



# **carter's, inc.**

**Third Quarter 2017**  
Business Update

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October 26, 2017

# Third Quarter 2017 Results (GAAP Basis)



\$ in millions, except EPS

	<b>Q3 2017</b>	<i>% of Sales</i>	<b>Q3 2016</b>	<i>% of Sales</i>	<b>Increase/ (Decrease)</b>
Net sales	<b>\$948.2</b>		\$901.4		<b>5%</b>
Gross profit	<b>403.8</b>	<b>42.6%</b>	375.5	<b>41.7%</b>	<b>8%</b>
SG&A	<b>283.5</b>	29.9%	255.3	28.3%	<b>11%</b>
Royalty income	<b>(10.4)</b>	(1.1%)	(10.7)	(1.2%)	<b>(3%)</b>
Operating income	<b>130.7</b>	<b>13.8%</b>	130.9	<b>14.5%</b>	<b>(0%)</b>
Interest and other, net	<b>7.2</b>	0.8%	6.7	0.7%	<b>8%</b>
Income before taxes	<b>123.5</b>	13.0%	124.2	13.8%	<b>(1%)</b>
Income taxes	<b>41.0</b>	4.3%	43.4	4.8%	<b>(5%)</b>
Net income	<b>\$82.5</b>	<b>8.7%</b>	\$80.8	<b>9.0%</b>	<b>2%</b>
<b>Diluted EPS</b>	<b>\$1.71</b>		<b>\$1.60</b>		<b>7%</b>
Weighted average shares outstanding	<b>47.8</b>		50.0		<b>(4%)</b>
EBITDA	<b>\$153.1</b>	<b>16.1%</b>	\$148.4	<b>16.5%</b>	<b>3%</b>

Note: Results may not be additive due to rounding.

\$ in millions, except EPS

## Net Sales

+5%

\$948.2

\$901.4

2016

2017

## Adjusted Operating Income\* (Adjusted Operating Margin)

\$131.4

14.6%  
of  
Net Sales

2016

\$131.2

13.8%  
of  
Net Sales

2017

## Adjusted EPS\*

+6%

\$1.70

\$1.61

2016

2017

- Achieved net sales & earnings objectives despite significant impact of hurricanes & warm weather
- Net sales \$948 million (+5%)
  - Growth led by U.S. Retail and International businesses
  - Meaningful contribution from *Skip Hop*
- Adjusted EPS \$1.70 (+6%)

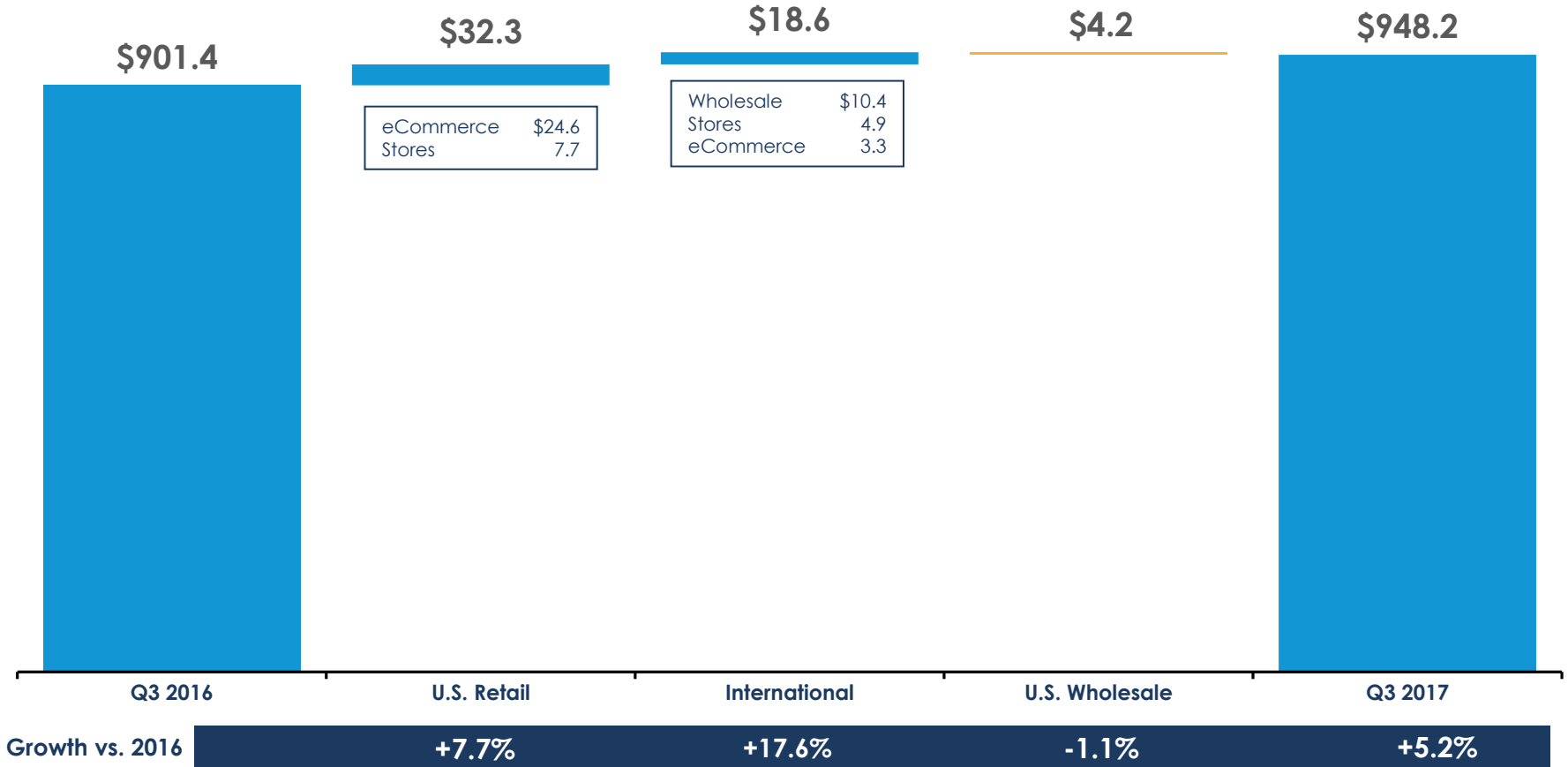
\* Results are stated on an adjusted basis; see reconciliation to GAAP on pages 26 and 27.

