carter's, inc.

Second Quarter 2018 Business Update

July 26, 2018

Second Quarter 2018 Results (GAAP Basis)

carter's

$ in millions, except EPS

	Q2 2018	% of Sales	Q2 2017	% of Sales	Increase / (Decrease)
Net sales	$696		$692		1%
Gross profit	310	44.5%	303	43.8%	2%
Royalty income	10	1.5%	11	1.6%	(8%)
SG&A	263	37.8%	250	36.2%	5%
Operating income	57	8.2%	64	9.3%	(11%)
Interest and other, net	9	1.2%	7	0.9%	32%
Income before taxes	48	6.9%	58	8.3%	(16%)
Income taxes	11		20		(45%)
Net income	$37	5.4%	$38	5.5%	(1%)
Diluted EPS	$0.79		$0.77		2%
Weighted average shares outstanding	47		48		(3%)
EBITDA[1]	$78	11.2%	$86	12.4%	(9%)

[1] Non-GAAP measure; see reconciliation to net income on page 32.
Note: Results may not be additive due to rounding.

Second Quarter 2018 Highlights

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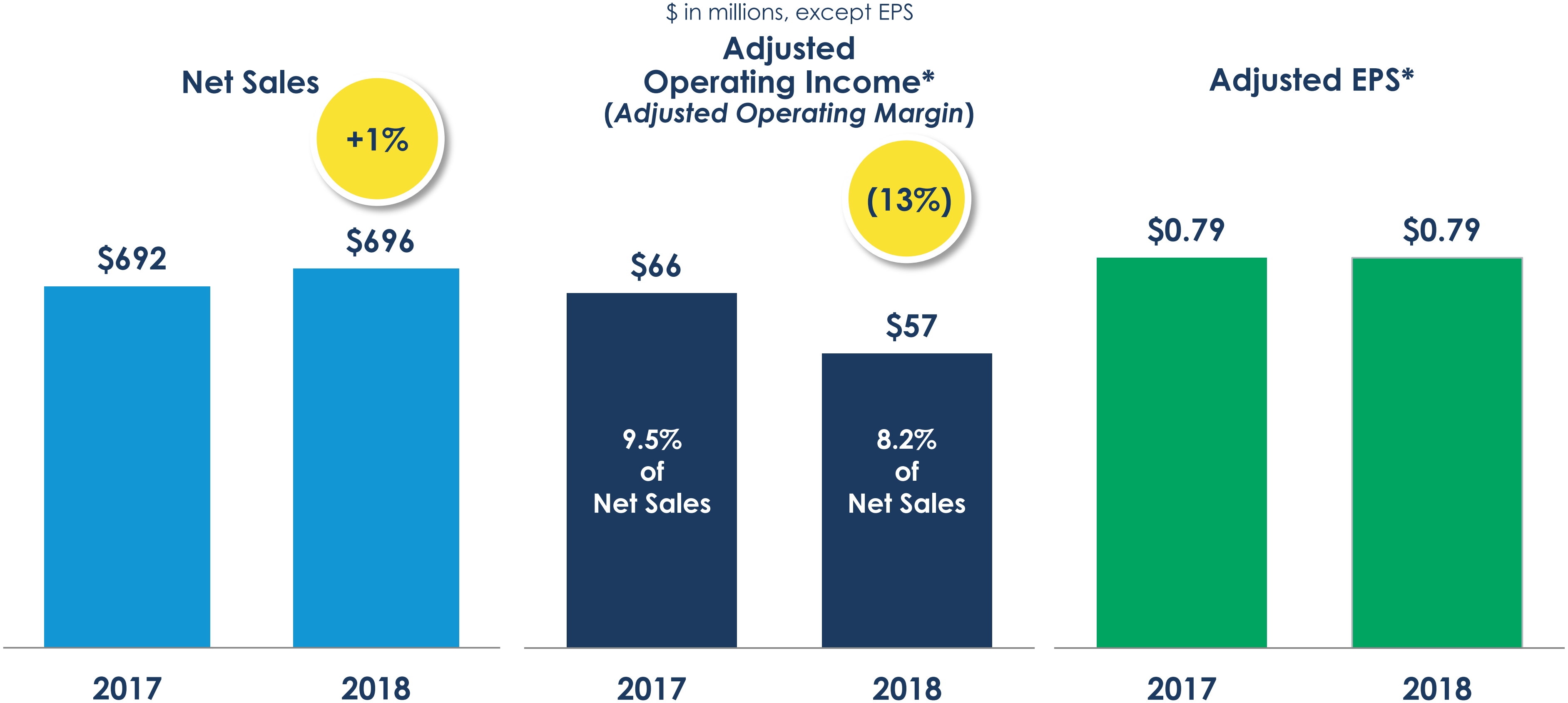


