

Carter's Inc

4Q preview: All eyes on the F24 guide

Reiterate Rating: UNDERPERFORM | PO: 65.00 USD | Price: 81.40 USD

Forecast 4Q EPS of \$2.50 (low end of guide)

We remain cautious on CRI ahead of 4Q results with the stock trading at 9x EV/EBITDA given uncertainty on the company's ability to hold/gain market share in the competitive children's apparel category. We are forecasting 4Q EPS of \$2.50, at the low end of management's guidance. We remain cautious on the US Retail segment, where we forecast comps down 12% and total retail sales down 10% (includes 2ppt benefit from new stores). We see upside to US wholesale and forecast segment sales down 2% (guide down HSD) given our view that some Spring orders were pushed into 4Q. On margins, we forecast a slight miss; we forecast 250bp of GM expansion as we think promotional pressure will partially offset the benefits from freight and cotton.

Expect optimistic tone on sales outlook

We think mgmt will have a relatively optimistic tone on F24 sales guidance due to the easier wholesale compares in 1H and lapping two challenging years in US Retail. We forecast flat sales growth in F24, inclusive of US retail -2%, US wholesale +3%, and International +3%. In wholesale, we continue to remain cautious on the non-exclusives business (50% of wholesale, includes dept stores, clubs) and remain more positive on the exclusives business (WMT, TGT, AMZN). In retail, our base case includes comps of -4% in F24 (compared to -10%/-13% in F22/F23E), with trends improving throughout the year. Downside to our estimates include a continuation of the recent double-digit comp declines.

Lower cotton a plus, but other margin headwinds to linger

We think lower cotton costs could represent a 150bp tailwind on a full year basis (we estimate cotton represents mid-teens percentage of COGS). That said, we remain cautious on the company's margin outlook given 1) potential for pricing cuts and promotions to deepen post 1H24 (will depend on competitive environment), 2) potential challenges to leverage SG&A given new store openings, labor costs, digital investments (amongst others), and 3) potential freight headwinds in 2H. We forecast F24 EPS of \$6.30; inclusive of flat operating margin compared to F23E. Reiterate Underperform.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	7.87	6.90	5.96	6.30	6.72
GAAP EPS	7.82	6.37	5.87	6.30	6.72
EPS Change (YoY)	89.6%	-12.3%	-13.6%	5.7%	6.7%
Consensus EPS (Bloomberg)			6.03	6.25	6.52
DPS	1.40	3.00	3.00	3.00	3.00
Valuation (Dec)					
P/E	10.3x	11.8x	13.7x	12.9x	12.1x
GAAP P/E	10.4x	12.8x	13.9x	12.9x	12.1x
Dividend Yield	1.7%	3.7%	3.7%	3.7%	3.7%
EV / EBITDA*	5.7x	7.6x	9.0x	9.0x	8.7x
Free Cash Flow Yield*	7.7%	1.6%	10.8%	7.0%	7.6%

* For full definitions of *IQmethod*SM measures, see page 5.

20 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,950.0	2,962.1
2025E Rev (m)	3,008.9	3,021.2
2023E EPS	5.85	5.96
2024E EPS	6.20	6.30
2025E EPS	6.67	6.72

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Stock Data

Price	81.40 USD
Price Objective	65.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-3-7
52-Week Range	60.66 USD - 82.50 USD
Mkrt Val (mn) / Shares Out (mn)	2,998 USD / 36.8
Free Float	97.1%
Average Daily Value (mn)	50.33 USD
BofA Ticker / Exchange	CRI / NYS
Bloomberg / Reuters	CRI US / CRI.N
ROE (2023E)	27.6%
Net Dbt to Eqty (Dec-2022A)	50.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

Mgmt.: management

HSD: High Single Digit

GM: gross margin

COGS: Cost of goods sold

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Timestamp: 20 February 2024 12:01AM EST

iQprofileSM Carter's Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	15.3%	13.9%	13.2%	13.6%	13.5%
Return on Equity	35.8%	30.6%	27.6%	27.5%	26.7%
Operating Margin	14.4%	12.1%	10.6%	10.6%	10.6%
Free Cash Flow	231	48	322	211	227

