



Carter's, Inc. (CRI)

Updated October 30th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	10.3%	Market Cap:	\$2.7 B
Fair Value Price:	\$79	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	11/30/2022 ¹
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.5%	Dividend Payment Date:	12/10/2022
Dividend Yield:	4.3%	5 Year Price Target	\$96	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Carter's, Inc. is the largest branded retailer of apparel exclusively for babies and young children in North America. It was founded in 1865 by William Carter. The company owns the Carter's and OshKosh B'gosh brands, two of the most known brands in the children's apparel space. Carter's acquired competitor OshKosh B'gosh for \$312 million in 2005. Now, these brands are sold in leading department stores, national chains, and specialty retailers domestically and internationally. They are also sold through nearly 1,000 company-operated stores in the United States, Canada, and Mexico and on its online websites. The company trades on the stock exchange under the ticker "CRI." Before the COVID-19 pandemic, the company had a dividend growth history of six consecutive years. The company had to cut its dividend by 70% because of the COVID-19 lockdowns. However, the dividend is now higher than the pre-COVID-19 levels. The company trades with a market cap of \$2.7 billion.

On October 28, 2022, the company reported third-quarter and first nine months results for Fiscal Year (FY)2022. The third quarter's sales and earnings slowed compared to the third quarter of 2021. Total sales were \$818.6 million for the quarter, which is (8.1)% lower than what the company sold in 3Q2021. This was due to declines in the company's U.S. Retail, International and U.S. Wholesale sales of (12.3)%, (6.7)% and (1.9)%, respectively. U.S. Retail comparable net sales declined (11)%. Net income was \$65.0 million, or \$1.67 per diluted share, compared to \$85.0 million, or \$1.93 per diluted share, in the third quarter of 2021. For the first nine months of the year, sales decreased \$123.7 million, or (5.1)%, to \$2.30 billion compared to the first nine months of 2021. Net income was \$169.9 million, or \$4.26 per diluted share, compared to \$242.8 million, or \$5.51 per diluted share in the first nine months of 2021.

The company's management team believes that the company will make a net sale of approximately \$3.145 billion to \$3.185 billion for the year. Which is lower than the \$3.5 billion the company made in 2021.

Adjusted diluted earnings per share are expected to decrease to \$6.05 - \$6.65, compared to \$7.87 in 2021. This is a decrease of about (16.4)%. Thus, we will use \$6.58 per share as our valuation and the annual rate of return calculations.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.85	\$3.37	\$3.93	\$4.61	\$5.14	\$5.76	\$6.29	\$6.46	\$4.16	\$7.87	\$6.58	\$8.01
DPS	---	\$0.48	\$0.76	\$0.88	\$1.32	\$1.48	\$1.80	\$2.00	\$0.60	\$1.40	\$3.00	\$4.01
Shares²	59.1	54.5	52.7	51.8	48.9	47.2	45.6	43.9	43.8	41.2	40.0	38.0

Some of the growth prospects that will drive higher revenue and earnings will be that the company continues to lead in eCommerce. Over the next five years, the company expects eCommerce sales to grow to nearly 50% of its total U.S retail sales. Another growth driver will come from the company's "Age Up" initiative. This initiative focuses on apparel sales for children ages four to 10 years old. Last year, the company saw over 30% growth in its apparel sales for children ages four to 10 years old. This older age apparel market is larger than the combined baby and toddler apparel markets. Over the past ten years, earnings have had a compound annual growth rate of 11.9%. However, we think that a 4% yearly

¹ Ex-Dividend and Dividend Payment dates are estimates.

² Share count is in millions.

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growth rate over the next five years is on the low end but conservative. We also expect that the dividend will grow at the 6% rate over the next five years as well.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.1	21.1	21.9	19.3	16.8	20.4	13.0	17.1	22.6	12.9	10.6	12.0
Avg. Yld.	---	0.7%	0.9%	1.0%	1.5%	1.3%	2.2%	1.8%	0.6%	1.4%	4.3%	4.2%

The company looks to be undervalued, with a current PE of 10.6x earnings. Over the past ten years, the company's PE has an average of 18.4x earnings; over the past five years, the PE has an average of 17.2x. However, we think that a PE of 12.0x earnings is fair. This would provide an investor with a 2.5% valuation multiple tailwinds if the company were to trade at a 12.0x multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