# Third Quarter 2017 Net Sales



\$ in millions

**+5%**



**Constant  
Currency  
+14.5%**

**Constant  
Currency  
+4.8%**

# Third Quarter 2017 Adjusted Results\*

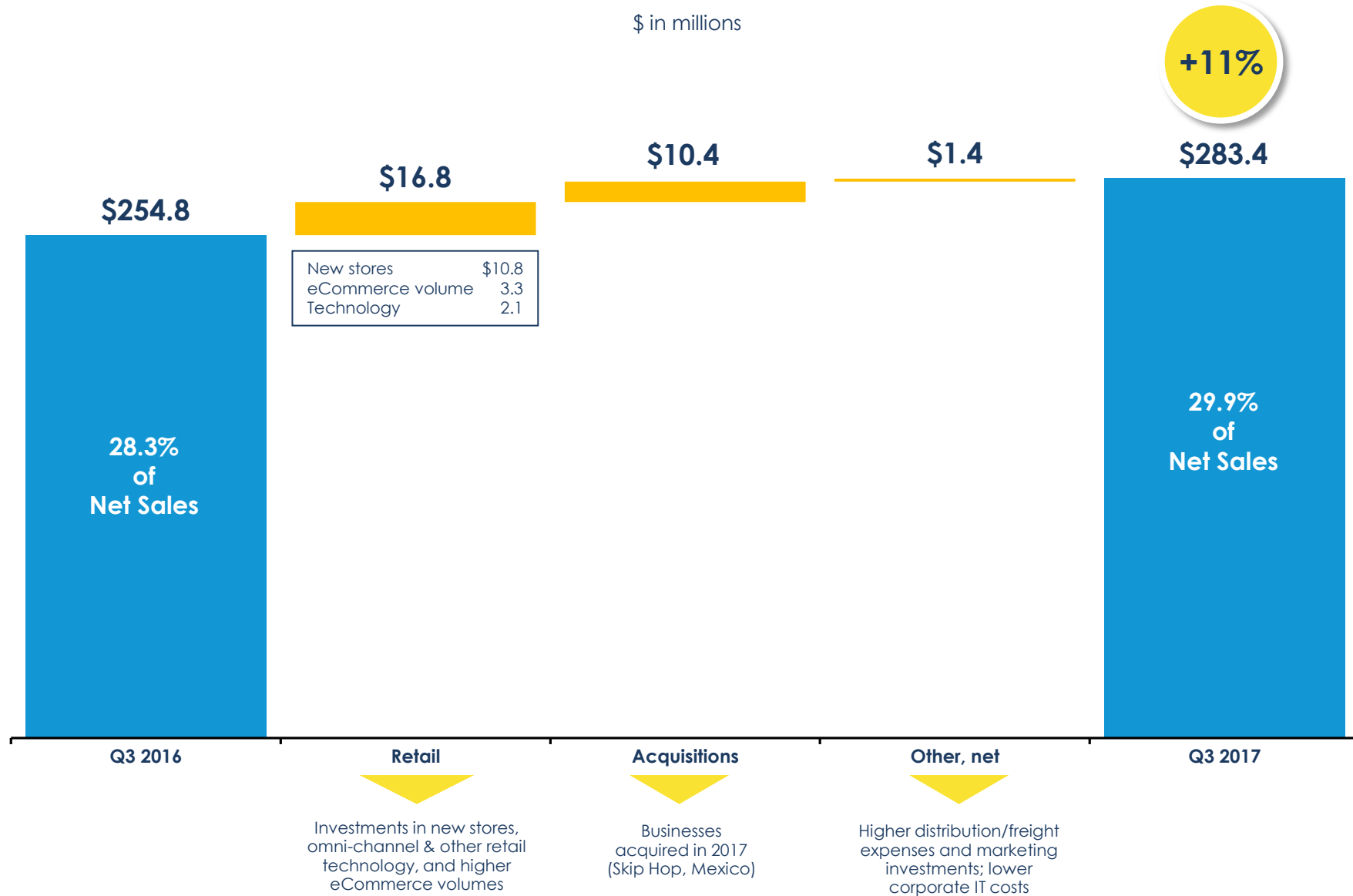


\$ in millions, except EPS

	<b>Q3 2017</b>	<b>% of Sales</b>	<b>Q3 2016</b>	<b>% of Sales</b>	<b>Increase / (Decrease)</b>
Net sales	<b>\$948.2</b>		\$901.4		<b>5%</b>
Gross profit	<b>404.2</b>	<b>42.6%</b>	375.5	<b>41.7%</b>	<b>8%</b>
Adjusted SG&A*	<b>283.4</b>	29.9%	254.8	28.3%	<b>11%</b>
Royalty income	<b>(10.3)</b>	(1.1%)	(10.7)	(1.2%)	<b>(3%)</b>
Adjusted operating income*	<b>131.2</b>	<b>13.8%</b>	131.4	<b>14.6%</b>	<b>(0%)</b>
Interest and other, net	<b>7.2</b>	0.8%	6.7	0.7%	<b>8%</b>
Income before taxes	<b>124.0</b>	13.1%	124.7	13.8%	<b>(1%)</b>
Income taxes	<b>41.8</b>	4.4%	43.6	4.8%	<b>(4%)</b>
Adjusted net income*	<b>\$82.2</b>	<b>8.7%</b>	\$81.1	<b>9.0%</b>	<b>1%</b>
<b>Adjusted diluted EPS*</b>	<b>\$1.70</b>		<b>\$1.61</b>		<b>6%</b>
Weighted average shares outstanding	<b>47.8</b>		50.0		<b>(4%)</b>
Adjusted EBITDA*	<b>\$153.5</b>	<b>16.2%</b>	\$148.9	<b>16.5%</b>	<b>3%</b>

\* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on pages 26, 27 and 33.  
Note: Results may not be additive due to rounding.

