Carter’s Company Report by Jane Xiang & Ziyi Zhuang

Call: **Hold**
Target Price: $**57.96**
Price as of Nov 5, 2024: **$54.88**

COMPANY OVERVIEW

Carter’s is a leading American retailer of children’s apparel and accessories. Headquartered in Atlanta, Georgia, Carter’s is renowned for quality and affordability. Key brands under Carter’s include **Carter’s, OshKosh B'gosh, Little Planet,** and **Skip Hop**. The company operates 1034 branded stores and outlets across the United States, Canada, and Mexico as of Oct 2024. 85% of sales generated from United States, from both owned stores, owned online websites and apps, and wholesales channel. The company has significant international presence in Canada, c. 80% of its international sales, and is growing in Latin American region through owned stores and wholesale partnership.

Carter’s focuses on 0–10-year-old infant, toddler, and children's segment. The company focuses on selling essentials like bodysuits, pajamas, and playwear for young families. Little Planet offers organic clothing at an affordable price and can be likened to The Honest Company’s baby apparel collection. Lastly, Skip Hop offers baby and toddler toys and infant-related gear such as high-top seats, food containers, and bottles.

While Carter’s stock is at a 52-week low, the value is in line with our fundamental analysis. Thus, we recommend a HOLD.

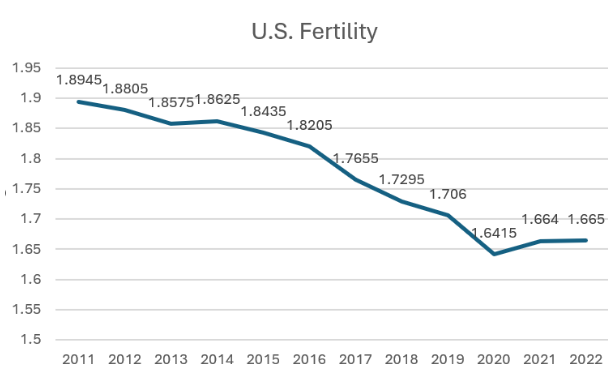
Industry Peer Performance:

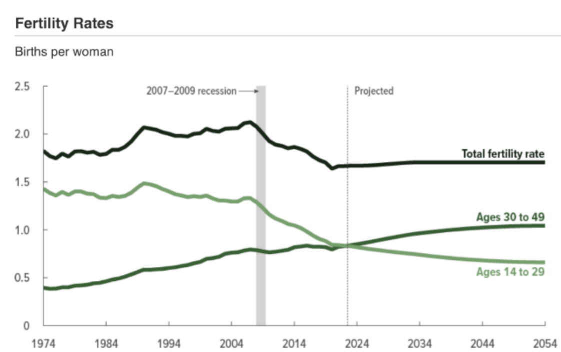
Carter’s product portfolio primarily focuses on essential infant and children's clothing, typically priced below $10, positioning it as a consumer staple brand. The practical nature of its offerings resonates with parents, who often pair these purchases with complementary items such as diapers and toys, reinforcing its status in the staples category. To evaluate Carter’s performance relative to competitors, we analyzed a portfolio of children's apparel and goods. We referenced broader trends by looking at baby and children’s staples market, analyzing Pamper’s and found that staples remained flat. Thus, our findings indicate that despite stable population growth, there is a decline in performance amongst children’s apparel chains due to a combination of consumer sentiment, inflation, and reduced market share.

- **Children’s Apparel Wholesalers**:
    - *The Children's Place*, a specialty retailer for infant and toddler apparel, reported sales declines of **6% in 2023** and **10% in 2022**.
- **Infant & Children’s Toys**:
    - *Mattel's Fisher-Price* segment, a leader in the infant and toddler toy market, saw sales declines of **10.5% in 2023** and **9% in 2022**.
    - *Melissa & Doug*, acquired by Spin Master Toys in 2023, is showing 25% sales decline in 2024 compared to previously reported earnings pre-merger.
- **Infant Staples:**
    - *Pampers*, a market leader owned by Procter & Gamble, reported that their Baby, Feminine, and Family Care segment, had zero growth, although they reported a **2% sales decline solely due** to unfavorable foreign exchange rates

Key Drivers of Industry-Wide Declines:

1. **Demographic Trends**: The U.S. fertility rate reached an all-time low of 1.7 children per female in 2023, and the Congressional Budget Office projects it will remain flat at this level through 2050. This stagnant fertility rate suggests that growth in the baby and children’s apparel and goods market will predominantly stem from price increases rather than volume growth, as the number of births remains steady.





www.CBO.gov

2. **Consumer Behavior Shifts**: Lower consumer sentiment has curtailed discretionary spending on infant apparel and toys, especially in low- to middle-income families. U.S. Bureau of Labor Statistics reported higher expenditures on Apparel & Services from the top two income quintiles, with growth rates ranging from 7.7-9.5%. The growth rates from the bottom three range from -4.6% to 3.7% in year-over-year change Y2022-Y2023, indicating that spending averages were driven by higher income families. We take this into consideration in our forecast since Carter's consumer demographic is low- to middle-income households.