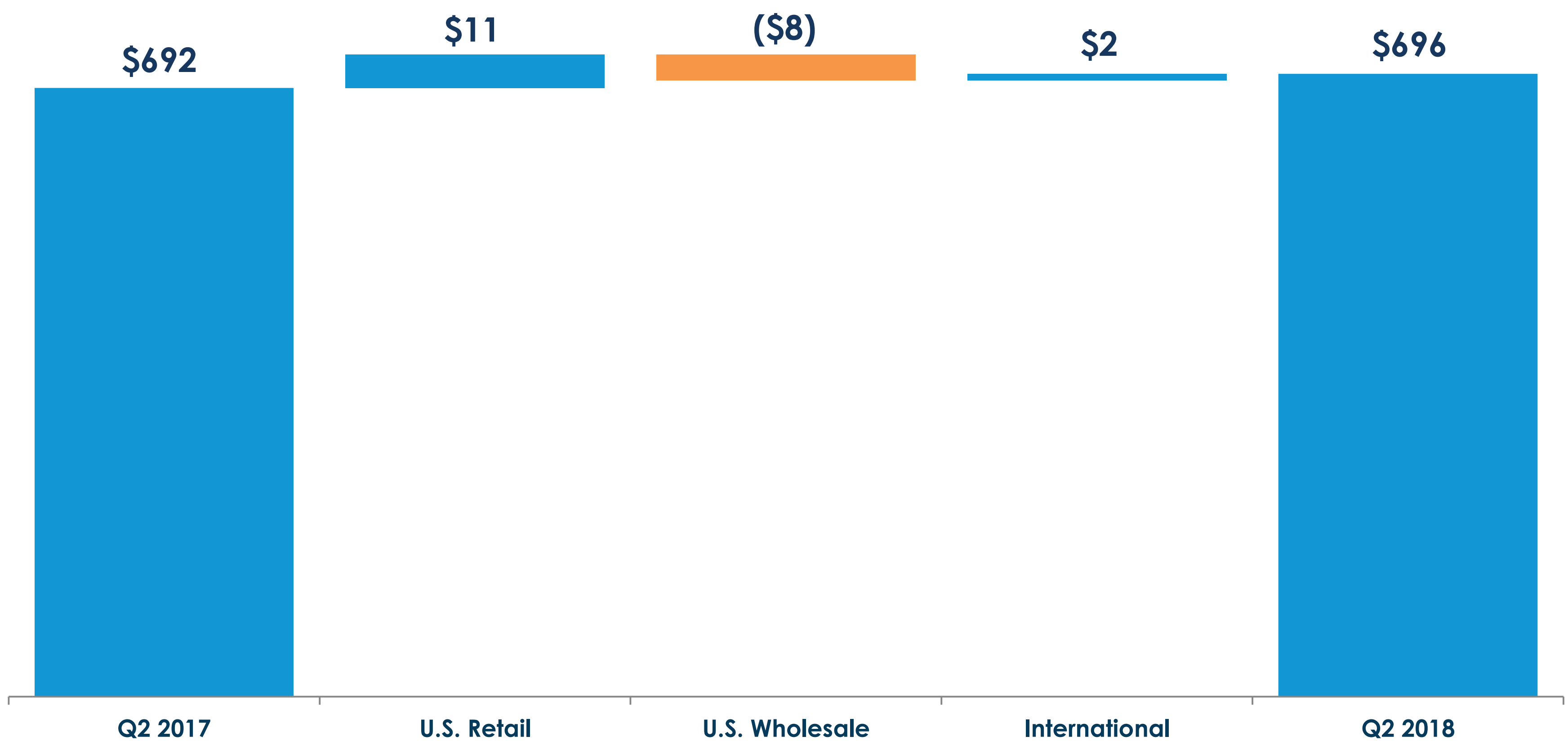
- **Net sales +1%**
  - Growth in U.S. and Canada Retail businesses & contribution from Mexico offset by discontinued sales to Toys "R" Us and Bon-Ton (combined sales of $26 million in Q2 2017)
- **Adjusted operating profit $57 million (vs. $66 million LY), driven by higher investment spending and lower wholesale revenue, partially offset by higher gross margin rate**
- **Adjusted EPS comparable to LY; reflects benefit from tax reform and lower share count**

** Results are stated on an adjusted basis; see reconciliation to GAAP on pages 28 and 29.*

Second Quarter 2018 Net Sales

$ in millions

+1%



	U.S. Retail	U.S. Wholesale	International	Q2 2018
Growth vs. 2017	+2.7%	(3.8%)	+2.6%	+0.6%
			Constant Currency (0.6%)	Constant Currency +0.3%

Note: Results may not be additive due to rounding.

Second Quarter 2018 Adjusted Results*

carter's

$ in millions, except EPS

	Q2 2018	% of Sales	Q2 2017	% of Sales	Increase / (Decrease)
Net sales	$696		$692		1%
Gross profit	310	44.5%	304	43.9%	2%
Royalty income	10	1.5%	11	1.6%	(8%)
Adjusted SG&A*	263	37.8%	249	36.0%	6%
Adjusted operating income*	57	8.2%	66	9.5%	(13%)
Interest and other, net	9	1.2%	7	0.9%	32%
Income before taxes	48	6.9%	59	8.5%	(18%)
Income taxes	11		20		(46%)
Adjusted net income*	$37	5.4%	$39	5.6%	(3%)
Adjusted diluted EPS*	$0.79		$0.79		-
Weighted average shares outstanding	47		48		(3%)
Adjusted EBITDA*	$78	11.2%	$87	12.6%	(11%)

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

First Half 2018 Results (GAAP Basis)

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$ in millions, except EPS

	1H 2018	% of Sales	1H 2017	% of Sales	Increase / (Decrease)
Net sales	$1,452		$1,425		2%
Gross profit	642	44.2%	619	43.4%	4%
Royalty income	18	1.3%	22	1.5%	(16%)
SG&A	544	37.4%	498	35.0%	9%
Operating income	117	8.1%	143	10.0%	(18%)
Interest and other, net	16	1.1%	13	0.9%	21%
Income before taxes	101	7.0%	129	9.1%	(22%)
Income taxes	21		45		(52%)
Net income	$80	5.5%	$84	5.9%	(6%)
Diluted EPS	$1.68		$1.72		(3%)
Weighted average shares outstanding	47		49		(3%)
EBITDA[1]	$161	11.1%	$184	12.9%	(13%)

[1] *Non-GAAP measure; see reconciliation to net income on page 32.*

Note: Results may not be additive due to rounding.

First Half 2018 Adjusted Results*

carter's

$ in millions, except EPS

	1H 2018	% of Sales	1H 2017	% of Sales	Increase / (Decrease)
Net sales	$1,452		$1,425		2%
Gross profit	642	44.2%	619	43.5%	4%
Royalty income	18	1.3%	22	1.5%	(16%)
Adjusted SG&A*	531	36.6%	495	34.8%	7%
Adjusted operating income*	130	8.9%	146	10.2%	(11%)
Interest and other, net	16	1.1%	13	0.9%	21%
Income before taxes	114	7.8%	133	9.3%	(14%)
Income taxes	24		46		(47%)
Adjusted net income*	$89	6.1%	$86	6.1%	3%
Adjusted diluted EPS*	$1.88		$1.76		7%
Weighted average shares outstanding	47		49		(3%)
Adjusted EBITDA*	$173	11.9%	$187	13.1%	(8%)

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

Balance Sheet and Cash Flow

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$ in millions

Balance Sheet (at Q2 end)

	2018	2017
Cash	$183	$174
Accounts Receivable	153	165
Inventory	663	610
Accounts Payable	217	217
Long-Term Debt	683	662

Cash Flow (Q2 YTD)

	2018	2017
Operating Cash Flow	$103	$107
Capital Expenditures	(32)	(34)
Free Cash Flow[1]	$71	$73

Return of Capital (Q2 YTD)

	2018	2017
Share Repurchases	$89	$98
Dividends	42	36
Total	$131	$134

- Inventory +9% vs. LY, primarily driven by new businesses (Amazon, *Skip Hop*, and Mexico)
  - Projecting mid-single digit increase in inventory at year-end
- First half free cash flow roughly comparable to last year
  - Forecasting full year operating cash flow of approximately $350 to $375 million
- Returned $131 million to shareholders through share repurchases and dividends in the first half of 2018

