

## Carter's Inc

## Investing a portion of product cost improvements back in the business

Reiterate Rating: UNDERPERFORM | PO: 65.00 USD | Price: 78.74 USD

## 4Q EPS beats expectations led by lower costs

We maintain our cautious view amidst uncertainty on a sales recovery, particularly in the second half of the year. CRI reported 4Q adj EPS of \$2.76, beating our \$2.50/V.A. cons \$2.61 ests as stronger op margins (led by lower SG&A) more than offset weaker sales. Mgmt provided F24 guidance of LSD sales growth and MSD operating income and EPS growth (above Street expectations). This is inclusive of 1Q EPS guidance 40% below consensus. We are maintaining our F24 EPS of \$6.30 and forecast total sales -0.5% based on comps down 3% for the full year. Reiterate Underperform.

## F24 guidance looks optimistic, but 1Q likely conservative

We think 1Q guidance will likely prove to be conservative and forecast EPS of \$0.81, above the \$0.60-0.70 guide due to the potential for better wholesale sales and stronger margins. That said, we see risk to the full year guidance given the expectation that retail comp trends will begin to materially improve post 1Q despite limited proof that LSD-MSD growth is attainable. Our F24 EPS of \$6.30 is only modestly below implied guidance of \$6.50 as we think better than expected wholesale and cost control could limit some of the downside risk.

## Positives: retail investments, product cost tailwind

1QTD comps are down 8% (-11% in 4Q) and the digital business has sequentially over the last several months (but is still down). Mgmt is doubling down on investments in stores, now expecting to open 200 net stores over the next five years and making merchandising changes to select stores to segment product by age. Other positives included the 820bp improvement in 2H23 wholesale margins to 21.5% (we think high-teens is more sustainable) and the tailwind in F24 from product costs down MSD.

## Risks: pricing, retail turnaround, non-exclusive wholesale

Carter's is leaning into its everyday value offerings (lowered pricing by a dollar or two on select styles) and cited that total company pricing will be down 1% this year. We see risk of that gravitating lower depending on the competitive pricing environment and if other brands become more promotional or cut pricing further. Other risks include the 2H retail improvement embedded in guidance (guide: 1Q comps down MSD to HSD and full year up LSD) and potential for the dept store and club portion of the wholesale business to remain challenged given secular headwinds (roughly 17% of total company sales).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.90	6.19	6.30	6.78	7.22
GAAP EPS	6.37	6.24	6.30	6.78	7.22
EPS Change (YoY)	-12.3%	-10.3%	1.8%	7.6%	6.5%
Consensus EPS (Bloomberg)		6.19	6.47	7.53	
DPS	3.00	3.00	3.20	3.20	3.20
Valuation (Dec)					
P/E	11.4x	12.7x	12.5x	11.6x	10.9x
GAAP P/E	12.4x	12.6x	12.5x	11.6x	10.9x
Dividend Yield	3.8%	3.8%	4.1%	4.1%	4.1%
EV / EBITDA*	7.3x	8.5x	8.5x	8.1x	7.9x
Free Cash Flow Yield*	1.7%	16.2%	6.9%	8.2%	8.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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12664558

Timestamp: 27 February 2024 02:03PM EST

27 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,962.1	2,930.4
2025E Rev (m)	3,021.2	2,989.2
2026E Rev (m)	NA	3,052.4
2025E EPS	6.72	6.78
2026E EPS	NA	7.22
2024E DPS	3.00	3.20

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## Stock Data

Price	78.74 USD
Price Objective	65.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-3-7
52-Week Range	60.66 USD - 83.24 USD
Mkrt Val (mn) / Shares Out (mn)	2,900 USD / 36.8
Free Float	97.1%
Average Daily Value (mn)	48.66 USD
BofA Ticker / Exchange	CRI / NYS
Bloomberg / Reuters	CRI US / CRI.N
ROE (2024E)	25.4%
Net Dbt to Eqty (Dec-2023A)	17.1%
ESGMeter <sup>TM</sup>	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"](#).