Table D. Change in average annual expenditures of major components by income quintile, 2022-23

Item	Lowest Quintile		Second Quintile		Third Quintile		Fourth Quintile		Highest Quintile	
	Over-the-year change		Over-the-year change		Over-the-year change		Over-the-year change		Over-the-year change	
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent
Total	1,164	3.6	1,266	2.7	3,537*	5.7*	5,965*	7.3*	9,439*	6.7*
Food	188	3.7	561	8.6	434	5.1	746*	6.9*	1,283*	8.2*
At home	83	2.3	370	8.6	231	4.2	388	5.9	675*	7.9*
Away from home	105	7.1	192	8.6	204	6.7	358	8.4	606	8.4
Alcoholic beverages	-15	-6.5	18	5.7	-30	-6.4	106	15.9	192*	15.5*
Housing	567	4.2	729	4.1	1,124*	5.2*	1,736*	6.6*	1,468	3.5
Apparel and services	34	3.7	31	2.5	-79	-4.6	217	9.5	277	7.7
Transportation	-11	-0.2	-347	-4.3	1,160	10.8	1,195	8.1	2,353	10.3
Healthcare	184*	5.5*	403*	9.1*	-198*	-3.3*	316*	4.7*	819*	9.3*
Entertainment	212	17.2	262	13.3	-214	-7.3	106	2.8	509	6.9
Personal care products and services	45	11.3	31	5.2	61	7.5	137*	14.0*	143	9.3
Reading	-6	-8.0	-7	-9.3	-3	-3.4	29	22.9	-10	-4.5
Education	75	11.6	24	4.7	419	63.5	-4	-0.3	1,088*	29.6*
Tobacco products and smoking supplies	4	1.2	-55	-13.2	76	20.2	-22	-5.3	-11	-3.8
Miscellaneous	-73	-14.6	350	52.0	286*	35.5*	83	7.0	228	12.1
Cash contributions	-119	-13.7	-1,005**	-40.6**	-21	-1.1	213	9.8	-959	-15.0
Personal insurance and pensions	77	12.2	270*	11.6*	519*	9.6*	1,107*	10.3*	2,061*	8.4*

* Values are significant at the 95 percent level. See methodology section for more information.
**Estimate has a high Relative Standard Error (RSE) and is suppressed in the published tables. See the methodology section below for more information.

www.bls.gov

3. **Rise of Second-Hand and Discount Store Alternatives**: Secondhand platforms such as *Poshmark* are gaining traction as cost-conscious consumers opt for pre-owned items. Families with multiple children are increasingly relying on hand-me-downs to save costs. Increasing market share is being captured by discount retailers like *Burlington* and *TJX* (operators of Marshalls and TJ Maxx), as well as private labels from *Target* and *Walmart*.

Implications for Carter's:

Given the broader macroeconomic pressures and shifting consumer preferences, Carter's retail business faces heightened competition from discount retailers and private labels, as well as from non-traditional avenues like second-hand platforms. We see it is positive that Carter's have significant presence in private label segment through its strategic partnership with Target and Walmart. However, wholesale segment is a low margin business and will erode margins at bottom line.

Revenue

Modeling Assumptions												
REVENUE FORECAST												
Revenue:	Historical					Forecast						
	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F	20-24 CAGR	5-29 CAGR
U.S. Retail . .	1,884	1,672	1,899	1,680	1,502	1,339	1,389	1,451	1,521	1,591	-2%	1%
U.S. Wholesale	1,206	996	1,126	1,080	1,015	1,045	1,075	1,105	1,135	1,166	0%	3%
International .	429	357	461	452	429	388	388	392	400	411	4%	-1%
Total	3,519	3,025	3,486	3,213	2,946	2,772.12	2,853.24	2,949.15	3,055.91	3,168.26		
YoY growth		*-14%*	*15%*	*-8%*	*-8%*	*-6%*	*3%*	*3%*	*4%*	*4%*		

Based on Carter's reporting, we break down Revenue forecast to (1) U.S. Retail, (2) U.S. Wholesale, and (3) International

U.S. Retail Forecast

Channel Mix:

	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
In-store (%)	88%	76%	65%	63%	67%	76%	77%	78%	79%	80%
Online (%)	12%	24%	35%	37%	33%	24%	23%	22%	21%	20%

As of Q3 2024 earnings call, ~70% sales are generated from in-store sales, and ~30% from online.

- **Omnichannel strategy**: Online channel gained significant traction during pandemic. As pandemic restriction subsided and consumers shift back to in-store shopping, management views in-person stores as a key customer acquisition channels and believes more store opening in high traffic areas will help them win back customers whom they have lost to discount stores and private labels players.
- **%Online sales shift back to buy-online, pick-up instore**: Based on PYMNT's study on *The 2023 Global Shopping Index: U.S. Edition*[1] , nearly one-third of U.S. eCommerce shoppers opted for in-store or curbside pickup for their most recent online purchase. Reflecting this shift in consumer preferences, we project that one-third of Carter's existing eCommerce sales will transition to a buy-online, pick-up-in-store model, with orders fulfilled directly from individual store inventories rather than eCommerce fulfillment centers. This assumption is supported by Carter's Q3 earnings call, which highlighted a 12% lift in omni-channel sales during the quarter. Notably, 38% of Carter's digital orders were fulfilled by in-store inventories, an increase from 35% in 2023. Thus, we forecast a gradual decline in the percentage of sales generated online, from the current 30% of total U.S. retail sales to approximately 20% by 2028.