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

Business Segment Performance

Second Quarter 2018
Adjusted Business Segment Performance*

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$ in millions

	Net Sales			Adjusted Operating Income*			Adjusted Operating Margin*	
	2018	2017	$ Growth	2018	2017	$ Growth	2018	2017
U.S. Retail (a)	**$402**	**$391**	**$11**	**$45**	**$42**	**$3**	**11.3%**	**10.8%**
U.S. Wholesale	**209**	**218**	**(8)**	**30**	**36**	**(6)**	**14.5%**	**16.6%**
International (b)	**85**	**83**	**2**	**4**	**8**	**(3)**	**5.1%**	**9.4%**
Total before corporate expenses	696	692	4	80	86	(6)	11.5%	12.4%
Corporate expenses				**(23)**	**(20)**	**(3)**	**(3.3%)**	**(2.9%)**
Total	**$696**	**$692**	**$4**	**$57**	**$66**	**($9)**	**8.2%**	**9.5%**

(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 29.*
Note: Results may not be additive due to rounding.

First Half 2018
Adjusted Business Segment Performance*

carter's

$ in millions

	Net Sales			Adjusted Operating Income*			Adjusted Operating Margin*	
	2018	2017	$ Growth	2018	2017	$ Growth	2018	2017
U.S. Retail (a)	**$786**	**$755**	**$30**	**$75**	**$72**	**$3**	**9.5%**	**9.5%**
U.S. Wholesale	**490**	**510**	**(20)**	**93**	**106**	**(12)**	**19.0%**	**20.7%**
International (b)	**176**	**159**	**17**	**8**	**11**	**(3)**	**4.6%**	**7.2%**
Total before corporate expenses	1,452	1,425	27	176	189	(13)	12.1%	13.3%
Corporate expenses				**(46)**	**(43)**	**(3)**	**(3.2%)**	**(3.0%)**
Total	**$1,452**	**$1,425**	**$27**	**$130**	**$146**	**($16)**	**8.9%**	**10.2%**

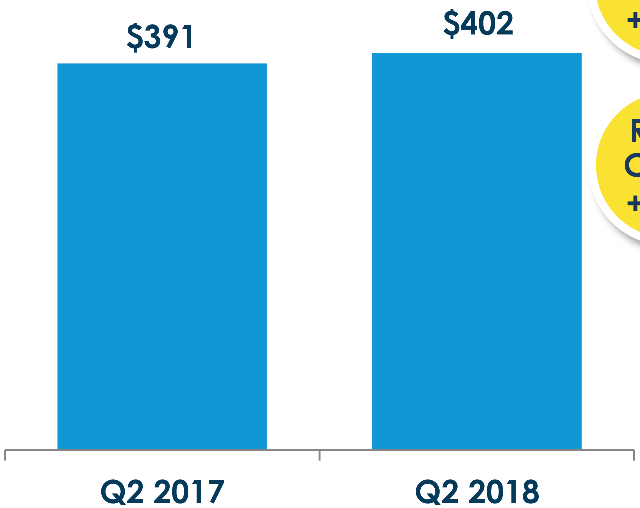
(a) Results include U.S. stores and eCommerce.
(b) Results include international stores, eCommerce, and wholesale.