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.8x	0.3x	1.8x	1.3x	1.4x
Asset Replacement Ratio	0.4x	0.7x	1.1x	1.2x	1.1x
Tax Rate	22.5%	21.3%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	0.7%	50.5%	47.2%	43.2%	36.9%
Interest Cover	8.5x	9.3x	10.1x	11.3x	11.5x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,486	3,213	2,954	2,962	3,021
% Change	15.3%	-7.9%	-8.1%	0.3%	2.0%
Gross Profit	1,662	1,472	1,394	1,423	1,454
% Change	26.6%	-11.4%	-5.3%	2.1%	2.2%
EBITDA	595	452	379	382	394
% Change	59.0%	-24.0%	-16.2%	0.7%	3.3%
Net Interest & Other Income	(59)	(42)	(31)	(28)	(26)
Net Income (Adjusted)	338	268	217	216	223
% Change	87.7%	-20.8%	-19.2%	-0.3%	3.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	335	246	211	215	222
Depreciation & Amortization	90	62	61	65	70
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	(14)	(1)	(4)	0	1
Other Adjustments, Net	(144)	(218)	119	10	15
Capital Expenditure	(37)	(40)	(65)	(80)	(80)
Free Cash Flow	231	48	322	211	227
% Change	-58.6%	-79.2%	571.8%	-34.5%	7.6%
Share / Issue Repurchase	(288)	(296)	(163)	(96)	(96)
Cost of Dividends Paid	(60)	(118)	(111)	(103)	(99)
Change in Debt	0	(396)	(120)	1	1

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	984	212	136	149	182
Trade Receivables	231	199	202	203	207
Other Current Assets	698	778	627	639	652
Property, Plant & Equipment	216	190	188	203	213
Other Non-Current Assets	1,072	1,061	1,070	1,070	1,071
Total Assets	3,202	2,440	2,223	2,263	2,324
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	731	529	472	470	478
Long-Term Debt	991	617	497	498	499
Other Non-Current Liabilities	87	76	70	70	71
Total Liabilities	2,252	1,643	1,467	1,466	1,475
Total Equity	950	801	766	808	859
Total Equity & Liabilities	3,202	2,445	2,233	2,273	2,334

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Apparel

Company Description

Carter's Inc is the largest branded marketer in the US of apparel exclusively for babies and young children. They own the Carter's and OshKosh brands and distribute their products through department stores, chain and specialty stores, discount retails and operate their own branded strip center and outlet retail stores.

Investment Rationale

We think the risk/reward is skewed to the downside as we see risk to margins from a more normalized promotional environment, think the success of price increases is dependent on peer behavior, and see continued competition from private label.

