



introducing
little baby basics™

Fall in love.

carter's | OSHKOSH
B'gosh



CRI SHORT BLACK BOOK

GREAT BRAND, GOOD COMPANY, BAD STOCK

Nov 9, 2016

DISCLAIMER

DISCLAIMER

Hedgeye Risk Management is a registered investment advisor, registered with the State of Connecticut. Hedgeye Risk Management is not a broker dealer and does not provide investment advice for individuals. This research does not constitute an offer to sell, or a solicitation of an offer to buy any security. This research is presented without regard to individual investment preferences or risk parameters; it is general information and does not constitute specific investment advice. This presentation is based on information from sources believed to be reliable. Hedgeye Risk Management is not responsible for errors, inaccuracies or omissions of information. The opinions and conclusions contained in this report are those of Hedgeye Risk Management, and are intended solely for the use of Hedgeye Risk Management's clients and subscribers. In reaching these opinions and conclusions, Hedgeye Risk Management and its employees have relied upon research conducted by Hedgeye Risk Management's employees, which is based upon sources considered credible and reliable within the industry. Hedgeye Risk Management is not responsible for the validity or authenticity of the information upon which it has relied.

TERMS OF USE

This report is intended solely for the use of its recipient. Re-distribution or republication of this report and its contents are prohibited. For more details please refer to the appropriate sections of the Hedgeye Services Agreement and the Terms of Use at www.hedgeye.com

PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

KEY THESIS POINTS

1

GOOD COMPANY, JUST NOT A GOOD STOCK

Not a terminal story. Great brand, good management, just not margin-accretive growth = definitely not a good stock. Not HBI, KSS or JCP. But share gain is slowing at the tail of economic cycle with margin pressures and demographics going the wrong way.

2

P&L/BALANCE SHEET METRICS ERODING

Running out of meaningful US growth. Store growth is slowing without the infrastructure to right-size a struggling e-comm business. Canadian customers no longer coming to US, so CRI going to Canada with its balance sheet. Cotton costs rising, margin hit should come as early as 4Q. Sales/margins off while working capital requirements and capex trending higher to reaccelerate growth.

3

4% FCF YIELD NOT CHEAP WHEN CASH STOPS GROWING

Returns no longer headed higher. Hence, historical peak multiples are irrelevant. RNOA going to 16% from 20%. Still respectable, but eroding trend means troughy multiples matter again. Earnings should still grow over a TREND duration, but a \$7 earnings number seems like a pipe dream. CRI will be lucky to see \$6 over 3 years. A 13x p/e on our number is \$20 downside – or a 24% drop. We'd need to see the company beat by 10% to get \$10 upside. That's very tough to model.

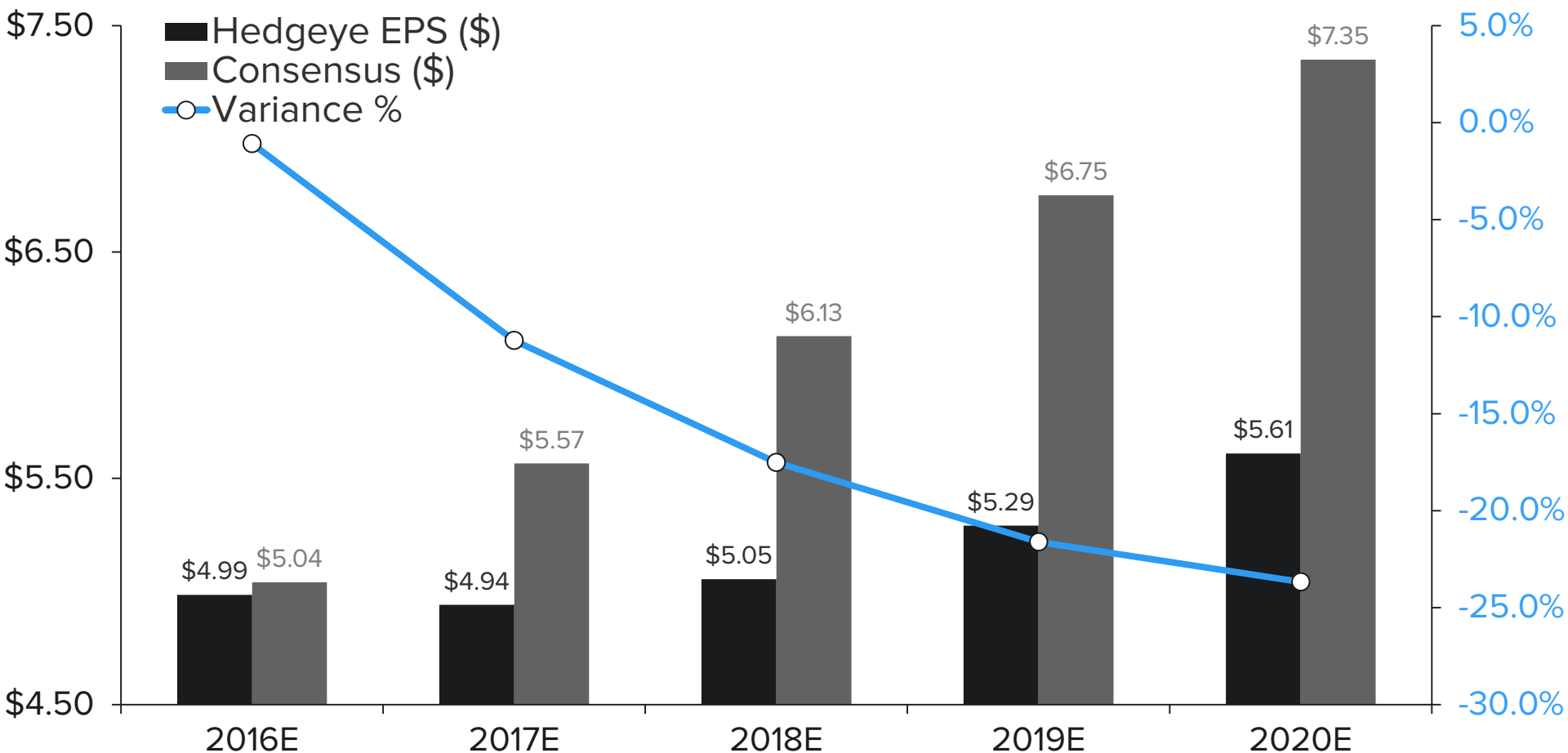
FINANCIAL SUMMARY

Carter's (CRI)

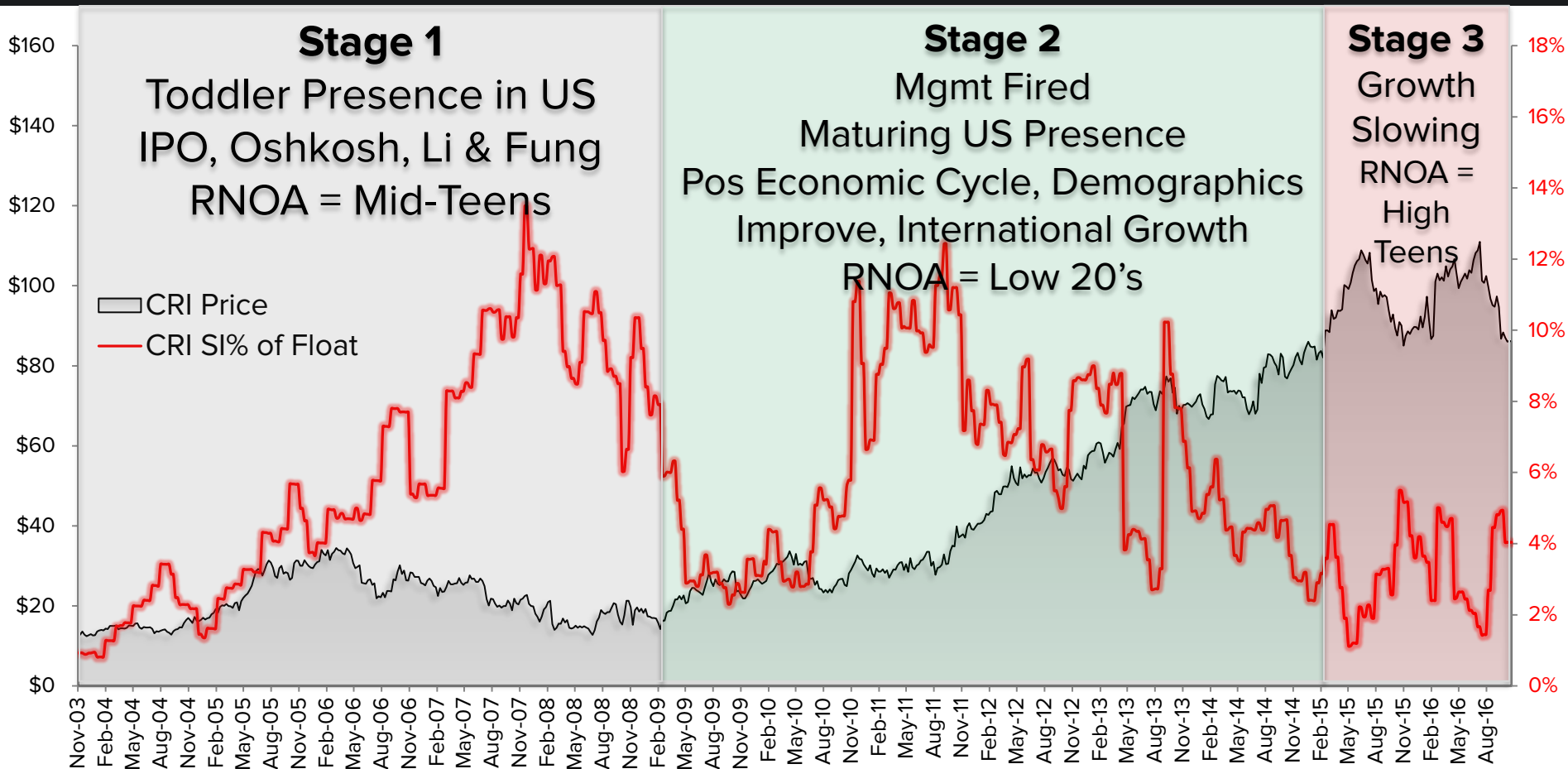
\$87.42

Financial and Valuation Summary						
<i>FY16 ends Dec 2016</i>	4QE	2016E	2017E	2018E	2019E	2020E
Hedgeye EPS (\$)	1.61	4.99	4.94	5.05	5.29	5.61
Consensus (\$)	1.67	5.04	5.56	6.13	6.75	7.35
Variance %	-3.6%	-1.0%	-11.1%	-17.5%	-21.6%	-23.7%
Sales (\$MM)		3,174	3,322	3,453	3,591	3,747
EBIT Margin		13.2%	12.2%	11.9%	11.8%	11.8%
EBITDA (\$MM)		488	483	497	522	549
FCF Per Share (\$)		3.90	4.40	3.60	3.53	4.27
Book Value Per Share (\$)		15.49	17.71	20.04	22.62	25.52
Net Debt to Total Capital		23.5%	19.4%	16.1%	11.1%	5.9%
P/E		17.5 x	17.7 x	17.3 x	16.5 x	15.6 x
EV/EBITDA		10.0 x	9.9 x	9.5 x	8.9 x	8.3 x
Price/Book		5.6 x	4.9 x	4.4 x	3.9 x	3.4 x
Cash Yield		4.5%	5.0%	4.1%	4.0%	4.9%
ROIC		20.2%	18.3%	17.3%	16.6%	16.2%
Tax Adj Margin		8.7%	8.1%	7.9%	7.8%	7.8%
Net Operating Asset Turns		2.92x	2.93x	2.86x	2.83x	2.84x

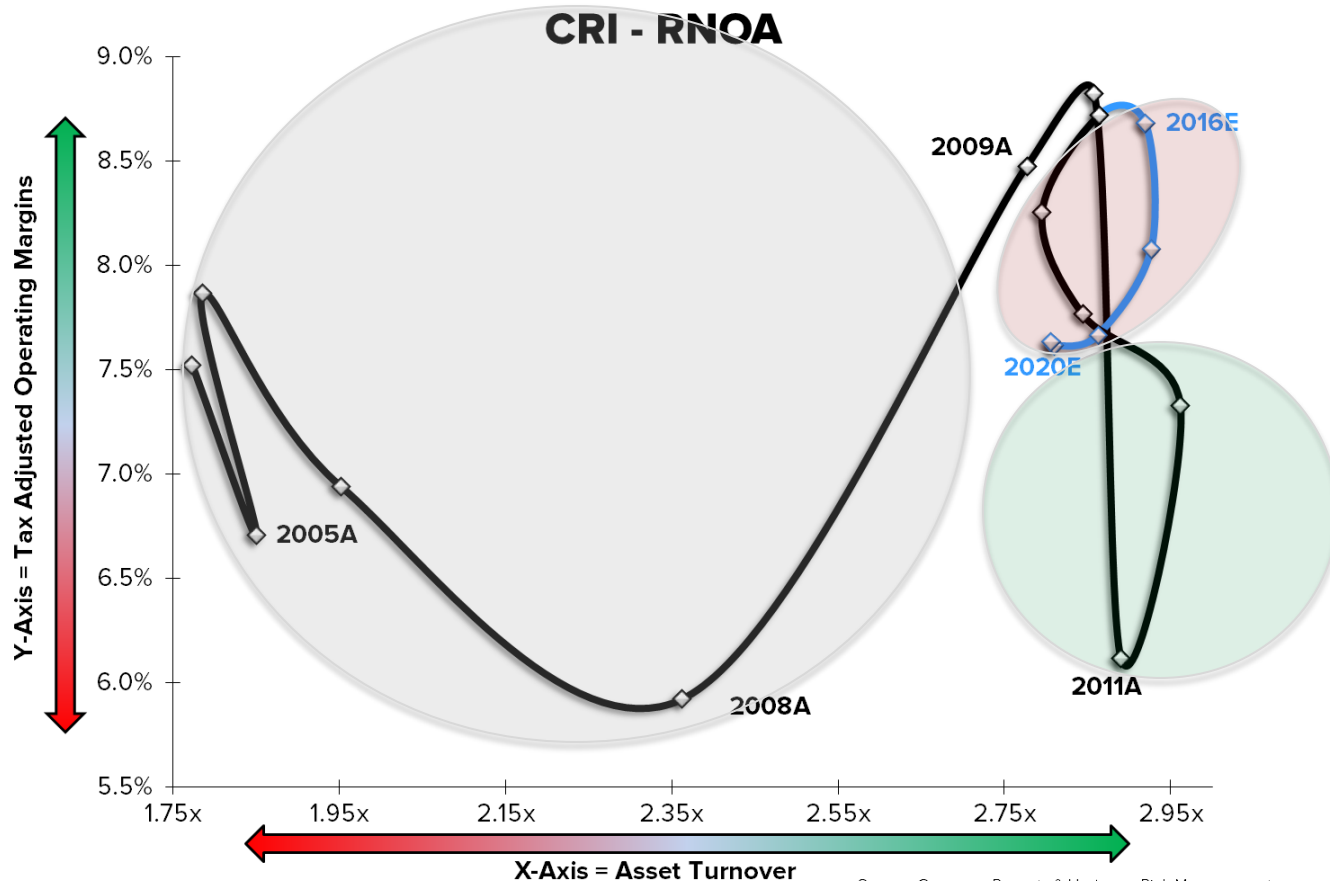
ESTIMATES: EPS VS CONSENSUS



THREE CRITICAL, AND VERY DIFFERENT, STAGES OF CRI



FINANCIAL IMPACT OF THESE THREE STAGES.



