



## Position Close Update: Carter's Inc. (CRI)

**Carter's Inc (CRI: \$117/share) – Closing Long Position – up 31% vs. S&P up 19%**

Carter's was originally selected as a [Long Idea on 4/10/17](#). At the time of the initial report, the stock received a Very Attractive rating. Our investment thesis highlighted strong after-tax operating profit (NOPAT) growth, a rising return on invested capital (ROIC), profitability at or near top of the industry, and an undervalued stock price.

We reiterated our position on Carter's on [10/12/17](#) and added it to the [Focus List – Long Model Portfolio](#) on 11/3/17.

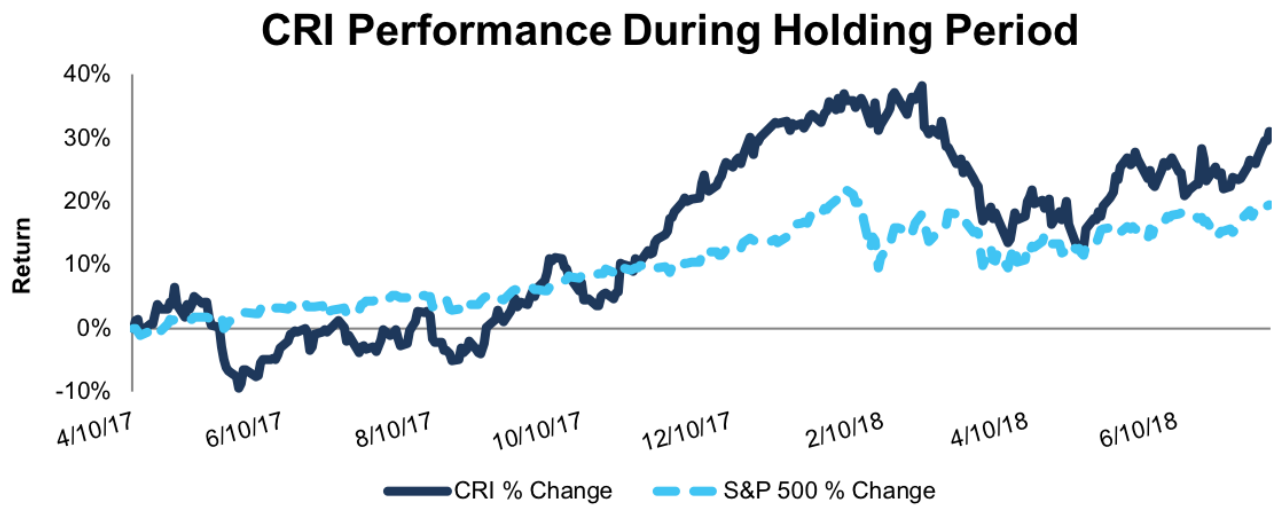
During the 465-day holding period, CRI outperformed as a long position, gaining 31% compared to a 19% gain for the S&P 500. CRI has also outperformed during its time in the Focus List, gaining 19% compared to a 9% gain for the S&P 500.

CRI was downgraded to Neutral on 7/13/18 after its rising stock price shifted the risk/reward of the stock. When we first recommended the stock, it traded at a slight discount to its peers based on ROIC, but now it trades at a premium.

In addition, the fundamentals of the business have begun to decline. The company's NOPAT growth has slowed from 10% in 2016 to just 2% over the trailing twelve months, and ROIC has fallen from 12% to 10%.

The rise and valuation and the decline in fundamentals means CRI no longer stands out as an especially good value compared to its peers. As a result, we are closing this position and removing it from our [Focus List – Long Model Portfolio](#) as of July 20.

**Figure 1: CRI vs. S&P 500 – Price Return**



Sources: New Constructs, LLC and company filings

Note: Gain/Decline performance analysis excludes transaction costs and dividends.

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*Disclosure: David Trainer, Kyle Guske II, and Sam McBride receive no compensation to write about any specific stock, style, or theme.*

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