Stock Data

Average Daily Volume

618,270

Quarterly Earnings Estimates

	2022	2023
Q1	1.66A	0.98A
Q2	1.30A	0.64A
Q3	1.67A	1.84A
Q4	2.29A	2.50E

**Exhibit 1: CRI Income Statement**

We are forecasting F24 EPS of \$6.30

Carter's Income Statement (\$ mn)	FY 2022	1Q 23 Mar	2Q 23 Jun	3Q 23 Sept	4Q 23E Dec	FY 2023E	1Q 24E Mar	2Q 24E Jun	3Q 24E Sept	4Q 24E Dec	FY 2024E	1Q 25E Mar	2Q 25E Jun	3Q 25E Sept	4Q 25E Dec	FY 2025E
U.S Wholesale	1,080.5	280.0	186.9	300.3	255.5	1,022.7	285.6	205.6	303.3	258.0	1,052.5	291.3	209.7	309.4	263.2	1,073.6
U.S Retail	1,680.2	323.7	323.5	374.8	473.3	1,495.3	304.3	314.1	375.1	468.6	1,462.1	310.4	320.3	382.6	477.9	1,491.2
International	<u>452.1</u>	<u>92.2</u>	<u>89.9</u>	<u>116.5</u>	<u>137.4</u>	<u>436.0</u>	<u>96.8</u>	<u>91.7</u>	<u>118.8</u>	<u>140.2</u>	<u>447.5</u>	<u>98.7</u>	<u>93.5</u>	<u>121.2</u>	<u>143.0</u>	<u>456.4</u>
Total Net Sales	3,212.7	695.9	600.2	791.7	866.2	2,954.0	686.7	611.3	797.3	866.9	2,962.1	700.4	623.5	813.2	884.1	3,021.2
Cost of Goods Sold	<u>1,740.4</u>	<u>386.4</u>	<u>308.3</u>	<u>415.3</u>	<u>449.9</u>	<u>1,559.9</u>	<u>371.0</u>	<u>307.9</u>	<u>414.2</u>	<u>445.9</u>	<u>1,539.0</u>	<u>377.7</u>	<u>313.4</u>	<u>421.7</u>	<u>453.9</u>	<u>1,566.7</u>
Gross Profit	1,472.4	309.5	291.9	376.4	416.3	1,394.1	315.7	303.4	383.1	420.9	1,423.1	322.7	310.1	391.5	430.2	1,454.5
SG&A Expenses	1,110.0	258.4	258.3	285.8	299.0	1,101.5	264.8	260.8	301.7	302.5	1,129.8	270.1	266.1	308.0	308.9	1,153.0
Royalty Income	<u>25.8</u>	<u>6.5</u>	<u>4.3</u>	<u>5.7</u>	<u>4.9</u>	<u>21.5</u>	<u>5.9</u>	<u>3.9</u>	<u>5.1</u>	<u>4.4</u>	<u>19.3</u>	<u>5.3</u>	<u>3.5</u>	<u>4.6</u>	<u>4.0</u>	<u>17.4</u>
Operating Income	388.2	57.6	38.0	96.3	122.2	314.1	56.8	46.6	86.5	122.9	312.7	57.9	47.5	88.2	125.3	318.9
Net Interest Expense/(Income)	41.5	8.9	7.1	7.6	7.5	31.0	6.9	6.9	6.9	7.0	27.7	6.9	6.9	6.9	7.0	27.7
Other (Income)/Expense	<u>1.0</u>	<u>(0.3)</u>	<u>(0.8)</u>	<u>0.5</u>	<u>0.5</u>	<u>(0.0)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(2.0)</u>
Pretax Income	345.7	48.9	31.6	88.3	114.3	283.1	49.9	39.7	79.5	115.9	284.9	51.5	41.1	81.8	118.8	293.2
Taxes	73.6	12.0	7.5	19.9	25.8	65.2	11.5	9.1	18.3	26.7	65.5	11.8	9.5	18.8	27.3	67.4
Tax Rate	21.3%	24.5%	23.6%	22.6%	22.6%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Net Income	268.0	36.3	23.7	67.0	87.5	214.5	37.4	29.5	60.2	88.2	215.4	38.6	30.6	62.0	90.5	221.8
Earnings Per Share	\$6.90	\$0.98	\$0.64	\$1.84	\$2.50	\$5.96	\$1.08	\$0.86	\$1.76	\$2.61	\$6.30	\$1.15	\$0.92	\$1.88	\$2.77	\$6.72
Diluted Shares Outstanding	38.9	37.1	36.8	36.4	35.0	36.4	34.7	34.4	34.2	33.9	34.3	33.6	33.3	33.0	32.7	33.1
Dividend Per Share	\$3.00	\$0.75	\$0.75	\$0.75	\$0.75	\$3.00	\$0.75	\$0.75	\$0.75	\$0.75	\$3.00	\$0.75	\$0.75	\$0.75	\$0.75	\$3.00
Y/Y Growth																
Total Sales	-7.9%	-10.9%	-14.3%	-3.3%	-5.0%	-8.1%	-1.3%	1.8%	0.7%	0.1%	0.3%	2.0%	2.0%	2.0%	2.0%	2.0%
Operating income	-22.5%	-43.9%	-49.7%	5.2%	3.1%	-19.1%	-1.4%	22.6%	-10.2%	0.5%	-0.5%	2.0%	2.0%	2.0%	2.0%	2.0%
EPS	-12.3%	-41.1%	-50.6%	10.0%	9.1%	-13.6%	10.1%	33.0%	-4.1%	4.4%	5.8%	6.9%	7.5%	6.6%	6.3%	6.6%
Royalty Income	-10.0%	-12.8%	-22.5%	-21.4%	-10.0%	-16.7%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
Dividends	5.0%					5.0%					5.0%					5.0%
Margins																
Gross Margin	45.8%	44.5%	48.6%	47.5%	48.1%	47.2%	46.0%	49.6%	48.0%	48.6%	48.0%	46.1%	49.7%	48.1%	48.7%	48.1%
bp change y/y	(185)	(97)	136	228	250	136	150	100	50	50	85	10	10	10	10	10
GM vs. 2019	302	213	629	491	558	439										
SG&A Expense Rate	34.6%	37.1%	43.0%	36.1%	34.5%	37.3%	38.6%	42.7%	37.8%	34.9%	38.1%	38.6%	42.7%	37.9%	34.9%	38.2%
bp change y/y	41	387	572	114	135	274	142	(37)	175	38	85	(0)	2	2	4	2
SG&A dollar growth	-6.7%	-0.6%	-1.2%	-0.2%	-1.2%	-0.8%	2.4%	1.0%	5.6%	1.2%	2.6%	2.0%	2.1%	2.1%	2.1%	2.1%
SG&A vs. 2019																
Royalty Income % of Sales	0.8%	0.9%	0.7%	0.7%	0.6%	0.7%	0.9%	0.6%	0.6%	0.5%	0.7%	0.8%	0.6%	0.6%	0.5%	0.6%
bp change y/y	(2)	(2)	(8)	(17)	(3)	(8)	(8)	(8)	(8)	(6)	(7)	(10)	(8)	(8)	(6)	(8)
Operating Margin	12.1%	8.3%	6.3%	12.2%	14.1%	10.6%	8.3%	7.6%	10.8%	14.2%	10.6%	8.3%	7.6%	10.8%	14.2%	10.6%
bp change y/y	(218)	(486)	(444)	98	112	(150)	(0)	129	(132)	6	(3)	(0)	0	0	0	(0)

Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

Price objective basis & risk

Carter's Inc (CRI)

Our \$65 price objective is based on a 7x EV/EBITDA ('24E) multiple, lower than its historical average given the ongoing macro uncertainty and downside EPS risks.

Upside risks to our price objective are better-than-expected children's apparel sales, successful market share gains through the company's Age Up strategy, and a more defensive business model during a potential recession.

Downside risks to our price objective are emphasis by wholesale partners on private label, exposure to weakening outlet centers, and a heightened competitive pricing environment.

Analyst Certification

I, Christopher Nardone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
RSTR	Macy's	M	M US	Lorraine Hutchinson, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

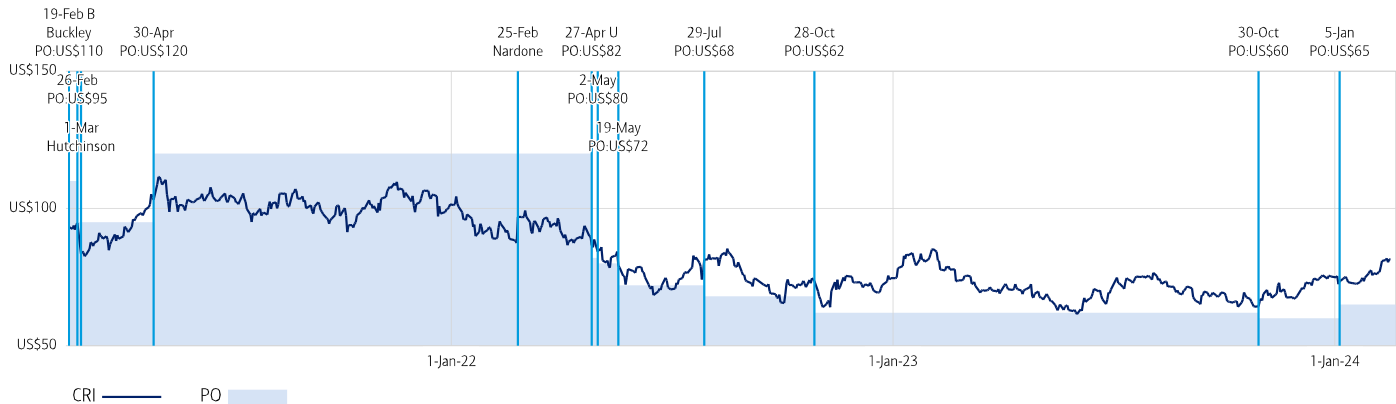
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Disclosures

Important Disclosures

Carter's Inc (CRI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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