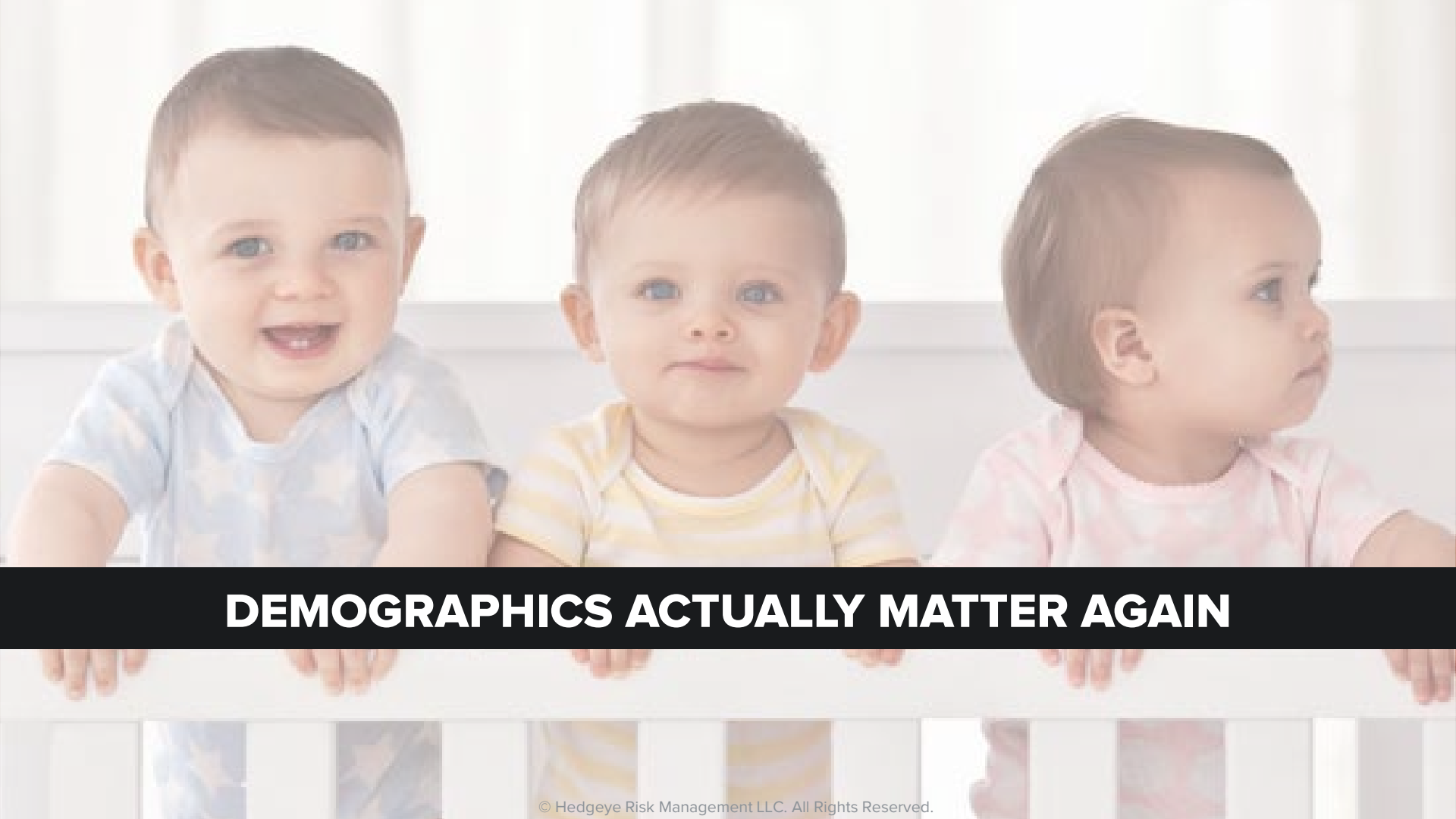
Gray = Stage 1. Bullish

Green = Stage 2. Bullish

Red = Stage 3. Bearish

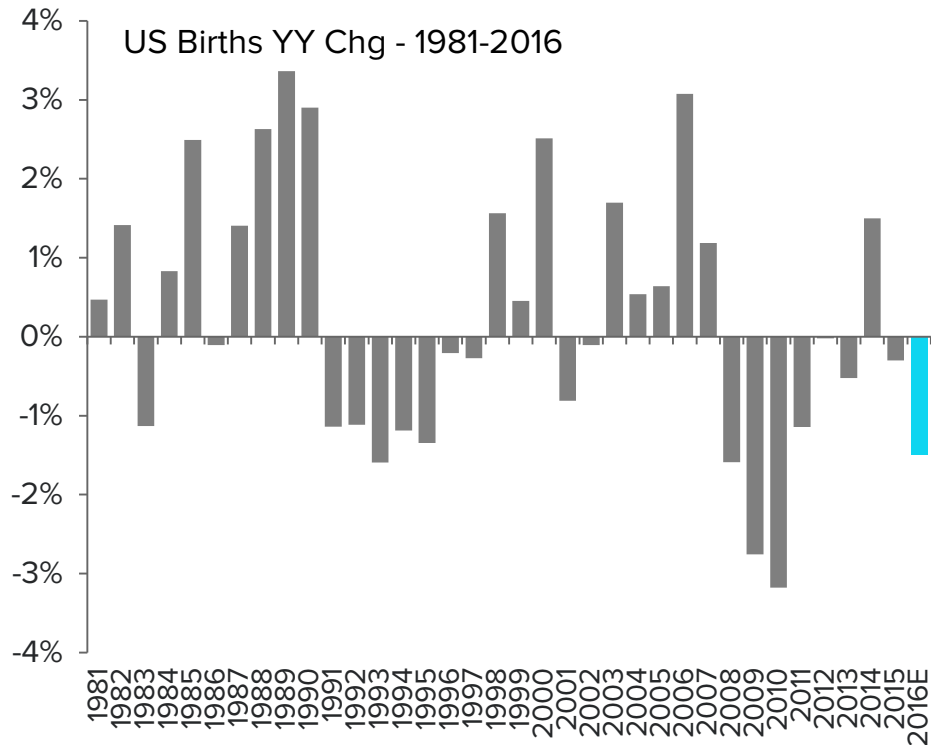
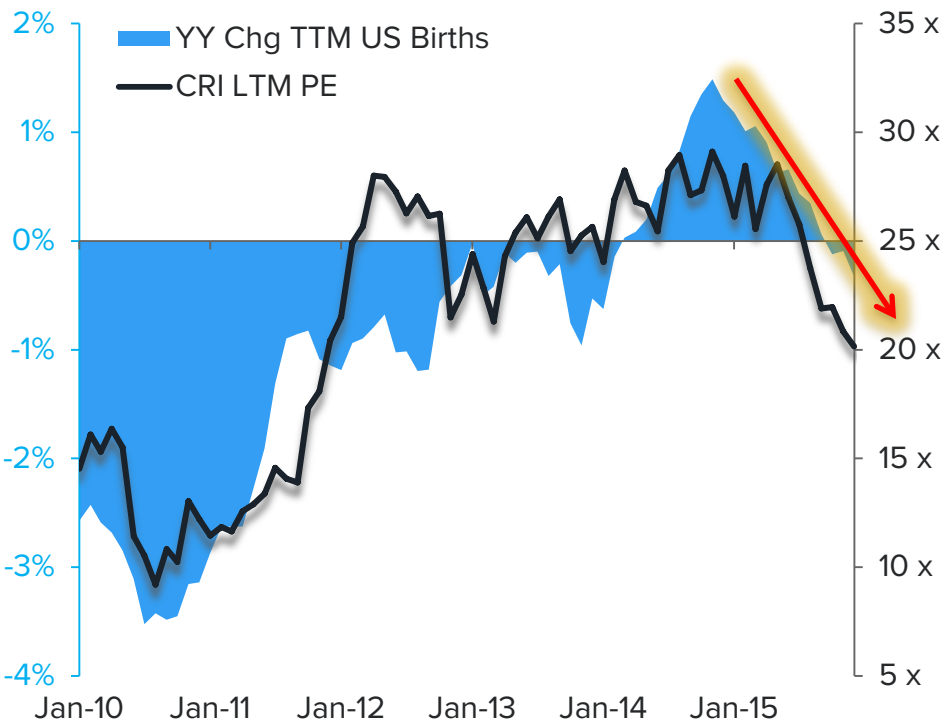
CRI MODEL DRIVERS

	2016E	2017E	2018E	2019E	2020E	
US Consumers	-0.3%	-0.4%	-0.1%	0.6%	0.6%	Near-term demographic headwind. Spending per cap slowing. Market share gain clearly slowing.
US Spending Per Capita	-0.5%	-0.5%	0.5%	0.5%	0.5%	
US Market Share	11.8%	11.9%	12.0%	12.1%	12.2%	
Square Footage Growth	11.2%	6.3%	3.6%	2.2%	1.7%	Not much sq. footage left, and CRI knows it. Productivity not showing up at game-time. Underinvested.
B&M Comp Store Sales	-1.7%	-1.7%	-0.1%	-0.8%	-0.7%	
e-Commerce	23%	24%	21%	21%	20%	
Revenue Growth	5.3%	4.6%	4.0%	4.0%	4.3%	
Gross Margins	42.8%	42.3%	42.3%	42.6%	42.8%	Input costs rising. Lease terms not getting better -- that's counter consensus.
Gross Profit Growth	8.0%	3.4%	4.0%	4.6%	5.0%	
SG&A Growth	8.9%	6.0%	5.0%	5.0%	5.0%	CRI will do the right thing and spend up to reaccelerate growth. Remember this not HBI. CRI has good management.
EBIT Margin	13.2%	12.2%	11.9%	11.8%	11.8%	
EBIT Growth	4.8%	-3.0%	0.9%	3.1%	4.3%	
Interest	1.3%	-0.9%	0.0%	0.0%	0.0%	Good balance sheet.
Shares Outstanding	-3.8%	-1.0%	-1.0%	-1.0%	-1.0%	
EPS	\$4.99	\$4.94	\$5.05	\$5.29	\$5.61	Street's \$7 in earnings not likely to happen til mid-point of next eco cycle.
EPS Growth	7.8%	-0.9%	2.3%	4.7%	6.0%	
Working Cap	(12)	(28)	(23)	(23)	(25)	Unlikely to get to 2016 FCF levels again until 2020.
CFFO	327	313	330	353	372	
% Chg	6.1%	-4.3%	5.5%	6.9%	5.6%	
Capex	(105)	(133)	(155)	(144)	(150)	
FCF	222	180	174	209	222	



DEMOGRAPHICS ACTUALLY MATTER AGAIN

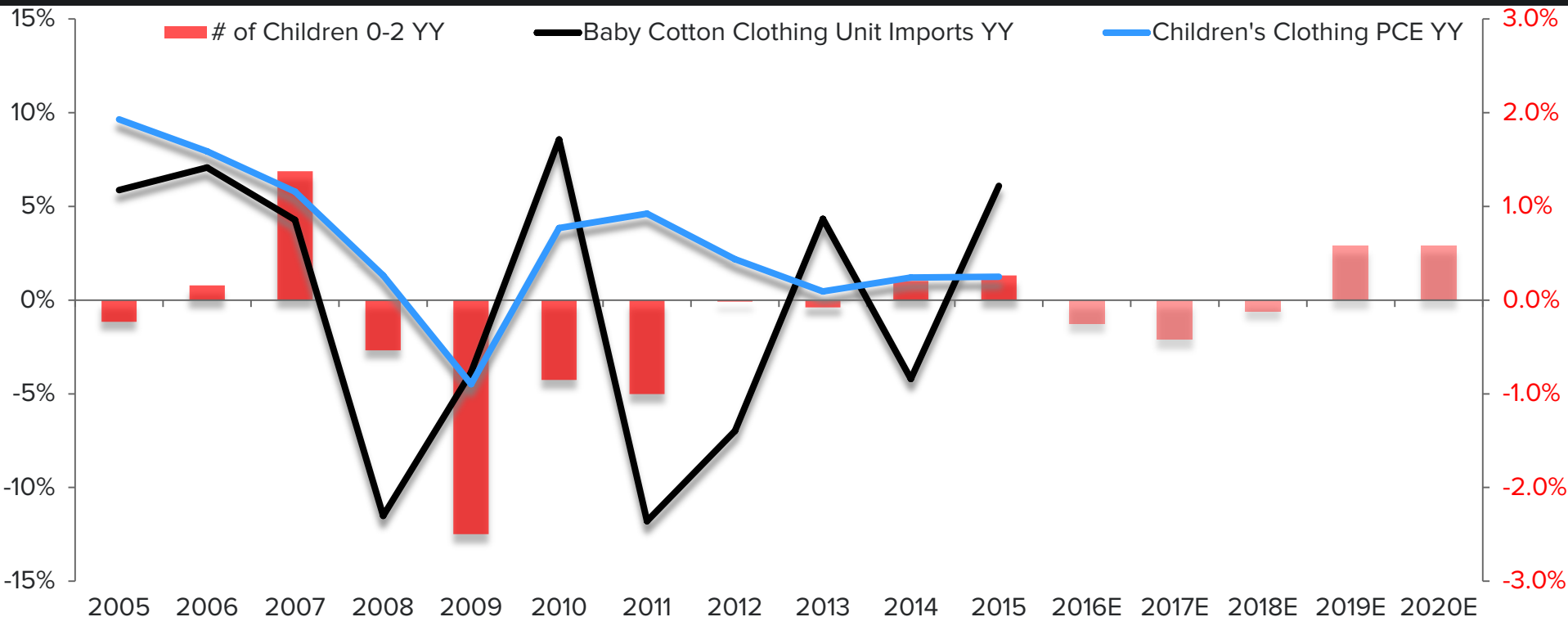
US BIRTH RATE INFLECTING FROM TAILWIND TO HEADWIND



US BIRTH RATE – TTM YEAR OVER YEAR CHANGE

Births trending more negative in 2016 than in 2015.
At a minimum, a tailwind is gone.

UNIT, SPENDING, AND CONSUMER COUNT



BABY CLOTHING UNITS, CHILDREN'S CLOTHING PCE, CHILDREN 0-2, YY CHANGE

Unit growth volatility picks up when birthrate swings.

THE CONSUMER IS NOT THE CUSTOMER

The Product



The Customers **KOHL'S**



The Consumer



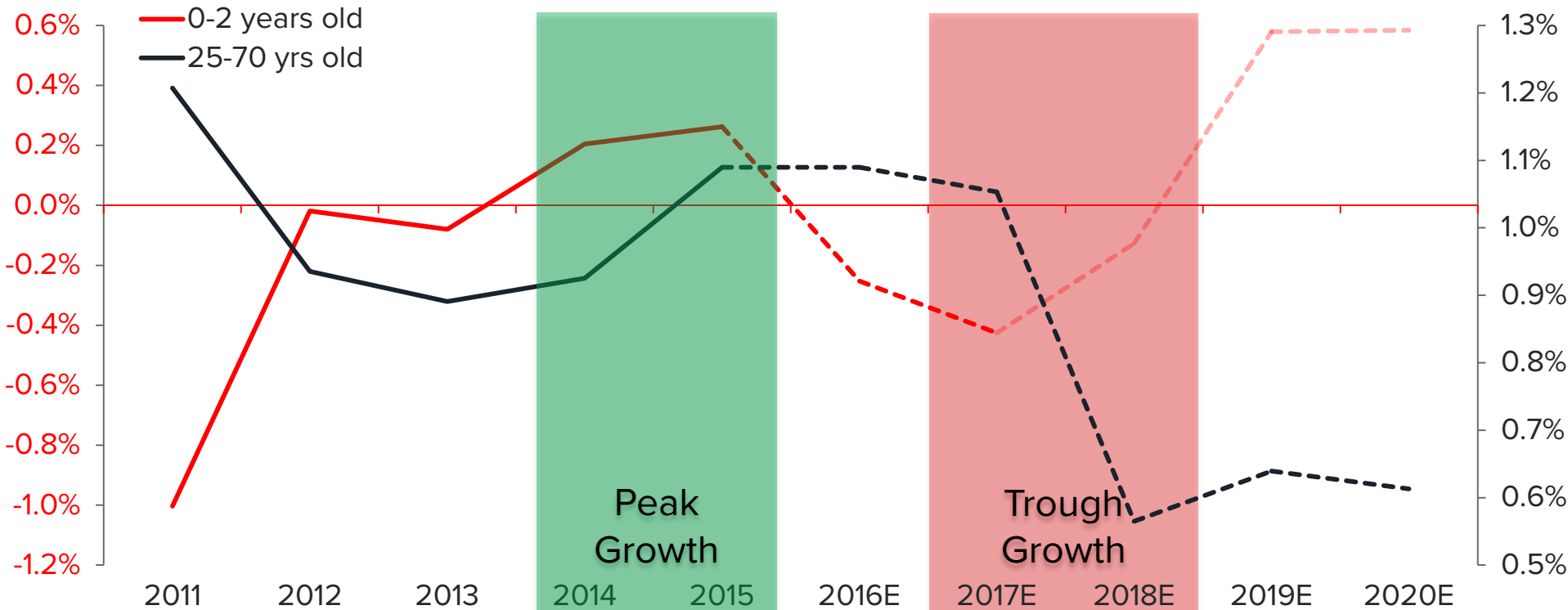
CONTENT FLOW FROM BRAND TO CONSUMER

With most brands – like Nike, the consumer is the wearer. And the customer is the retailer.

With CRI, the customers are the wholesale partners, and parents/grandparents, particularly moms.

The consumer is the baby/child.

CONSUMER AND PURCHASER GROUPS ARE PAST PEAK



POPULATION GROWTH FOR THE CONSUMER, AND THE PURCHASER

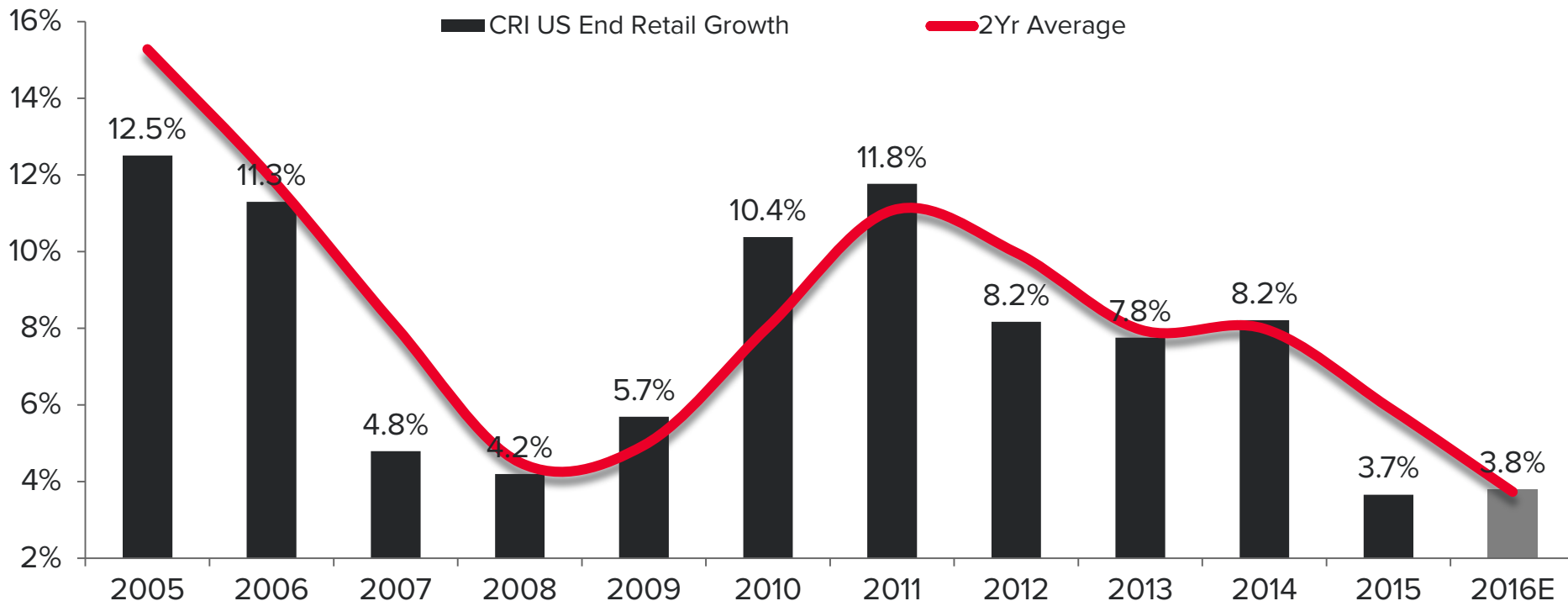
There's a definite trade-off going on as it relates to the # of wearers vs the number of purchasers.

If purchasers going up in light of pressure on incremental disposable income AND wearers falling, then this is a spot we could be wrong.



