) | 12.4% | 13.7% |
| Corporate expenses | | | | (21) | (24) | 3 | (3.0%) | (3.7%) |
| Total | \$ 692 | \$ 640 | \$ 53 | \$ 66 | \$ 64 | \$ 2 | 9.5% | 10.0% |

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

(b) Results include Carter's, Child of Mine, Just One You, Precious Firsts, Skip Hop, and Simple Joys.

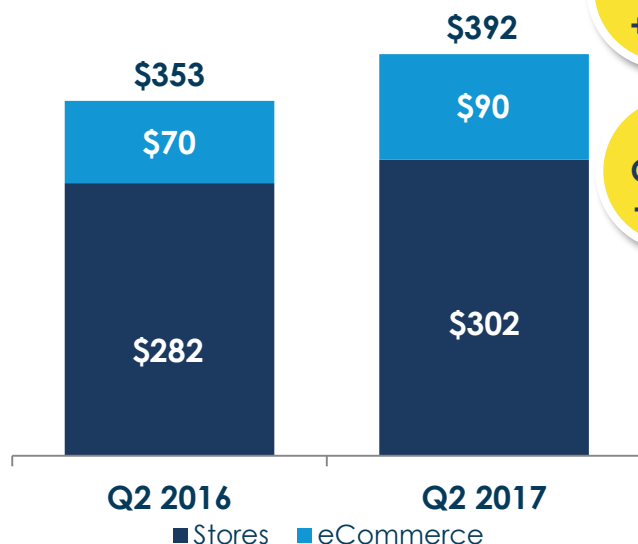
(c) Results include international stores, eCommerce, and wholesale.

* 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.

\$ in millions

Segment Net Sales



Total Sales +11%

Retail Comp +6.0%

- Q2 retail comp +6%

Stores

- Net sales +7%
- Store Comp: +0.4%
 - Co-branded and Side-by-side locations best performing store models
- Q2 ending location count: 810¹
 - 621 Stand-alone
 - 189 Dual-branded (151 Side-by-Side, 38 Co-branded)

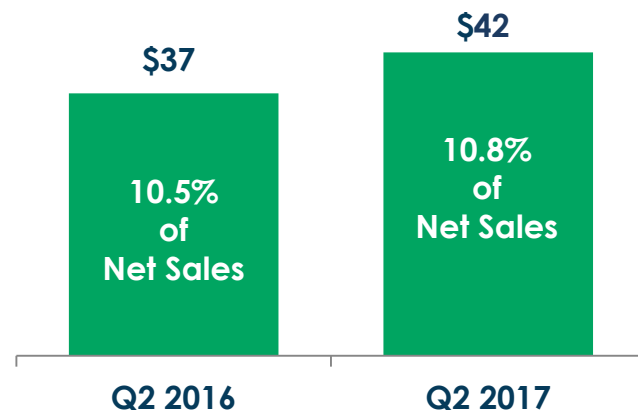
eCommerce

- Strong sales performance (+27.6% comp)
- Q2 net sales 23% of retail segment sales (vs. 20% LY)

Segment Operating Margin

- Operating margin improvement reflects strong growth in eCommerce, lower product costs, and expense leverage

Segment Operating Income*



* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 33.

¹See store count reconciliation on page 37.

Stores Play an Important Role in Our Overall Retail Strategy

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Why Open Retail Stores?

- **High proportion of our direct customers shop in our stores (~87%)**
 - ~74% shop only with us in our stores
- **New stores are an important source of new customers**
- **High return on investment**
- **Important channel of distribution as existing business changes and evolves**
 - Wholesale door closures
 - Older stores / outlet base
- **Complementary channel and capabilities to our growing eCommerce business**
- **Important branding / marketing platform**

Productivity Initiatives

- **Developed smaller, more productive store format: the co-branded store**
- **Differentiated customer experience: pairing the top two brands in young children's apparel marketplace: Carter's and OshKosh B'gosh**
- **Rigorous store portfolio management**
- **Developed leading omni-channel capabilities**
 - Buy online, ship to store
 - 'Endless aisle' – access to full assortment
 - Integrated *Rewarding Moments* loyalty program
- **Focused on improving productivity and efficiency of our stores**
- **Merchandising initiatives**
 - Extended sizes
 - *Skip Hop*
 - Size / pack optimization
- **Marketing investments – especially digital**
- **New technologies**
 - Price optimization
 - Assortment planning tool
 - Labor management technology
- **New store build-out and remodel cost reductions**

