Carter's, Inc. (CRI)

Updated May 15th, 2025 by Felix Martinez

Key Metrics

Current Price:	$29	**5 Year Annual Expected Total Return:**	10.6%	**Market Cap:**	$1.1B
Fair Value Price:	$40	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	08/26/25
% Fair Value:	72%	**5 Year Valuation Multiple Estimate:**	6.7%	**Dividend Payment Date:**	09/12/25
Dividend Yield:	3.5%	**5 Year Price Target**	$44	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Sector:** Consumer Discretionary		**Rating:**	Sell

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." The company had to cut its dividend by 68% because of poor earnings. The company trades with a market cap of $1.1 billion.

On July 25th, 2025, the company reported second-quarter results for Fiscal Year (FY)2024. The company reported second-quarter fiscal 2025 results with net sales of $585 million, up 4% from $564 million in the prior year. Growth was led by strength in U.S. Retail and International segments, offsetting flat wholesale sales. However, profitability fell sharply—GAAP net income dropped to just $0.4 million ($0.01 per share) from $27.6 million ($0.76 per share) a year ago. On an adjusted basis, EPS came in at $0.17, down from $0.76. The decline was driven by pricing investments, store expansion costs, higher compensation, and leadership transition expenses.

CEO Douglas C. Palladini, marking his first 100 days, highlighted momentum in direct-to-consumer sales across the U.S., Canada, and Mexico. He acknowledged the profitability pressures, noting selective pricing investments, tariffs, and transition costs weighed on results. Still, Palladini emphasized Carter's brand strength, customer loyalty, and renewed focus on long-term profitable growth through high-quality, well-designed, and value-driven products.

During the first half of fiscal 2025, Carter's returned $38 million to shareholders via dividends but did not repurchase shares. Looking ahead, management flagged potential headwinds from proposed new U.S. import tariffs, which could add $125 million to $150 million annually in costs. The company plans to offset this through product mix changes, vendor cost-sharing, and selective price increases. Given the leadership transition and tariff uncertainty, Carter's has suspended fiscal 2025 guidance.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$4.61	$5.14	$5.76	$6.29	$6.46	$4.16	$7.87	$6.90	$6.19	$5.81	***$3.06***	***$3.06***
DPS	$0.88	$1.32	$1.48	$1.80	$2.00	$0.60	$1.40	$3.00	$3.00	$3.20	***$1.57***	***$1.57***
Shares[1]	51.8	48.9	47.2	45.6	43.9	43.8	41.2	37.6	36.0	35.5	***35.5***	***35.0***

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 2.6%. However, we

[1] Share count is in millions.

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think that a 0% yearly growth rate over the next five years. We also expect that the dividend will be flat over the next five years as well.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	19.3	16.8	20.4	13.0	17.1	22.6	12.9	10.8	12.0	9.3	***9.4***	***13.00***
Avg. Yld.	1.0%	1.5%	1.3%	2.2%	1.8%	0.6%	1.4%	4.0%	4.0%	5.9%	***3.5%***	***3.9%***

The company looks to be undervalued valued, with a current PE of 9.4x earnings. Over the past ten years, the company's PE has an average of 15.4x earnings; over the past five years, the PE has an average of 13.5x. However, we think that a PE of 13x earnings is fair. This would provide an investor with a 6.7% valuation multiple tailwind if the company were to trade at a 13.0x multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