MARKET PENETRATION IS CRITICAL

CARTER'S US END RETAIL CLEARLY SLOWING

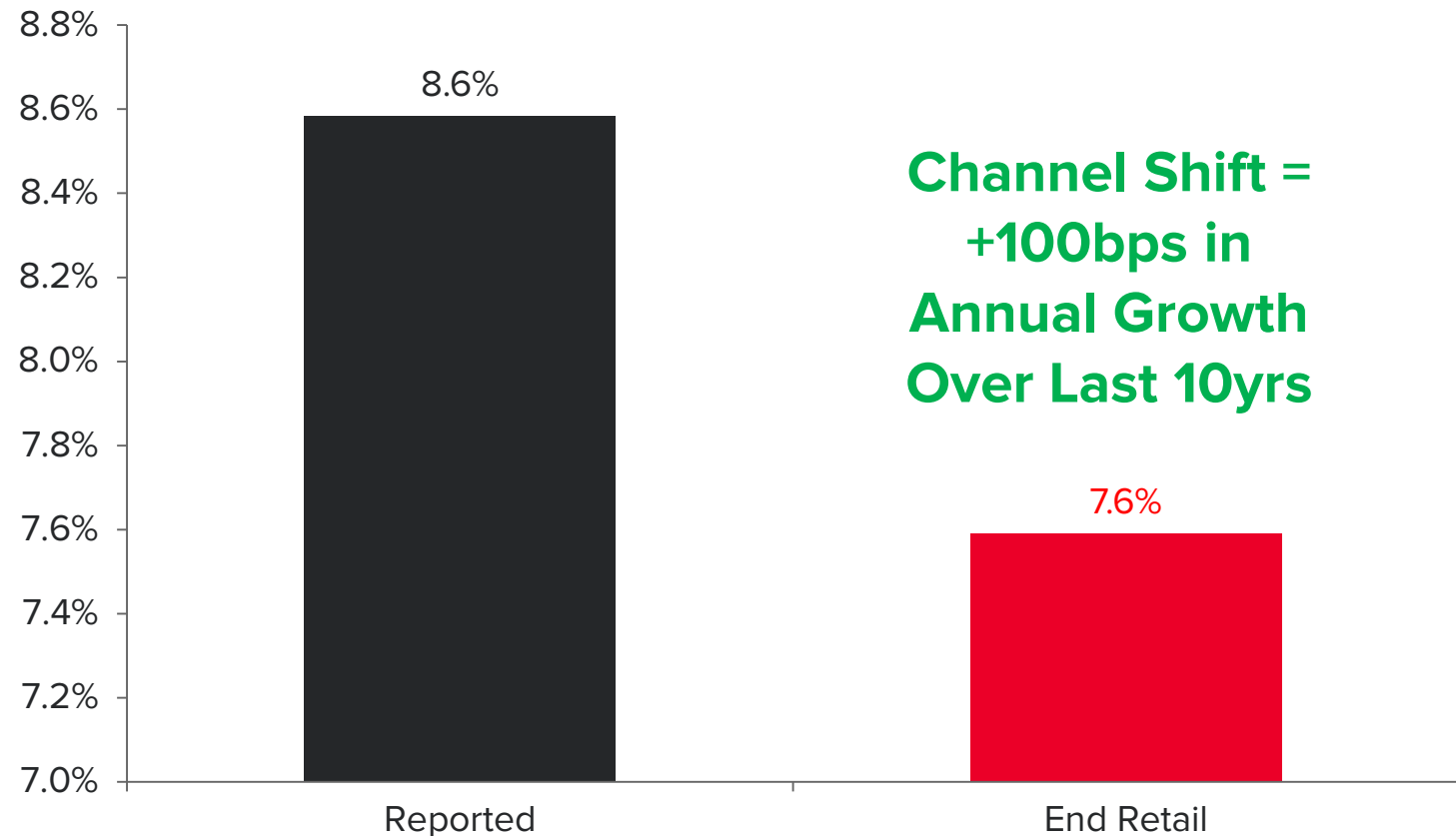


US CARTER'S BRAND END RETAIL GROWTH

There's what shows up on CRI P&L, and what is actually happening at end-retail.

GROWTH OPTICS AS RETAIL HAS GROWN IN MIX

CRI US SALES 10 YR CAGR



Every 1% shift of wholesale share of end retail, to CRI retail = about 50bps of growth with no change in end demand.

BUSINESS SEGMENTS – THE GREAT VS THE SUB-PAR

carter's®

84% of Rev

89% of EBIT



Baby

39% of Rev
51% of EBIT



Sleepwear

12% of Rev
17% of EBIT



Play Clothes

26% of Rev
15% of EBIT



Play Clothes

13% of Rev
10% of EBIT

OSH KOSH

B'gosh

16% of Rev

11% of EBIT



Other

3% of Rev
1% of EBIT

CRI REVENUE AND EBIT PERCENTAGE BY BRAND & CATEGORY

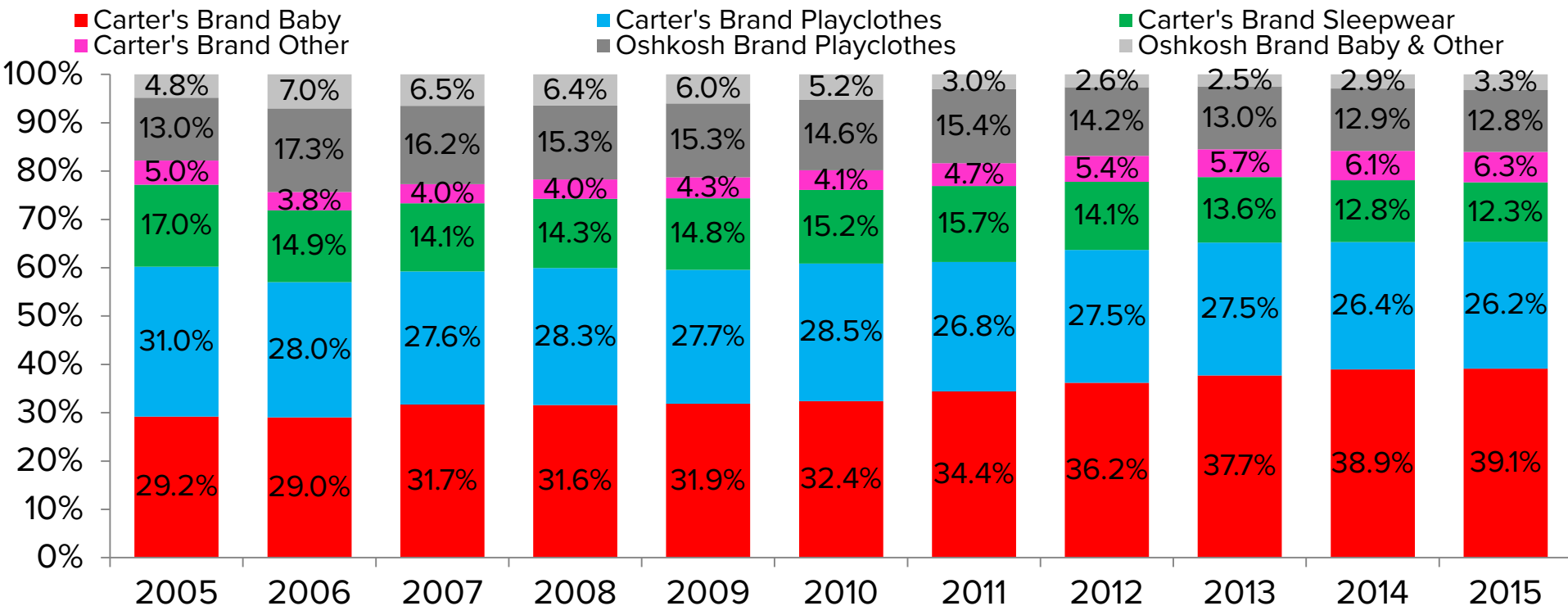
Baby and Sleep are 51% of Revenue and 67% of EBIT. They're solid and defensible.
The rest, simply, is not.

CRI SEGMENT BREAKDOWN 2016 (HEDGEYE ESTIMATE)

Segment Breakout 2016E

	US					International					Carter's Global				
	% Rev	Rev ('16)	EBIT Mgn %	EBIT \$	% of EBIT	% Rev	Rev ('16)	EBIT Mgn %	EBIT \$	% of EBIT	% Rev	Rev ('16)	EBIT Mgn %	EBIT \$	% of EBIT
Carter's Brand Baby	35.0%	\$1,111	22.0%	\$244	47.8%	4.1%	\$131	12.5%	\$16	3.2%	39.1%	\$1,242	21.0%	\$261	51.0%
Carter's Brand Playclothes	23.0%	\$730	10.0%	\$73	14.3%	3.2%	\$103	5.9%	\$6	1.2%	26.2%	\$833	9.5%	\$79	15.5%
Carter's Brand Sleepwear	11.0%	\$349	24.0%	\$84	16.4%	1.3%	\$42	5.5%	\$2	0.5%	12.3%	\$391	22.0%	\$86	16.8%
Carter's Brand Other	6.0%	\$190	14.0%	\$27	5.2%	0.3%	\$9	14.0%	\$1	0.2%	6.3%	\$199	14.0%	\$28	5.5%
Carters	75.0%	\$2,381	18.0%	\$428	83.7%	9.0%	\$284	9.1%	\$26	5.1%	84.0%	\$2,665	17.0%	\$454	88.8%
Oshkosh Brand Playclothes	11.0%	\$349	12.0%	\$42	8.2%	7.2%	\$227	14.5%	\$33	6.5%	18.2%	\$576	13.0%	\$75	14.7%
Oshkosh Brand Other	3.2%	\$102	5.0%	\$5	1.0%	4.1%	\$130	-17.6%	-\$23	-4.5%	7.3%	\$231	-7.7%	-\$18	-3.5%
Oshkosh	14.2%	\$451	10.4%	\$47	9.2%	11.2%	\$357	2.9%	\$10	2.0%	25.4%	\$808	7.1%	\$57	11.2%
Total	89.2%	\$2,831	16.8%	\$475	92.9%	10.8%	\$343	10.6%	\$36	7.1%	109.4%	\$3,174	16.1%	\$511	100.0%
Corporate													-3.5%	-\$111	
EBIT													12.6%	\$400	

ONLY 65% OF PORTFOLIO DESERVES TO GROW



CRI REVENUE BREAKDOWN BY PRODUCT CATEGORY

Baby, Sleep (in the US) – Yes.

Osh Kosh and Carter's playwear = No.

COMPETITIVE SET WILDLY DIFFERENT BY SEGMENT

carter's®

Baby/Sleep Category



GYMBOREE
BURT'S BEES BABY®



"We expect that (Cat & Jack) to be a leading Target-only brand that will be a \$1 billion brand in time."



"Infants and toddlers was more difficult as we continue to work on revitalizing our Jumping Beans brand"

carter's®

OSH KOSH
Bgosh

Playwear Category



RALPH LAUREN



GYMBOREE

mini Boden



Hanna Andersson



OSH KOSH Bgosh



LANDS' END®

abercrombie

crewcuts®



Lilly Pulitzer

ZARA kids



carter's®



naartjie kids

Justice



Matilda Jane

stride rite.

CRI COMPETITION BREAKDOWN

In one segment Carter's competes with Gerber and Private Label.
In the other, it competes with – pretty much everyone.

BRAND AWARENESS FULLY PENETRATED

carter's®

Target Consumer:
Mom's of Babies up to 2-yrs old



Near 100% Brand Awareness

EST. 1895
OSHKOSH
B'gosh

Target Consumer:
Mom's of Kids 2-7-yrs old

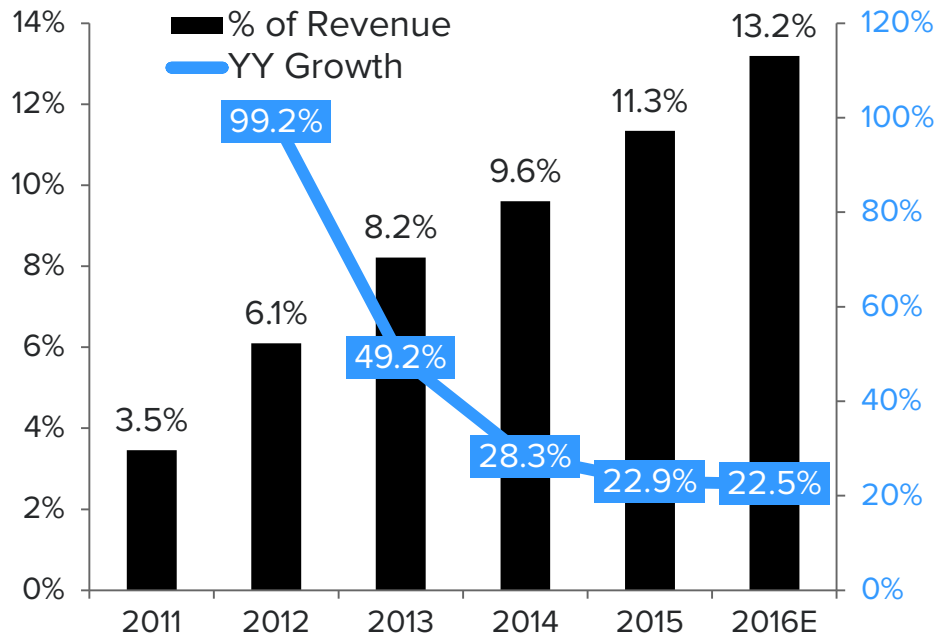


Near 100% Brand Awareness

CORE CONSUMER BY BRAND

This does not, by any means, mean that the Brand can't grow. But simply that there's no more upside as people 'learn' the brand.

E-COMMERCE TAILWIND BECOMES HEADWIND

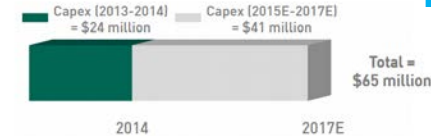


CRI ECOMMERCE PERFORMANCE

Overall e-commerce has been strong, but it NEEDS to be. Ecommerce will be about 13% of sales by year end. This is about inline with the retail industry, that is currently seeing ecommerce penetration accelerate off a higher base.

ECOMMERCE INVESTMENTS

CUMULATIVE CAPITAL INVESTMENT

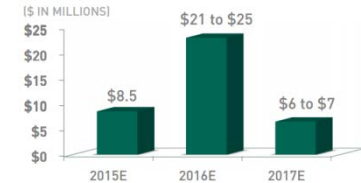


EXAMPLE: DKS

REQUIRED INVESTMENTS:

- HARDWARE
- SOFTWARE
- CONSULTING

INCOME STATEMENT EXPENSES



ECOMMERCE-RELATED EXPENSES:

- HARDWARE
- TECHNOLOGY MAINTENANCE
- CUSTOMER SERVICE CENTER
- ADMINISTRATIVE / STAFFING
- PROFESSIONAL SERVICES

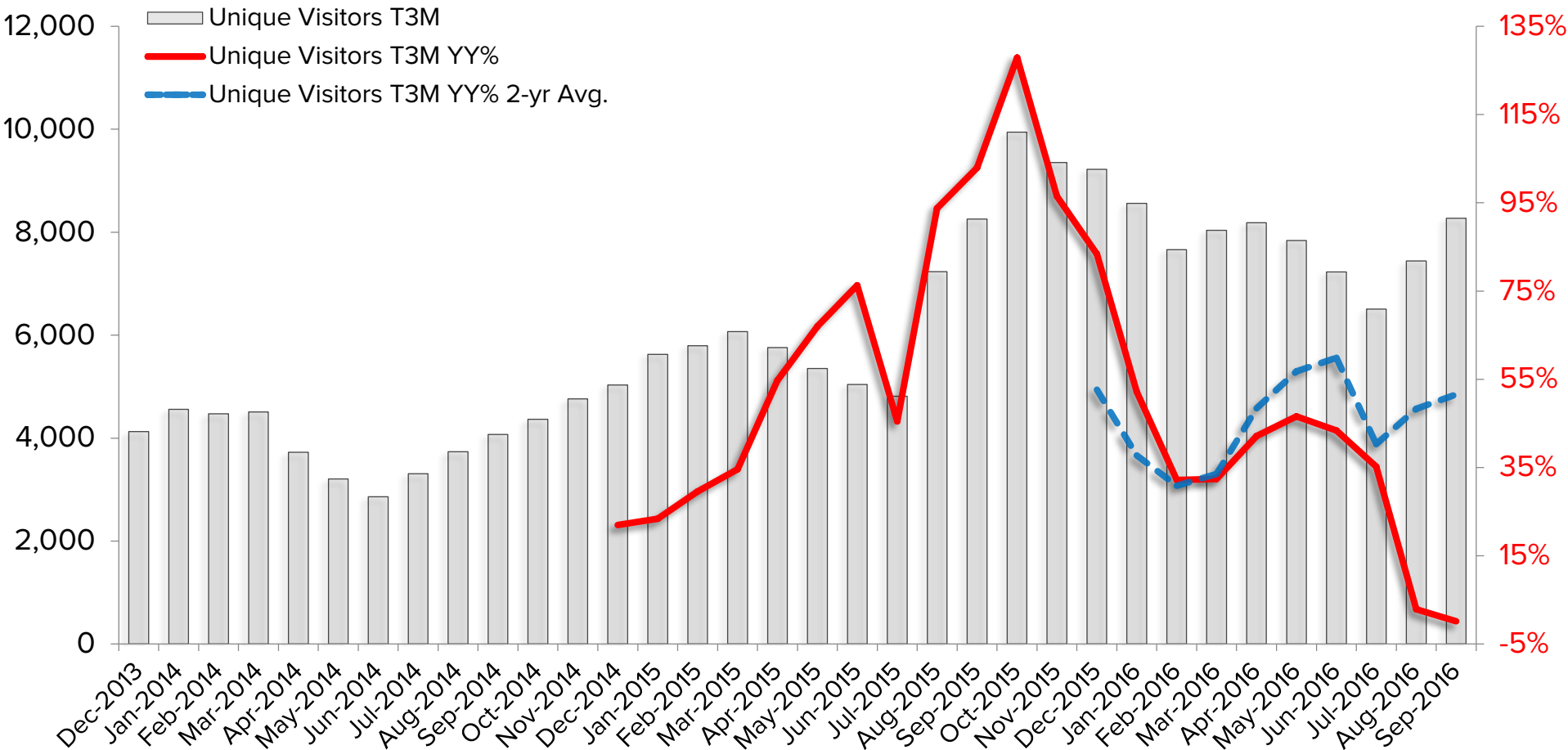
EVERY SEASON STARTS AT



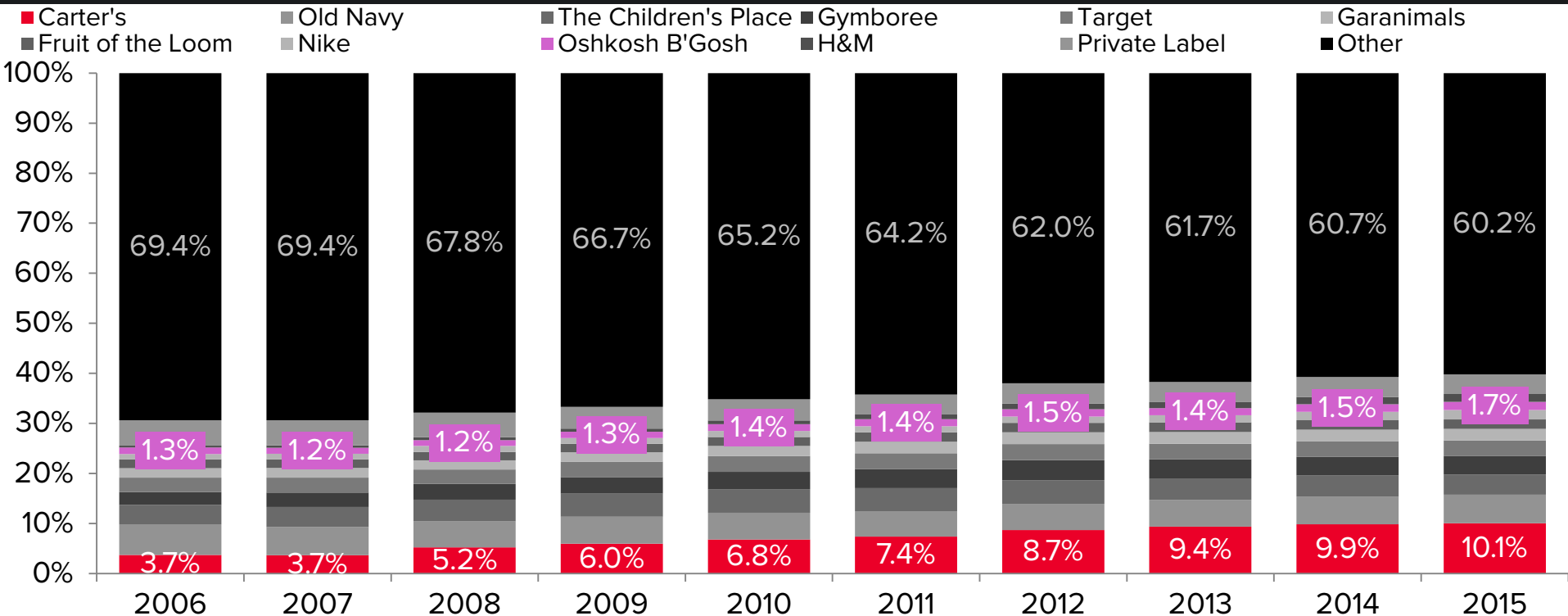
DEFERRED ECOMMERCE INVESTMENT?