# of Stores:

>>U.S. In-store Forecast

Number of Stores	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F	20-24 CAGR	5-29 CAGR
North America	834	864	751	757	792	802	842	882	922	962	-1%	4%

	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
(-)Close	-14	-14	-114	-19	-11	-30	-15	-15	-15	-15
(+)New	4	44	1	25	46	40	55	55	55	55
chg in store	-10	30	-113	6	35	10	40	40	40	40
% chg in store		*4%*	*-13%*	*1%*	*5%*	*1%*	*5%*	*5%*	*5%*	*4%*

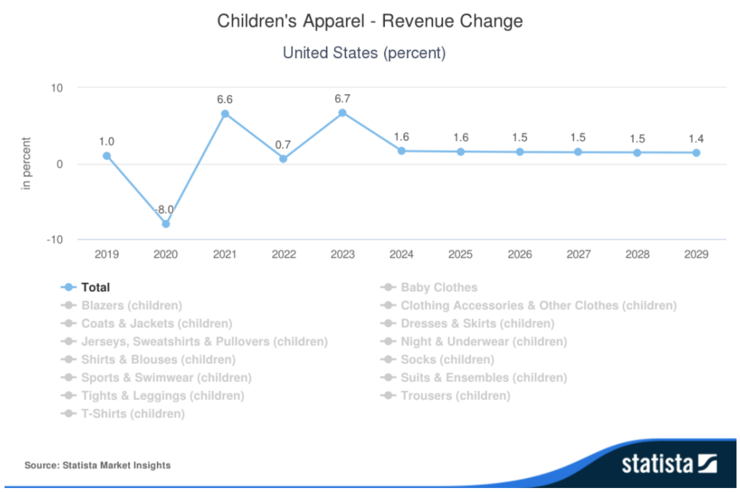
- **Store Expansion Strategy:** Carter's management has announced an ambitious store expansion plan over the next five years. In 2023, the company revealed plans to open 200 U.S. stores by 2030, with the goal of driving an additional $250 million in sales. For 2024, management has guided the opening of 40 new stores in high-traffic areas while closing 30 underperforming locations.

[1] https://www.medallia.com/why-curbside-pickup-is-here-to-stay/#:~:text=Per%20the%20study%2C%20%E2%80%9Cthe%20U.S.,Improve%20the%20purchase%20experience

- **Execution Track Record:** A review of Carter's historical store expansion forecasts from 2016 to 2023 shows that actual store counts have consistently aligned with management's projections shared during earnings calls. This strong track record bolsters our confidence in the company's ability to execute its aggressive expansion plans effectively.
- **Forecast:** The planned store openings are expected to support Carter's efforts to enhance customer acquisition and loyalty. Our forecast through 2028 incorporates the anticipated impact of these expansions, reflecting the potential for sustained sales growth aligned with management's strategic objectives.

Same Store Sales Growth:

Same Store Sales Growth	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
North America	2.0	1.5	1.6	1.4	1.3	1.3	1.3	1.3	1.3	1.3
SSS Growth rate:										
North America		-26%	12%	-15%	-9%	0%	0.0%	1.0%	1.5%	1.5%



We anticipate same-store sales (SSS) growth to remain flat in the near term. For 2024 and 2025, management has signaled a continuation of discount pricing strategies aimed at attracting customers back to the brand. As a result, we forecast zero year-over-year growth for SSS during this period. Carter's has closed 30 lowest performing stores this year and opened 40 high-margin stores. Since consumer behavior is driven by foot traffic, we believe this will help reverse the decline in SSS. Promotional initiatives will also contribute to a flattened rate of 0% for two years.

Starting in 2026, we expect management to successfully reverse negative growth trends, returning SSS growth to positive territory. Over the long term, we project SSS growth to align with the industry average of 1.5% (Statista), reflecting stabilized market conditions and Carter's strategic initiatives to drive customer engagement and loyalty.

Online Sales Growth:

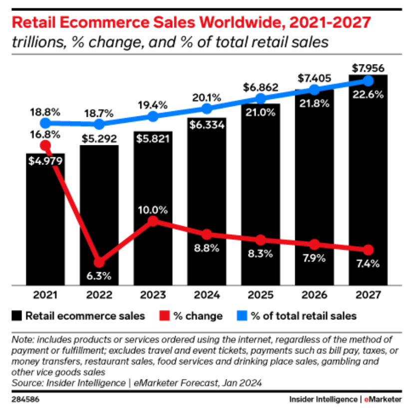
>> U.S. Online Forecast

	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Online Growth rate:		65%	65%	1%	-16%	-4.5%	0.0%	0.0%	0.0%	0.0%

- **Decline in eCommerce due to competition from low-price digital-native players:** In 2024F, Carter's experienced a significant challenge in its digital sales, with H1 eCommerce sales declining by 14%. This decline was primarily driven by intense competition from digital-native low-price players such as Shein and Poshmark. These thrift-oriented platforms offer more affordable alternatives, particularly for baby and children's clothing (e.g., $2–$3 for a baby T-shirt vs. $5 at Carter's). With inflationary pressures persisting, Carter's struggles to maintain a competitive edge in the online market.