** 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.

Second Quarter Highlights – U.S. Retail

$ in millions

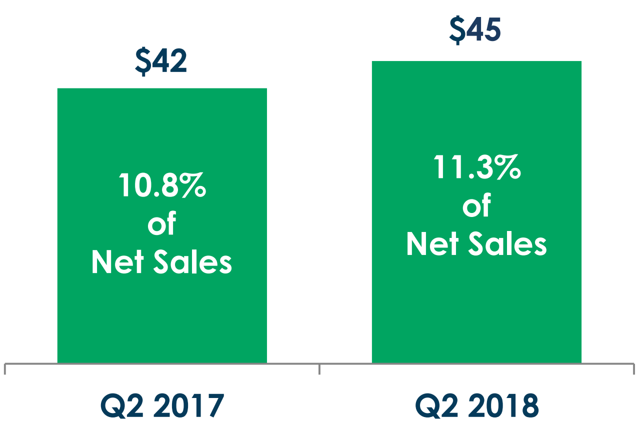
Segment Net Sales



Total Sales +2.7%

Retail Comp +0.9%

Segment Adj. Operating Income*

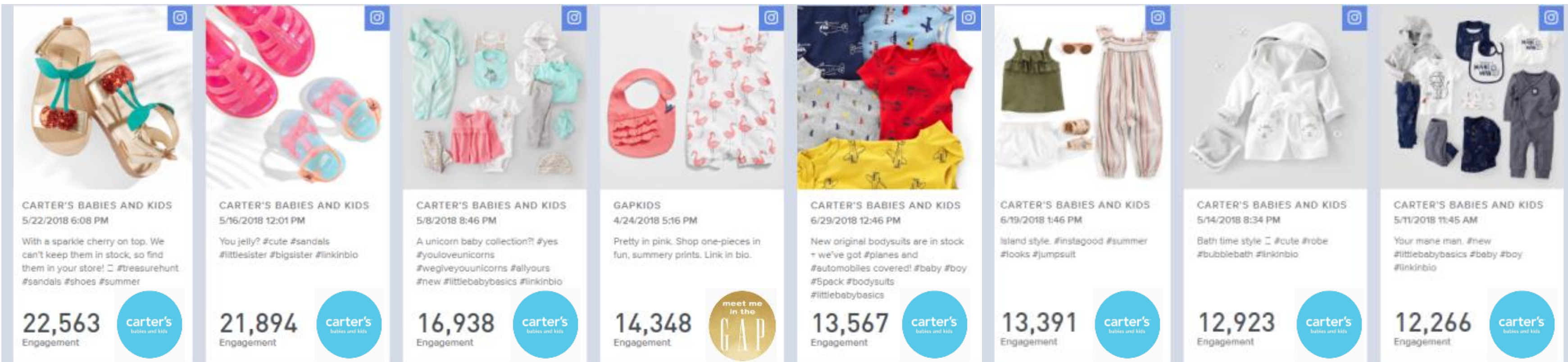


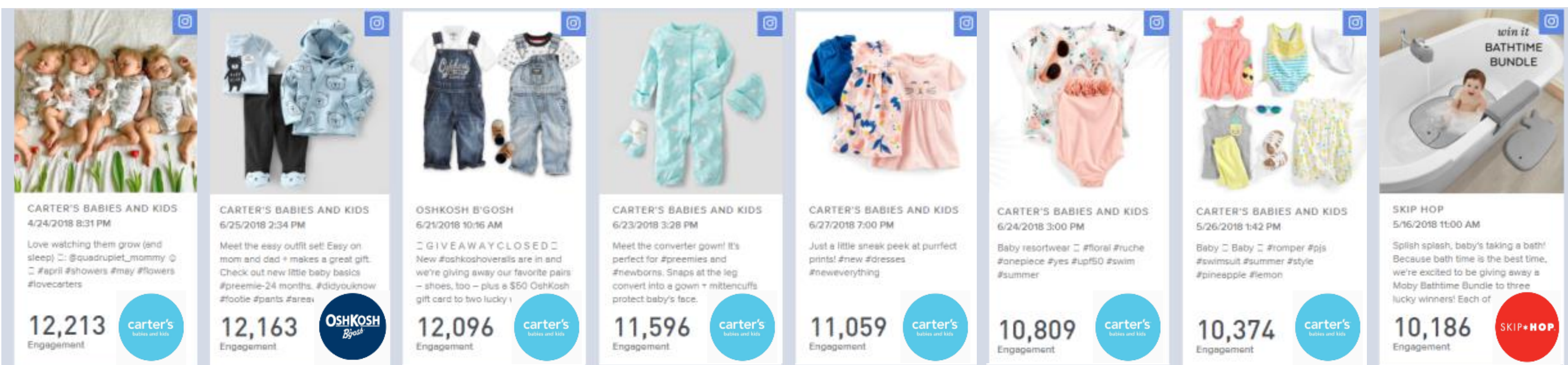
Q2 Highlights

- **Q2 Retail comp +0.9% (1H comp +1.9%)**
  - Strong comp in May as spring-like weather arrived in more parts of the U.S.
- **Co-branded format remains best performing store model**
- **Portfolio optimization initiative**
  - YTD opened 23 stores, closed 27
  - 2018 outlook: ~50 openings, ~35 closings
  - Sales transfer from closed doors >20%
- **Segment adj. operating margin 11.3% vs. 10.8% LY (+50 bps)**
  - Reflects improved price realization and lower product costs, partially offset by investments in marketing and eCommerce fulfillment
- **Key 2H 2018 initiatives / drivers**
  - Launch of *Carter's KID* age-up initiative
  - eCommerce shipping speed
  - Toys "R" Us / Bon-Ton sales recapture
  - Benefit of marketing investments
  - Store productivity (higher mix of co-branded stores)

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 29.*

Carter's, OshKosh & *Skip Hop* Instagram Posts Earned 15 of the Top 16 Engagement Scores Among Peers in Q2





Source: Third-party engagement scoring on Instagram from 4/1/18 through 6/30/18.
Note: Peer set includes The Children's Place, Gymboree, Hanna Andersson, and Gap Kids

With You From the Start – Strong Response to New Brand Campaign

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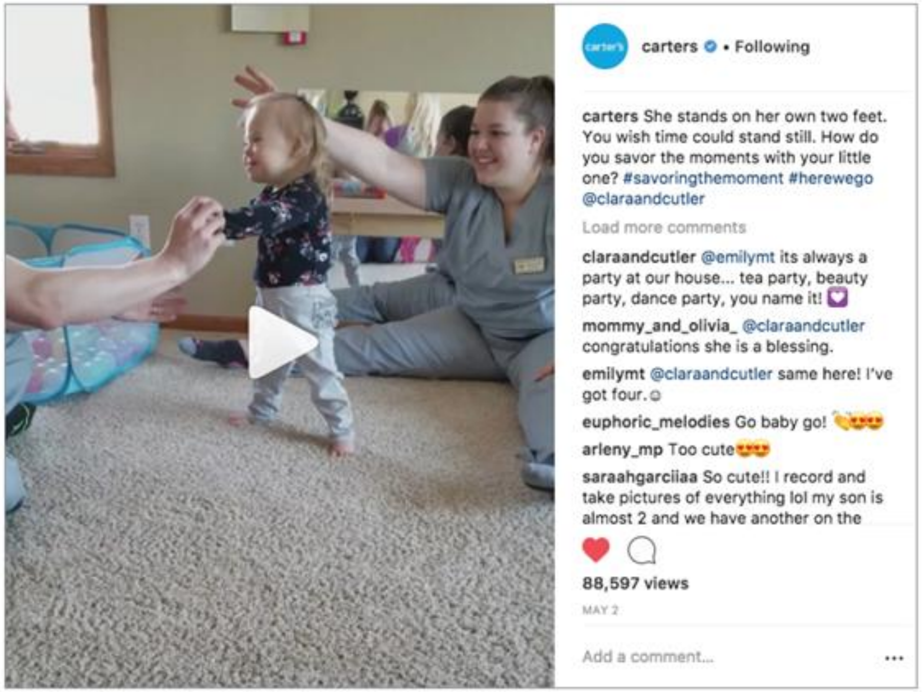
300M TOTAL IMPRESSIONS

50M TOTAL VIDEO VIEWS

Campaign produced our top performing Instagram video of all time.



With You From the Start – Carter's KID

U.S. Retail *Carter's KID* Display – Atlanta, GA

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Carter's *KID* – Very Favorable Customer Feedback

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Carter's is the best! I'm so happy you have extended the sizes!! My son and daughter are 7 years apart, and now she will be able to continue to wear matching jammies with her little Brother!! 😍😍

Carter's has always been my favorite baby store, and I'm so glad I can continue to shop there as my kids grow up. Checked out the new line this weekend and had so much fun matching all three kiddos

So awesome you extended sizes! You make fashionable and yet affordable clothing! Love how versatile everything is.

Love the uplifting positive messages for young girls!

Thank you!!! My daughter loves @carters and its hard to find matching clothes for a 9 year old and 2 year old. You've made our day by extending the size range!