CRI does not operate its ecommerce business completely in house. This means investment is needed to be able to recognize its full potential. DKS and RL are both companies that have recently invested to maximize profit potential and website functionality

CARTERS.COM DIGITAL UNIQUE VISITORS DOWN HARD



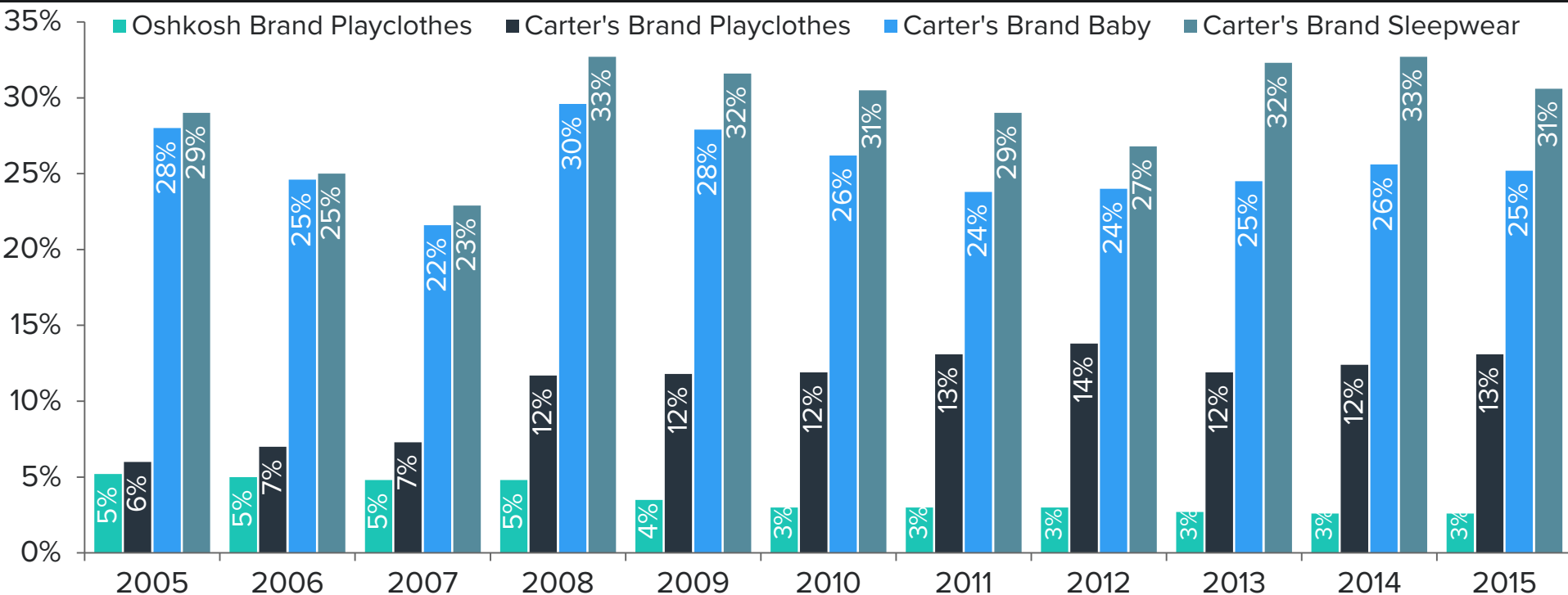
SHARE GAIN OF KIDSWEAR IS SLOWING



US CHILDRENSWEAR MARKET SHARE SLOWING

Average 80bps market share growth throughout the cycle with kids.
 That slowed to 20bps in 2015, and is tracking the same in 2016.
 US Childrenswear is a **\$30bn Market** with a **5 year CAGR of 2%**.

MARKET SHARE IN MICRO SEGMENTS



MARKET SHARE BY BUSINESS SEGMENT

Not all segments are created equal. Baby/Sleep = dominant and awesome. BUT share is tapping out.
Upside in Playwear, but does that really count?

CHINA PARTNERSHIP – DIFFERENT CONSUMER/CUSTOMER

CRI announced a new wholesale partnership with Pou Sheng, \$2 billion publicly traded retailer of popular brands in China, including Nike, Skechers, and Levi's.

To open 10 or more stores in the balance of this year, 40 or more next year, and 200 or more stores over the next five years.



Pou Sheng, together with Tmall, will aid in hitting objective of \$100 million in sales in China by 2020.



NEW PARTNERSHIP ANNOUNCED IN CHINA WITH POU SHENG. ONLY 3% OF REVS AT BEST

Great...but the Chinese consumer IN CHINA 'coddles/spoils' kids to a different extent than in the US.
SKUs/styles need to be different – especially in Playclothes.
Greater complexity = lower margins

"NEW" AMAZON PARTNERSHIP



[Return to product information](#) | Every purchase on Amazon.com is protected by an [A-to-z guarantee](#). | [Feedback on this page?](#) [Tell us what you think](#)

Carter's Baby Boys' 5 Pack Bodysuits (Baby) - Navy - 3M

Carter's

★★★★☆ 239 customer reviews | [Share](#) [Email](#) [Facebook](#) [Twitter](#)

Size: 3 Months

Newborn 3 Months 6 Months 9 Months 12 Months 18 Months 24 Months Premie Lowest offer for each

Color: Navy

[Lowest offer for each](#)

Refine by [Clear all](#)

Shipping

☒ Prime

☐ Free shipping

Condition

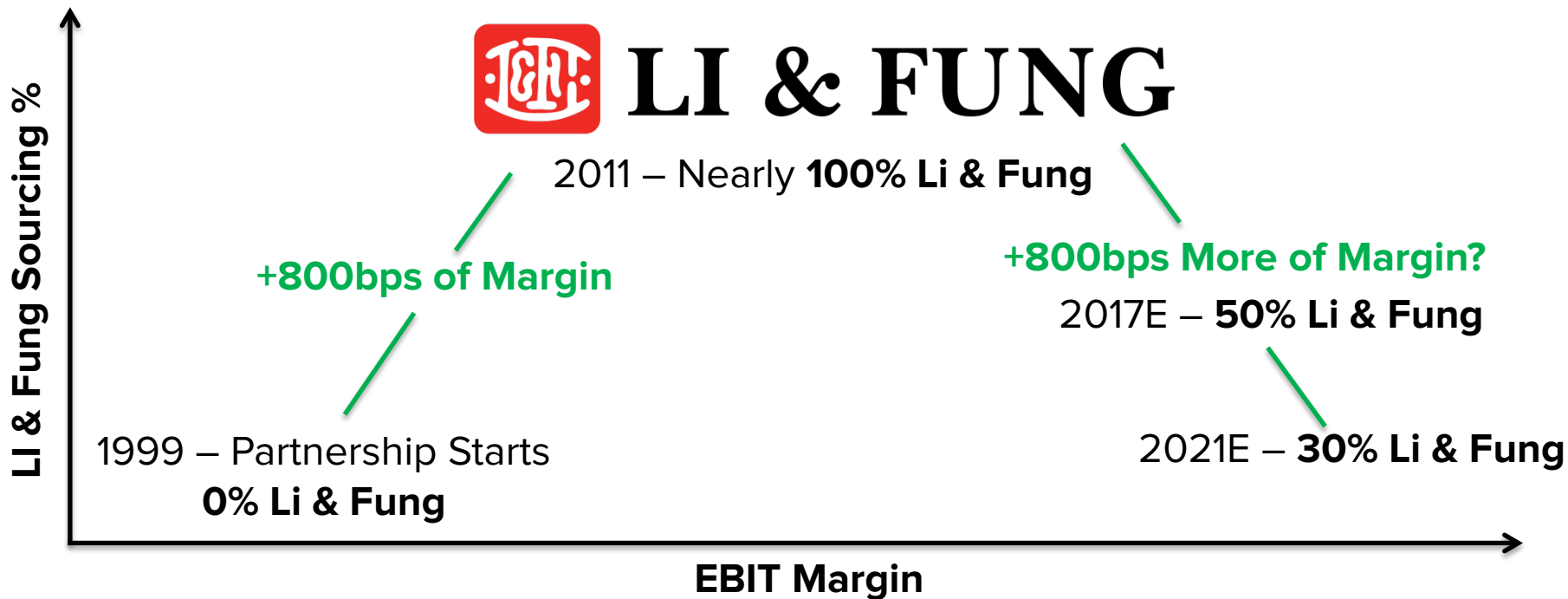
☐ New

Price + Shipping	Condition (Learn more)	Delivery	Seller Information	Buying Options
\$14.05 & FREE Shipping + \$0.00 estimated tax	New 100% Authentic and Genuine Carter's, Carefully Wrapped and fast s... Read more	<ul style="list-style-type: none">Arrives between November 15-18.Want it delivered Wednesday, November 16? Choose Expedited Shipping at checkout.Shipping rates and return policy.	Nara's Closet ★★★★★ 100% positive over the past 12 months. (101 total ratings)	Add to cart or Sign in to turn on 1-Click ordering.
\$9.31 + \$4.74 shipping + \$0.00 estimated tax	New	<ul style="list-style-type: none">Arrives between November 15-18.Ships from GA, United States.Shipping rates and return policy.	eileen616820 Just Launched (Seller Profile)	Add to cart or Sign in to turn on 1-Click ordering.
\$14.15 Prime + \$0.48 estimated tax	New	<div>FULFILLMENT BY AMAZON</div> <ul style="list-style-type: none">Free Two-Day Shipping: Get it Thursday, November 10 (order within 0hr 52min).Shipping rates and return policy.	Quidsi Retail LLC ★★★★★ 93% positive over the past 12 months. (197,987 total ratings)	Add to cart or Turn on 1-Click to use your Amazon Prime benefits.
\$14.15 & FREE Shipping + \$0.48 estimated tax	New	<ul style="list-style-type: none">Arrives between November 15-18.Want it delivered Wednesday, November 16? Choose Expedited Shipping at checkout.Shipping rates and return policy.	Diapers.com (Quidsi Retail, an Amazon company) ★★★★★ 93% positive over the past 12 months. (50,698 total ratings)	Add to cart or Sign in to turn on 1-Click ordering.
\$22.00 Prime + \$0.00 estimated tax	New	<div>FULFILLMENT BY AMAZON</div> <ul style="list-style-type: none">Free Two-Day Shipping: Get it Friday, November 11 (GLOBAL LIQUIDATION ★★★★★ 94% positive over the past 12 months. (53 total ratings)	Add to cart or

CRI AMAZON PARTNERSHIP

Carter's has announced a partnership with Amazon. Though its product has been available on Amazon for year's via 3rd Party. And one of the main 3rd Parties is **Quidsi, which is owned by Amazon**. So we wonder if this is really new/incremental, and what the long term revenue and margin implications will be of such a partnership.

DIRECT SOURCING / LI & FUNG



SOURCING MARGIN OPPORTUNITY COMMENTARY

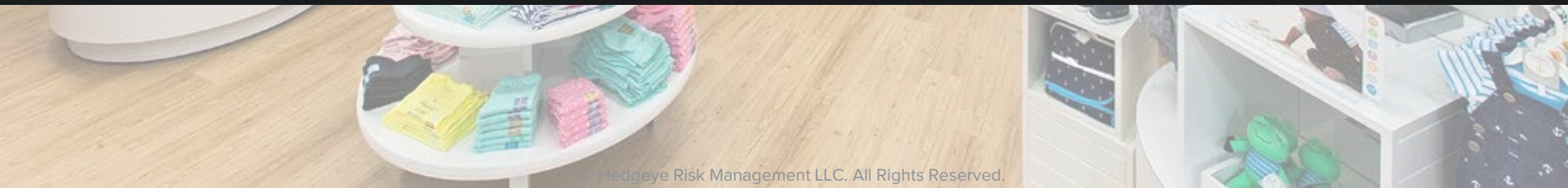
47% of our products now sourced directly from suppliers, as oppose to using Li&Fung as an intermediary.

CRI plans to increase the mix of direct sourcing to 70% by 2021

Recall that shifting to L&F was an 800bp margin boost a decade ago. CRI (wisely) competed it away.

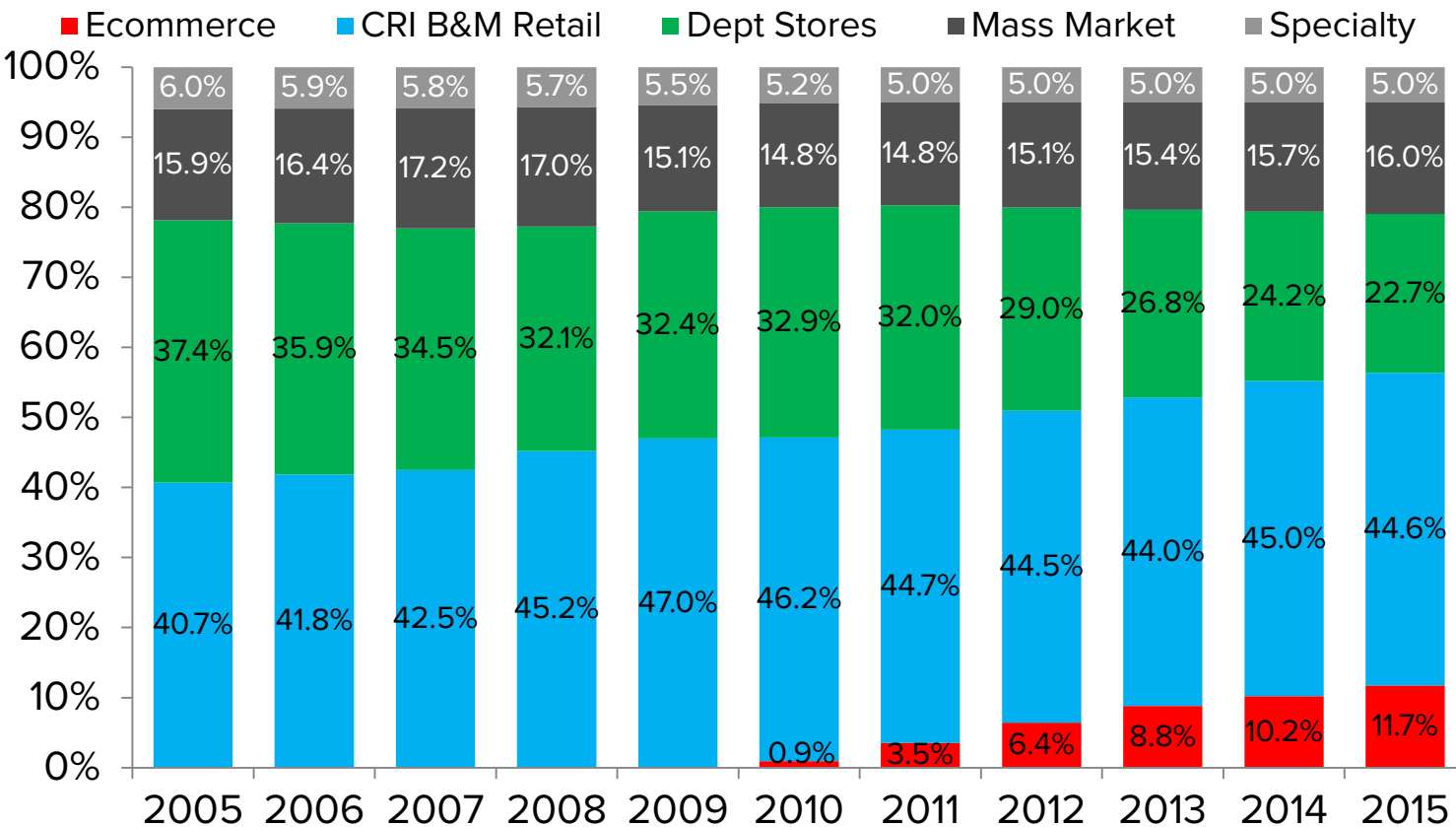


DISTRIBUTION IS KEY AT \$3BN, DIDN'T MATTER AT \$800MM



DISTRIBUTION BALANCED

CRI US REVENUE CHANNEL DISTRIBUTION



“Today about 77% of our customers shop only in our stores. About 13%, shop only online. And then the balance, about 10%, shop in both stores and online.”

BUT Z-E-R-O DIFFERENTIATION = PROBLEM

Shop for Baby Boy Carter's Buffal... on Google



Carter's 3-Pc.
Plaid Hoodie,

\$15.99

Macy's

Special offer



Carter's Boys 3
Piece Navy/...

\$16.00

Toys R Us



Baby Boy
Carter's ...

\$17.99

Kohl's



Carter's Boys
3-pc. Layette ...

\$17.99

JCPenney

In store



Carter's Boys 3
Piece Navy/...

\$16.00

Sears



Carters Baby
Boys 3-pc. ...

\$19.20

BeallsFlorida...

Special offer

Sponsored

carter's
babies and kids

BABY GIRL BABY BOY BABY NEUTRAL TODDLER GIRL TODDLER BOY GIRL

ENDS WEDNESDAY! **20% off** your \$40+ purchase **ONLINE**

Baby Clothes > Baby Boy > Sets

DOORBUSTER
3-Piece Little Jacket Set
\$13.00 MSRP: \$32.00
★★★★★ Read 1 review | W

Size: [Size Chart](#)

Color: ☒ Red

Quantity:

ADD TO CART

[Add to wish list](#)



Carter's® Baby
Boys' 3-Piece

\$14.40

Bon-Ton

Special offer



Carters Baby
Boys 3-pc. ...

\$17.50

Jet.com



Carter's Boys 3
Piece Navy/...

\$16.00

eBay



Baby Boy
(NB-24M) ...

\$16.00

Boscov's



Carter's
3-Piece Little

\$19.20

Belk

amazon

Baby Boy Carter's Buffalo Plaid Microfleece Cardigan, Bodysuit & Face-Crem Pants

Departments Amazon@KDEals Renewing History Jeremy's Amazon.com Today's Deals Gift Cards & Registry Sell Help

Amazon Fashion WOMEN MEN GIRLS BOYS BABY LOGOAGE

Back to search results for "Baby Boy Carter's Buffalo Plaid Microfleece Cardig..."

