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| **Company: Carter’s Inc** | Ticker: CRI Current Price: $99.44 | Sector: Consumer Discretionary | Sub Industry: Apparel, Accessories & Luxury Goods |
| Target Price: $110  Stop Loss: $79.37  52 Week High/ Low: $109.53/$80.9 | TTM P/E: 19.6  Forward P/E (2016E): 17.9  TTM EPS: $4.41 | Beta: 0.81  Credit Rating:  Rating Outlook: | Market Cap: 4.7B  Avg. Vol (30 Day): 0.7M  Dividend Yield: 1.01% |

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| **Company Background:** |
| Carter's, Inc. (CRI) designs, sources and markets branded apparel for babies and young children. The company offers its products under various brands, including Carter's, Child of Mine, Just One Year, Precious Firsts, OshKosh, and related brands. |
| **Industry Outlook:** |
| Fundamental outlook for the apparel, accessories & luxury goods sub-industry is neutral. Sales of both accessories and luxury goods are expected to outpace that of apparel over the near term. While apparel is a relatively low cost category that is likely to benefit from a boost to consumer spending due to lower gasoline prices. Apparel, accessory, and luxury brands are increasing their investments in company-owned retail, outlet and online stores, which provide higher-margin growth opportunities than the wholesale channel and enable them to showcase their entire merchandise assortment, enhance consumer brand awareness, and test new products. |
| **Investment Thesis:** |
| * After rising nearly 10% in 2014, net sales increased 4.15% in 2015. E-commerce accelerates the retail business, especially for the Carter’s and Oshkosh brands. * 2016 revenues are expected to advance about 8.1%, with further expansion of the U.S. stores base for the Carter's branded stores combined with additional side-by-side OshKosh stores * Operating margins expanded to 13.2% in 2015 and is expected to expand to 13.7% in 2016 with a higher mix of direct-to-consumer (or DTC; i.e. retail and e-commerce) sales, easing raw material (cotton) prices and improved supply chain efficiency (including potential cost savings from a distribution center). * EPS is forecasted to reach $5.37 in 2016 versus EPS of $3.93 in 2014 |
| Investment Risks: |
| Sharp pullback in global consumer spending; Intensifying competition in kids apparel; Escalating input costs; Potentially significant foreign currency exposure |
| **3-5 Takeaways From Last Quarter’s Investor Call Transcripts:** |
| * Earlier today, we reported a record level of sales and earnings for 2015. This was our 27th consecutive year of sales growth and a significant year of progress for our company. * In 2015, we opened over 100 beautiful new stores in North America. We strengthened the presentation of our brands across all channels of distribution. We launched new eCommerce capabilities in China, improved our operating margin and negotiated more favorable product costs for 2016. * We invested in new systems to enable our growth plans and we returned over $150 million in capital to our shareholders for cumulative distributions of over $760 million in the past three years, through share repurchases and dividends. * The young children's apparel market in the United States grew about 2% last year to $20.5 billion. Our share of this market continued to grow, up 50 basis points to 17% share by extending the reach of our brands. We continue to see good returns on our new store openings. We plan to open 270 Carter's stores over the next five years with projected incremental sales of over $300 million. * In the fourth quarter, we launched a new customer loyalty program, called Rewarding Moments, a beautifully branded cross-channel cross-brand rewards program. The consumers' response to this new marketing tool has exceeded our expectations. Over five million shoppers have enrolled in the first four months. |

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| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | 2012 | 2013 | 2014 | 2015 | Q1-2016 Est | | Revenue | 2381.73 | 2638.71 | 2893.87 | 3013.9 | 724.8 | | Operating Profit | 261.99 | 264.15 | 333.35 | 392.9 | 90.5 | | Net Income | 161.15 | 160.41 | 194.67 | 237.8 | 55.3 | | Revenue Growth % | 12.89 | 10.79 | 9.67 | 4.15 | 5.85 | | EBITDA% | 301.83 | 332.65 | 408.27 | 461.3 | 116.00 | | Operating Profit % | 11.00 | 10.01 | 11.52 | 13.03 | 12.49 | | Net Income Margin | 6.77 | 6.08 | 6.73 | 7.89 | 7.62 | | D/E | 18.87 | 83.63 | 74.49 | 66.79 |  | | Interest Coverage | 38.89 | 20.54 | 12.12 | 14.88 |  | | EPS | 2.73 | 2.78 | 3.65 | 4.55 | 1.06 | | PE Ratio | 19.49 | 22.46 | 23.10 | 19.63 | 19.38 | | Current Ratio | 3.92 | 3.61 | 4.20 | 5.27 |  | | ROE | 17.76 | 18.77 | 25.83 | 28.36 |  | | ROA | 10.63 | 9.32 | 10.51 | 12.19 |  | | Dividend Per share | 0.00 | 0.48 | 0.76 | 0.88 | 0.22 | | |  |  |  | | --- | --- | --- | |  | 2001-14 | 2015-20 | | Avg. Revenue Growth | 12.8% | 6.9% | | Avg. EBITDA Margin | 13.84% | 16.55% | | Avg. NOPAT Margin | 5.44% | 6.17% | | Cost of Debt | | 1.72% | | Tax Rate | | 36% | | Cost of Equity | | 7.38% | | WACC | | 6.8% | | Perpetuity Growth Rate (Terminal) | | 3.2% |   Analyst Opinion   |  |  |  | | --- | --- | --- | | Buy: 6 | Hold: 4 | Sell: 0 |  |  |  |  | | --- | --- | --- | |  | Rating | Target | | S&P NetAdvantage | Strong Buy (5 Star) | $100 | | Morningstar | N/A | N/A | | Value Line | Timeliness 2, Safety 3, Financial strength B++ | $115-$170 | |

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| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | KATE | VNCE | VFC | PVH | Ind. Average | **CRI** | | P/E | 18.59 | 12.47 | 19.62 | 11.41 | 22.67 | 21.83 | | P/B | 12.61 | 2.47 | 4.86 | 1.38 | 4.97 | 5.88 | | Dividend Yield | 0.00 | 0.00 | 2.09 | 0.20 | 0.72 | 0.88 | | PEG Ratio | 0.91 | 3.90 | 1.82 | 1.47 | 1.77 | 1.63 | | EPS (Last FY) | 1.26 | 0.97 | 2.42 | 5.33 | 2.59 | 4.55 | | Rev Growth (Last FY) | -6.44 | 13.00 | 22.81 | 27.04 | 17.75 | 12.89 | | NI Growth (Last FY) | - | -55.73% | -2.27% | -1.68% | -225.37% | 5.84 | | Operating Margin | 4.44 | 15.26 | 11.64 | 11.72 | 11.70 | 13.41 | | Debt / Equity | 231.59 | 98.75 | 34.63 | 74.08 | 62.93 | 66.79 | | Market Cap | 2186.13 | 188.31 | 26073.06 | 6274.61 | 7352.51 | 4731.12 |   **Prepared By: Yun Xie**  **Sources: Bloomberg, S&P NetAdvantage, VLIS, Morningstar** | |  |  |  |  | | --- | --- | --- | --- | |  | CRI | Sector | S&P 500 | | YTD | 8.89% | -5.30% | -5.58% | | Last 3 Years | 67.84% | 45.75% | 26.98% | | Last 5 Years | 223.73% | 86.24% | 43.69% |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | Company | Industry | | ESG Disclosure | 21.53 | 21.43 | | Governance Disclosure Score | 51.79 | 52.17 | | Social Disclosure Score | 28.07 | 23.51 | | Environmental Disclosure Score | -- | 17.63 | |