# Third Quarter 2017 Adjusted SG&A\*



\*Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 27.

# Comprehensive Investment Agenda



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

# Balance Sheet and Cash Flow



\$ in millions

		2017	2016
<b>Balance Sheet</b> (at Q3 end)	Cash	\$105	\$141
	Accounts Receivable	286	271
	Inventory	610	553
	Accounts Payable	194	155
	Long-Term Debt	687	581

		2017	2016
<b>Cash Flow</b> (Q3 YTD)	Operating Cash Flow	\$118	\$117
	Capital Expenditures	(52)	(71)
	Free Cash Flow <sup>1</sup>	\$66	\$45

		2017	2016
<b>Return of Capital</b> (Q3 YTD)	Share Repurchases	\$151	\$239
	Dividends	53	50
	<b>Total</b>	<b>\$204</b>	<b>\$289</b>

- Inventory +10% vs. LY; Skip Hop and Mexico contributed 8 percentage points to YOY growth
- Increase in debt balance reflects short term borrowings to support seasonal working capital needs, acquisitions, and return of capital initiatives
- Free cash flow improvement reflects lower capital expenditures
- Returned \$204 million to shareholders through share repurchases and dividends through first three quarters of 2017
- Returned \$1.5B to shareholders through share repurchases and dividends since beginning of 2007

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



# Business Segment Performance



# Third Quarter 2017 Adjusted Business Segment Performance\*



\$ in millions

	Net Sales			Adjusted Operating Income*			Adjusted Operating Margin*	
	2017	2016	\$ Growth	2017	2016	\$ Growth	2017	2016
<b>U.S. Retail (a)</b>	\$ 454	\$ 422	\$ 32	\$ 59	\$ 51	\$ 8	12.9%	12.0%
<b>U.S. Wholesale (b)</b>	370	374	(4)	79	86	(7)	21.3%	23.0%
<b>International (c)</b>	125	106	19	17	20	(3)	13.5%	18.5%
Total before corporate expenses	948	901	47	154	156	(2)	16.3%	17.3%
<b>Corporate expenses</b>				(23)	(25)	2	(2.4%)	(2.8%)
<b>Total</b>	<b>\$ 948</b>	<b>\$ 901</b>	<b>\$ 47</b>	<b>\$ 131</b>	<b>\$ 131</b>	<b>\$ -</b>	<b>13.8%</b>	<b>14.6%</b>

(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.

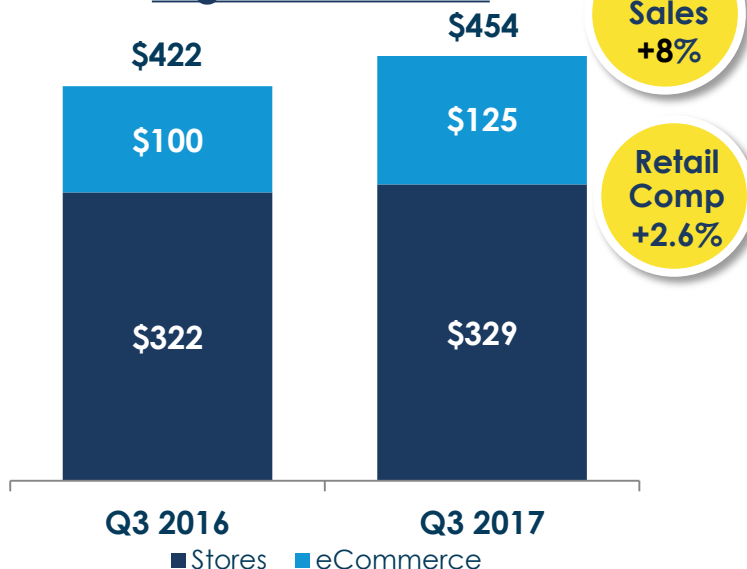
(c) Results include international stores, eCommerce, and wholesale.

\* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 27.

Note: Results may not be additive due to rounding.

\$ in millions

## Segment Net Sales

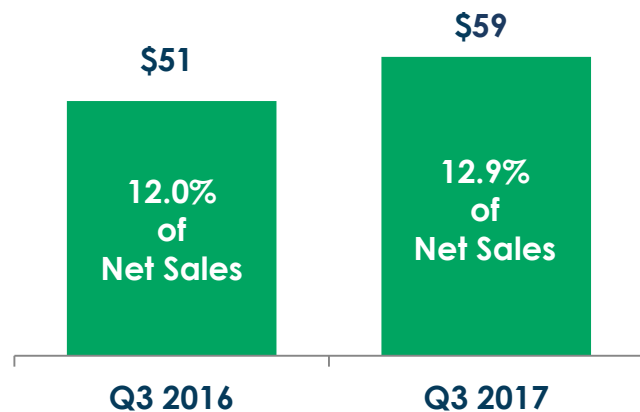


- Q3 retail comp +2.6%
- Believe comp performance adversely impacted by store closures related to hurricanes in Texas, the Southeast, and Puerto Rico
- Good consumer response to omni-channel initiatives

### Stores

- Net sales +2%
- Store Comp: (3.2%)
  - Co-branded format comp +3.3%
- Q3 ending location count: 821<sup>1</sup>
  - 608 Stand-alone
  - 213 Dual-branded (154 Side-by-Side, 59 Co-branded)

## Segment Operating Income\*



### eCommerce

- Continued strong sales performance (+25% vs. LY)
- Q3 net sales 27% of Retail segment sales (vs. 24% LY)

### Segment Operating Margin

- +90 bps operating margin improvement reflects lower product costs and growth in eCommerce, partially offset by store expense deleverage

\* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 27.