I'm sooooo excited about your addition of bigger sizes!!! It was perfectly timed...because my son's size 8 now and I was really sad thinking that I wouldn't be able to shop for him at Carter's anymore. Now I can. YAY! Thank you, Carter's!!! ❤️#onehappymomma

OshKosh – Back to School Marketing

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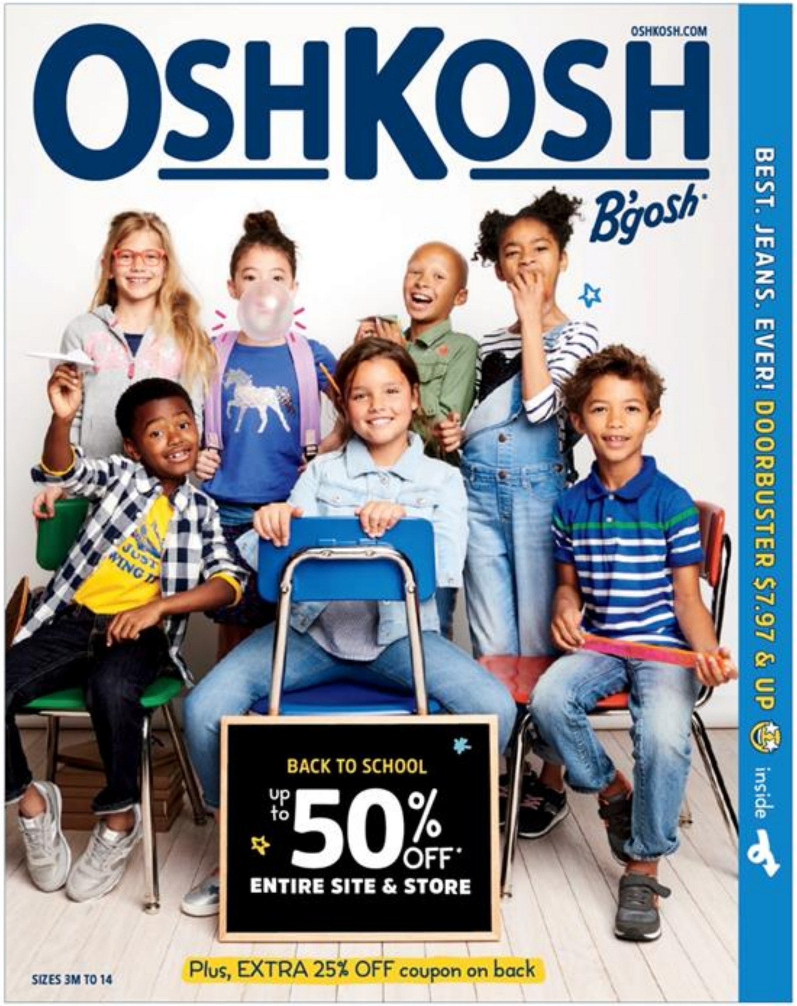

Skip Hop – Back to School Product Offering

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Second Quarter Highlights – U.S. Wholesale

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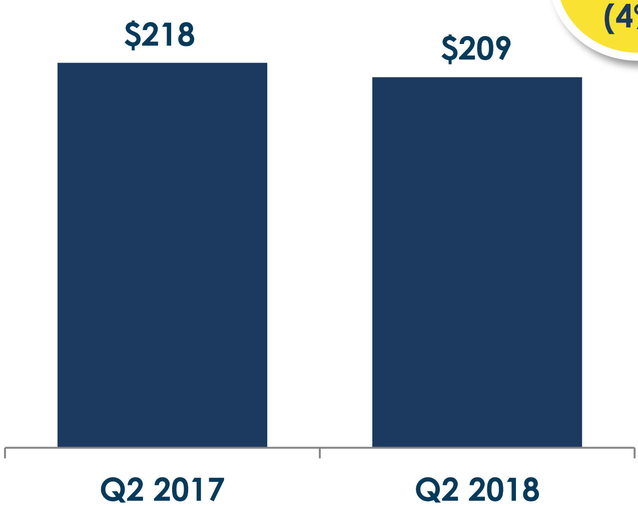
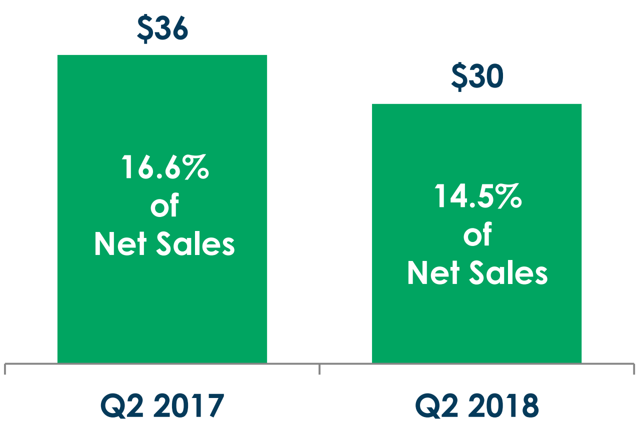
$ in millions

Segment Net Sales

Total Sales (4%)



Segment Adj. Operating Income*



Q2 Highlights

- **U.S. Wholesale segment net sales (4%)**
  - Reflects lower shipments principally due to discontinued sales to Toys "R" Us and Bon-Ton (~$26 million in Q2 2017)
  - Better-than-forecasted performance driven by earlier demand for new product launches
- **Full year 2018 segment net sales outlook**
  - Down low-single digits due to discontinued sales to 2 bankrupt customers (consistent with prior forecast)
  - Targeting 50% recapture of lost sales to 2 bankrupt customers, primarily through wholesale channel
- **Q2 segment adj. operating margin 14.5% vs. 16.6% LY**
  - Reflects change in sales mix and increased marketing investments
  - Full year adjusted operating margin planned >20%