Co-branded Store – Pearland, TX (opened Q2 2017)

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Co-branded Store – Orem, UT
(opened Q1 2017)

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REWARDING MOMENTS | EXTRA! EXTRA! DOUBLE POINTS

carter's OSHKOSH SKIP*HOP

MY ACCOUNT FIND A STORE REWARDING MOMENTS SHIP TO:

FREE SHIPPING ALL ORDERS

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SEARCH

BABY GIRL NB - 24M BABY BOY NB - 24M BABY NEUTRAL NB - 24M TODDLER GIRL 2T - 3T TODDLER BOY 2T - 3T GIRL 4 - 8 BOY 4 - 8 SHOES

Home > Little Baby Basics

Little Baby Basics

baby must-haves
everything you never knew you needed... (nb-24m)

LITTLE BABY BASICS | EASY OUTFIT SETS
LITTLE COLLECTIONS | FIRST YEAR SLEEP GUIDE

your step-by-step baby style guide

STEP 1

ALL NEW

little baby basics

sweet style and design details that make every change easy (preemie-24m)

BABY GIRL BABY BOY BABY NEUTRAL

DOWNLOAD OUR MOMMY-AND-ME GUIDE

STEP 2

EASY OUTFIT SETS

pre-paired syle in two and three-piece sets

BABY GIRL BABY BOY

FREE SHIP TO STORE -OR- FREE SHIP ON \$50

OSHKOSH *B'gosh*

SEARCH

BABY GIRL NB - 24M BABY BOY NB - 24M TODDLER GIRL 2T - 3T TODDLER BOY 2T - 3T GIRL 4 - 8 BOY 4 - 8 SHOES CLEARANCE 50% OFF

SHORT-SLEEVE GRAPHIC TEES DOORBUSTER

\$5 ALL SIZES
SELECT STYLES

SHOP NOW +

#denim4days

What fits will they need this year?
We've got the skinny (and the bootcut and the jegging...!)

SHOP NOW +

JEANS \$8 & UP
DOORBUSTER

the uniform shop

Get schooled with the uniform pieces they'll need (and the details they'll jump for!) Sizes 6m-14

SHOP NOW +

POLOS \$6
DOORBUSTER

*First Item at MSRP. Additional Item of equal or lesser value. Excludes clearance, non-Carter's and non-OshKosh branded footwear, flip flops and sneek peek.

Skip Hop – Now Available on Our Website
and in Select Stores

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carter's OSHKOSH Bigosh SKIP*HOP



MY ACCOUNT



FIND A STORE



REWARDING MOMENTS

SHIP TO:



FREE SHIPPING ON YOUR \$50+ ORDER

SKIP*HOP

SEARCH

DIAPER BAGS

ON-THE-GO

PLAYTIME & TOYS

NURSERY & GEAR

MEALTIME

BATHTIME

ZOO COLLECTION

GIFTS

NOW PART OF THE FAMILY carter's | OSHKOSH Bigosh

meet the ZOO CREW

Whether off to camp, back-to-school,
or a trip to the park, our Zoo Little Kid
Backpacks hold it all.

