



Carter's, Inc. (CRI)

Updated March 3rd, 2024 by Felix Martinez

Key Metrics

Current Price:	\$80	5 Year CAGR Estimate:	10.7%	Market Cap:	\$2.9 B
Fair Value Price:	\$76	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	03/08/24
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	3.4%	Dividend Payment Date:	03/29/24
Dividend Yield:	4.0%	5 Year Price Target	\$89	Years Of Dividend Growth:	3
Dividend Risk Score:	D	Retirement Suitability Score:	D	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 \$2.9 billion.

On October 27th, 2023, the company reported fourth-quarter results for Fiscal Year (FY)2023. Q4 net sales were \$858 million (vs. \$912 million in Q4 2022), with a 15.9% operating margin. Diluted EPS was \$2.90 (\$2.11 in Q4 2022), adjusted diluted EPS \$2.76 (\$2.29 in Q4 2022). For fiscal year 2023, net sales were \$2.9 billion (vs. \$3.2 billion in 2022), operating margin 11.0%. Diluted EPS \$6.24 (\$6.34 in 2022), adjusted diluted EPS \$6.19 (\$6.90 in 2022).

In FY 2023, operating cash flow was \$529 million, \$212 million returned to shareholders. FY 2024 outlook includes low single-digit growth in net sales to \$3.0 billion, mid single-digit growth in adjusted operating income, and adjusted diluted EPS. Adjusted results are provided alongside GAAP results, reflecting the company's view of underlying performance. Q4 2023 saw a 5.9% decrease in net sales due to macroeconomic factors. Operating income increased by 24.2%, with an operating margin of 15.9%. For FY 2023, net sales declined by 8.3%, and operating income decreased by 14.7% with an 11.0% operating margin. Adjusted operating income increased by 14.8% in Q4 2023 and decreased by 15.5% for FY 2023. Net income increased by 32.8% in Q4 2023, and adjusted net income increased by 16.3%. FY 2023 saw a 7.0% decrease in net income, and adjusted net income decreased by 15.2%. Operating cash flow for FY 2023 was \$529.1 million, reflecting positive changes in working capital. Detailed segment

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.93	\$4.61	\$5.14	\$5.76	\$6.29	\$6.46	\$4.16	\$7.87	\$6.90	\$6.19	\$6.35	\$7.73
DPS	\$0.76	\$0.88	\$1.32	\$1.48	\$1.80	\$2.00	\$0.60	\$1.40	\$3.00	\$3.00	\$3.20	\$3.89
Shares¹	52.7	51.8	48.9	47.2	45.6	43.9	43.8	41.2	37.6	36.0	36.0	36.0

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. 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 5.2%. However, we

¹ Share count is in millions.

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think that a 4% yearly growth rate over the next five years is on the low end but conservative. We also expect that the dividend will grow at the 4% rate over the next five years as well.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.9	19.3	16.8	20.4	13.0	17.1	22.6	12.9	10.8	12.0	12.7	15.0
Avg. Yld.	0.9%	1.0%	1.5%	1.3%	2.2%	1.8%	0.6%	1.4%	4.0%	4.0%	4.0%	3.4%

The company looks to be fairly valued, with a current PE of 12.7x earnings. Over the past ten years, the company's PE has an average of 16.7x earnings; over the past five years, the PE has an average of 15.1x. However, we think that a PE of 15.0x earnings is fair. This would provide an investor with a 3.4% valuation multiple tailwind if the company were to trade at a 15.0x multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