- **Loyalty Program Revamp Boosting eCommerce Sales in Q3:** In April, Carter's launched a revamped loyalty program, transitioning from "My Reward Moments" to the more sophisticated tiered program "Carter's Rewards." This program includes three tiers:
    - **Family:** Free to join with no minimum spend.
    - **VIP:** Achieved with $500+ in purchases within a year.
    - **VIP+:** Reserved for Carter's credit card holders.

  Historically, 90% of sales from retail channels have been driven by loyalty program members. To incentivize eCommerce traffic, Carter's introduced app-exclusive offers across all tiers. Following the launch, Q3 eCommerce sales saw a 5% improvement. Management forecasts continued growth during the Q4 holiday season, projecting low single-digit sales growth for the eCommerce channel. For 2024F, we estimate an overall eCommerce sales decline of 5% (H1:-14%, H2: +5%).
- **Future Outlook:** We expect growth in online-order, curbside pickup and in-store traffic. However, we do not anticipate further declines in eCommerce sales, as Carter's investments in AI-driven marketing and enhancements to its loyalty program are poised to boost online traffic. From 2025 to 2028F, we project flat eCommerce sales growth (0% YoY), supported by these initiatives. By 2028F, we project that 80% of sales will come from in-store retail and 20% from online channels, closely aligning with industry forecasts from eMarketer. While online sales are expected to remain a significant component of the business, they are unlikely to emerge as the primary driver of top-line growth, with in-store retail continuing to dominate Carter's revenue mix.

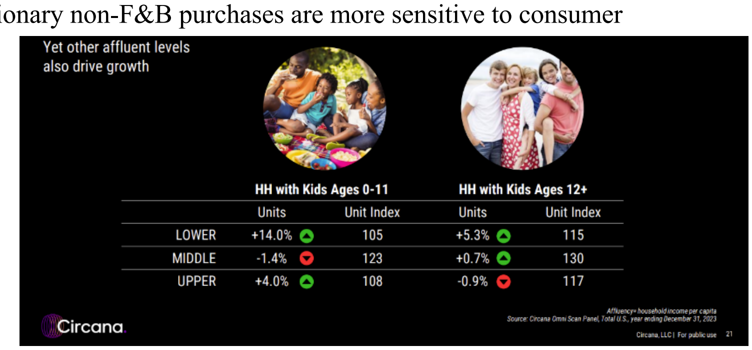


U.S. Wholesale Forecast

U.S. Wholesale Forecast

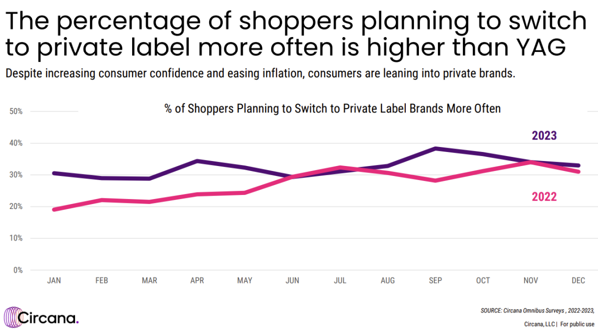
	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Wholesale Growth rate:		-17%	13%	-4%	-6%	3.0%	2.9%	2.8%	2.7%	2.7%

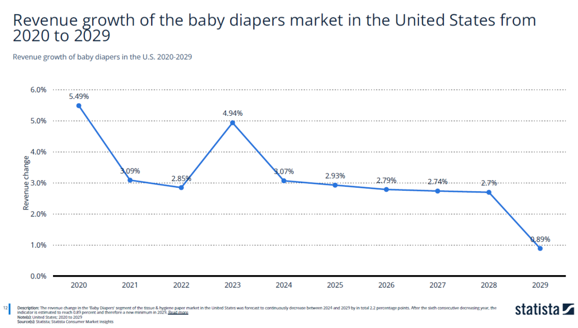
- **Wholesale Partnerships:** Target, Walmart, and Amazon are Carter's three largest wholesale partners. Over the years, Carter's has created exclusive brands for these retailers: *Just One You* for Target, *Child of Mine* for Walmart, *Simple Joys* for Amazon.
- **Leveraging Wholesale Channels to Target Lower-Income Household Sales:** As an indicator, we used Cicana's survey on private label F&B purchasing behavior among households with kids grow significantly, with a 14% YoY growth. While discretionary non-F&B purchases are more sensitive to consumer confidence and inflation, we observe similar trends emerging in baby and toddler (ages 0-11) apparel and toys. Carter's is accommodating on this consumer preference shift by leveraging its partnerships with big-box retailers. At Goldman's conference, the CEO highlighted a 7 million unit increase in H1 wholesale



channel sales driven by exclusive brands. We view Carter's ability to penetrate and capture market share in private labels as a strong positive, offering a unique value proposition for parents seeking a one-stop shop for all baby and toddler needs.