SHOP NOW



Skip Hop – Now Available on Our Website and in Select Stores

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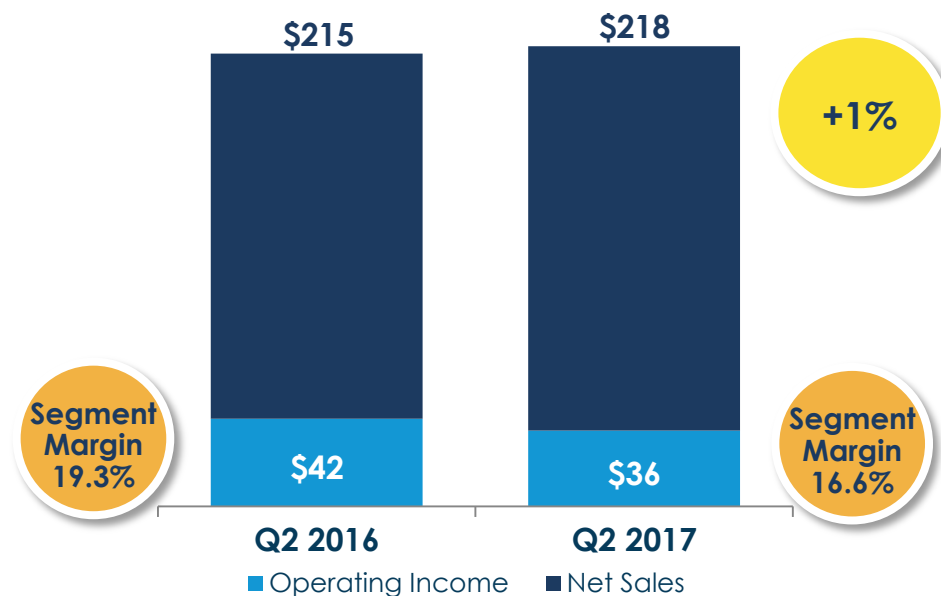
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\$ in millions
Segment Net Sales & Operating Income*



- Sales performance reflects benefit of *Skip Hop* acquisition, offset by lower demand for seasonal products
 - *Skip Hop* contributed \$15 million to net sales
 - Ex-*Skip Hop*, net sales down 6%, reflecting lower seasonal bookings
- Segment operating margin reflects addition of the *Skip Hop* business, changes in sales mix, and additional bad debt provisions
- 2017 outlook:
 - Fall 2017 bookings: down mid-single digits vs. LY
 - U.S. Wholesale full year net sales (including *Skip Hop*): up low single digits
- Spring 2018 outlook (ex-*Skip Hop*): bookings slightly lower vs. 2017

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 33.

KOHL'S



Babies "R" Us – Toddler Rollout

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BABIES R US

Wholesale Customer eCommerce Offerings

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ALL NEW!
carter's
little baby basics

SHOP NOW

Baby Boy Baby Girl Toddler Boy Toddler Girl Pjs Shoes



simple joys by carter's

find joy in the simple

Introducing our newest collection of clothing for newborns and toddlers (preemie-5T)! It's as easy to love as it is simple to buy: fresh new styles from America's most trusted brand in baby clothing.

baby girl +
preemie-24m

baby boy +
preemie-24m

baby neutral +
preemie-24m

Pick from 6-packs of 2-piece pajamas and 3-packs of 1-piece footies. Give every bedtime a storybook ending!

shop girl pjs
6m-5t

shop boy pjs
6m-5t



child of mine
made by carter's

\$4.97

Child of Mine by Carter's Newborn Baby Girl Terry Cuff Socks, 4 Pack

Child of Mine by Carter's Baby Toddler Boy Pajamas 2 Pieces

Child of Mine by Carter's Newborn Baby Boy 2 Pack Pant

Child of Mine by Carter's Newborn Baby Girl Terry Cuff Socks, 6 Pack

Child of Mine by Carter's Toddler Girl Shirt, Pant and Dress Set

Child of Mine by Carter's Newborn Baby Girl Terry Cuff Socks, 6 Pack

Child of Mine by Carter's Toddler Girl Shirt, Pant and Dress Set



Just One You Made by Carters

Target / clothing / baby ways to shop / Just One You Made by Carters (542)