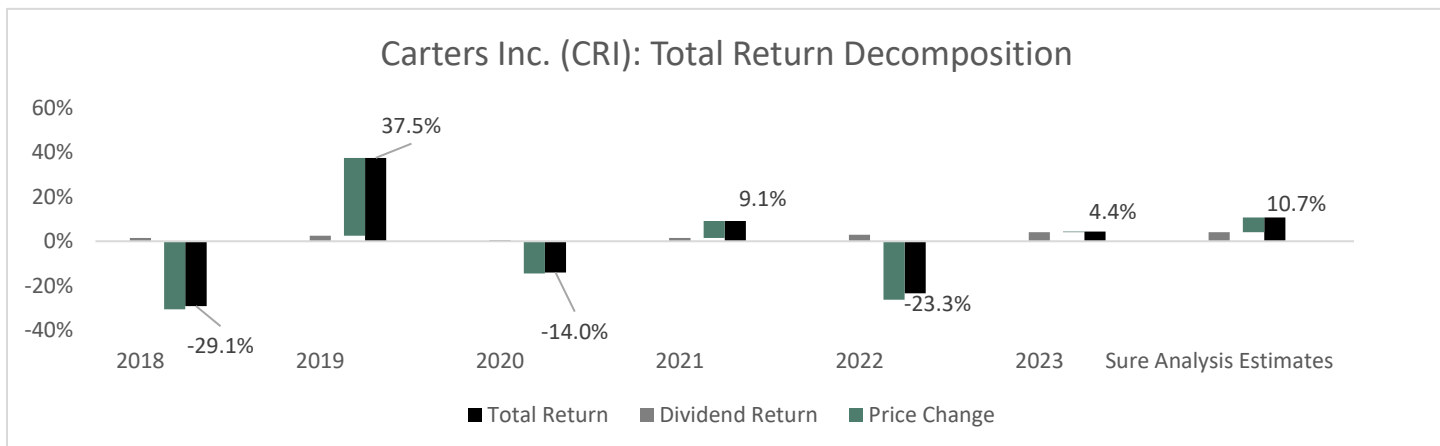
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	19.3%	19.1%	25.7%	25.7%	28.6%	31.0%	14.4%	17.8%	43.5%	48.5%	50%	50%

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 1.3 and has an interest coverage ratio of 9.9. The dividend is well covered with a current payout ratio of 50%. 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 8.3% 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 an 10.7% annual rate of return over the next five years at the current price. This will come from the fair 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,894	3,014	3,199	3,401	3,462	3,519	3,024	3,486	3213	2946
Gross Profit	1,184	1,258	1,379	1,483	1,497	1,509	1,313	1,662	1472	1396
Gross Margin	40.9%	41.7%	43.1%	43.6%	43.3%	42.9%	43.4%	47.7%	45.8%	47.4%
SG&A Exp.	890	909	995	1,107	1,145	1,141	1,106	1,194	1110	1094
D&A Exp.	75	68	73	84	90	96	94	94	65	64
Operating Profit	333	393	426	420	391	403	234	497	388	323
Operating Margin	11.5%	13.0%	13.3%	12.3%	11.3%	11.4%	7.7%	14.3%	12.1%	11.0%
Net Profit	195	238	258	303	282	264	110	340	250	233
Net Margin	6.7%	7.9%	8.1%	8.9%	8.1%	7.5%	3.6%	9.7%	7.8%	7.9%
Free Cash Flow	175	204	281	260	292	326	556	231	48	469
Income Tax	108	130	138	88	74	64	25	99	67	70

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,893	2,004	1,947	2,071	2,059	2,753	3,393	3,202	2440	2379
Cash & Equivalents	341	381	299	178	170	214	1,102	984	212	351
Accounts Receivable	174	185	182	230	244	251	181	234	188	167
Inventories	445	470	488	549	574	594	599	648	745	537
Goodwill & Int. Ass.	499	486	485	644	637	605	557	554	538	536
Total Liabilities	1,106	1,129	1,158	1,214	1,189	1,873	2,455	2,252	1643	1533
Accounts Payable	150	158	158	182	199	184	472	407	264	242
Long-Term Debt	586	579	580	617	593	595	990	991	617	497
Shareholder's Equity	787	875	788	857	869	880	938	950	796	845
LTD/E Ratio	0.74	0.66	0.74	0.72	0.68	0.68	1.05	1.04	0.77	0.59

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.5%	12.2%	13.0%	15.1%	13.7%	11.0%	3.6%	10.3%	8.9%	9.7%
Return on Equity	26.2%	28.6%	31.0%	36.8%	32.7%	30.2%	12.1%	36.0%	28.6%	28.3%
ROIC	14.6%	16.8%	18.3%	21.3%	19.2%	18.0%	6.4%	17.6%	14.9%	16.9%
Shares Out.	52.7	51.8	48.9	47.2	45.6	43.9	43.8	41.2	38.85	36.59
Revenue/Share	54.51	57.59	63.49	70.63	74.22	78.72	69.67	81.36	82.69	80.50
FCF/Share	3.30	3.91	5.57	5.40	6.27	7.29	12.80	5.39	1.24	12.82

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

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