Carter's
Carter's Baby Boys' 3 Piece Vest Set (Baby)
★★★★★ 1 customer review

Price: \$22.00 - \$29.99 & FREE Returns on some sizes and colors
Fit: As expected (100%)

Size: [Size Chart](#)

Color: Blue Plaid

- Vest: polyester. Bodysuit & pants: cotton
- Imported
- 3-Piece set
- Neckline: wrap on reinforced panel
- No-pinch elastic: waistband
- Ribbed cuffs

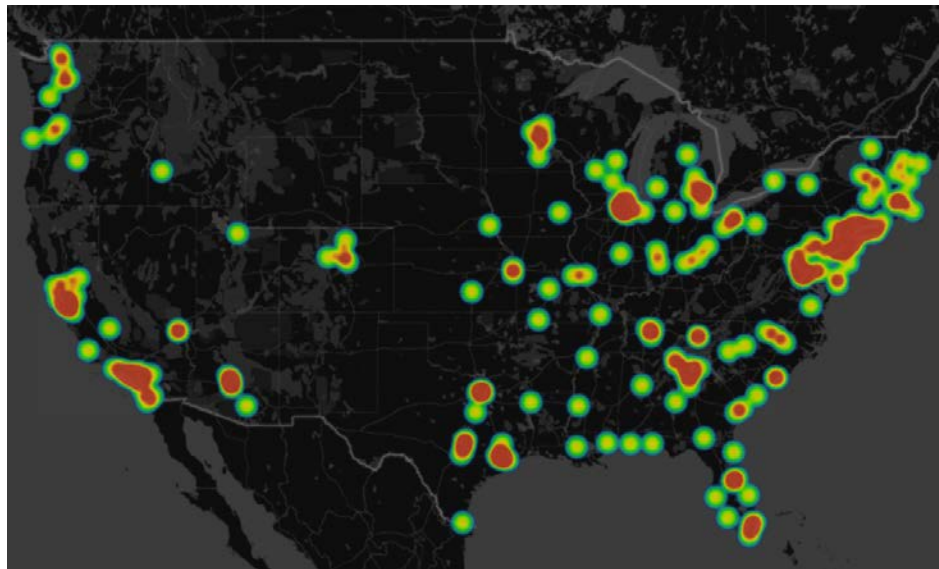
[Report incorrect product information](#)

Up to 25% Off Carter's & Gymboree Graduates
Save up to 25% on baby and toddler clothing from Girls and sizes. Prices as marked. [See more](#)

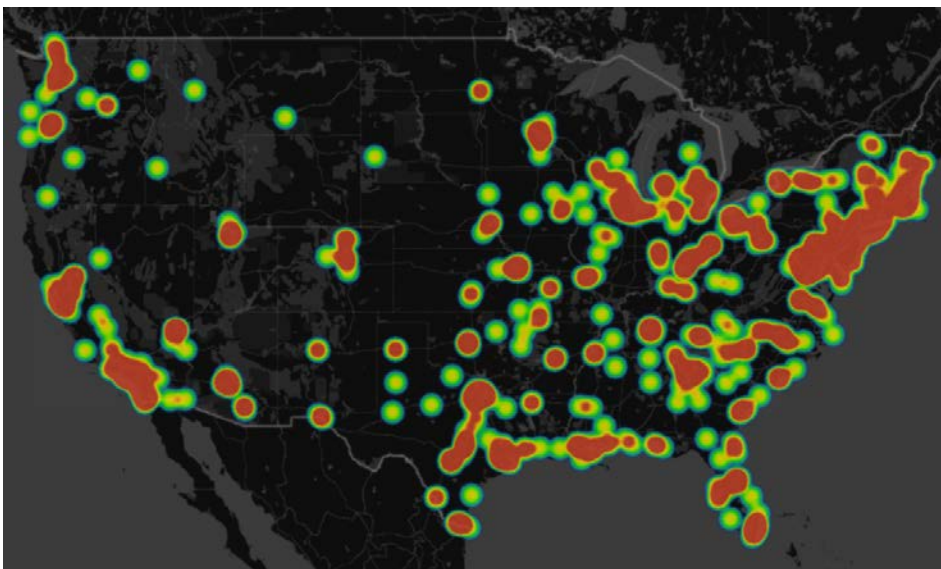
Customers who viewed this item also bought

CRI STORE GROWTH IS SLOWING, AND IT SHOULD

2008 CRI U.S. Locations



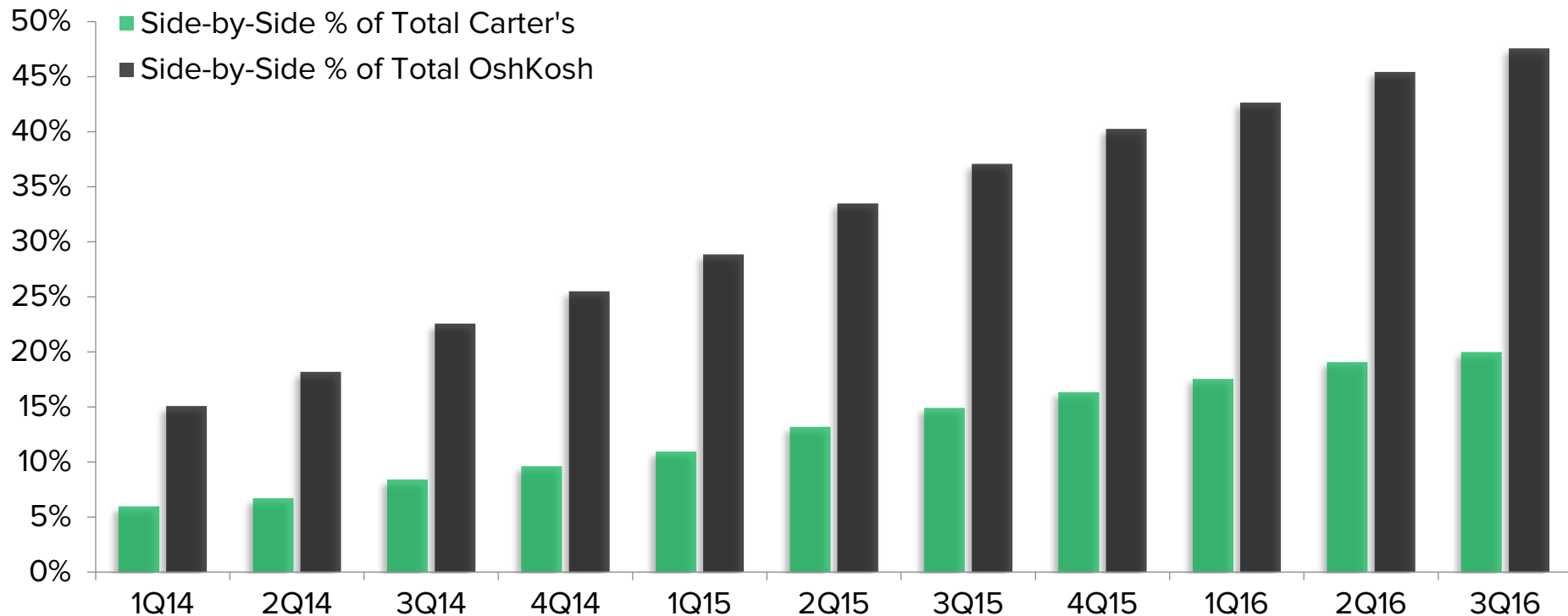
2016 CRI U.S. Locations



2008 VS 2016 CRI U.S. STORE DENSITY HEAT MAP

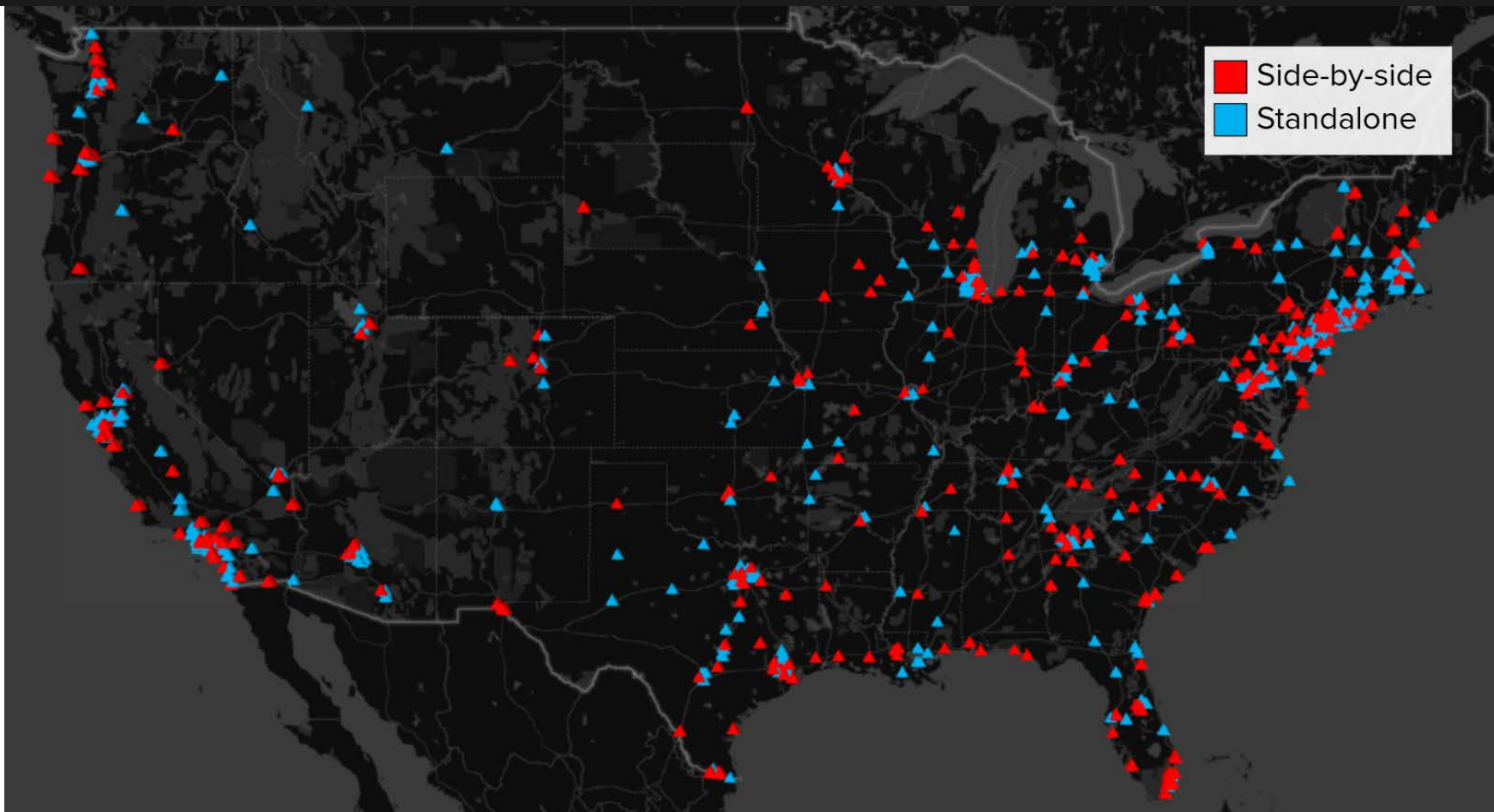
Once you push 700 stores and are covered in all major MSAs, it's time to slow growth. CRI mgmt – to no surprise – is doing the right thing. But that does not mean revenue should slow.

SIDE BY SIDE STORES

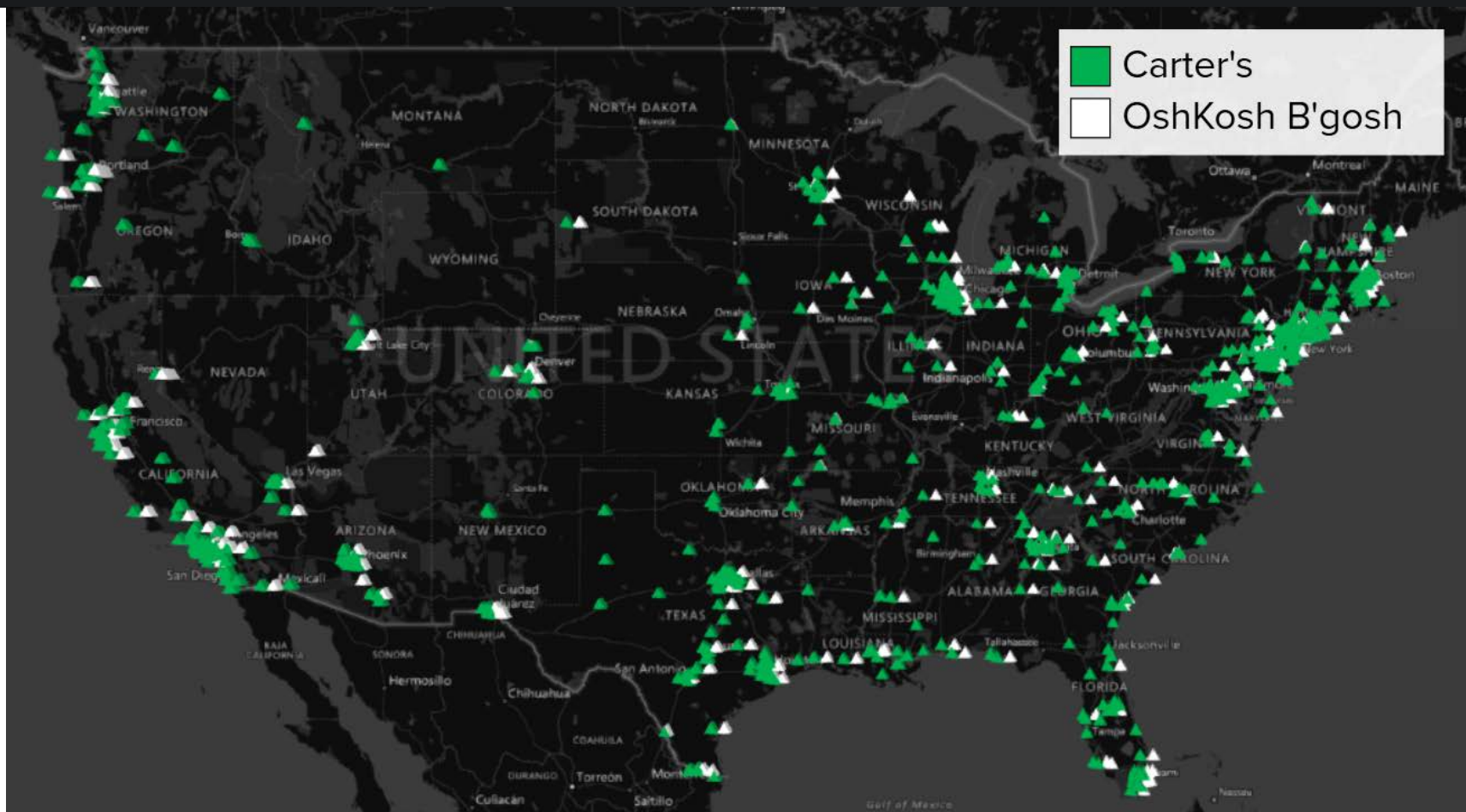


SIDE BY SIDE STORES % OF TOTAL BRAND STORES

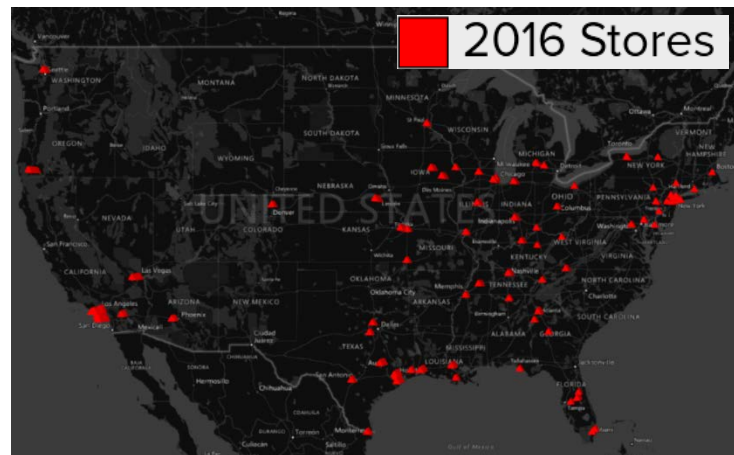
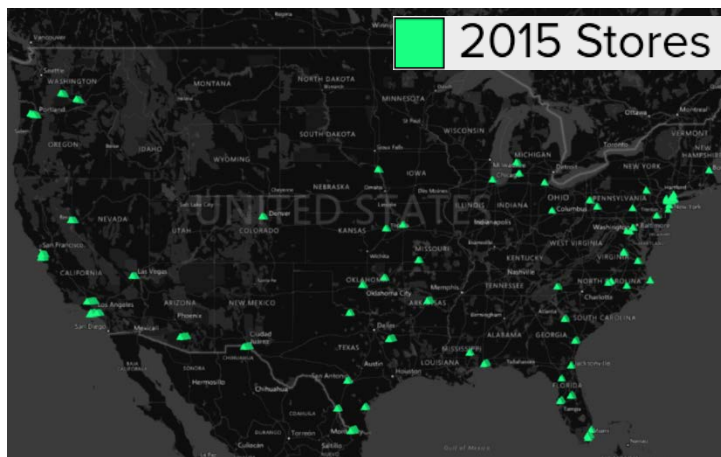
CRI SIDE-BY-SIDE VS STANDALONE U.S. LOCATIONS



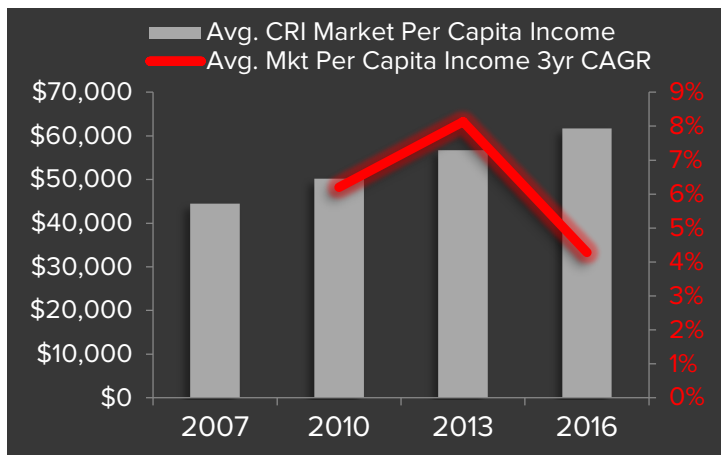
CARTER'S VS OSHKOSH B'GOSH LOCATIONS



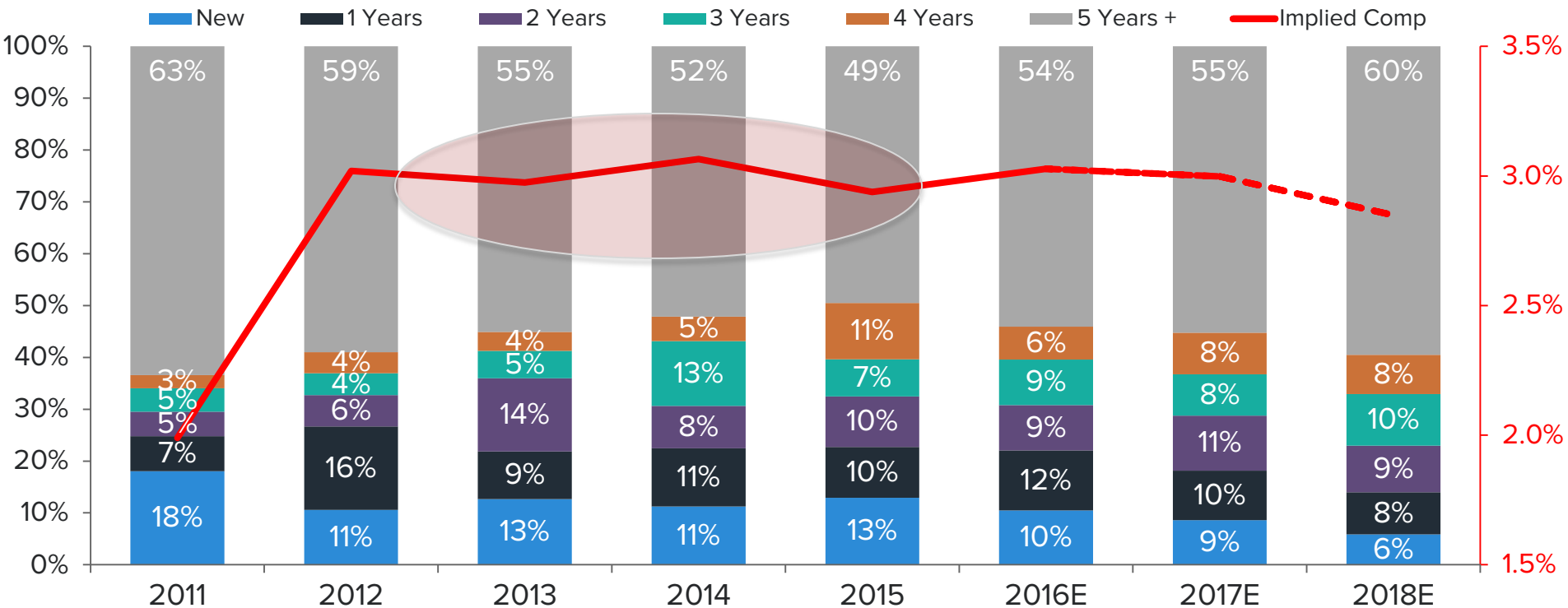
MOVING INTO SLIGHTLY LOWER INCOME MSA



Per capita income growth for MSA in each of CRI stores.