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

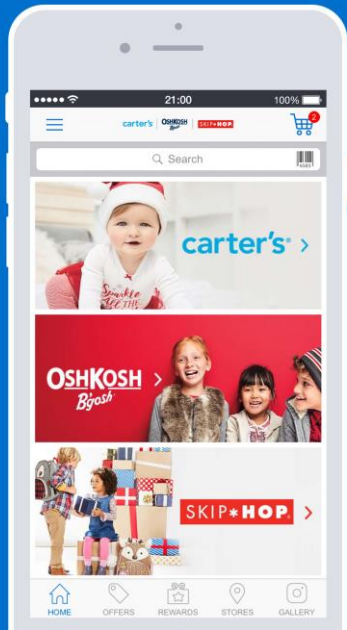
# Co-branded Store – Alpharetta, GA (Converted Q3 2017)

**carter's**



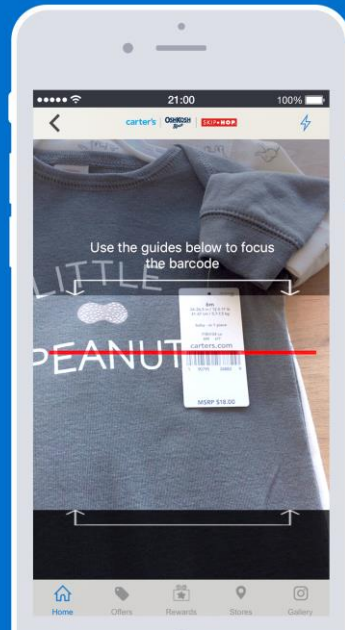
## 3 BRANDS. MORE TO LOVE.

Now you can search Carter's, OshKosh AND Skip Hop all at once (and at super speed!)



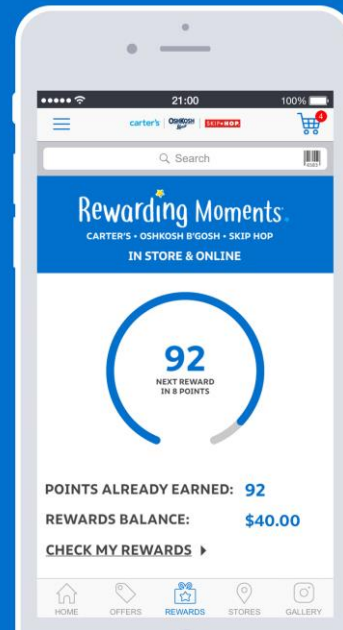
## BARCODE SCANNING

While you're shopping in store, you'll have instant access to customer reviews, product details, additional colors and sizes.



## WATCH YOUR POINTS ADD UP!

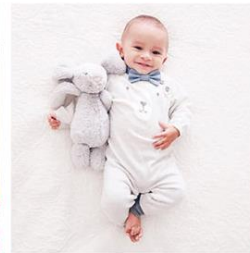
With a personalized Rewarding Moments® dashboard. You'll know exactly how many rewards you have to spend and how many points 'til your next reward!



## AH-MAZING OFFER ALERTS

Opt in for push notifications and we'll let you know when new events start in store & online. Plus, you'll get a quick view of our top deals and coupons so you'll never miss an offer.