LSD: low single digit

MSD: mid single digit

# iQprofile<sup>SM</sup> Carter's Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.9%	13.4%	13.1%	13.1%	13.0%
Return on Equity	30.6%	27.3%	25.4%	25.1%	24.2%
Operating Margin	12.1%	11.1%	11.1%	11.2%	11.2%
Free Cash Flow	48	469	199	237	246

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.3x	2.3x	1.3x	1.4x	1.4x
Asset Replacement Ratio	0.7x	1.0x	1.3x	1.2x	1.1x
Tax Rate	21.3%	23.1%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	50.5%	17.1%	17.5%	13.1%	7.8%
Interest Cover	9.3x	11.2x	12.0x	12.3x	12.7x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,213	2,946	2,930	2,989	3,052
% Change	-7.9%	-8.3%	-0.5%	2.0%	2.1%
Gross Profit	1,472	1,396	1,422	1,453	1,487
% Change	-11.4%	-5.2%	1.8%	2.2%	2.3%
EBITDA	452	393	392	408	418
% Change	-24.0%	-13.1%	-0.3%	4.0%	2.6%
Net Interest & Other Income	(42)	(28)	(27)	(25)	(25)
<b>Net Income (Adjusted)</b>	<b>268</b>	<b>227</b>	<b>223</b>	<b>231</b>	<b>236</b>
% Change	-20.8%	-15.5%	-1.7%	3.7%	2.4%

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	246	228	223	231	236
Depreciation & Amortization	62	60	63	68	72
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	(1)	(1)	0	1	1
Other Adjustments, Net	(218)	241	(7)	17	17
Capital Expenditure	(40)	(60)	(80)	(80)	(80)
<b>Free Cash Flow</b>	<b>48</b>	<b>469</b>	<b>199</b>	<b>237</b>	<b>246</b>
% Change	-79.2%	877.7%	-57.7%	19.1%	3.8%
Share / Issue Repurchase	(296)	(96)	(96)	(96)	(96)
Cost of Dividends Paid	(118)	(112)	(113)	(109)	(105)
Change in Debt	(396)	(120)	1	1	1

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	212	351	342	375	421
Trade Receivables	199	184	183	186	190
Other Current Assets	778	566	593	605	617
Property, Plant & Equipment	190	183	200	212	221
Other Non-Current Assets	1,061	1,094	1,094	1,095	1,096
<b>Total Assets</b>	<b>2,440</b>	<b>2,379</b>	<b>2,412</b>	<b>2,474</b>	<b>2,546</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	529	512	506	514	523
Long-Term Debt	617	497	498	499	500
Other Non-Current Liabilities	76	75	75	76	78
<b>Total Liabilities</b>	<b>1,643</b>	<b>1,533</b>	<b>1,528</b>	<b>1,539</b>	<b>1,550</b>
<b>Total Equity</b>	<b>801</b>	<b>855</b>	<b>894</b>	<b>945</b>	<b>1,006</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,445</b>	<b>2,389</b>	<b>2,422</b>	<b>2,484</b>	<b>2,556</b>

\* For full definitions of iQmethod<sup>SM</sup> 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