- **Private Label and Wholesale Outlook:** Private label products have thrived amid high interest rates and weakened post-COVID consumer sentiment, catering to affordability-focused shoppers. Circana's survey suggests that private label demand is likely to persist, even as consumer confidence improves and inflation pressures ease.





Management projects 3% growth in the wholesale segment for 2024, aligning with Statista's forecast of a 3% increase in U.S. diaper sales. Apparel for children aged 0-11 mirrors diaper sales as a non-discretionary category driven by consistent demand as kids grow. We concur with the 2024 private label and wholesale forecast, supported by big-box retailers' ability to draw low- and middle-income families with consumer staples. Beyond 2025, we project U.S. wholesale growth to align with diaper sales trends, tapering gradually from 3% in 2024 to 2.7% by 2029.

International Forecast

International Forecast

	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
International		-17%	29%	-2%	-5%	-10%	0%	1%	2.0%	2.7%

Canada	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A
(+) Store		17	9	15	0	0	7	4
(-) Closure		-2	0	-2	-8	-7	-6	-3
Total Stores		15	9	13	-8	-7	1	1
Total Stores	164	**179**	**188**	**201**	**193**	**186**	**187**	**188**

Mexico	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A
(+) Store		41	1	4	2	4	12	13
(-) Closure		0	0	0	-4	-5	-6	-8
Total Stores		41	1	4	-2	-1	6	5
Total Stores	0	**41**	**42**	**46**	**44**	**43**	**49**	**54**

	24-29 CAGR	% International Sales
Canada	1.9%	50%
Mexico	3.5%	30%
Brazil and ROW	3.5%	20%
Weighted Growth Rate	2.7%	

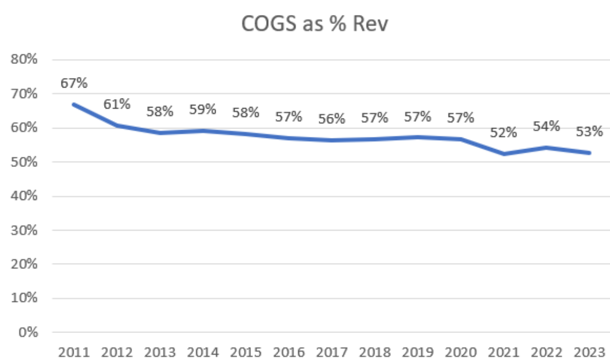
Due to limited data on international wholesale vs. retail breakdown and same-store sales (SSS) growth, our projections focus on overall trends rather than granular details such as store counts or SSS performance

- **International Operations Overview:** As of December 2023, Carter's operates 188 stores in Canada and 54 in Mexico, alongside wholesale and licensing channels across 90 countries. The company entered Mexico in 2016 and plans to expand its wholesale partnerships in Brazil, where higher fertility rates and a projected 3.5% CAGR for baby and children's apparel (FY2024–FY2029, per IBISWorld) indicate significant growth potential. International sales, however, account for just 15% of Carter's total revenue, with the company's primary focus remaining on domestic operational improvements.
- **2024 Forecast:** Management anticipates a 10% decline in international sales for 2024, primarily driven by high interest rates and weak economic conditions in Canada. Nevertheless, with the Canadian central bank expected to implement rate cuts, consumer sentiment in Canada is likely to improve.

- **Long-Term Outlook:** From 2025 onward, we project international growth to align with regional market fundamentals. According to IBISWorld, baby and children's apparel is forecasted to grow at 1.9% in Canada, 3.5% in Mexico, and 3.5% in Brazil and ROW. Assuming a stable regional revenue mix, we estimate a weighted average growth rate of 2.7% for Carter's international segment by the end of 2029.

Gross Margin

	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
COGS as % Rev	57%	57%	52%	54%	53%	55%	55%	53%	53%	53%



Company Name	LTM Gross Margin
Ralph Lauren Corporation (NYSE:RL)	67.50%
Levi Strauss & Co. (NYSE:LEVI)	59.10%
Hasbro, Inc. (NasdaqGS:HAS)	56.50%
Mattel, Inc. (NasdaqGS:MAT)	50.30%
Columbia Sportswear Company (NasdaqGS:COLM)	50.00%
Carter's, Inc. (NYSE:CRI)	48.30%
Under Armour, Inc. (NYSE:UAA)	46.80%
American Eagle Outfitters, Inc. (NYSE:AEO)	39.40%
Hanesbrands Inc. (NYSE:HBI)	37.90%
The Walt Disney Company (NYSE:DIS)	35.80%
Gildan Activewear Inc. (TSX:GIL)	30.60%
The Children's Place, Inc. (NasdaqGS:PLCE)	30.60%

Summary Statistics	LTM Gross Margin %
High	67.50%
Low	30.60%
Mean	45.90%
Median	46.80%

- Carter's strong supply chain management supports its industry-leading gross margin. COGS as % Rev has declined from 2011 high of 67% to 2024 forecasted of 53%.