MATURITY CURVE SAYS STORES SHOULD BE COMPING



2013-15 SHOULD HAVE BEEN PEAK COMP YEARS. THE OPPOSITE HAPPENED

Maturity Curve implies that comps should be performing well, yet comps in the stores have slowed over the last 2 years and sit in negative territory. This is a bad sign for comps going forward as store growth should slow.

Comp Assumption: Full Year 1 = 10%, Year 2 = 8%, Year 3 = 5%, Year 4 = 3%, Year 5+ = 1%

NOT GETTING BETTER REAL ESTATE DEALS



Contrary to popular belief, CRI is not getting better real estate deals as demand for unit growth slows across retail.

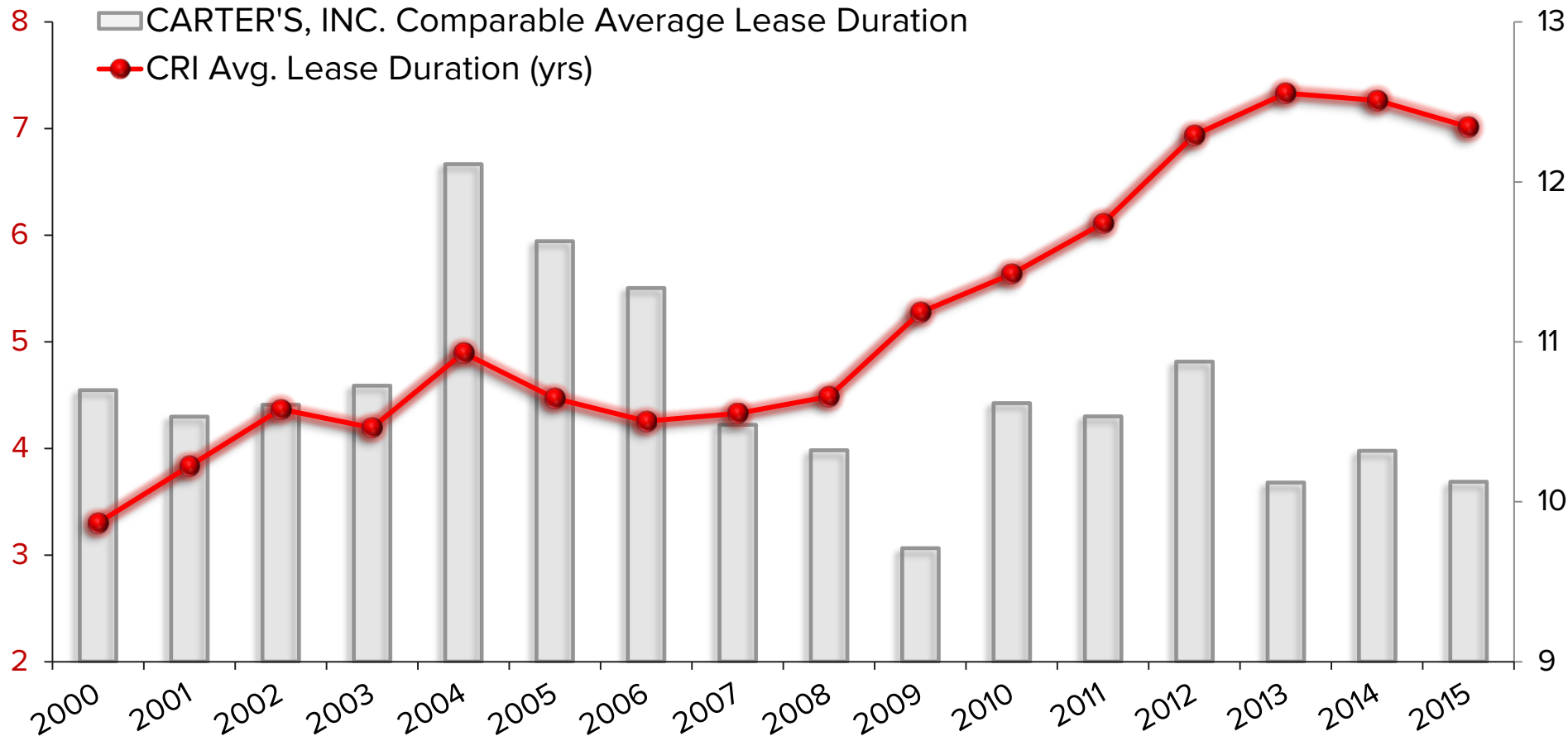
Anchor tenants are getting the sweetheart deals. CRI not even close to being an anchor.

Landlords need to make up for 'anchor deals' by way of smaller tenants (CRI).

carter's®

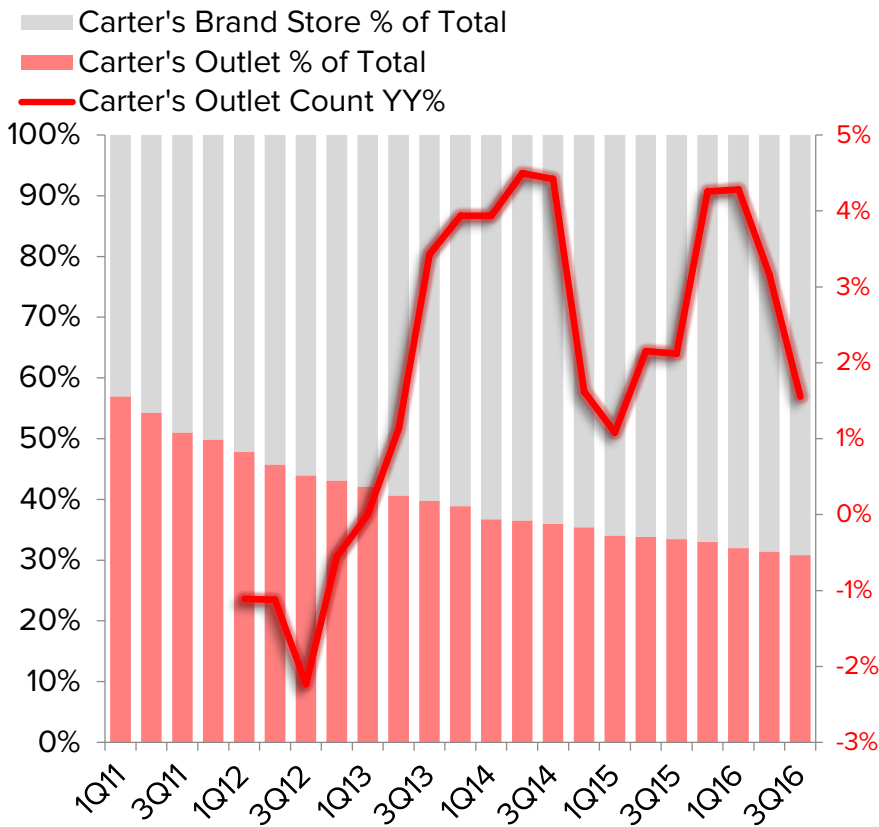
ULTA
BEAUTY

CRI AVG. LEASE DURATION

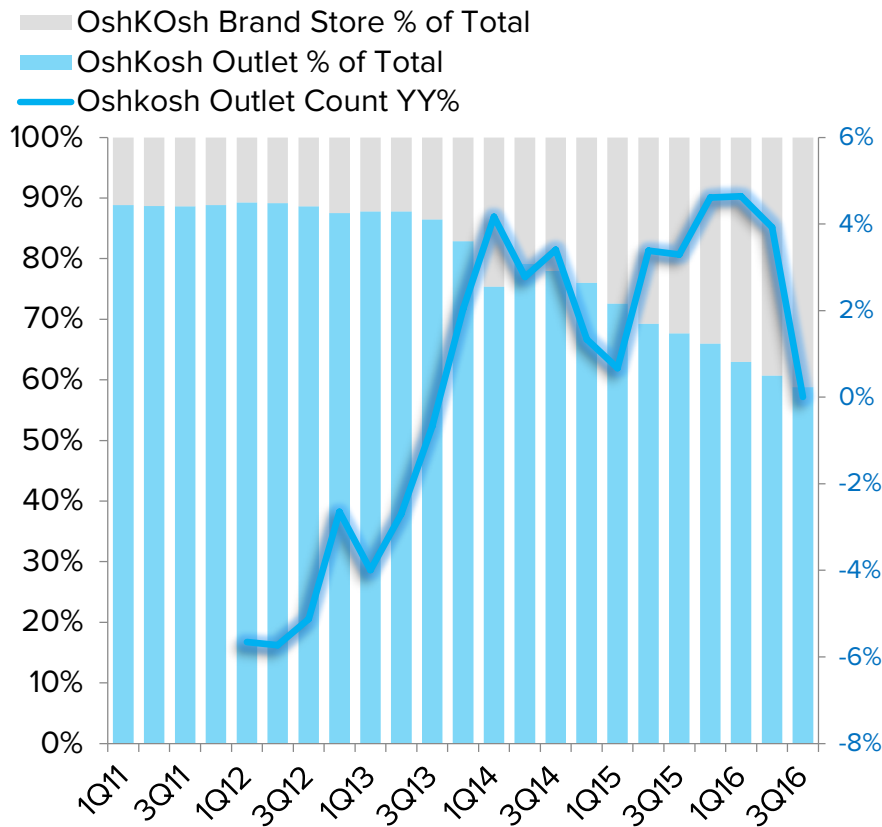


CRI OUTLET (HIGH MARGIN) GROWTH IS SLOWING

CARTER'S OUTLET % OF TOTAL STORES



OSHKOSH OUTLET % OF TOTAL STORES



DO STORES DESERVE TO BE TOGETHER ???

VF Corp Store



Deckers Store



JUST BECAUSE YOU HAVE 2 BRANDS, DOESN'T MEAN YOU SELL THEM TOGETHER

While not as egregious as VFC and Deckers – which both sell product side by side because they think they can – we're not sure OshKosh belongs next to Carter's.

PRODUCT DIFFERENTIATION/DEFENDABILITY

(Top End)



\$8,995



NORDSTROM



HIBBETT SPORTS®
GAME TESTED. ATHLETE APPROVED.™



Ralph Lauren & Nike



\$400



\$70



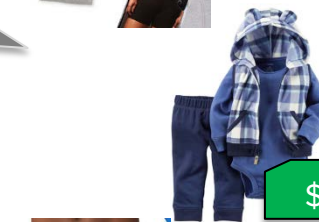
\$35



\$13



\$27



\$18



\$15

Hanes & Carter's



BABIES R US

amazon



Walmart

(High)

Differentiation

(Low)

PROMOTIONAL STRATEGY – EVERYTHING 40% OFF DAY 1

*“The important thing to know about our business -- our model is a high/low model meaning **the day it hits the floor at Kohl's or Macy's or Penney's or in our stores or online it's 40% off.**” – Sep 2011*



CRI'S HIGH / LOW PROMOTIONAL STRATEGY

Not good, not bad. It simply IS – and has ramifications when selling ‘the same stuff in different places’.



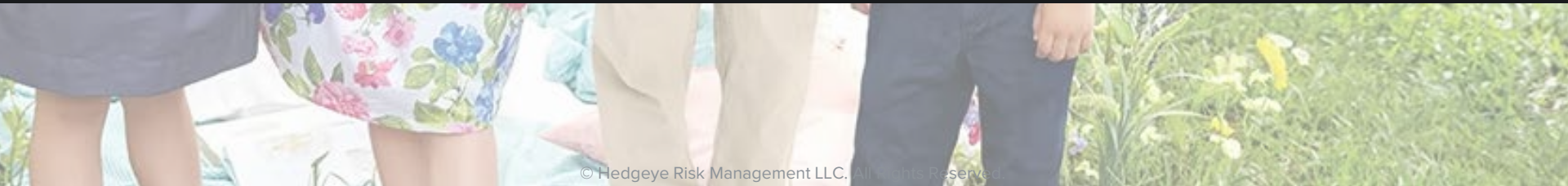
one-hop
easter sho

Ready for the hun

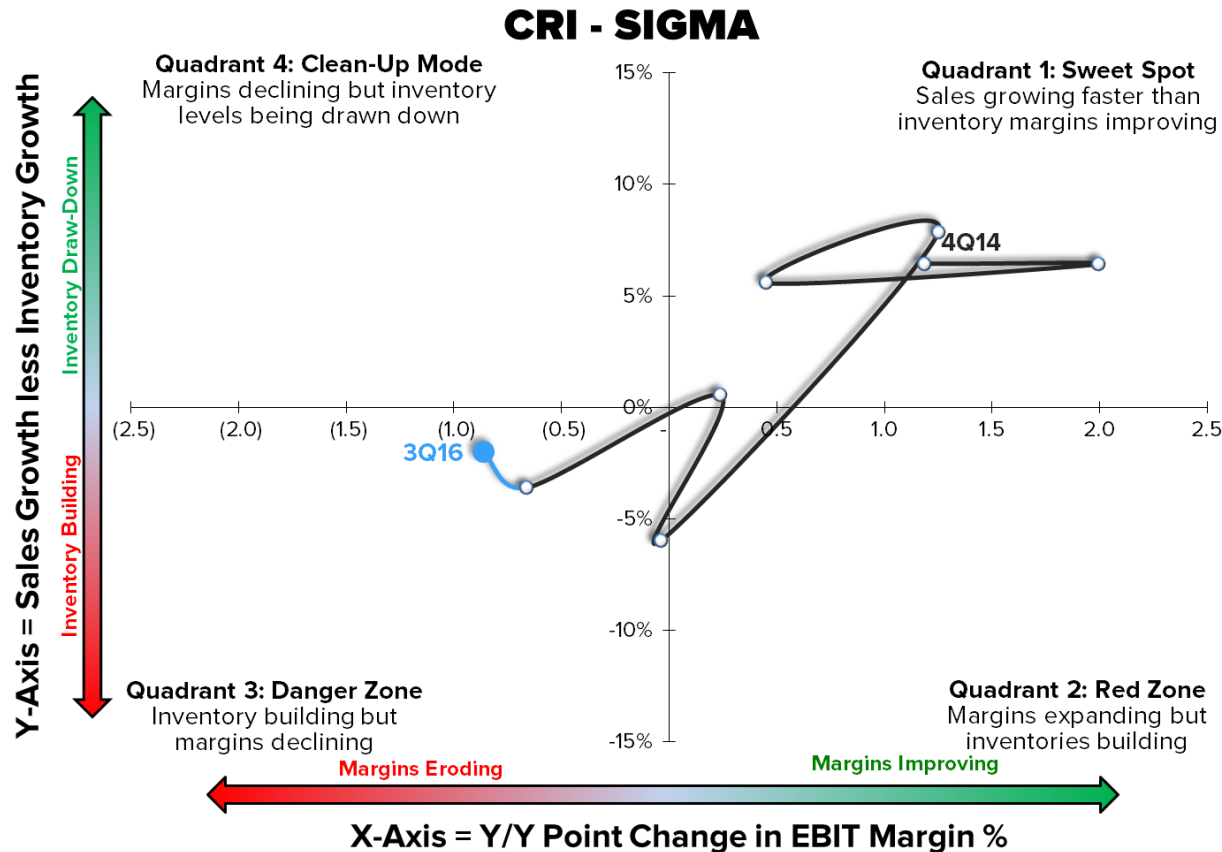
UP TO
50% OFF

shop now +

TREND CONSIDERATIONS



SIGMA ANALYSIS NOT LOOKING GREAT

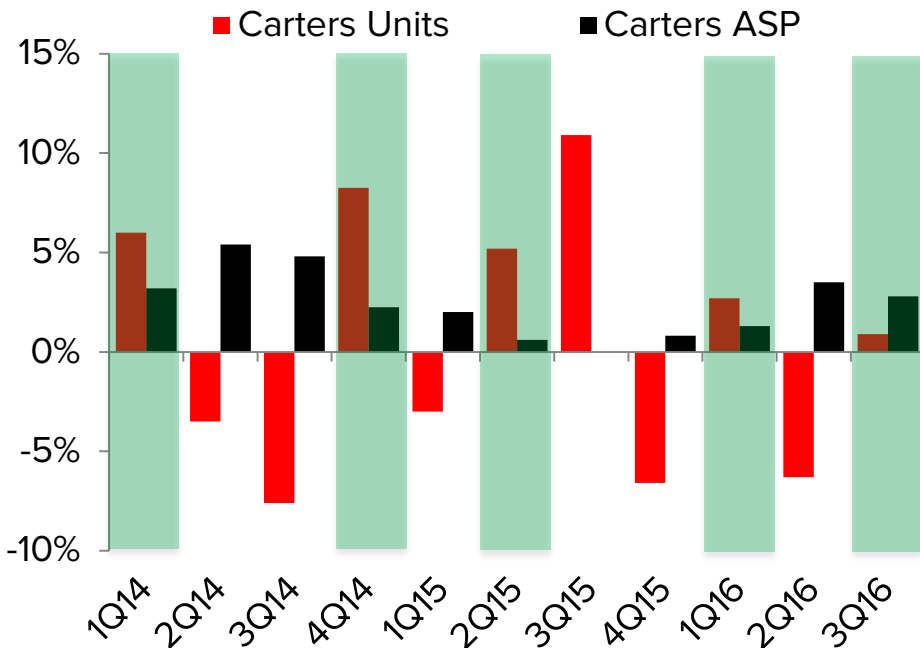


Not the big 3Q inventory correction people hoped for.