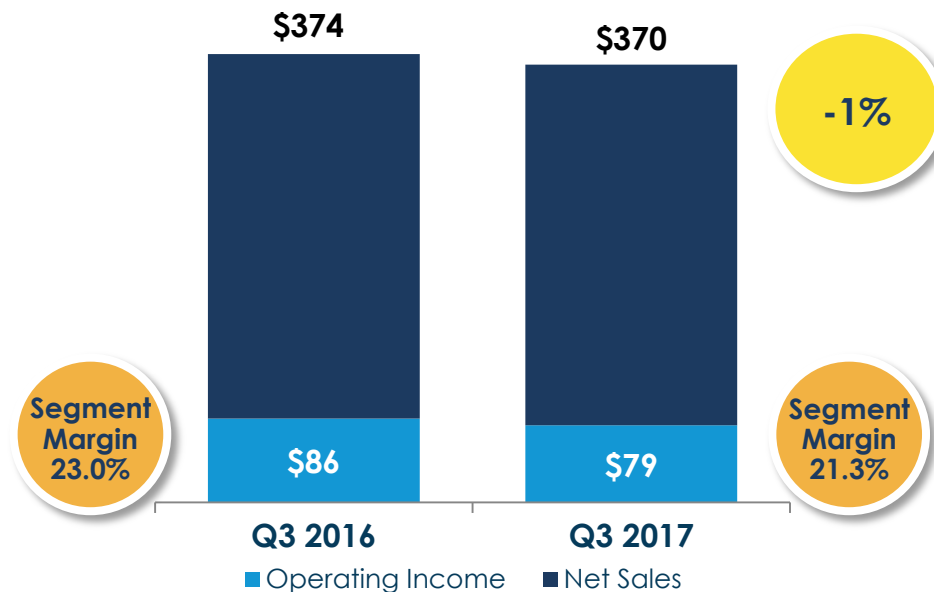
SKIP\*HOP®





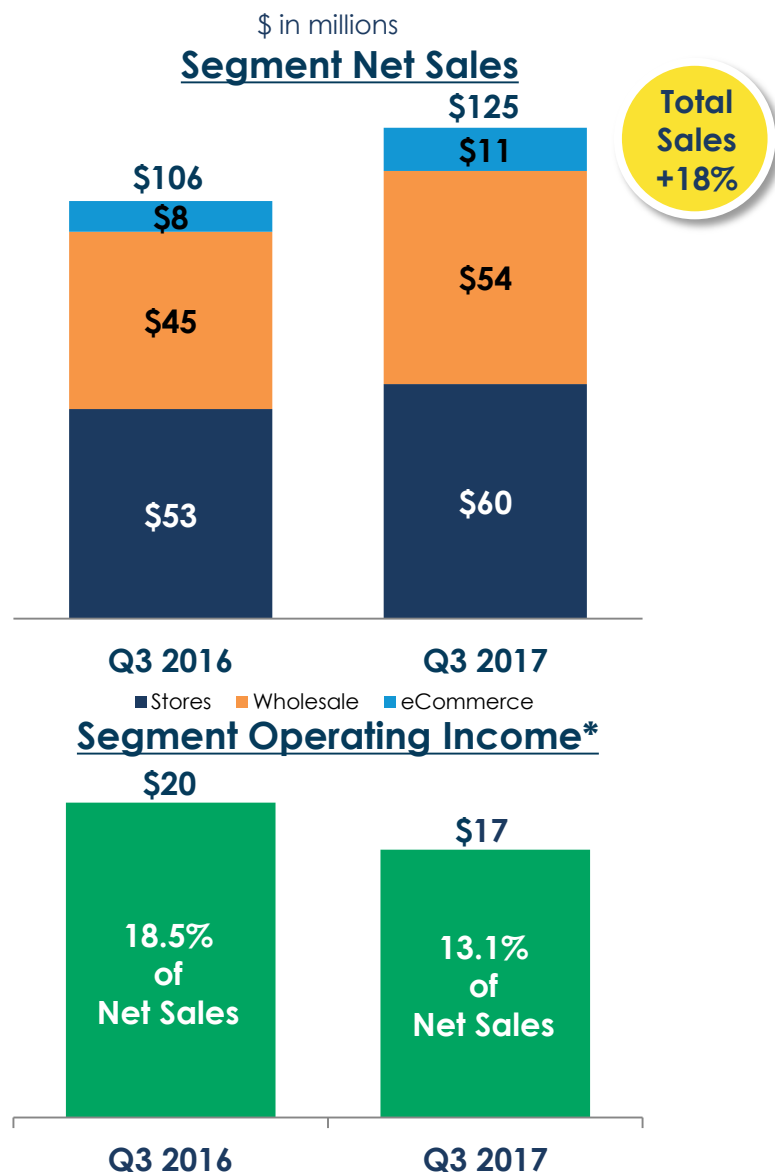


\$ in millions  
**Segment Net Sales & Operating Income\***



- Sales performance reflects lower shipments of seasonal products, mostly offset by the benefit of the *Skip Hop* acquisition
  - *Skip Hop* contributed \$16 million to net sales
  - Ex-*Skip Hop*, net sales down 5%, in line with seasonal bookings
- Segment operating margin reflects higher inventory charges (related to hurricane relief product donations), increased bad debt provisions, and addition of the *Skip Hop* business, partially offset by improved product margins
- 2017 outlook:
  - U.S. Wholesale full year net sales (including *Skip Hop*): up low single digits
- Spring 2018 outlook (ex-*Skip Hop*): bookings comparable to 2017

\* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 27.



## Net Sales

- **International segment net sales +18% on a reported basis (+14.5% constant currency)**
  - Skip Hop and Mexico acquisitions contributed total of \$15 million to YOY growth
  - Canada Retail comp: +0.7%
- **Canada Stores**
  - Net sales +9%
  - Store comp: (3.9%); believe unseasonably warm temps adversely impacted traffic
  - Opened 18 net new stores in last 12 months (172 locations at Q3 end)
- **eCommerce**
  - Net sales +42%, driven by continued growth in Canada (+61% comp<sup>1</sup>) and China (+23% comp<sup>1</sup>)
- **Wholesale**
  - Net sales +20%; reflects acquisitions and growth in Canada and China, partially offset by decline in demand in other markets
  - 37 stores operated by partner in China at Q3 end; forecasting ~50 stores at end of fiscal 2017

## Segment Operating Margin

- Operating margin reflects sales mix, increased promotions in Canada, and higher bad debt provisions

<sup>1</sup> Local currency

\* Results are stated on an adjusted basis, a non-GAAP presentation; see reconciliation to GAAP on page 27. Results may not be additive due to rounding.

## Licensee Background

- 40 year old company based in Mexico City; ~400 employees
- 20 year+ licensee (initially with OshKosh and then Carter's)
- Strong wholesale business (Sam's Club, Liverpool, Costco)
- 61 retail locations across Mexico (40 owned / 21 franchised)



## Recent Financial Performance

- 2016 Net Sales ~\$28 million<sup>1</sup>; double digit EBIT margin<sup>2</sup>

## Strategic Rationale

- **Transaction meets our M&A criteria**
  - ✓ Young children's apparel or related products
  - ✓ Track record of growth; strong forward prospects
  - ✓ Good management team
  - ✓ Immediately accretive to earnings
- **Strengthens position as North American leader in young children's apparel**
- **Attractive market: ~\$1 billion (ages 0-7); ~2 million births / year**
- **Growth opportunities**
  - Wholesale channel - growth with existing and new customers
  - Expanded retail footprint
  - eCommerce introduction in the medium term
  - Potential to double size of business in approximately 5 years

## Other

- **Transaction closed 8/1/17; integration activities proceeding**
- **Forecasting modest contribution to consolidated earnings in fiscal 2017**

## Retail Stores



- **61 retail store locations (at Q3 end)**
  - 40 owned
  - 21 franchised
- **2016 Retail net sales ~\$8 million USD (~28% of total)**

## Wholesale



- **2016 Wholesale net sales ~\$20 million USD (~72% of total)**

# International Partner Store – Dubai, UAE (Opened Q3 2017)

**carter's**



## Q4 2017

- **Net sales growth of approximately 10%**
  - Expecting growth in all segments
- **Adjusted EPS growth of approximately 21% (vs. \$1.79 LY<sup>1</sup>). Key drivers:**
  - Strong revenue growth
  - Gross margin expansion
  - Lower effective tax rate
  - Benefit of share repurchases

## Fiscal Year 2017

- **Full year outlook refined within prior ranges**
  - Net sales growth of approximately 6%
  - Adjusted EPS growth of approximately 9% (vs. \$5.14 LY<sup>1</sup>)
- **Store openings / closures**
  - U.S.: ~56 new stores; ~14 closures
  - Canada: ~16 new stores; ~2 closures
- **Operating Cash Flow approximately \$300 to \$315 million**
- **CapEx approximately \$90 million**



thank you.