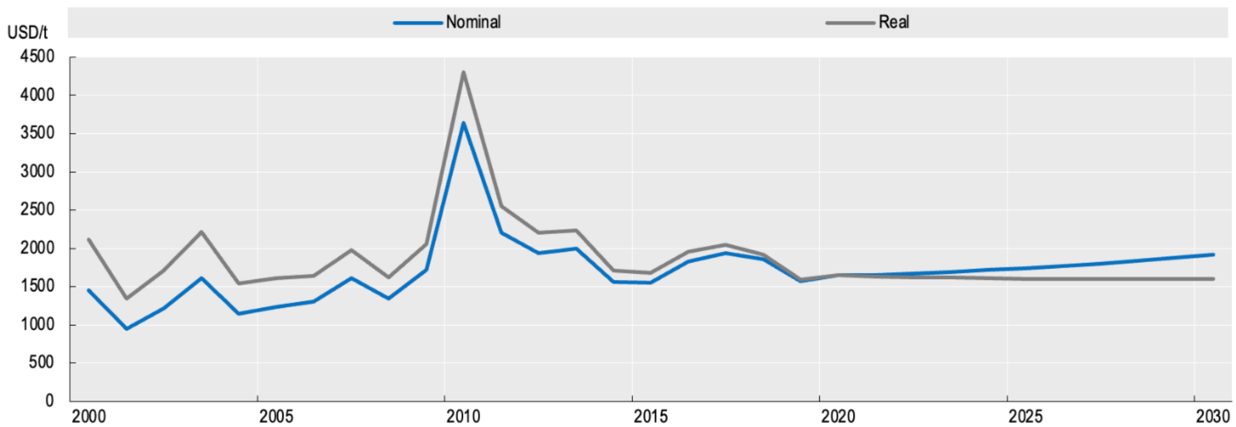
COGS as % Rev

	Mar	Jun	Sep	Dec
2016	57%	56%	58%	56%
2017	57%	56%	57%	55%
2018	56%	55%	58%	57%
2019	57%	56%	57%	58%
2020	65%	54%	56%	53%
2021	50%	51%	54%	54%
2022	55%	53%	55%	54%
2023	56%	51%	52%	51%
Mini	50%	51%	52%	51%
Average	57%	54%	56%	55%
Max	65%	56%	58%	58%
2024	52%	50%	53%	N/A

- We analyzed historical quarterly COGS data from 2016 to 2023 and observed a significant spike to 65% in Q1 2020. However, the company swiftly addressed this issue, leveraging its robust vendor and supplier network to bring costs under control. Despite a declining topline over the years, the management team successfully reduced sourcing costs over the past three years. This demonstrates strong cost-management capabilities, which we view as a positive indicator for future performance.

- Cotton is the biggest input for babies and toddlers' apparel. Cotton prices have moderated due to stable demand and improved supply chains, creating a favorable cost environment. Carter's benefits from lower 2024 cotton prices and efficient APAC sourcing. However, elevated labor and freight costs are likely to offset these savings, keeping COGS flat in the near term.
- We forecasted COGS is expected to rise in 2024-2025 due to discount pricing strategies aimed at regaining customers. Once conditions stabilize, we expect a 200-bps improvement in COGS to 53%, the post-pandemic average COGS from 2021-23.

World cotton prices



OECD-FAO Agricultural Outlook

SG&A

	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
SG&A as % Rev	29%	33%	31%	32%	34%	34%	34%	34%	34%	34%

In 2023, the company allocated $50 million (2% of revenue) to discount pricing and customer loyalty programs. We anticipate these promotional efforts to persist over the next five years, aligning with the company's store expansion strategy. We expect increased investment in loyalty programs to drive customer retention and boost retail store traffic. Consequently, SG&A expenses are projected to remain elevated at 34% of sales, supporting topline growth.

Depreciation & Amortization

	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
D&A as % Rev	3%	3%	3%	2%	2%	3%	3%	3%	3%	3%

D&A has historically remained steady at 2-3% of revenue. With aggressive store expansion plan, we forecasted D&A to be at the high end of 3% going forward.

Capital expenditure

CAPEX FORECAST										
CAPEX FORECAST	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
CAPEX	61.4	32.9	37.4	40.4	59.9	79.5	118.5	120	121.5	121.5
CAPEX per store	2.67	0.72	7.48	0.92	0.95	1.50	1.50	1.50	1.50	1.50
Total Stores	1081	1101	980	993	1034	1046	1100	1155	1211	1267
(+) New	23	46	5	44	63	53	79	80	81	81
(-) Close	-16	-26	-126	-31	-22	-41	-25	-25	-25	-25

CAPEX is primarily driven by new store openings, both domestically and internationally. Based on historical trends, we estimate CAPEX per store at $1.5M USD. Over the next five years, capital expenditures will largely be influenced by the addition of 250 new stores, expected to be completed by 2028.