618,028

## Quarterly Earnings Estimates

	2023	2024
Q1	0.98A	0.81E
Q2	0.64A	1.01E
Q3	1.84A	1.89E
Q4	2.76A	2.63E



## Exhibit 1: CRI Income Statement

We are forecasting F24 EPS of \$6.30

Carter's	FY 2023	1Q 24E	2Q 24E	3Q 24E	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E	1Q 26E	2Q 26E	3Q 26E	4Q 26E	FY 2026E
Income Statement (\$ mn)		Mar	Jun	Sept	Dec		Mar	Jun	Sept	Dec		Mar	Jun	Sept	Dec	
U.S Wholesale	1,014.6	246.4	205.6	312.4	259.8	1,024.1	251.3	209.7	318.6	265.0	1,044.5	256.3	213.9	325.0	270.3	1,065.4
U.S Retail	1,501.8	311.8	317.9	375.1	473.2	1,478.0	317.2	323.9	382.8	483.9	1,507.8	324.3	331.1	391.4	494.6	1,541.4
International	429.2	88.5	89.0	118.8	132.0	428.3	90.3	90.7	121.2	134.6	436.8	92.1	92.6	123.6	137.3	445.6
Total Net Sales	2,945.6	646.6	612.5	806.3	865.0	2,930.4	658.8	624.3	822.7	883.4	2,989.2	672.7	637.6	840.0	902.2	3,052.4
Cost of Goods Sold	1,549.7	342.9	302.4	420.9	442.5	1,508.6	348.7	307.6	428.6	451.0	1,536.0	355.4	313.5	436.8	459.7	1,565.4
Gross Profit	1,395.9	303.7	310.1	385.4	422.5	1,421.7	310.1	316.7	394.0	432.4	1,453.3	317.3	324.1	403.2	442.5	1,487.1
SG&A Expenses	1,089.4	263.5	259.0	295.0	298.1	1,115.7	267.9	263.7	300.7	304.1	1,136.4	273.7	269.5	307.3	311.0	1,161.4
Royalty Income	21.4	5.9	3.9	5.1	4.4	19.3	5.3	3.5	4.6	3.9	17.3	4.8	3.2	4.2	3.5	15.6
Operating Income	327.9	46.1	55.0	95.5	128.7	325.3	47.4	56.6	98.0	132.2	334.2	48.4	57.8	100.0	135.0	341.2
Net Interest Expense/(Income)	29.2	6.8	6.7	6.8	6.9	27.1	6.8	6.7	6.8	6.8	27.1	6.8	6.7	6.7	6.8	27.0
Other (Income)/Expense	(1.1)	0.0	0.0	0.0	0.0	0.0	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)
Pretax Income	299.8	39.3	48.4	88.7	121.8	298.2	41.1	50.4	91.7	125.8	309.1	42.1	51.6	93.8	128.7	316.3
Taxes	69.1	9.4	11.6	21.3	29.2	71.6	9.9	12.1	22.0	30.2	74.2	10.1	12.4	22.5	30.9	75.9
Tax Rate	23.1%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Net Income	226.4	28.9	35.7	66.4	91.6	222.6	30.3	37.3	68.7	94.6	230.9	31.0	38.2	70.3	96.8	236.4
<b>Earnings Per Share</b>	<b>\$6.19</b>	<b>\$0.81</b>	<b>\$1.01</b>	<b>\$1.89</b>	<b>\$2.62</b>	<b>\$6.30</b>	<b>\$0.87</b>	<b>\$1.09</b>	<b>\$2.02</b>	<b>\$2.80</b>	<b>\$6.75</b>	<b>\$0.93</b>	<b>\$1.15</b>	<b>\$2.14</b>	<b>\$2.97</b>	<b>\$7.16</b>
Diluted Shares Outstanding	36.6	35.7	35.5	35.2	34.9	35.3	34.6	34.3	34.0	33.7	34.2	33.5	33.2	32.9	32.6	33.0
Dividend Per Share	\$3.00	\$0.80	\$0.80	\$0.80	\$0.80	\$3.20	\$0.80	\$0.80	\$0.80	\$0.80	\$3.20	\$0.80	\$0.80	\$0.80	\$0.80	\$3.20
<b>Y/Y Growth</b>																
Total Sales	-8.3%	-7.1%	2.0%	1.9%	0.8%	-0.5%	1.9%	1.9%	2.0%	2.1%	2.0%	2.1%	2.1%	2.1%	2.1%	2.1%
Operating income	-15.5%	-19.9%	45.0%	-0.9%	-5.4%	-0.8%	3.0%	2.8%	2.6%	2.7%	2.7%	2.1%	2.1%	2.1%	2.1%	2.1%
<b>EPS</b>	<b>-10.3%</b>	<b>-17.4%</b>	<b>56.3%</b>	<b>2.6%</b>	<b>-4.9%</b>	<b>1.8%</b>	<b>8.2%</b>	<b>7.8%</b>	<b>7.0%</b>	<b>6.9%</b>	<b>7.2%</b>	<b>6.1%</b>	<b>6.1%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>6.0%</b>
Royalty Income	-17.1%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
<b>Margins</b>																
Gross Margin	47.4%	47.0%	50.6%	47.8%	48.8%	48.5%	47.1%	50.7%	47.9%	48.9%	48.6%	47.2%	50.8%	48.0%	49.0%	48.7%
bp change y/y	156	250	200	25	10	113	10	10	10	10	10	10	10	10	10	10
GM vs. 2019	459															
SG&A Expense Rate	37.0%	40.8%	42.3%	36.6%	34.5%	38.1%	40.7%	42.2%	36.5%	34.4%	38.0%	40.7%	42.3%	36.6%	34.5%	38.0%
bp change y/y	244	361	(75)	49	102	109	(8)	(5)	(4)	(4)	(6)	1	3	3	5	3
SG&A dollar growth	-1.9%	2.0%	0.3%	3.2%	3.9%	2.4%	1.7%	1.8%	1.9%	2.0%	1.9%	2.1%	2.2%	2.2%	2.3%	2.2%
SG&A vs. 2019																
Royalty Income % of Sales	0.7%	0.9%	0.6%	0.6%	0.5%	0.7%	0.8%	0.6%	0.6%	0.4%	0.6%	0.7%	0.5%	0.5%	0.4%	0.5%
bp change y/y	(8)	(3)	(9)	(8)	(6)	(7)	(11)	(7)	(8)	(6)	(8)	(10)	(7)	(7)	(5)	(7)
Operating Margin	11.1%	7.1%	9.0%	11.8%	14.9%	11.1%	7.2%	9.1%	11.9%	15.0%	11.2%	7.2%	9.1%	11.9%	15.0%	11.2%
bp change y/y	(100)	(114)	266	(33)	(98)	2	7	8	7	8	8	(0)	(0)	(0)	0	(0)