appendix

# Third Quarter Reconciliation of Net Income Allocable to Common Shareholders



	Fiscal Quarter Ended	
	September 30, 2017	October 1, 2016
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	47,303,074	49,526,480
Dilutive effect of equity awards	541,325	460,271
Diluted number of common and common equivalent shares outstanding	47,844,399	49,986,751

	Fiscal Quarter Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 82,486	\$ 80,811	\$ 82,170	\$ 81,135
Income allocated to participating securities	(653)	(632)	(650)	(633)
Net income available to common shareholders	\$ 81,833	\$ 80,179	\$ 81,520	\$ 80,501
Basic net income per common share	\$1.73	\$1.62	\$1.72	\$1.63
Diluted net income per common share:				
Net income	\$ 82,486	\$ 80,811	\$ 82,170	\$ 81,135
Income allocated to participating securities	(647)	(627)	(644)	(629)
Net income available to common shareholders	\$ 81,839	\$ 80,184	\$ 81,525	\$ 80,506
Diluted net income per common share	\$1.71	\$1.60	\$1.70	\$1.61

(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 in after-tax net credits and \$0.3 million in after-tax expenses from these results for the fiscal quarters ended September 30, 2017 and October 1, 2016, respectively.

Note: Results may not be additive due to rounding.

# Third Quarter Reconciliation of Reported to Adjusted Earnings



\$ 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
<b>As reported (GAAP)</b>	<b>\$403.8</b>	42.6%	<b>\$283.5</b>	29.9%	<b>\$130.7</b>	13.8%	<b>\$82.5</b>	<b>\$1.71</b>	<b>\$55.8</b>	12.3%	<b>\$78.6</b>	21.3%	<b>\$16.7</b>	13.4%	<b>(\$20.4)</b>	(2.1%)
Store restructuring costs (b)	-		(2.7)		2.7		2.0	0.04	2.7		-		-		-	
Acquisition-related costs (b)	0.4		(0.8)		1.2		1.2	0.02	0.0		0.2		0.1		0.8	
Direct sourcing initiative (b) (c)	-		(0.1)		0.1		0.1	-	-		0.0		0.0		0.1	
Acquisition contingency fair value adjustment (b)	-		3.6		(3.6)		(3.6)	(0.07)	-		-		-		(3.6)	
<b>As adjusted (a)</b>	<b>\$404.2</b>	42.6%	<b>\$283.4</b>	29.9%	<b>\$131.2</b>	13.8%	<b>\$82.2</b>	<b>\$1.70</b>	<b>\$58.6</b>	12.9%	<b>\$78.8</b>	21.3%	<b>\$16.9</b>	13.5%	<b>(\$23.1)</b>	(2.4%)

Third Quarter of Fiscal 2016	Gross Margin	% of net sales	SG&A	% of net sales	Operating Income	% of net sales	Net Income	Diluted EPS	Segment Reporting	
									Corporate Operating Expenses	% of total net sales
<b>As reported (GAAP)</b>	<b>\$375.5</b>	41.7%	<b>\$255.3</b>	28.3%	<b>\$130.9</b>	14.5%	<b>\$80.8</b>	<b>\$1.60</b>	<b>(\$25.5)</b>	<b>(2.8%)</b>
Direct sourcing initiative (b) (c)	-		(0.5)		0.5		0.32	0.01	0.5	
<b>As adjusted (a)</b>	<b>\$375.5</b>	41.7%	<b>\$254.8</b>	28.3%	<b>\$131.4</b>	14.6%	<b>\$81.1</b>	<b>\$1.61</b>	<b>(\$25.0)</b>	<b>(2.8%)</b>

(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 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.

(b) The difference between the impacts on Operating Income and Net Income represents the income taxes related to the adjustment item (calculated using the applicable tax rate of the underlying jurisdiction).

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

Note: Results may not be additive due to rounding.

# 2017 Q3 YTD Results (GAAP Basis)



\$ in millions, except EPS

	<b>2017 Q3 YTD</b>	<i>% of Sales</i>	<b>2016 Q3 YTD</b>	<i>% of Sales</i>	<b>Increase/ (Decrease)</b>
Net sales	<b>\$2,373.1</b>		\$2,265.0		<b>5%</b>
Gross profit	<b>1,023.1</b>	<b>43.1%</b>	968.7	<b>42.8%</b>	<b>6%</b>
SG&A	<b>781.4</b>	32.9%	712.8	31.5%	<b>10%</b>
Royalty income	<b>(32.1)</b>	<i>(1.4%)</i>	(31.3)	<i>(1.4%)</i>	<b>3%</b>
Operating income	<b>273.8</b>	<b>11.5%</b>	287.1	<b>12.7%</b>	<b>(5%)</b>
Interest and other, net	<b>20.5</b>	0.9%	23.5	1.0%	<b>(13%)</b>
Income before taxes	<b>253.3</b>	10.7%	263.6	11.6%	<b>(4%)</b>
Income taxes	<b>86.2</b>	3.6%	92.6	4.1%	<b>(7%)</b>
Net income	<b>\$167.1</b>	<b>7.0%</b>	\$171.0	<b>7.5%</b>	<b>(2%)</b>
<b>Diluted EPS</b>	<b>\$3.43</b>		<b>\$3.34</b>		<b>3%</b>
Weighted average shares outstanding	<b>48.4</b>		50.8		<b>(5%)</b>
EBITDA	<b>\$337.5</b>	<b>14.2%</b>	\$337.7	<b>14.9%</b>	<b>(0%)</b>

Note: Results may not be additive due to rounding.