just one you made by carter's

swimwear

pajamas & robes

dresses

tops

bottoms

baby essentials

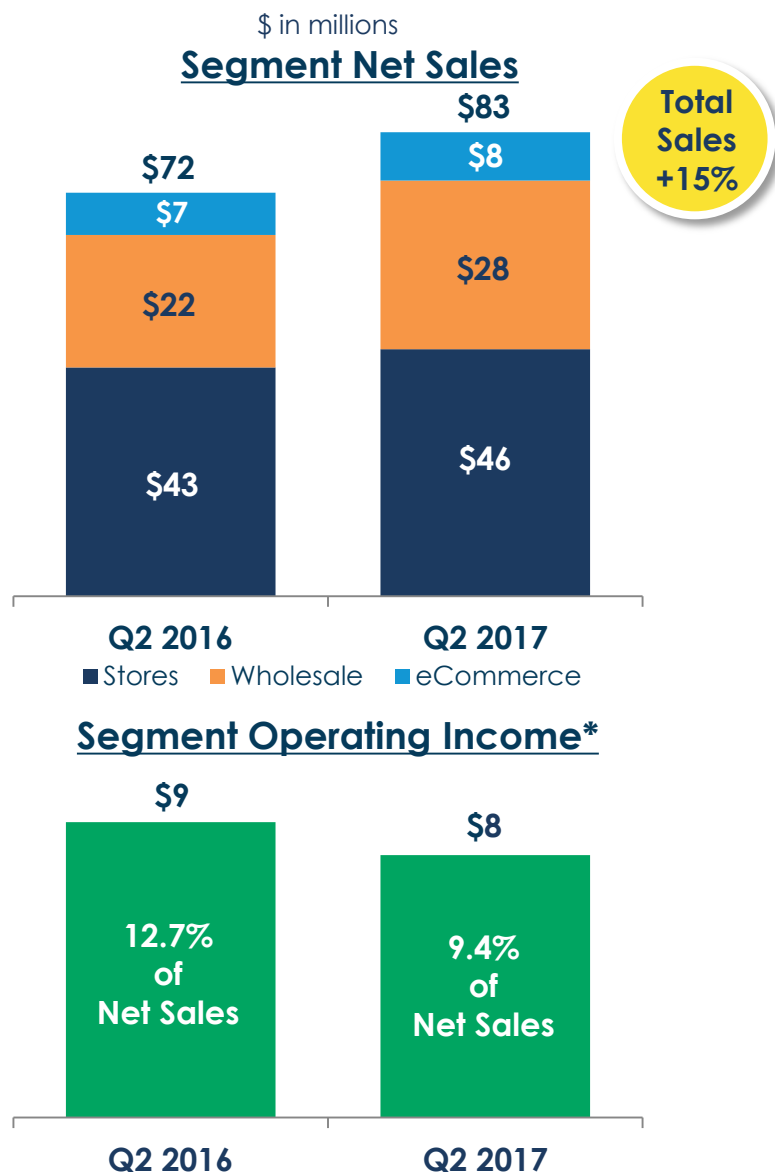
one-pieces & bodyruts

outfits

accessories & socks

shoes

birthday shop



Net Sales

- **International segment net sales +15% on a reported basis (+19% constant currency)**
 - Skip Hop contributed \$9 million to segment net sales in Q2 2017
 - Canada Retail comp: +8.2%
- **Canada Stores**
 - Net sales +9%
 - Store comp: +5.9%
 - Opened 18 net new stores in last 12 months (168 locations at Q2 end)
- **eCommerce**
 - Net sales +17%, driven by continued growth in Canada (+47% comp¹) and China (+11% comp¹)
- **Wholesale**
 - Net sales +28%; reflects benefit of *Skip Hop* contribution and growth in China, partially offset by decline in demand from partners in other markets outside of the U.S.
 - 25 stores now operated by partner in China

Segment Operating Margin

- Operating margin reflects sales mix, China operating loss, higher bad debt provisions, and inclusion of *Skip Hop*

¹ Constant currency

* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 33. Results may not be additive due to rounding.

Canada New Store Opening – Oakville Place (Ontario)

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International Partner eCommerce Site – Zalando.com (Europe)

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WOMEN MEN **KIDS** zalando

Log in Wish List My Bag

Clothing Shoes Sports Accessories Brands Sale

Search Zalando

carter's FOLLOW

BABY > BOY > **GIRL >**

SHIRTS & TOPS > PANTS > DRESSES > NIGHTWEAR >

BABY & KIDS COLLECTION

TOPS GIRL | TOPS BOY | GIRL & BOY SETS

NEWS & TRENDS

SALE into spring

SALE >

LITTLE BABY BASICS

little baby basics™ Fall in Love:

BOY NEW ARRIVALS > | GIRL NEW ARRIVALS > | VIDEO >

TOPSELLER

| | | | | | | | | | | |
|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-------------|
| | | | | | | | | | | |
| Carter's | Carter's | Carter's | Carter's | Carter's | Carter's | Carter's | Carter's | Carter's | Carter's | Carter's |
| €19.99 | €20.99 | €19.99 | €11.99 | €32.99 | €19.99 | €11.99 | €19.99 | €29.99 | €29.99 | From €16.99 |

WOMEN MEN **KIDS** zalando

Log in Wish List My Bag

Clothing Shoes Sports Accessories Brands Sale

Search Zalando

OSHKOSH B'gosh FOLLOW

BABY > **GIRL >** BOY >

SHIRTS & TOPS > PANTS > DRESSES > UNDERWEAR >

SHOP THE OSHKOSH COLLECTION

DRESS > | BOY SHORTS > | OVERALLS >

NEWS & TRENDS

World's Best Overalls™

Each pair has the same real metal hardware & durable double-stitching as the first.