Source: BofA Global Research, company reports

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## 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
<b>BUY</b>				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone

## US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	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
<b>RSTR</b>				
	Macy's	M	M US	Lorraine Hutchinson, CFA

**iQmethod<sup>SM</sup> 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 &amp; 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

**iQmethod<sup>SM</sup>** 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 validations. 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.

**iQdatabase<sup>®</sup>** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

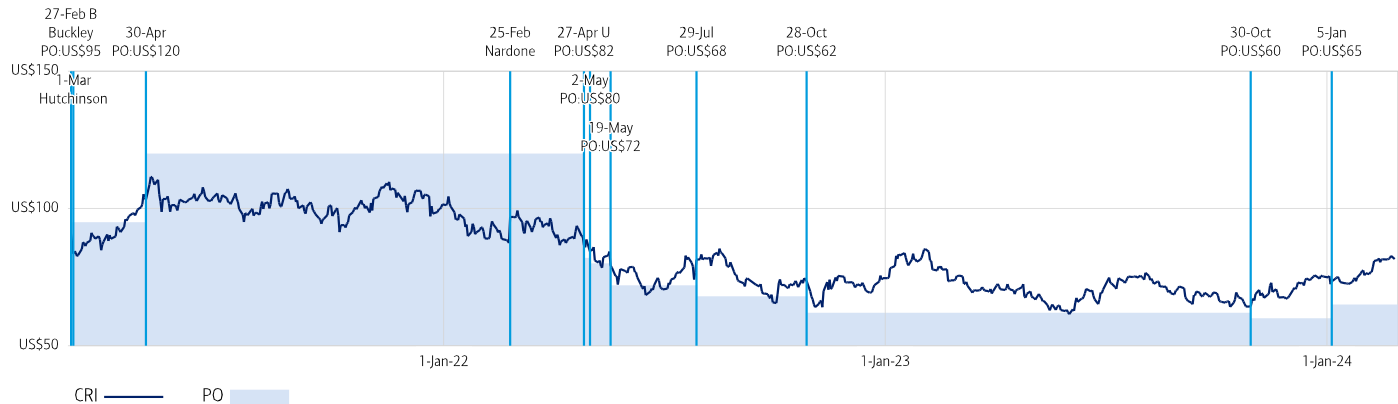
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# Disclosures

## 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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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