Change in net working capital

NETWORKING CAPITAL FORECAST	Historical					Forecast				
	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Inventory	594	599	648	745	537	528	544	542	561	582
Prepaid expenses	48	54	32	2	2	23	7	5	5	6
Other Current Asset	-	4	4	32	27	15	15	16	16	17
Current Asset	**642**	**657**	**684**	**778**	**566**	**567**	**566**	**563**	**582**	**605**
Account Payable	184	472	407	264	242	271	305	287	285	303
Accrued expense	45	90	135	82	96	70	72	74	76	79
Curr. Port. of Leases	160	185	134	142	135	132	136	140	145	150
Curr. Income Taxes Payable	23	21	14	17	13	15	15	14	15	16
Other Current Liabilities	24	24	28	23	25	21	22	23	24	24
Current Liabilities	**436**	**793**	**717**	**529**	**512**	**509**	**550**	**538**	**546**	**573**
Inventory as % COGS	30%	35%	36%	43%	35%	35%	35%	35%	35%	35%
Prepaid exp. as % Rev	1%	2%	1%	0%	0%	1%	1%	1%	0%	1%
Other Current Asset as % Rev	N/A	0%	0%	1%	1%	1%	1%	1%	1%	1%
Account Payable as % Rev	5%	16%	12%	8%	8%	10%	11%	10%	9%	10%
Accrued expense as % Rev	4%	9%	13%	8%	10%	7%	7%	7%	7%	7%
Curr. Port. of Leases as SG&A	16%	19%	13%	14%	13%	14%	14%	14%	14%	14%
Curr. Income Taxes Payable as % F	1%	1%	0%	1%	0%	1%	1%	0%	1%	0%
Other Current Liabilities as % Rev	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
NWC	207	(135)	(33)	249	54	64	23	32	44	39
Chg in NWC		(342)	102	283	(195)	9	(40)	9	12	(4)

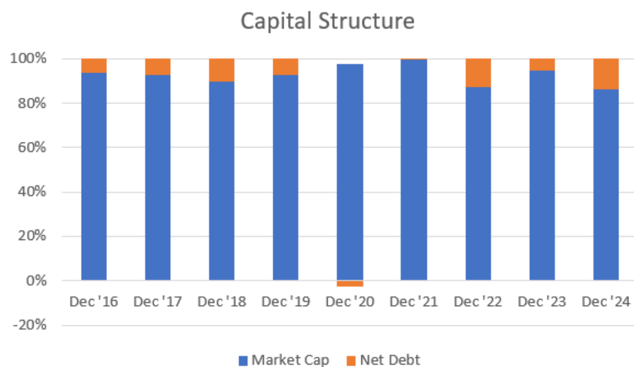
Net working capital (NWC) is primarily influenced by inventory levels. In 2023, management cleared 50% of excess inventory through discounting, showcasing Carter's disciplined approach to working capital management. According to the latest earnings call, the company is investing in a technology-driven inventory planning system to prevent overstock issues like those experienced in 2022. Consequently, we have based our forecasts on historical averages for all NWC components and expect NWC to remain largely cash flow positive.

Income tax

Income tax has remained relatively stable. It was most recently reported at 22% and predicted to remain at 21-22%

Debt to Equity Ratio

As of December 2024, Carter holds $500 million in 5.625% Senior Notes and has $175 million in cash and equivalents, resulting in a capital structure of 14% net debt and 86% equity. The company has demonstrated disciplined capital management, with total debt stabilizing at $500 million historically, excluding the COVID-19 period when debt temporarily rose to $1 billion. Following the pandemic, Carter reaffirmed its commitment to fiscal discipline by paying down $500 million in debt. Based on this historical pattern, we expect the company to maintain its existing capital structure moving forward.



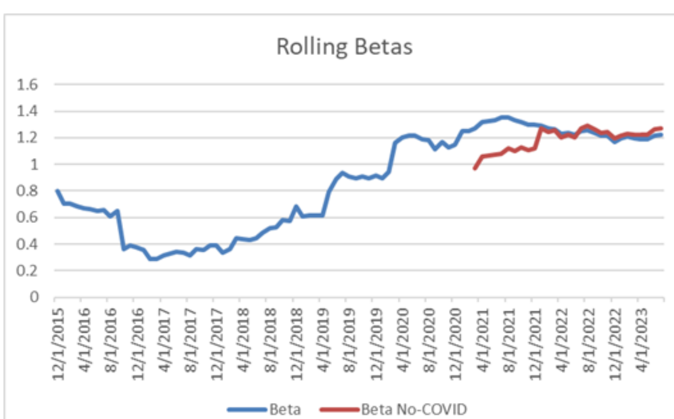
Discount Rate – WACC

WACC CALCULATION

Cost of debt	YTM	Amount	Source
$500 million 5.625% Senior Notes	5.90%	500	Capital IQ
Weighted cost of debt		5.9%	
Tax rate		22%	Q2 earning call
Cost of debt (after tax)		**4.6%**	
Risk free rate		4.18%	WSJ 10 yr treasury yield
Equity risk premium		4.60%	Kroll (rebranded Duff & Phelps)
Beta		1.20	Rolling beta calculation
Cost of equity		**9.70%**	

	% Weight	Current	st of capital
Equity	86%	2,043.78	10%
Net Debt	14%	324	4.60%
WACC			**9.0%**

Beta



For the WACC calculation, we used a post-pandemic average beta of 1.2.