NEW ARRIVALS GIRL > | **WORLD'S BEST OVERALLS >** | NEW ARRIVALS BOY >

B'gosh SALE

TOPSELLER

| | | | | | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|---------|-------------|-------------|---------|
| | | | | | | | | | | |
| OshKosh | OshKosh | OshKosh | OshKosh | OshKosh | OshKosh | OshKosh | OshKosh | OshKosh | OshKosh | OshKosh |
| €29.99 | €24.99 | €24.99 | €20.99 | €24.99 | €32.99 | €32.99 | €32.99 | From €19.99 | From €20.99 | €32.99 |

The screenshot displays the Riachuelo website interface. At the top, there is a navigation bar with links for 'ATENDIMENTO', 'NOSSAS LOJAS', 'BLOG', and 'CARTÃO RIACHUELO'. The main header features the 'RIACHUELO' logo and a secondary navigation menu with categories: 'NOVIDADES', 'FEMININO', 'MASCULINO', 'INFANTIL', 'TEENS', 'CALÇADOS', 'ACESSÓRIOS', 'BELEZA E PERFUME', 'MODA CASA', and 'OFERTAS'. The central banner shows a baby lying on a white surface, wearing a white sweater, with the 'carter's' logo overlaid. Below the banner are buttons for 'CONJUNTOS', 'BODIES', 'MACACÕES', 'PIJAMAS', 'ACESSÓRIOS', and 'DESCONTOS'. The product listing area includes a breadcrumb trail 'Página Inicial / Infantil / Carter's' and a filter bar with dropdown menus for 'Decote', 'Gola', 'Manga', 'Marca', 'Padronagem', 'Tamanho', 'Preço', and 'Cor'. A 'Relevância' dropdown and a 'TOTAL DE ITENS' indicator showing '333' are also present. Four product cards are displayed, each with an image, a title, and a price:

- PIJAMA PUPPIE CARTER'S**: R\$ 89,90
- CONJUNTO PUPPIES MOLETOM CARTER'S**: R\$ 139,90
- CONJUNTO BABYSOFT DRESS CARTER'S**: R\$ 119,90
- KIT BODY DINO CARTER'S**: R\$ 139,90

A 'TOP' button is located in the bottom right corner of the product listing area.

