

CULP, INC.

Capital Allocation Strategy

December 2017



CAPITAL ALLOCATION STRATEGY OVERVIEW

- ◆ **Management focused on a very disciplined approach to capital allocation, through using free cash flow to pay down debt and invest in both businesses**
- ◆ **During fiscal 2011, the company implemented an EVA (Economic Value Added) platform for incentive compensation, further promoting the efficient use of capital**
- ◆ **Disciplined use of capital has resulted in impressive segment and consolidated return on capital**
- ◆ **Early in fiscal 2012, the company also began returning funds to shareholders through share repurchases and dividends, both regular quarterly and special**

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 both 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 in mattress fabrics, both for maintenance and expansion projects. Capital expenditure requirements for upholstery fabric business will be minimal as the business model is not capital intensive
- c) Fund debt payments as required
- d) Pay quarterly dividend (rate increased to \$0.09 per share, or \$0.36 annually, as approved November 2017), with plan to gradually increase annually 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) Since fiscal 2007, we have spent approximately \$20 million for two successful mattress fabrics acquisitions, which have added significantly to shareholder value. In addition, in early fiscal 2014, we entered into an asset purchase agreement totaling \$2.6 million, which gave us the ability to sell our mattress fabrics to a leading bedding manufacturer.
- c) We will be patient and disciplined with any capital committed in this manner.
- d) 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.
- Since 2012, we have repurchased approximately **10 percent** of our outstanding shares.

In June 2016, the Board of Directors approved an increase in the authorization for the company to acquire its common stock back to a total of \$5.0 million. None of this authorization has been spent as of October 29, 2017.

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

Going forward, we will consider paying a special dividend at the end of the fiscal year, assuming: 1) net cash is at or above a level that represents 10% of the previous fiscal year's revenue ; 2) adequate cash is available in the U.S. to pay the special dividend; 3) additional investment in working capital is not needed to support planned organic growth; 3) No potential acquisitions 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.