Carter's beta was below 1 during 2015–2018, driven by 35 consecutive quarters of topline growth in a declining birth rate environment, which made the company less volatile than the broader market. Post-pandemic, as the company struggled to achieve topline growth, its beta increased to 1.2 due to supply chain disruptions, inflationary pressures, and heightened competition in e-commerce.

This higher beta reflects Carter's transition to a more cyclical risk profile, influenced by evolving consumer spending patterns and macroeconomic sensitivity, and is likely to remain elevated given ongoing uncertainties in the retail landscape.

Unlevered Free Cash Flow

Unlevered FCF Calculation

	Historical					Forecast				
	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Revenue	3,519	3,024	3,486	3,213	2,946	2,772	2,853	2,949	3,056	3,168
YoY growth		*-14%*	*15%*	*-8%*	*-8%*	*-6%*	*3%*	*3%*	*4%*	*4%*
COGS	(2,011)	(1,711)	(1,824)	(1,740)	(1,550)	(1,525)	(1,569)	(1,563)	(1,620)	(1,679)
YoY growth		*-15%*	*7%*	*-5%*	*-11%*	*-2%*	*3%*	*0%*	*4%*	*4%*
Gross Profit	**1,509**	**1,313**	**1,662**	**1,472**	**1,396**	**1,247**	**1,284**	**1,386**	**1,436**	**1,489**
Growth margin	*42.9%*	*43.4%*	*47.7%*	*45.8%*	*47.4%*	*45.0%*	*45.0%*	*47.0%*	*47.0%*	*47.0%*
SG&A	(1,010)	(985)	(1,068)	(1,017)	(1,004)	(945)	(973)	(1,003)	(1,039)	(1,077)
% Rev	*29%*	*33%*	*31%*	*32%*	*34%*	*34%*	*34%*	*34%*	*34%*	*34%*
D&A	(96)	(94)	(94)	(65)	(64)	(71)	(72)	(88)	(92)	(95)
% Rev	3%	3%	3%	2%	2%	3%	3%	3%	3%	3%
EBIT	**402**	**235**	**501**	**390**	**328**	**232**	**240**	**295**	**306**	**317**
% Rev	11%	8%	14%	12%	11%	8%	8%	10%	10%	10%
Tax rate						22%	22%	22%	22%	22%
NOPAT						**180.80**	**186.95**	**230.06**	**238.39**	**247.15**
Depreciation & amortization						71	72	88	92	95
Changes in net working capital						(9)	40	(9)	(12)	4
Capital expenditures						(80)	(119)	(120)	(122)	(122)
Unlevered Free Cash Flow						**162.49**	**180.64**	**189.78**	**196.85**	**225.07**
					Val date	Yr 1 - Stub	Year 2	Year 3	Year 4	Year 5
Date for discounting cash flows					12/10/2024	12/30/2024	12/30/2025	12/30/2026	12/31/2027	12/30/2028
Unlevered free cash flows (UFCF) stub adjusted						9.03	180.64	189.78	196.85	225.07
Present value of of unlevered free cash flows						**8.63**	**164.47**	**158.09**	**149.98**	**156.90**
Stage 1: PV of TV	**638.07**									

Terminal value

Terminal value calculation

Terminal value- perpetuity approach	
Long term growth rate	1.5%
2028 FCF x (1+g)	228.44
Terminal value	2,928.78
Stage 1: PV of TV	638.07
Stage 2: PV of TV	2,041.66
TEV	**2,679.73**
Stage 1 %	24%
Stage 2 %	76%

Terminal value- perpetuity approach	
EBITDA Multiple	10.5X
Terminal value in 2028	2,363.22
Stage 1: PV of TV	638.07
Stage 2: PV of TV	1,647.41
TEV	**2,285.48**
Stage 1 %	28%
Stage 2 %	72%

NET DEBT & SHARES OUTSTANDING

Net Debt & Shares outstanding					
Net Debt		**Shares outstanding**			
Date as of	25-Oct-24		Source doc	Date	Shares
Source doc	2024 10Q	Common stock	2024 10Q	18-Oct-24	36.04
Gross debt and equivalents		RSUs	2024 10Q	18-Oct-24	0.76
$400 million 3.750% Senior Notes	500				
Total debt	**500**			Exercise price	Shares
Long-term finance leases	0	Options		96.200	0.447
		Total diluted shares			**37.241**
Nonoperating assets					
Cash	$176				
Total cash and equivalent	**$176**	Share Price			$54.88
Net Debt	**324**	**Market Cap**			**$2,044**

VALUATION

Valuation	Perpetuity	EBITDA
Enterprise value	2,680	2,285
(-) Net debt	*(324)*	*(324)*
Equity value	2,356	1,961
Shares outstanding	37	37
Equity value per share	**$63.26**	**$52.67**
Year 1 Multiples	Perpetuity	EBITDA
EV / Revenue	1.0x	0.8x
EV / EBITDA	8.9	7.6
EV / EBIT	11.6	9.9

While Carter's stock is at a 52-week low, the value is in line with our fundamental analysis.

Thus, we recommend a HOLD.

Call: **Hold**
Target Price: $ **57.96**
Price as of Nov 5, 2024: **$54.88**