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 29.*

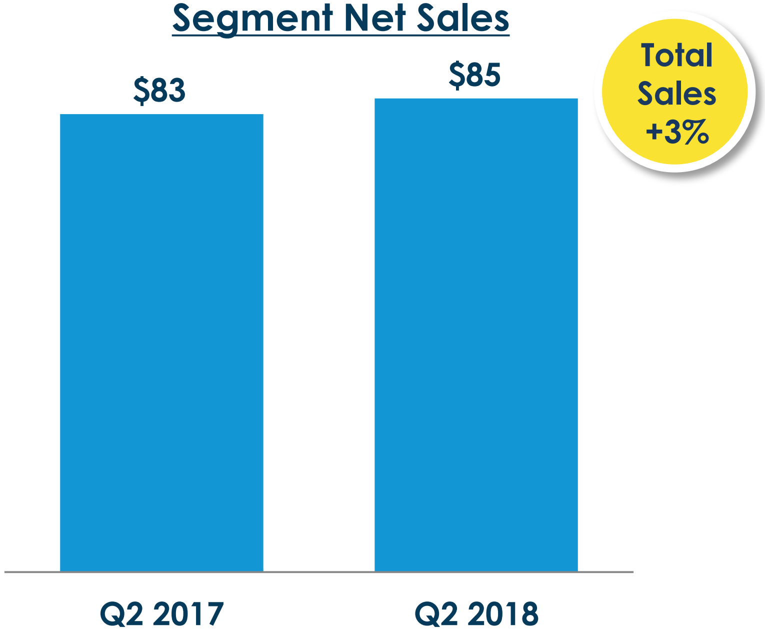
U.S. Wholesale – Macy's
Orlando, FL

New Toddler Fixtures in ~300 Macy's Locations

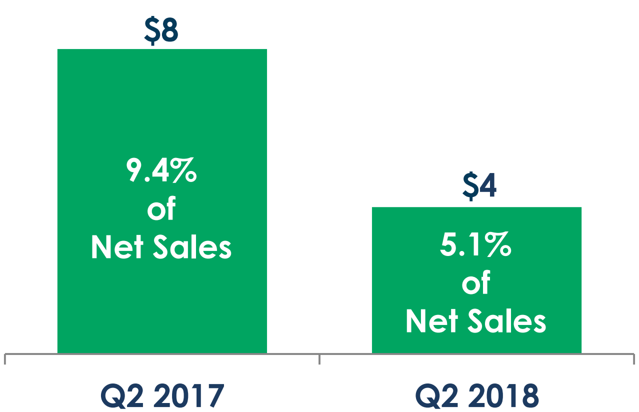
Second Quarter Highlights – International

$ in millions

Segment Net Sales



Segment Adj. Operating Income*



Q2 Highlights

- **International segment net sales +3% (-1% constant currency)**
  - 1H net sales +11% (+7% constant currency)
- **Canada**
  - Mid-single digit growth
  - Q2 retail comp -1.2%; 1H retail comp +0.9%
- **Mexico**
  - Good contribution and integration efforts going well
- **Q2 segment adj. operating margin 5.1% vs. 9.4% LY**
  - Margin decline reflects expense deleverage in Canada and lower profitability in China
  - Full year 2018 International segment margin planned down modestly vs. 11.8% LY

** Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 29.*

Guidance

Key Second Half 2018 Growth Drivers / Assumptions

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U.S. Retail

- **Stronger comparable sales planned**
  - Age Up launch
  - Toys "R" Us / Bon-Ton recapture
  - Marketing investments / brand campaign
  - Investments in eCommerce distribution
  - Higher mix of co-branded stores
- **Benefit of new stores; sales transfer from closed doors**

U.S. Wholesale

- **Growth with key customers**
- **Toys "R" Us / Bon-Ton recapture**
- ***Simple Joys* / Amazon**
- ***Skip Hop***

Other Drivers

- **SG&A growth in line with sales**
- **Greater benefit of tax reform and cumulative share repurchase activity**

2018 Outlook
(Adjusted Basis)

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Q3 2018

- **Net sales comparable to last year (vs. $948 million Q3 2017)**
  - Growth in U.S. Retail and International, offset by lower sales in U.S. Wholesale
- **Adjusted EPS also comparable to last year (vs. $1.70 Q3 2017[1])**
  - Toys "R" Us / Bon-Ton recapture anticipated to be stronger in Q4 vs. Q3

Fiscal Year 2018

- **Reaffirming prior guidance for net sales and adjusted EPS**
- **Net sales growth of approximately 3%**
- **Adjusted EPS growth of approximately 12% (vs. $5.77 in 2017[1])**
- **CapEx approximately $85 million**

[1] *Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 33 and 34.*

thank you.

appendix

Second Quarter Reconciliation of Net Income Allocable to Common Shareholders

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	Fiscal Quarter Ended	
	June 30, 2018	July 1, 2017
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	46,437,093	47,863,618
Dilutive effect of equity awards	509,545	550,726
Diluted number of common and common equivalent shares outstanding	46,946,638	48,414,344

	Fiscal Quarter Ended			
	As reported on a GAAP Basis		As adjusted (a)	
$ in thousands, except EPS	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Basic net income per common share:				
Net income	$ 37,268	$ 37,793	$ 37,268	$ 38,594
Income allocated to participating securities	(276)	(290)	(276)	(297)
Net income available to common shareholders	$ 36,992	$ 37,503	$ 36,992	$ 38,297
Basic net income per common share	$0.80	$0.78	$0.80	$0.80
Diluted net income per common share:				
Net income	$ 37,268	$ 37,793	$ 37,268	$ 38,594
Income allocated to participating securities	(274)	(288)	(274)	(295)
Net income available to common shareholders	$ 36,994	$ 37,505	$ 36,994	$ 38,299
Diluted net income per common share	$0.79	$0.77	$0.79	$0.79

(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 per share data excluding $0.8 million in after-tax expenses from these results for the fiscal quarter ended July 1, 2017.

Note: Results may not be additive due to rounding.

Second Quarter Reconciliation of Reported to Adjusted Earnings

carter's

$ in millions, except EPS

Second Quarter of Fiscal 2017	Gross Margin	% of net sales	SG&A	% of net sales	Operating Income	% of net 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
									Segment Reporting							
As reported (GAAP) *(a)*	**$303.2**	*43.8%*	**$250.1**	*36.2%*	**$64.3**	*9.3%*	**$37.8**	**$0.77**	**$42.1**	*10.8%*	**$35.8**	*16.4%*	**$7.6**	*9.2%*	**($21.2)**	*(3.1%)*
Acquisition costs *(c) (e)*	0.4		(0.8)		1.2		0.8	0.02	-		0.2		0.1		0.9	
Direct sourcing initiative *(d) (e)*	-		(0.1)		0.1		-	-	-		-		-		0.1	
As adjusted *(b)*	**$303.6**	*43.9%*	**$249.3**	*36.0%*	**$65.6**	*9.5%*	**$38.6**	**$0.79**	**$42.1**	*10.8%*	**$36.0**	*16.6%*	**$7.7**	*9.4%*	**($20.4)**	*(2.9%)*

(a) Beginning in fiscal 2018, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification No. 606, Revenue from Contracts with Customers, and related amendments ("ASC 606") using the full retrospective adoption method. All periods in fiscal 2017 and fiscal 2016 were amended to reflect these provisions, and retained earnings at January 2, 2016 (beginning of fiscal 2016) were adjusted for the cumulative effect of periods prior to fiscal 2016. The adoption of ASC 606 had no material effect on the Company's consolidated financial position, results of operations, and cash flows.
(b) 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 gross margin, SG&A, operating income, net income, and net income on a diluted share basis excluding the adjustments discussed above. The Company believes these adjustments provide a meaningful comparison of the Company's results and afford investors a view of what management considers to be the Company's core performance. The adjusted, non-GAAP financial measurements included in this earnings release 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.
(c) Non-recurring costs related to the Skip Hop and Mexico acquisitions.
(d) Costs associated with the Company's direct sourcing initiative, which include severance and relocation.
(e) 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).

