

CULP, INC.

Capital Allocation Strategy

September 2021



CAPITAL ALLOCATION STRATEGY OVERVIEW

- ◆ **Management focused on a very disciplined approach to capital allocation, involving investing in our businesses, paying down debt as required, and commitment to shareholders via the quarterly dividend payment**
- ◆ **During fiscal 2011, the company implemented an EVA (Economic Value Added) platform for short-term incentive compensation, further promoting the efficient use of capital.**
 - To support management's focus on liquidity and profitability during the volatile market environment of fiscal 2021 and fiscal 2022, the company's short-term incentive compensation program has used measures of adjusted operating income and free cash flow, rather than EVA.
- ◆ **Early in fiscal 2012, the company also began returning funds to shareholders through share repurchases and dividends, both regular quarterly and special**
- ◆ **Approximately \$71 million has been returned to shareholders since fiscal 2012**

CAPITAL ALLOCATION STRATEGY – PART 1

Our capital allocation strategy involves four parts, as follows:

Investing in our businesses; paying down debt; commitment to shareholders via the quarterly dividend payment

- a) Fund working capital requirements for organic growth in our businesses, which could include accelerating payments to suppliers in exchange for meaningful cash discounts. Growing internally with adequate margins offers the highest returns on capital with the least risk.
- b) Fund capital expenditures for our businesses, both for maintenance and expansion projects as needed. Capital expenditure requirements for our upholstery fabrics business will generally be minimal as the business model is not capital intensive.
- c) Pay down debt as required.
- d) Pay quarterly dividend (rate increased five percent, or \$0.44 annually, as approved December 2020), with intent to gradually increase each year based on performance and business outlook.

CAPITAL ALLOCATION STRATEGY – PART 2

Acquisitions

- a) We will continue to carefully evaluate strategic acquisition opportunities and potential new business ventures within our industry that are not capital intensive.
- b) We will be patient and disciplined with any capital committed in this manner.
- c) Above all, we will ensure that any acquisition made will not jeopardize the financial health of our company.

CAPITAL ALLOCATION STRATEGY – PART 3

Uses of Free Cash Flow

a) Share Repurchase Program:

- In fiscal 2012 and 2013, we repurchased 1.1 million shares of Culp common stock, at a value of \$10.4 million
- No shares were repurchased in fiscal 2014
- We repurchased 43,014 shares for approximately \$745,000 in fiscal 2015
- We repurchased 100,776 shares for approximately \$2.4 million in fiscal 2016
- No shares were repurchased in fiscal 2017 and fiscal 2018
- We repurchased 160,823 shares for approximately \$3.3 million in fiscal 2019
- We repurchased 142,496 shares for approximately \$1.7 million in fiscal 2020
- No shares were repurchased in fiscal 2021.
- We have repurchased 96,453 shares to date in fiscal 2022 (through August 31, 2021)
- Since fiscal 2012, we have repurchased approximately **12 percent** of our outstanding shares

In March 2020, the Board approved an increase in the authorization for the Company to acquire its common stock back to a total of \$5.0 million, of which \$3.6 million was available under this program as of August 31, 2021. Shares may be repurchased, at the Company's discretion, from time to time in the open market or in privately negotiated transactions. We will consider repurchasing shares at a price that reflects a discount to our calculated intrinsic value per share.

b) Special Dividends:

December 2012 – \$0.50 per share special dividend

July 2014 - \$0.40 per share special dividend

July 2015 - \$0.40 per share special dividend

July 2016 - \$0.21 per share special dividend

July 2017 - \$0.21 per share special dividend

We will consider paying a special dividend assuming: 1) adequate cash is available to pay the special dividend; 2) additional investment in working capital is not needed to support planned organic growth; 3) No potential acquisition opportunities are on the horizon; and 4) there are no major economic concerns that could have an adverse effect on our business.

CAPITAL ALLOCATION STRATEGY – PART 4

Build Excess Cash

If the business or economic outlook is such that we decide against repurchasing shares and/or paying a special dividend, then we will build cash.