# 2017 Q3 YTD Adjusted Results\*



\$ in millions, except EPS

	<b>Fiscal 2017</b>	<b>% of Sales</b>	<b>Fiscal 2016</b>	<b>% of Sales</b>	<b>Increase / (Decrease)</b>
Net sales	<b>\$2,373.1</b>		\$2,265.0		<b>5%</b>
Gross profit	<b>1,023.9</b>	<b>43.1%</b>	968.7	<b>42.8%</b>	<b>6%</b>
Adjusted SG&A *	<b>778.6</b>	32.8%	710.5	31.4%	<b>10%</b>
Royalty income	<b>(32.1)</b>	(1.4%)	(31.3)	(1.4%)	<b>3%</b>
Adjusted operating income*	<b>277.4</b>	<b>11.7%</b>	289.4	<b>12.8%</b>	<b>(4%)</b>
Interest and other, net	<b>20.5</b>	0.9%	23.5	1.0%	<b>(13%)</b>
Income before taxes	<b>256.9</b>	10.8%	265.8	11.7%	<b>(3%)</b>
Income taxes	<b>88.1</b>	3.7%	93.4	4.1%	<b>(6%)</b>
Adjusted net income*	<b>\$168.7</b>	<b>7.1%</b>	\$172.4	<b>7.6%</b>	<b>(2%)</b>
<b>Adjusted diluted EPS*</b>	<b>\$3.46</b>		<b>\$3.37</b>		<b>3%</b>
Weighted average shares outstanding	<b>48.4</b>		50.8		<b>(5%)</b>
Adjusted EBITDA *	<b>\$341.1</b>	<b>14.4%</b>	\$338.2	<b>14.9%</b>	<b>1%</b>

\* Results are stated on an adjusted basis; see reconciliation to GAAP on pages 31-33.  
Note: Results may not be additive due to rounding.

# Q3 YTD 2017

## Adjusted Business Segment Performance\*



\$ in millions

	Net Sales			Adjusted Operating Income (Loss)*			Adjusted Operating Margin*	
	2017	2016	\$ Growth	2017	2016	\$ Growth	2017	2016
<b>U.S. Retail (a)</b>	\$ 1,210	\$ 1,129	\$ 81	\$ 131	\$ 127	\$ 4	10.8%	11.3%
<b>U.S. Wholesale (b)</b>	880	881	(1)	185	196	(11)	21.0%	22.2%
<b>International (c)</b>	284	256	28	28	37	(9)	10.0%	14.6%
Total before corporate expenses	2,373	2,265	108	344	360	(17)	14.5%	15.9%
<b>Corporate expenses</b>				(66)	(71)	5	(2.8%)	(3.1%)
<b>Total</b>	<b>\$ 2,373</b>	<b>\$ 2,265</b>	<b>\$ 108</b>	<b>\$ 277</b>	<b>\$ 289</b>	<b>\$ (12)</b>	<b>11.7%</b>	<b>12.8%</b>

(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 32.

Note: Results may not be additive due to rounding.

# Q3 YTD Reconciliation of Net Income Allocable to Common Shareholders



	Three Fiscal Quarters Ended	
	September 30, 2017	October 1, 2016
Weighted-average number of common and common equivalent shares outstanding:		
Basic number of common shares outstanding	47,829,794	50,282,345
Dilutive effect of equity awards	549,213	470,050
Diluted number of common and common equivalent shares outstanding	48,379,007	50,752,395

	Three Fiscal Quarters Ended			
	As reported on a GAAP Basis		As adjusted (a)	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
<i>\$ in thousands, except EPS</i>				
Basic net income per common share:				
Net income	\$ 167,075	\$ 170,989	\$ 168,739	\$ 172,411
Income allocated to participating securities	(1,314)	(1,359)	(1,328)	(1,371)
Net income available to common shareholders	\$ 165,761	\$ 169,630	\$ 167,411	\$ 171,040
Basic net income per common share	\$3.47	\$3.37	\$3.50	\$3.40
Diluted net income per common share:				
Net income	\$ 167,075	\$ 170,989	\$ 168,739	\$ 172,411
Income allocated to participating securities	(1,304)	(1,350)	(1,317)	(1,362)
Net income available to common shareholders	\$ 165,771	\$ 169,639	\$ 167,422	\$ 171,049
Diluted net income per common share	\$3.43	\$3.34	\$3.46	\$3.37

(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 \$1.7 million and \$1.4 million in after-tax expenses from these results for the three fiscal quarters ended September 30, 2017 and October 1, 2016, respectively.

Note: Results may not be additive due to rounding.

# Q3 YTD Reconciliation of Reported to Adjusted Earnings



\$ in millions, except EPS

First Three Quarters of Fiscal 2017	Gross Margin	% of net sales	SG&A	% of net sales	Operating Income	% of net sales	Net Income	Diluted EPS	Segment Reporting							
									U.S. Retail Operating Income	% of segment net sales	U.S. Wholesale Operating Income	% of segment net sales	International Operating Income	% of segment net sales	Corporate Operating Expenses	% of total net sales
<b>As reported (GAAP)</b>	<b>\$1,023.1</b>	43.1%	<b>\$781.4</b>	32.9%	<b>\$273.8</b>	11.5%	<b>\$167.1</b>	<b>\$3.43</b>	<b>\$128.0</b>	10.6%	<b>\$184.1</b>	20.9%	<b>\$28.0</b>	9.9%	<b>(\$66.3)</b>	(2.8%)
Acquisition-related costs (b)	0.8		(3.3)		4.1		3.3	0.07	0.0		0.5		0.3		3.3	
Store restructuring costs (b) (c)	-		(2.7)		2.7		1.7	0.04	2.7		-		-		-	
Direct sourcing initiative (b) (d)	-		(0.3)		0.3		0.2	-	-		-		-		0.3	
Acquisition contingency fair value adjustment (b)	-		3.6		(3.6)		(3.6)	(0.07)	-		-		-		(3.6)	
<b>As adjusted (a)</b>	<b>\$1,023.9</b>	43.1%	<b>\$778.6</b>	32.8%	<b>\$277.4</b>	11.7%	<b>\$168.7</b>	<b>\$3.46</b>	<b>\$130.8</b>	10.8%	<b>\$184.5</b>	21.0%	<b>\$28.3</b>	10.0%	<b>(\$66.3)</b>	(2.8%)

First Three Quarters of Fiscal 2016	Gross Margin	% of net sales	SG&A	% of net sales	Operating Income	% of net sales	Net Income	Diluted EPS	Segment Reporting	
									Corporate Operating Expenses	% of total net sales
<b>As reported (GAAP)</b>	<b>\$968.7</b>	42.8%	<b>\$712.8</b>	31.5%	<b>\$287.1</b>	12.7%	<b>\$171.0</b>	<b>\$3.34</b>	<b>(\$73.1)</b>	(3.2%)
Amortization of tradename (b)	-		(1.7)		1.7		1.1	0.02	1.7	
Direct sourcing initiative (b) (d)	-		(0.5)		0.5		0.3	0.01	0.5	
<b>As adjusted (a)</b>	<b>\$968.7</b>	42.8%	<b>\$710.5</b>	31.4%	<b>\$289.4</b>	12.8%	<b>\$172.4</b>	<b>\$3.37</b>	<b>(\$70.8)</b>	(3.1%)

(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 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.