Still two quarters of tougher compares at the same time margin pressures are creeping.

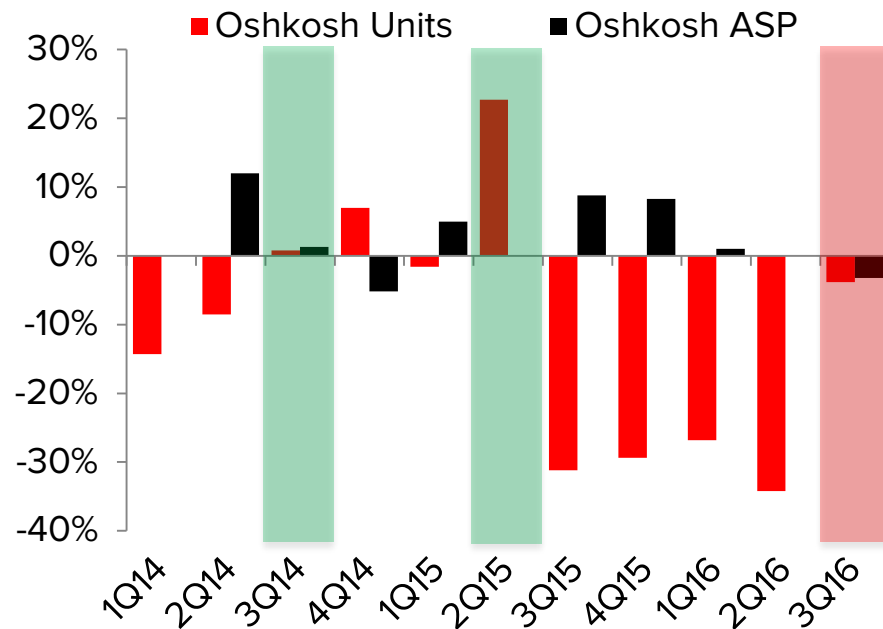
DATA SOURCE: HEDGEYE & COMPANY REPORTS

CRI TRADES UNITS FOR PRICE AND VICE/VERSA



CARTER'S WHOLESALE UNIT/PRICE TRADE-OFF

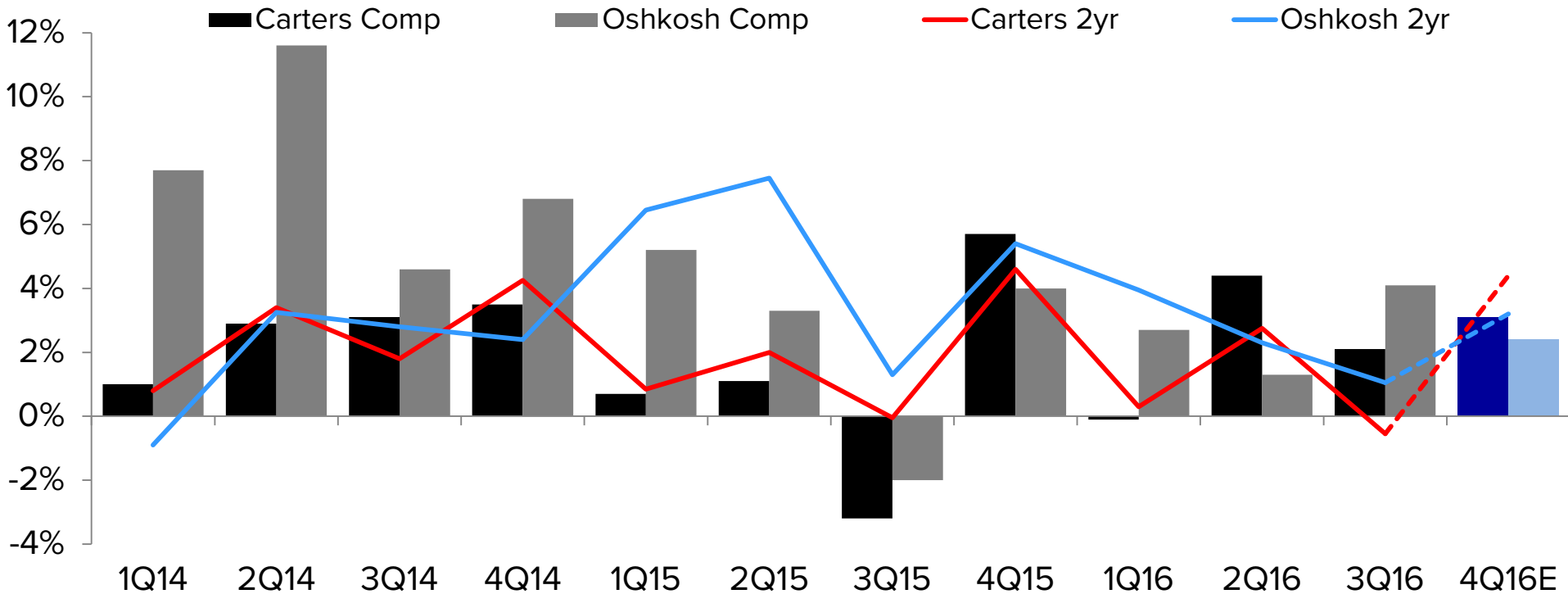
CRI only gets both unit growth AND price growth once every three quarters.



OSHKOSH EVEN WORSE

Unit sales at Osh Kosh are not 'comping the comp' and ASP is consistently trending down.
Playclothes = Bad.

EXPECTED 4Q COMP ACCELERATION, WITH TOUGH COMPARE

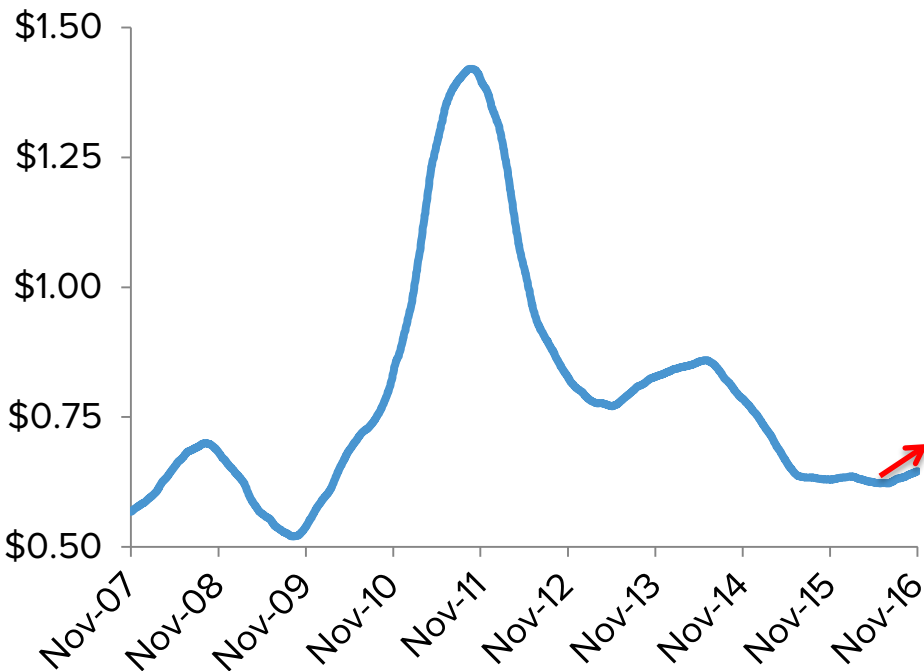


CRI US RETAIL COMPARABLE STORE SALES TRENDS

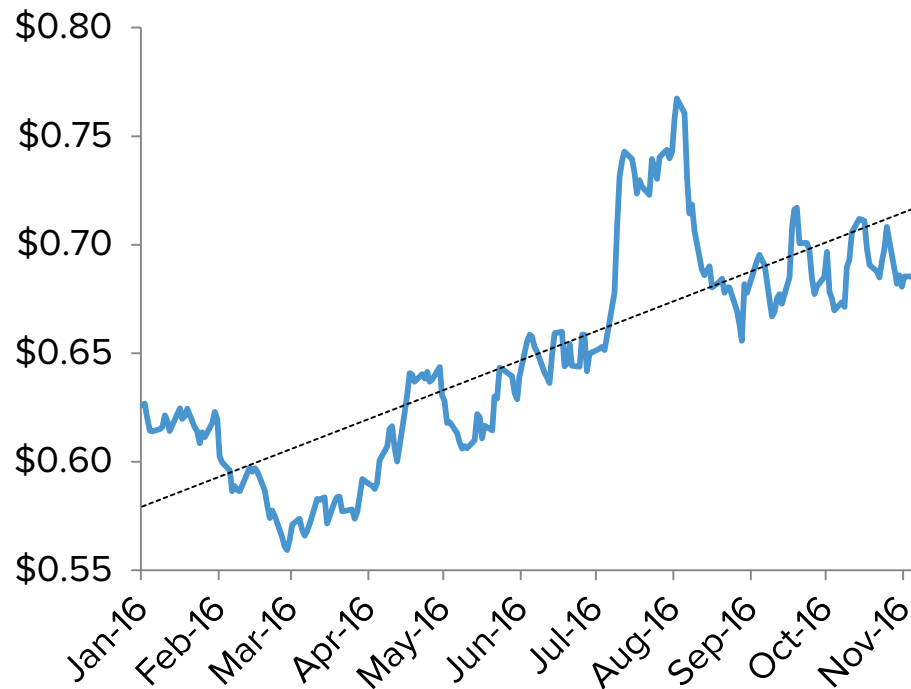
4Q15 was the best combined Carter's/Osh/Kosh comp in eight quarters.

COTTON PRICES TRENDING UP

COTTON #2 TTM AVG PRICE



COTTON #2 PRICE YTD



COTTON #2 PRICE TREND

Nine month lead time to when CRI feels cost pressure from raw materials. That = now.

Feel greater pressure as disconnect from Li&Fung – the biggest procurer of raw materials in the apparel world.

HOW MUCH IS THE COTTON COST? FOB VS VERTICAL.

EXAMPLE FOB VS VERTICALLY INTEGRATED

FOB Model



End Retail: \$20
Wholesale: \$10

FOB: \$5.25
Materials: \$2.50
Labor: \$0.75
Transport: \$0.75
Duties/Other: \$0.50
Factory Profit: \$0.75

Brand Profit: \$4.75

Vertically Integrated



End Retail: \$10
Wholesale Price: \$5
FOB: \$0

Vertical Costs
Materials: \$1.25
Labor: \$0.75
Transport: \$0.50
Duties/Other: \$0.25

Profit = \$2.25

NEW REWARDS PROGRAM – ROBBING PETER...

New Rewards Program launched in October 2015.

Already over 8mm users and **90% of retail transactions** are going through the rewards program.

Seems CRI is simply incenting an already loyal customer.

Didn't comp well in last 4 quarters, now comping against it... headwind?



REWARDING Moments
from carter's | OshKosh B'gosh

Spend them on the ones you love.

GET THE DETAILS

~13% Discount

\$1 = 1 POINT | 75 POINTS = \$10 REWARD

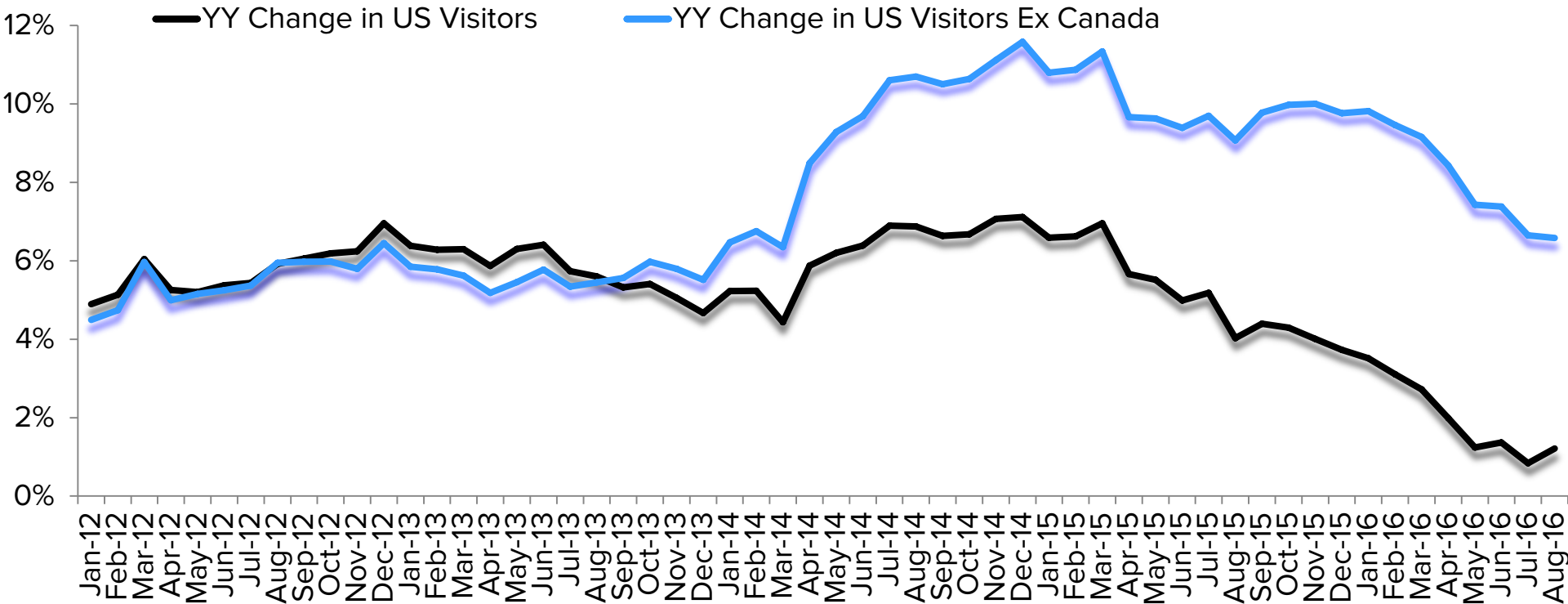
Use on entire purchase at any U.S. Carter's or OshKosh B'gosh. Valid in store & online.

Brand Loyalty

- | | |
|-----------------------------|-----------------------------|
| • Near 100% Brand Awareness | • Near 100% Brand Awareness |
| • 81% Repeat Purchase | • 78% Repeat Purchase |

CRI 2012 Presentation

US INTERNATIONAL VISITORS SLOWING



US INTERNATIONAL VISITATION TRENDS

While we would argue that people don't come to the US to buy Layettes, the company does. Tourism/International demand is not insignificant for Carters, as it accounts for 15% of retail sales, down from 20% last year. C\$ mitigates the trend of 'Day Trips to the US'. Instead CRI opening assets in Canada. #TurnsEroding

NET SHORT CHINA – IN A BIG WAY

carter's®

~50% -- \$900mm



% of COGS Sourced in China



~29% -- \$4bn

~1.5% = \$47mm

% of Revenue Generated in China

~12% -- \$4.9bn

**28% (\$853mm)
levered to China**

Implied Positioning

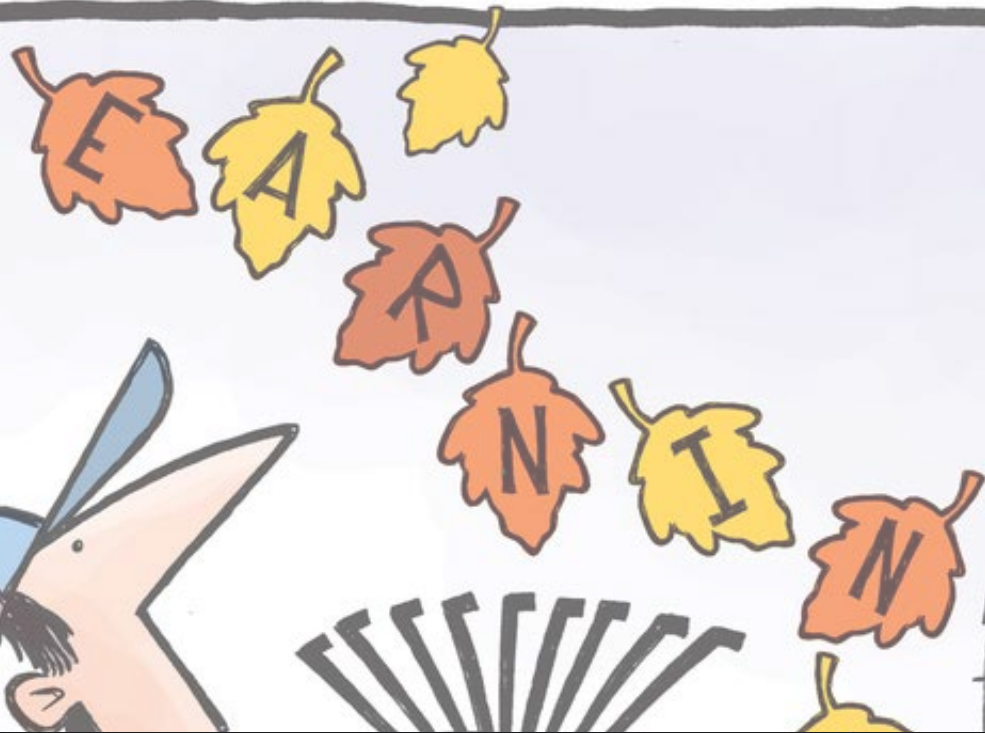
**Less Absolute leverage to
China despite 10 rev base**

% OF REVENUE AND COGS SOURCING ATTRIBUTABLE TO CHINA

"We think China's recent economic stabilization is long in the tooth and we expect the preponderance of Chinese growth metrics to resume their structural downtrends within the next 3-6 months. ...China consumer story may very well be past-peak."

- Hedgeye Macro

YEP,
WINTER'S
COMING.