淘宝网 Taobao.com

carter's 官方旗舰店

评分 4.8 | 物流 4.8 | 服务 4.8

搜索 购物车

carter's 收藏

荣获天猫2017周年“受妈妈欢迎”大奖

满199元可用 \$20

满299元可用 \$50

满499元可用 \$100

满799元可用 \$5

全场免运费 单笔实付399顺丰包邮

所有商品 首页 新生宝宝 女童 男童 婴儿中性款 女幼童 男幼童 女中童 男中童 鞋 配件 品牌故事 帮助中心

ALL NEW
little baby basics[™]
新生宝宝系列
全新上市

NEW ARRIVALS
早秋新品

little baby basics[™]
新生宝宝系列全新发布

LITTLE COLLECTIONS[™]
宝宝精选系列

BRAND STORY
品牌故事

First Half 2017 Adjusted Results*

carter's

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SKIP*HOP

\$ in millions, except EPS

| | Fiscal 2017 | % of Sales | Fiscal 2016 | % of Sales | Increase / (Decrease) |
|-------------------------------------|------------------------|-----------------------|------------------------|-----------------------|----------------------------------|
| Net sales | \$1,424.9 | | \$1,363.6 | | 4% |
| Gross profit* | 619.7 | 43.5% | 593.1 | 43.5% | 4% |
| Adjusted SG&A * | 495.8 | 34.8% | 455.7 | 33.4% | 9% |
| Royalty income | (21.8) | (1.5%) | (20.6) | (1.5%) | 6% |
| Adjusted operating income* | 145.6 | 10.2% | 158.0 | 11.6% | (8%) |
| Interest and other, net | 13.3 | 0.9% | 16.9 | 1.2% | (21%) |
| Income before taxes | 132.3 | 9.3% | 141.1 | 10.3% | (6%) |
| Income taxes | 46.1 | 3.2% | 49.9 | 3.7% | (8%) |
| Adjusted net income* | \$86.2 | 6.0% | \$91.3 | 6.7% | (6%) |
| Adjusted diluted EPS* | \$1.76 | | \$1.77 | | (1%) |
| Weighted average shares outstanding | 48.6 | | 51.1 | | (5%) |
| Adjusted EBITDA* | \$187.0 | 13.1% | \$189.3 | 13.9% | (1%) |

* Results are stated on an adjusted basis; see reconciliation to GAAP on pages 34-36.
Note: Results may not be additive due to rounding.

Q3 2017

- **Net sales growth of approximately 5%**
 - Growth driven by U.S. Retail business and contribution from *Skip Hop*
- **Adjusted EPS approximately comparable to LY (\$1.61 LY)**
- **Expect continued investment in growth initiatives**
 - eCommerce
 - New stores
 - Technology
 - Marketing
 - China start up costs
 - *Skip Hop* integration

Fiscal Year 2017

- **Reaffirming full year guidance**
 - Net sales growth of approximately 4% to 6%
 - Adjusted EPS growth of approximately 8% to 10% (vs. \$5.14 LY)
- **Store openings / closures**
 - U.S.: ~60 new stores; ~12 closures
 - Canada: ~15 new stores; ~2 closures
- **Operating Cash Flow approximately \$300 to \$325 million**
- **CapEx approximately \$90 million**





thank you.



appendix

Second Quarter Reconciliation of Net Income Allocable to Common Shareholders

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| | Fiscal Quarter Ended | |
|---|----------------------|--------------|
| | July 1, 2017 | July 2, 2016 |
| Weighted-average number of common and common equivalent shares outstanding: | | |
| Basic number of common shares outstanding | 47,863,618 | 50,143,568 |
| Dilutive effect of equity awards | 550,726 | 469,114 |
| Diluted number of common and common equivalent shares outstanding | 48,414,344 | 50,612,682 |

| | Fiscal Quarter Ended | | | |
|--|-----------------------------|------------------|------------------|------------------|
| | As reported on a GAAP Basis | | As adjusted (a) | |
| | July 1, 2017 | July 2, 2016 | July 1, 2017 | July 2, 2016 |
| <i>\$ in thousands, except EPS</i> | | | | |
| Basic net income per common share: | | | | |
| Net income | \$ 37,925 | \$ 36,198 | \$ 38,559 | \$ 36,697 |
| Income allocated to participating securities | (291) | (280) | (297) | (283) |
| Net income available to common shareholders | <u>\$ 37,634</u> | <u>\$ 35,919</u> | <u>\$ 38,263</u> | <u>\$ 36,414</u> |
| Basic net income per common share | \$0.79 | \$0.72 | \$0.80 | \$0.73 |
| Diluted net income per common share: | | | | |
| Net income | \$ 37,925 | \$ 36,198 | \$ 38,559 | \$ 36,697 |
| Income allocated to participating securities | (290) | (278) | (295) | (281) |
| Net income available to common shareholders | <u>\$ 37,636</u> | <u>\$ 35,920</u> | <u>\$ 38,265</u> | <u>\$ 36,415</u> |
| Diluted net income per common share | \$0.78 | \$0.71 | \$0.79 | \$0.72 |

(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 \$0.5 million in after-tax expenses from these results for the fiscal quarters ended July 1, 2017 and July 2, 2016, respectively.

Note: Results may not be additive due to rounding.