Note: Results may not be additive due to rounding.

First Half Reconciliation of Net Income Allocable to Common Shareholders

carter's

	Two Fiscal Quarters Ended	
	June 30, 2018	July 1, 2017
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	46,604,599	48,093,155
Dilutive effect of equity awards	563,137	552,866
Diluted number of common and common equivalent shares outstanding	47,167,736	48,646,021

	Two Fiscal Quarters Ended			
	As reported on a GAAP Basis		As adjusted (a)	
$ in thousands, except EPS	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Basic net income per common share:				
Net income	$ 79,737	$ 84,388	$ 89,224	$ 86,368
Income allocated to participating securities	(600)	(659)	(674)	(675)
Net income available to common shareholders	$ 79,137	$ 83,729	$ 88,550	$ 85,693
Basic net income per common share	$1.70	$1.74	$1.90	$1.78
Diluted net income per common share:				
Net income	$ 79,737	$ 84,388	$ 89,224	$ 86,368
Income allocated to participating securities	(596)	(654)	(670)	(670)
Net income available to common shareholders	$ 79,141	$ 83,734	$ 88,554	$ 85,698
Diluted net income per common share	$1.68	$1.72	$1.88	$1.76

(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 per share data excluding $9.5 million and $2.0 million in after-tax expenses from these results for the two fiscal quarters ended June 30, 2018, and July 1, 2017, respectively.

Note: Results may not be additive due to rounding.

First Half Reconciliation of Reported to Adjusted Earnings

carter's

$ in millions, except EPS

									Segment Reporting							
First Half of 2018	**Gross Margin**	*% of net sales*	**SG&A**	*% of net sales*	**Operating Income**	*% of net 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) *(a)*	**$642.4**	*44.2%*	**$543.5**	*37.4%*	**$117.3**	*8.1%*	**$79.7**	**$1.68**	**$74.9**	*9.5%*	**$80.6**	*16.4%*	**$8.1**	*4.6%*	**($46.4)**	*(3.2%)*
Customer bankruptcy charges *(c) (g)*	-		(12.8)		12.8		9.8	0.21	-		12.8		-		-	
Store restructuring costs *(d) (g)*	-		0.4		(0.4)		(0.3)	(0.01)	(0.4)		-		-		-	
As adjusted *(b)*	**$642.4**	*44.2%*	**$531.1**	*36.6%*	**$129.7**	*8.9%*	**$89.2**	**$1.88**	**$74.6**	*9.5%*	**$93.4**	*19.0%*	**$8.1**	*4.6%*	**($46.4)**	*(3.2%)*

									Segment Reporting							
First Half of 2017	**Gross Margin**	*% of net sales*	**SG&A**	*% of net sales*	**Operating Income**	*% of net 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) *(a)*	**$618.9**	*43.4%*	**$497.9**	*35.0%*	**$142.8**	*10.0%*	**$84.4**	**$1.72**	**$71.9**	*9.5%*	**$105.5**	*20.7%*	**$11.3**	*7.1%*	**($45.9)**	*(3.2%)*
Acquisition costs *(e) (g)*	0.4		(2.5)		2.9		1.9	0.04	0.0		0.2		0.1		2.5	
Direct sourcing initiative *(f) (g)*	-		(0.3)		0.3		0.2	-	-		-		-		0.3	
As adjusted *(b)*	**$619.3**	*43.5%*	**$495.2**	*34.8%*	**$145.9**	*10.2%*	**$86.4**	**$1.76**	**$71.9**	*9.5%*	**$105.7**	*20.7%*	**$11.4**	*7.2%*	**($43.2)**	*(3.0%)*

(a) Beginning in fiscal 2018, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification No. 606, Revenue from Contracts with Customers, and related amendments ("ASC 606") using the full retrospective adoption method. All periods in fiscal 2017 and fiscal 2016 were amended to reflect these provisions, and retained earnings at January 2, 2016 (beginning of fiscal 2016) were adjusted for the cumulative effect of periods prior to fiscal 2016. The adoption of ASC 606 had no material effect on the Company's consolidated financial position, results of operations, and cash flows.
(b) 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 gross margin, SG&A, operating income, net income, and net income on a diluted share basis excluding the adjustments discussed above. The Company believes these adjustments provide a meaningful comparison of the Company's results and afford investors a view of what management considers to be the Company's core performance. The adjusted, non-GAAP financial measurements included in this earnings release 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.
(c) Related to the Toys "R" Us bankruptcy.
(d) Insurance recovery associated with unusual storm-related store closures.
(e) Non-recurring costs related to the Skip Hop and Mexico acquisitions.
(f) Costs associated with the Company's direct sourcing initiative, which include severance and relocation.
(g) 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).

Note: Results may not be additive due to rounding.

Reconciliation of Net Income to Adjusted EBITDA

carter's

$ in millions

	Fiscal Quarter Ended		Two Fiscal Quarters Ended		Four Fiscal Quarters Ended
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017	June 30, 2018
Net income	$37.3	$37.8	$79.7	$84.4	$298.2
Interest expense	7.9	7.2	15.9	14.3	31.7
Interest income	(0.2)	(0.1)	(0.4)	(0.2)	(0.5)
Tax expense	11.0	19.9	21.4	45.1	64.6
Depreciation and amortization	21.8	20.8	43.8	40.6	87.7
EBITDA	**$77.8**	**$85.7**	**$160.5**	**$184.1**	**$481.6**
Adjustments to EBITDA					
Special employee compensation provision *(a)*	$ -	$ -	$ -	$ -	$21.2
Customer bankruptcy charges *(b)*	-	-	12.8	-	12.8
Acquisition-related costs *(c)*	-	1.2	-	2.9	1.7
Store restructuring costs *(d)*	-	-	(0.4)	-	2.3
Direct sourcing initiative *(e)*	-	0.1	-	0.3	0.1
Acquisition contingency fair value adjustment *(f)*	-	-	-	-	(3.6)
Adjusted EBITDA	**$77.8**	**$87.0**	**$172.9**	**$187.3**	**$516.0**

(a) 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.
(b) Related to the Toys "R" Us bankruptcy.
(c) Non-recurring costs incurred in connection with the *Skip Hop* and Mexico business acquisitions.
(d) Net costs arising from unusual storm damage, including insurance recovery, and related store closures.
(e) Costs associated with the Company's direct sourcing initiative, which include severance and relocation.
(f) Revaluation of the contingent consideration liability associated with the Company's acquisition of *Skip Hop*.