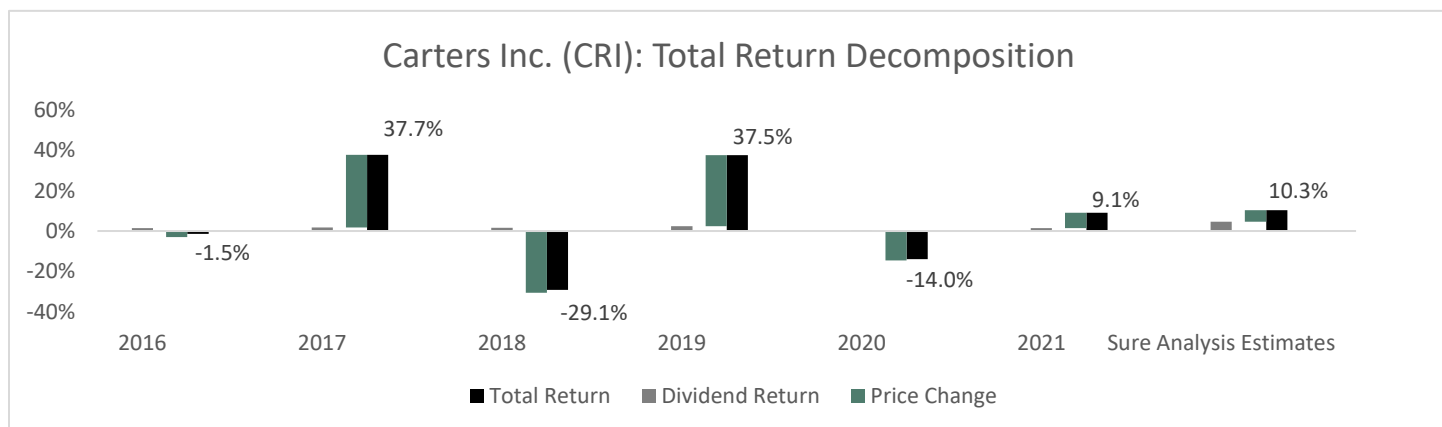
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	14.2%	19.3%	19.1%	25.7%	25.7%	28.6%	31.0%	14.4%	17.8%	46%	50%

Carter's, Inc has a competitive advantage in its brand and its agreement with Target, Walmart, and Amazon to sell exclusive brands in those companies. This allows the company to reach a broad range of consumers worldwide. During the Great Recession, the company's stock price lost about 53% from the end of 2007 to mid-2008. However, earnings fared much better. For example, earnings grew 2% in 2008 and increased 57% in 2009. However, during the COVID-19 pandemic, the company's earnings declined by (36)% in 2020 compared to 2019. However, it rebounded substantially in 2021 by 89%. The company has an S&P credit rating of BB+, not an investment-grade rating. However, the company does have a healthy balance sheet. The company's debt-to-equity ratio is 1.4 and has an interest coverage ratio of 8.1. The dividend is well covered with a current payout ratio of 46%. This gives the company a lot of flexibility for future capital allocation.

Final Thoughts & Recommendation

Carter's, Inc is a well-run company with a history of growing earnings by over 11% over the last ten years. The current dividend is attractive and well covered by earnings and free cash flow. We expect the company to have a 10.3% annual rate of return over the next five years at the current price. This will come from the low valuation and the dividend yield. Thus, we rate the company as a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,382	2,639	2,894	3,014	3,199	3,401	3,462	3,519	3,024	3,486
Gross Profit	938	1,095	1,184	1,258	1,379	1,483	1,497	1,509	1,313	1,662
Gross Margin	39.4%	41.5%	40.9%	41.7%	43.1%	43.6%	43.3%	42.9%	43.4%	47.7%
SG&A Exp.	713	868	890	909	995	1,107	1,145	1,141	1,106	1,194
D&A Exp.	40	69	75	68	73	84	90	96	94	94
Operating Profit	262	264	333	393	426	420	391	403	234	497
Operating Margin	11.0%	10.0%	11.5%	13.0%	13.3%	12.3%	11.3%	11.4%	7.7%	14.3%
Net Profit	161	160	195	238	258	303	282	264	110	340
Net Margin	6.8%	6.1%	6.7%	7.9%	8.1%	8.9%	8.1%	7.5%	3.6%	9.7%
Free Cash Flow	195	(11)	175	204	281	260	292	326	556	231
Income Tax	94	89	108	130	138	88	74	64	25	99

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,630	1,812	1,893	2,004	1,947	2,071	2,059	2,753	3,393	3,202
Cash & Equivalents	382	287	341	381	299	178	170	214	1,102	984
Accounts Receivable	160	170	174	185	182	230	244	251	181	234
Inventories	350	418	445	470	488	549	574	594	599	648
Goodwill & Int. Ass.	496	516	499	486	485	644	637	605	557	554
Total Liabilities	645	1,112	1,106	1,129	1,158	1,214	1,189	1,873	2,455	2,252
Accounts Payable	150	164	150	158	158	182	199	184	472	407
Long-Term Debt	186	586	586	579	580	617	593	595	990	991
Shareholder's Equity	985	701	787	875	788	857	869	880	938	950
LTD/E Ratio	0.19	0.84	0.74	0.66	0.74	0.72	0.68	0.68	1.05	1.04

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.6%	9.3%	10.5%	12.2%	13.0%	15.1%	13.7%	11.0%	3.6%	10.3%
Return on Equity	18.0%	19.0%	26.2%	28.6%	31.0%	36.8%	32.7%	30.2%	12.1%	36.0%
ROIC	14.6%	13.1%	14.6%	16.8%	18.3%	21.3%	19.2%	18.0%	6.4%	17.6%
Shares Out.	59.1	54.5	52.7	51.8	48.9	47.2	45.6	43.9	43.8	41.2
Revenue/Share	40.32	45.87	54.51	57.59	63.49	70.63	74.22	78.72	69.67	81.36
FCF/Share	3.31	(0.19)	3.30	3.91	5.57	5.40	6.27	7.29	12.80	5.39

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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