Second Quarter Reconciliation of Reported to Adjusted Earnings

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\$ in millions, except EPS

Segment Reporting

| Second Quarter of Fiscal 2017 | Gross Margin | % of sales | SG&A | % of sales | Operating Income | % of sales | Net Income | Diluted EPS | U.S. Retail Operating Income | % of segment net sales | U.S. Wholesale Operating Income | % of segment net sales | International Operating Income | % of segment net sales | Corporate Operating Expenses | % of total net sales |
|--------------------------------|----------------|------------|----------------|------------|------------------|------------|---------------|---------------|------------------------------|------------------------|---------------------------------|------------------------|--------------------------------|------------------------|------------------------------|----------------------|
| As reported (GAAP) | \$303.5 | 43.8% | \$250.1 | 36.1% | \$64.5 | 9.3% | \$37.9 | \$0.78 | \$42.3 | 10.8% | \$35.8 | 16.4% | \$7.6 | 9.2% | (\$21.2) | (3.1%) |
| Acquisition-related costs | 0.4 | | (0.6) | | 1.0 | | 0.6 | 0.01 | 0.1 | | 0.2 | | 0.1 | | 0.6 | |
| Direct sourcing initiative (a) | - | | (0.1) | | 0.1 | | - | - | - | | - | | - | | 0.1 | |
| As adjusted | \$303.9 | 43.9% | \$249.5 | 36.1% | \$65.5 | 9.5% | \$38.6 | \$0.79 | \$42.4 | 10.8% | \$36.0 | 16.6% | \$7.7 | 9.4% | (\$20.6) | (3.0%) |

Segment Reporting

| Second Quarter of Fiscal 2016 | Gross Margin | % of sales | SG&A | % of sales | Operating Income | % of sales | Net Income | Diluted EPS | Corporate Operating Expenses | % of total net sales |
|-------------------------------|----------------|------------|----------------|------------|------------------|------------|---------------|---------------|------------------------------|----------------------|
| As reported (GAAP) | \$282.2 | 44.1% | \$228.5 | 35.7% | \$63.2 | 9.9% | \$36.2 | \$0.71 | (\$24.3) | (3.8%) |
| Amortization of tradename | - | | (0.8) | | 0.8 | | 0.5 | 0.01 | 0.8 | |
| As adjusted | \$282.2 | 44.1% | \$227.7 | 35.6% | \$64.0 | 10.0% | \$36.7 | \$0.72 | (\$23.5) | (3.7%) |

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

Note: Results may not be additive due to rounding.

First Half Reconciliation of Net Income Allocable to Common Shareholders

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| | Two Fiscal Quarters Ended | |
|---|---------------------------|--------------|
| | July 1, 2017 | July 2, 2016 |
| Weighted-average number of common and common equivalent shares outstanding: | | |
| Basic number of common shares outstanding | 48,093,155 | 50,660,278 |
| Dilutive effect of equity awards | 552,866 | 468,632 |
| Diluted number of common and common equivalent shares outstanding | 48,646,021 | 51,128,910 |

| | Two Fiscal Quarters Ended | | | |
|--|-----------------------------|------------------|------------------|------------------|
| | As reported on a GAAP Basis | | As adjusted (a) | |
| | July 1, 2017 | July 2, 2016 | July 1, 2017 | July 2, 2016 |
| <i>\$ in thousands, except EPS</i> | | | | |
| Basic net income per common share: | | | | |
| Net income | \$ 84,589 | \$ 90,178 | \$ 86,167 | \$ 91,276 |
| Income allocated to participating securities | (660) | (720) | (673) | (729) |
| Net income available to common shareholders | <u>\$ 83,929</u> | <u>\$ 89,458</u> | <u>\$ 85,494</u> | <u>\$ 90,547</u> |
| Basic net income per common share | \$1.75 | \$1.77 | \$1.78 | \$1.79 |
| Diluted net income per common share: | | | | |
| Net income | \$ 84,589 | \$ 90,178 | \$ 86,167 | \$ 91,276 |
| Income allocated to participating securities | (656) | (716) | (668) | (725) |
| Net income available to common shareholders | <u>\$ 83,933</u> | <u>\$ 89,463</u> | <u>\$ 85,498</u> | <u>\$ 90,551</u> |
| Diluted net income per common share | \$1.73 | \$1.75 | \$1.76 | \$1.77 |

(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 \$1.6 million and \$1.1 million in after-tax expenses from these results for the two fiscal quarters ended July 1, 2017 and July 2, 2016, respectively.