Note: Results may not be additive due to rounding.

2017 Third Quarter Reconciliation of Reported to Adjusted Earnings

carter's

$ in millions, except EPS

Third 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
As reported (GAAP) *(a)*	**$403.6**	*42.6%*	**$283.5**	*29.9%*	**$130.4**	*13.8%*	**$82.3**	**$1.71**	**$55.5**	*12.2%*	**$78.6**	*21.3%*	**$16.7**	*13.4%*	**($20.4)**	*(2.1%)*
Store restructuring costs *(c) (f)*	-		(2.7)		2.7		2.0	0.04	2.7		-		-		-	
Acquisition-related costs *(d) (f)*	0.4		(0.8)		1.2		1.2	0.02	0.0		0.2		0.1		0.8	
Direct sourcing initiative *(e) (f)*	-		(0.1)		0.1		0.1	-	-		-		-		0.1	
Acquisition contingency fair value adjustment *(f)*	-		3.6		(3.6)		(3.6)	(0.07)	-		-		-		(3.6)	
As adjusted *(b)*	**$404.0**	*42.6%*	**$283.4**	*29.9%*	**$130.9**	*13.8%*	**$82.0**	**$1.70**	**$58.3**	*12.8%*	**$78.8**	*21.3%*	**$16.9**	*13.5%*	**($23.1)**	*(2.4%)*

(a) Beginning in fiscal 2018, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification No. 606, Revenue from Contracts with Customers, and related amendments ("ASC 606") using the full retrospective adoption method. All periods in fiscal 2017 and fiscal 2016 were amended to reflect these provisions, and retained earnings at January 2, 2016 (beginning of fiscal 2016) were adjusted for the cumulative effect of periods prior to fiscal 2016. The adoption of ASC 606 had no material effect on the Company's consolidated financial position, results of operations, and cash flows.

(b) 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 gross margin, SG&A, operating income, net income, and net income on a diluted share basis excluding the adjustments discussed above. The Company believes these adjustments provide a meaningful comparison of the Company's results and affords investors a view of what management considers to be the Company's core performance. The adjusted, non-GAAP financial measurements included in this earnings release 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.

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

(d) Non-recurring costs related to the Skip Hop and Mexico acquisitions.

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

(f) 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).

Note: Results may not be additive due to rounding.

2017 Full Year Reconciliation of Reported to Adjusted Earnings

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$ 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	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
									Segment Reporting							
As reported (GAAP) ***(a)***	**$1,483.4**	*43.6%*	**$1,106.9**	*32.6%*	**$419.6**	*12.3%*	**$302.8**	**$6.24**	**$215.6**	*12.1%*	**$252.1**	*20.8%*	**$46.4**	*11.2%*	**($94.5)**	*(2.8%)*
Special employee compensation provision *(c) (h)*	-		(21.2)		21.2		15.1	0.31	12.7		3.3		2.3		2.9	
Store restructuring costs *(d) (h)*	-		(2.7)		2.7		1.5	0.03	2.7		-		-		-	
Acquisition costs *(e) (h)*	1.2		0.2		1.0		0.2	-	0.1		0.7		0.4		(0.2)	
Direct sourcing initiative *(f) (h)*	-		(0.3)		0.3		0.2	-	-		-		-		0.3	
Tax reform *(g) (h)*	-		-		-		(40.0)	(0.83)	-		-		-		-	
As adjusted ***(b)***	**$1,484.6**	*43.7%*	**$1,082.9**	*31.8%*	**$444.8**	*13.1%*	**$279.8**	**$5.77**	**$231.2**	*13.0%*	**$256.0**	*21.2%*	**$49.1**	*11.8%*	**($91.5)**	*(2.7%)*

(a) Beginning in fiscal 2018, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification No. 606, Revenue from Contracts with Customers, and related amendments ("ASC 606") using the full retrospective adoption method. All periods in fiscal 2017 and fiscal 2016 were amended to reflect these provisions, and retained earnings at January 2, 2016 (beginning of fiscal 2016) were adjusted for the cumulative effect of periods prior to fiscal 2016. The adoption of ASC 606 had no material effect on the Company's consolidated financial position, results of operations, and cash flows.

(b) 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 gross margin, SG&A, operating income, net income, and net income on a diluted share basis excluding the adjustments discussed above. The Company believes these adjustments provide a meaningful comparison of the Company's results and affords investors a view of what management considers to be the Company's core performance. The adjusted, non-GAAP financial measurements included in this earnings release 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.

(c) Special employee compensation provision related to significant benefit related to the enactment of the Tax Cuts and Jobs Act of 2017.

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

(e) Non-recurring costs related to the Skip Hop and Mexico acquisitions.

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

(g) Reflects the $40 million net benefit of the Tax Cuts and Jobs Act of 2017.

(h) 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).

Note: Results may not be additive due to rounding.

Store Count Data

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	Single-brand	Dual-brand			Dual-brand			
	U.S. Stand-alone Format	U.S. Side-by-Side Format	U.S. Co-branded Format	Total U.S. Retail	Canada Co-branded Format	Mexico [1]	Total International	Total Consolidated Retail Stores
Store count at July 1, 2017	**621**	**151**	**38**	**810**	**179**	**N/A**	**179**	**989**
Openings	7	9	38	54	2	3	2	56
Closings	(38)	-	-	(38)	-	-	-	(38)
Conversions to dual-brand formats	(45)	2	43	-	-	-	-	-
Acquired	-	-	-	-	-	39	39	39
Store count at June 30, 2018	**545**	**162**	**119**	**826**	**181**	**42**	**223**	**1,049**

[1] *Includes single brand and co-branded formats.*

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 26, 2018 which is available at www.carters.com. This press release 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 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 in 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; failure to successfully integrate acquired businesses; fluctuations in foreign currency exchange rates; the imposition of new regulations relating to imports, duties, or taxes; 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.