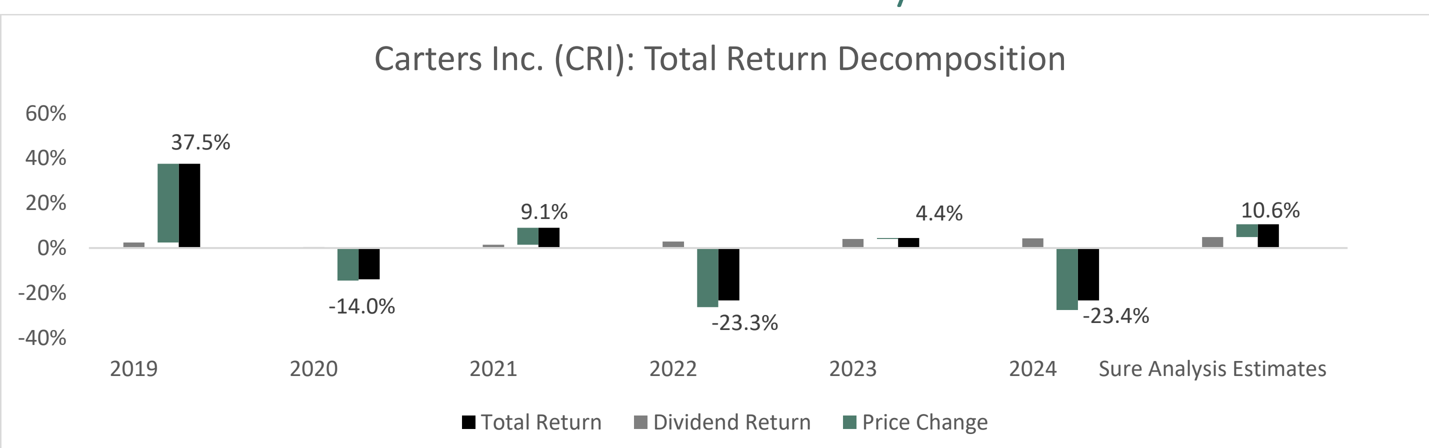
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	19%	26%	26%	29%	31%	14%	18%	43%	48%	55%	***51%***	***51%***

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 1.2 and has an interest coverage ratio of 6.4. The dividend is covered with a current payout ratio of 51%. This gives the company some flexibility for future capital allocation.

Final Thoughts & Recommendation

Carter's, Inc is a well-run company with a history of growing earnings by over 2.6% over the last ten years. The current dividend is attractive. We expect the company to have an 10.6% annual rate of return over the next five years at the current price. This will come from the valuation tailwind and the dividend yield. However, we rate the company as a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	3,014	3,199	3,401	3,462	3,519	3,024	3,486	3213	2946	2844
Gross Profit	1,258	1,379	1,483	1,497	1,509	1,313	1,662	1472	1396	1365
Gross Margin	41.7%	43.1%	43.6%	43.3%	42.9%	43.4%	47.7%	45.8%	47.4%	48.0%
SG&A Exp.	909	995	1,107	1,145	1,141	1,106	1,194	1110	1094	1100
D&A Exp.	68	73	84	90	96	94	94	65	64	58
Operating Profit	393	426	420	391	403	234	497	388	323	285
Operating Margin	13.0%	13.3%	12.3%	11.3%	11.4%	7.7%	14.3%	12.1%	11.0%	10.0%
Net Profit	238	258	303	282	264	110	340	250	233	186
Net Margin	7.9%	8.1%	8.9%	8.1%	7.5%	3.6%	9.7%	7.8%	7.9%	6.5%
Free Cash Flow	204	281	260	292	326	556	231	48	469	243
Income Tax	130	138	88	74	64	25	99	67	70	45

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,004	1,947	2,071	2,059	2,753	3,393	3,202	2440	2379	2433
Cash & Equivalents	381	299	178	170	214	1,102	984	212	351	413
Accounts Receivable	185	182	230	244	251	181	234	188	167	182
Inventories	470	488	549	574	594	599	648	745	537	502
Goodwill & Int. Ass.	486	485	644	637	605	557	554	538	536	498
Total Liabilities	1,129	1,158	1,214	1,189	1,873	2,455	2,252	1643	1533	1579
Accounts Payable	158	158	182	199	184	472	407	264	242	248
Long-Term Debt	579	580	617	593	595	990	991	617	497	498
Shareholder's Equity	875	788	857	869	880	938	950	796	845	855
D/E Ratio	0.66	0.74	0.72	0.68	0.68	1.05	1.04	0.77	0.59	0.58

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	12.2%	13.0%	15.1%	13.7%	11.0%	3.6%	10.3%	8.9%	9.7%	7.7%
Return on Equity	28.6%	31.0%	36.8%	32.7%	30.2%	12.1%	36.0%	28.6%	28.3%	21.8%
ROIC	16.8%	18.3%	21.3%	19.2%	18.0%	6.4%	17.6%	14.9%	16.9%	13.8%
Shares Out.	51.8	48.9	47.2	45.6	43.9	43.8	41.2	38.85	36.59	35.53
Revenue/Share	57.59	63.49	70.63	74.22	78.72	69.67	81.36	82.69	80.50	80.06
FCF/Share	3.91	5.57	5.40	6.27	7.29	12.80	5.39	1.24	12.82	6.83

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