First Half Reconciliation of Reported to Adjusted Earnings

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\$ in millions, except EPS

| First Half of Fiscal 2017 | Gross Margin | % of sales | SG&A | % of sales | Operating Income | % of sales | Net Income | Diluted EPS | Segment Reporting | | | | | | | |
|--------------------------------|----------------|------------|----------------|------------|------------------|------------|---------------|---------------|------------------------------|------------------------|---------------------------------|----------------------|--------------------------------|------------------------|------------------------------|----------------------|
| | | | | | | | | | U.S. Retail Operating Income | % of segment net sales | U.S. Wholesale Operating Income | % of total net sales | International Operating Income | % of segment net sales | Corporate Operating Expenses | % of total net sales |
| As reported (GAAP) | \$619.3 | 43.5% | \$497.9 | 34.9% | \$143.1 | 10.0% | \$84.6 | \$1.73 | \$72.2 | 9.6% | \$105.5 | 20.7% | \$11.3 | 7.1% | (\$45.9) | (3.2%) |
| Acquisition related costs | 0.4 | | (1.8) | | 2.2 | | 1.4 | 0.03 | 0.1 | | 0.2 | | 0.1 | | 1.8 | |
| Direct sourcing initiative (a) | - | | (0.3) | | 0.3 | | 0.2 | - | - | | - | | - | | 0.3 | |
| As adjusted | \$619.7 | 43.5% | \$495.8 | 34.8% | \$145.6 | 10.2% | \$86.2 | \$1.76 | \$72.3 | 9.6% | \$105.7 | 20.7% | \$11.4 | 7.2% | (\$43.8) | (3.1%) |

| First Half 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) | \$593.1 | 43.5% | \$457.5 | 33.5% | \$156.3 | 11.5% | \$90.2 | \$1.75 | (\$47.6) | (3.5%) |
| Amortization of tradename | - | | (1.7) | | 1.7 | | 1.1 | 0.02 | 1.7 | |
| As adjusted | \$593.1 | 43.5% | \$455.7 | 33.4% | \$158.0 | 11.6% | \$91.3 | \$1.77 | (\$45.9) | (3.4%) |

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

Reconciliation of Net Income to Adjusted EBITDA

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\$ in millions

| | Fiscal Quarter Ended | | Two Fiscal Quarters Ended | | Four Fiscal Quarters Ended |
|-----------------------------------|----------------------|----------------|---------------------------|-----------------|----------------------------|
| | July 1, 2017 | July 2, 2016 | July 1, 2017 | July 2, 2016 | July 1, 2017 |
| Net income | \$ 37.9 | \$ 36.2 | \$ 84.6 | \$ 90.2 | \$ 252.5 |
| Interest expense | 7.2 | 6.8 | 14.3 | 13.5 | 27.8 |
| Interest income | (0.1) | (0.2) | (0.2) | (0.4) | (0.4) |
| Tax expense | 20.0 | 19.9 | 45.2 | 49.2 | 133.9 |
| Depreciation and amortization (a) | 20.8 | 18.6 | 40.6 | 36.7 | 75.0 |
| EBITDA | \$ 85.9 | \$ 81.3 | \$ 184.4 | \$ 189.3 | \$ 491.2 |
| Adjustments to EBITDA | | | | | |
| Acquisition related costs | \$ 1.0 | \$ - | \$ 2.2 | \$ - | \$ 4.6 |
| Direct sourcing initiative (b) | 0.1 | - | 0.3 | - | 1.0 |
| Adjusted EBITDA | \$ 86.9 | \$ 81.3 | \$ 187.0 | \$ 189.3 | \$ 496.7 |

(a) Includes amortization of acquired tradename.

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

Store Count Data

| | Single-brand | Dual-brand | | | Total Retail Stores |
|-------------------------------------|-------------------------|--------------------------|------------------------|--------------------------|---------------------|
| | U.S. Stand-alone Format | U.S. Side-by-Side Format | U.S. Co-branded Format | Canada Co-branded Format | |
| Store count at July 2, 2016 | 642 | 119 | 6 | 150 | 917 |
| Openings (a) | 18 | 24 | 16 | 20 | 78 |
| Closings (a) | (12) | - | - | (2) | (14) |
| Conversions to dual-branded formats | (27) | 8 | 16 | - | (3) |
| Store count at July 1, 2017 | 621 | 151 | 38 | 168 | 978 |

(a) Includes 1 relocation in the U.S.

Forward-looking Statements and Other Information

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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 27, 2017 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 third quarter of fiscal 2017 and fiscal year 2017, 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 heading "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; 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 July 27, 2017. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.