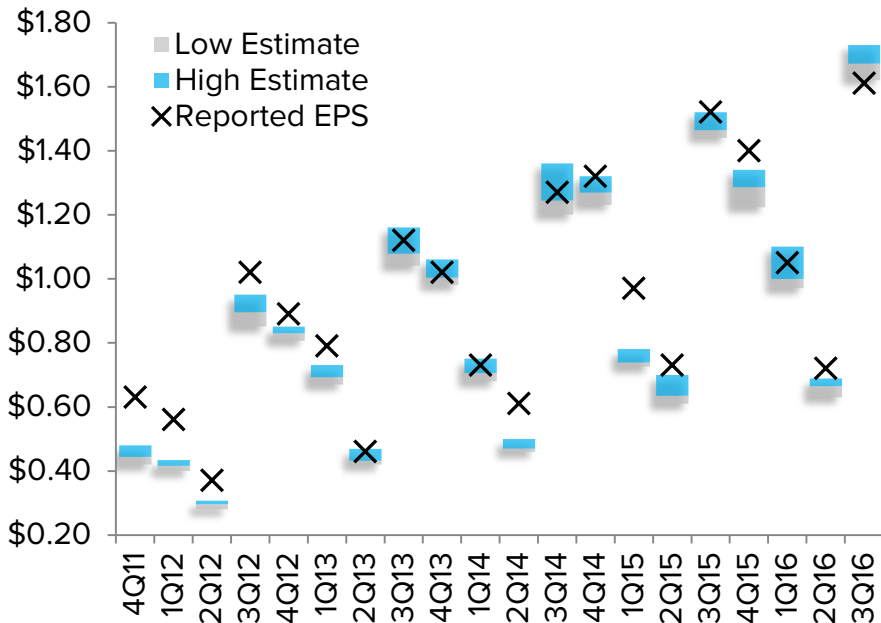


A. RICH - HEDGEYE

TRADE CONSIDERATIONS

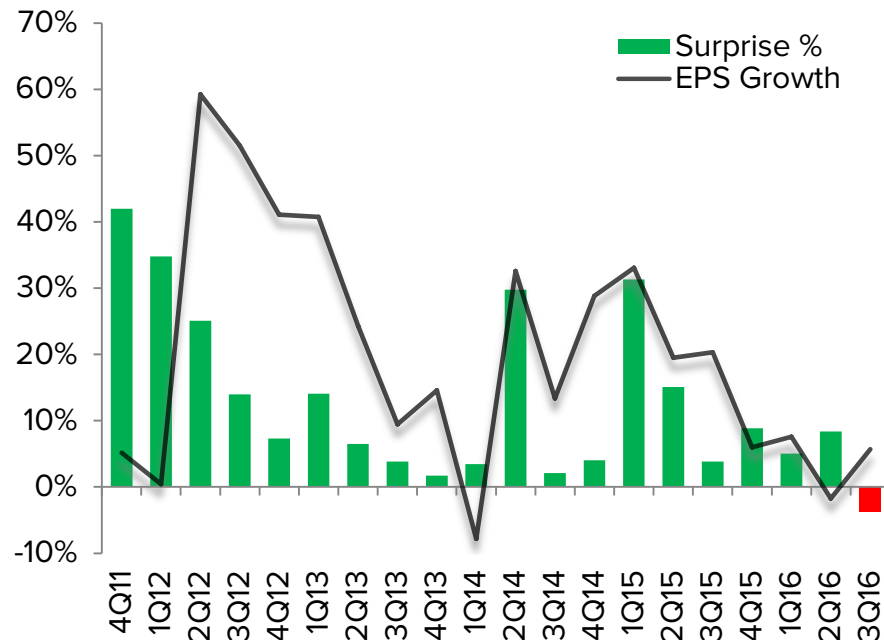


SANDBAGGING ON LOWER GROWTH



REPORTED EPS VS ESTIMATE RANGE

This company never misses, until now.

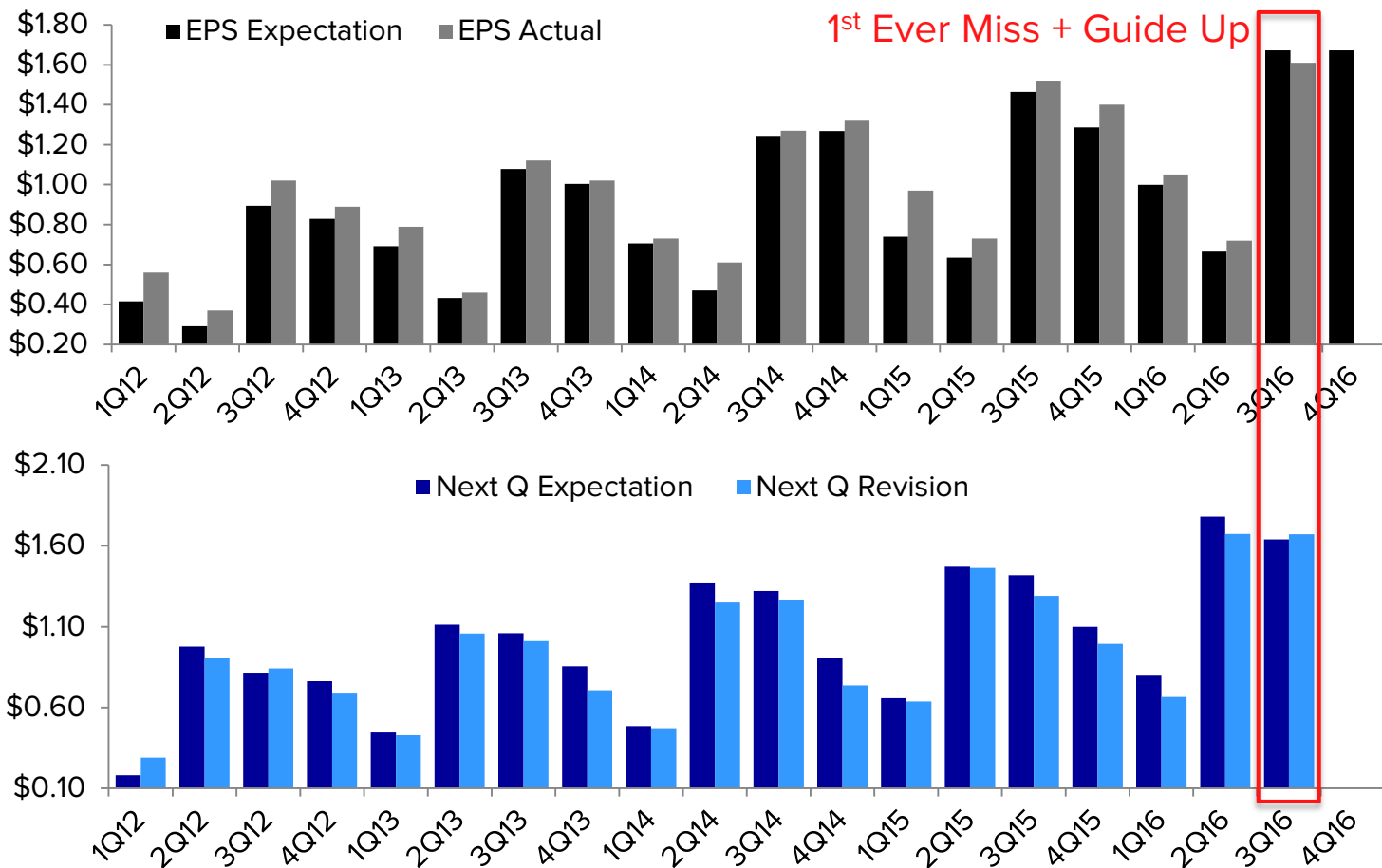


SURPRISE % VS EPS GROWTH

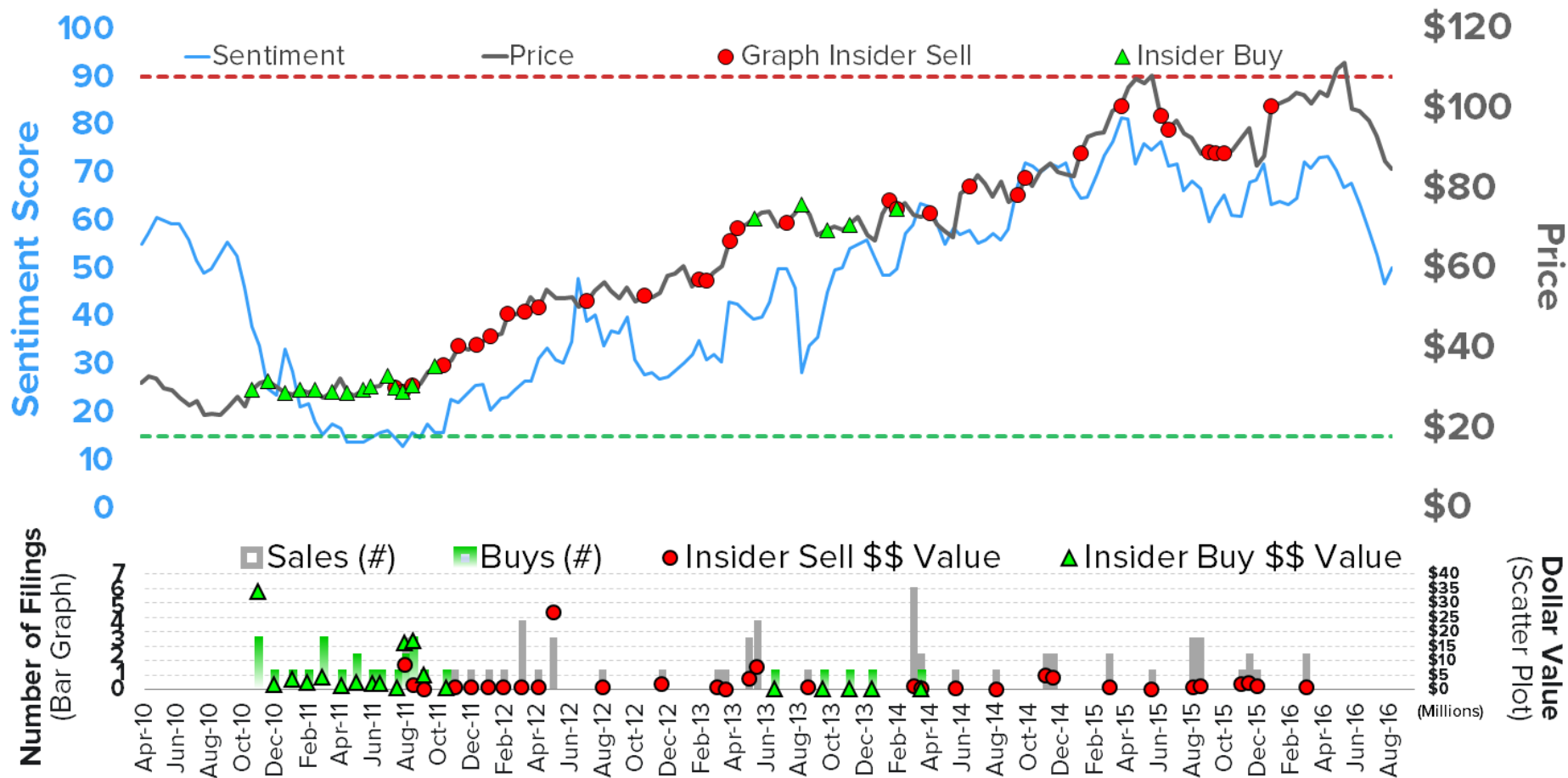
Surprising less – on a LOWER earnings trajectory.

PERENNIAL SANDBAGGING

	RESULT	BEAT %	GUIDE	REVISION
4Q06	BEAT	0%	GUIDE DOWN	-17%
1Q07	BEAT	48%	GUIDE DOWN	-28%
2Q07	BEAT	14%	GUIDE DOWN	-11%
3Q07	BEAT	2%	GUIDE DOWN	-7%
4Q07	MISS	-5%	GUIDE DOWN	-36%
1Q08	BEAT	19%	GUIDE DOWN	-75%
2Q08	BEAT		GUIDE DOWN	-22%
3Q08	BEAT	50%	GUIDE DOWN	-4%
4Q08	BEAT	2%	GUIDE UP	3%
1Q09	BEAT	151%	GUIDE DOWN	-66%
2Q09	BEAT	248%	GUIDE UP	7%
3Q09	BEAT	27%	GUIDE DOWN	0%
4Q09	BEAT	10%	GUIDE DOWN	0%
1Q10	BEAT	60%	GUIDE DOWN	-4%
2Q10	MISS	-1%	GUIDE DOWN	-17%
3Q10	BEAT	12%	GUIDE DOWN	0%
4Q10	BEAT	6%	GUIDE DOWN	-16%
1Q11	BEAT	10%	GUIDE DOWN	-21%
2Q11	BEAT	75%	GUIDE DOWN	-8%
3Q11	BEAT	15%	GUIDE UP	2%
4Q11	BEAT	42%	GUIDE DOWN	-19%
1Q12	BEAT	35%	GUIDE UP	60%
2Q12	BEAT	27%	GUIDE DOWN	-8%
3Q12	BEAT	14%	GUIDE UP	3%
4Q12	BEAT	7%	GUIDE DOWN	-10%
1Q13	BEAT	14%	GUIDE DOWN	-4%
2Q13	BEAT	6%	GUIDE DOWN	-5%
3Q13	BEAT	4%	GUIDE DOWN	-5%
4Q13	BEAT	2%	GUIDE DOWN	-17%
1Q14	BEAT	3%	GUIDE DOWN	-3%
2Q14	BEAT	30%	GUIDE DOWN	-9%
3Q14	BEAT	2%	GUIDE DOWN	-4%
4Q14	BEAT	4%	GUIDE DOWN	-19%
1Q15	BEAT	31%	GUIDE DOWN	-3%
2Q15	BEAT	15%	GUIDE DOWN	-1%
3Q15	BEAT	4%	GUIDE DOWN	-9%
4Q15	BEAT	9%	GUIDE DOWN	-10%
1Q16	BEAT	5%	GUIDE DOWN	-17%
2Q16	BEAT	8%	GUIDE DOWN	-6%
3Q16	MISS	-4%	GUIDE UP	2%

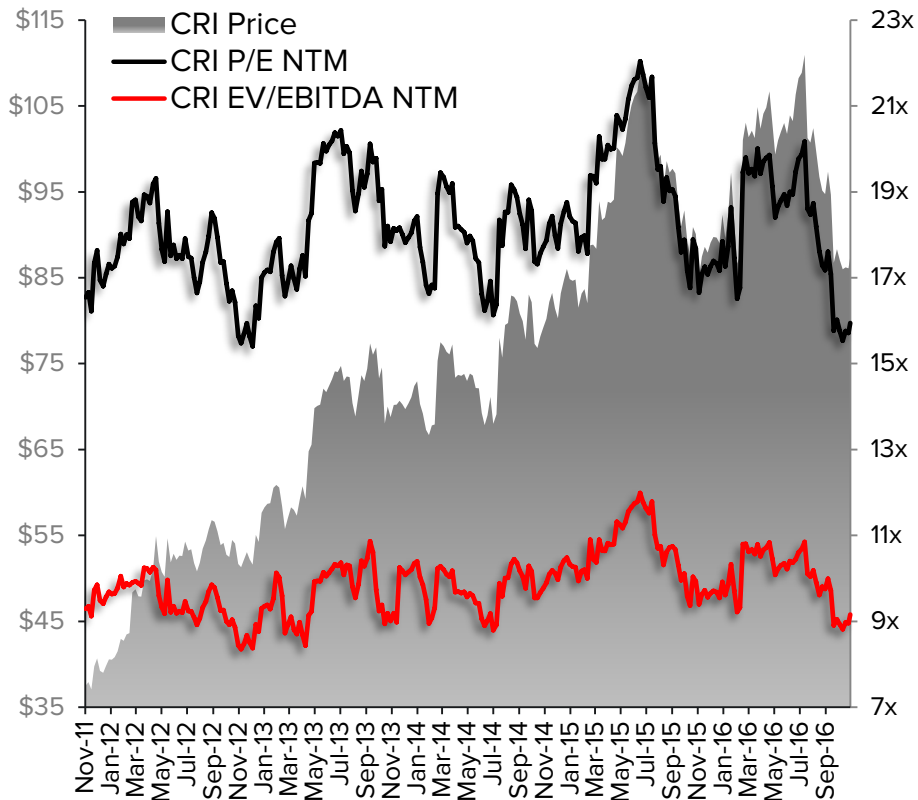


SENTIMENT HAS FALLEN TO 2013 LEVELS, BUT WHY NOT 2011?

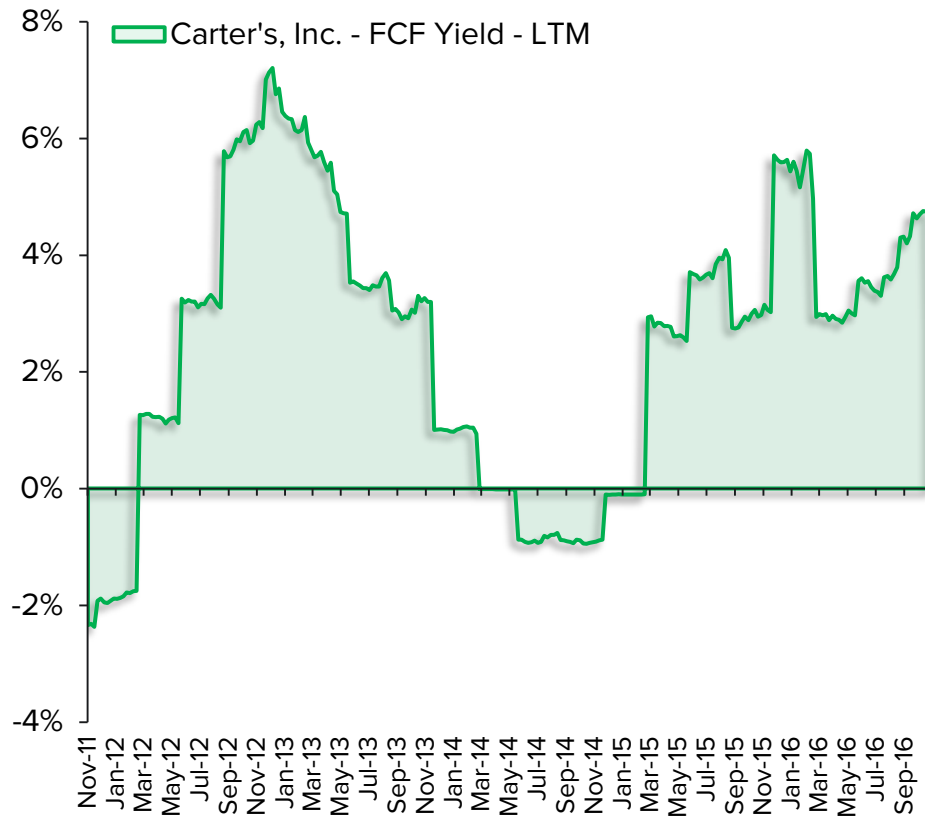


DOES RECENT HISTORY MATTER WHEN GROWTH SLOWS

PRICE VS P/E, EV/EBITDA NTM



FCF YIELD NTM



FOR MORE INFORMATION, CONTACT US AT:

SALES@HEDGEYE.COM
(203) 562-6500