(b) The difference between the impacts on Operating Income and Net Income represents the income taxes related to the adjustment item (calculated using the applicable tax rate of the underlying jurisdiction).

(c) Expenses related primarily to the Company's decision to close and early terminate leases for seven retail stores.

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

Note: Results may not be additive due to rounding.



# Reconciliation of Net Income to Adjusted EBITDA



\$ in millions

	Fiscal Quarter Ended		Three Fiscal Quarters Ended		Four Fiscal Quarters Ended
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016	September 30, 2017
Net income	\$ 82.5	\$ 80.8	\$ 167.1	\$ 171.0	\$ 254.2
Interest expense	8.1	6.8	22.4	20.3	29.1
Interest income	(0.0)	(0.1)	(0.3)	(0.5)	(0.4)
Income tax expense	41.0	43.4	86.2	92.6	131.6
Depreciation and amortization (a)	21.5	17.5	62.1	54.3	81.3
<b>EBITDA</b>	<b>\$ 153.1</b>	<b>\$ 148.4</b>	<b>\$ 337.5</b>	<b>\$ 337.7</b>	<b>\$ 495.8</b>
<b>Adjustments to EBITDA</b>					
Acquisition-related costs	\$ 1.2	\$ -	\$ 4.1	\$ -	\$ 6.5
Store restructuring costs (b)	2.7	-	2.7	-	2.7
Direct sourcing initiative (c)	0.1	0.5	0.3	0.5	0.5
Acquisition-related fair value adjustment	(3.6)	-	(3.6)	-	(3.6)
<b>Adjusted EBITDA</b>	<b>\$ 153.5</b>	<b>\$ 148.9</b>	<b>\$ 341.1</b>	<b>\$ 338.2</b>	<b>\$ 501.9</b>

(a) Includes amortization of acquired tradename.

(b) Pre-tax expenses related primarily to the Company's decision to close and early terminate leases for seven retail stores.

(c) Pre-tax costs associated with the Company's direct sourcing initiative, to include severance and relocation.

Note: Results may not be additive due to rounding.

# 2016 Fourth Quarter and Full Year Reconciliation of Reported to Adjusted Earnings



\$ in millions, except EPS

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

									<u>Segment Reporting</u>					
<u>Fiscal 2016</u>									<u>International</u>	<u>% of</u>		<u>Corporate</u>	<u>% of</u>	
	<u>Gross</u>	<u>% of</u>	<u>SG&amp;A</u>	<u>% of</u>	<u>Operating</u>	<u>% of</u>	<u>Net</u>	<u>Diluted</u>	<u>Operating</u>	<u>segment</u>	<u>Operating</u>	<u>total</u>		
	<u>Margin</u>	<u>sales</u>		<u>sales</u>	<u>Income</u>	<u>sales</u>	<u>Income</u>	<u>EPS</u>	<u>Income</u>	<u>net sales</u>	<u>Expenses</u>	<u>net sales</u>		
<b>As reported (GAAP)</b>	<b>\$1,379.1</b>	43.1%	<b>\$995.4</b>	31.1%	<b>\$426.6</b>	13.3%	<b>\$258.1</b>	<b>\$5.08</b>	<b>\$59.2</b>	16.2%	<b>(\$106.2)</b>	<b>(3.3%)</b>		
Amortization of tradenames	-		(1.7)		1.7		1.1	0.02	-		1.7			
Direct sourcing initiative (a)	-		(0.7)		0.7		0.5	0.01	-		0.7			
Acquisition related costs (b)	-		(2.4)		2.4		1.5	0.03	-		2.4			
<b>As adjusted</b>	<b>\$1,379.1</b>	43.1%	<b>\$990.6</b>	31.0%	<b>\$431.4</b>	13.5%	<b>\$261.1</b>	<b>\$5.14</b>	<b>\$59.2</b>	16.2%	<b>(\$101.4)</b>	<b>(3.2%)</b>		

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

(b) Advisory fees incurred in connection with the Skip Hop transaction.

Note: Results may not be additive due to rounding.

# Store Count Data



	<u>Single-brand</u>	<u>Dual-brand</u>		<u>Total U.S. Retail</u>	<u>Dual-brand</u>	<u>Mexico <sup>1</sup></u>	<u>Total International</u>	<u>Total Consolidated Retail Stores</u>
	<u>U.S. Stand-alone Format</u>	<u>U.S. Side-by-Side Format</u>	<u>U.S. Co-branded Format</u>		<u>Canada Co-branded Format</u>			
<b>Store count at October 1, 2016</b>	<b>636</b>	<b>127</b>	<b>13</b>	<b>776</b>	<b>156</b>	<b>N/A</b>	<b>156</b>	<b>932</b>
Openings	13	21	23	57	18	N/A	18	75
Closings	(12)	-	-	(12)	(2)	N/A	(2)	(14)
Conversions to dual-brand formats	(29)	6	23	-	-	N/A	-	-
<b>Store count at September 30, 2017</b>	<b>608</b>	<b>154</b>	<b>59</b>	<b>821</b>	<b>172</b>	<b>40</b>	<b>212</b>	<b>1,033</b>

<sup>1</sup> 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 October 26, 2017 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 future performance, including, without limitation, statements with respect to the Company's anticipated financial results for the fourth 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.