

# FELLOW *Shareholders*

We are pleased to share another strong performance for Culp in fiscal 2017 as a trusted resource for innovative fabrics around the globe.

Overall, our sales for the year showed a slight decline from fiscal 2016, reflecting a more challenging retail environment for home furnishings. Even against this backdrop, our mattress fabric segment delivered another record performance with total annual sales surpassing the previous year's record level. Notably, our pre-tax income for the year was \$29.7 million, the highest in the company's history. We also achieved excellent cash flow from operations, free cash flow and continued high returns on capital. Importantly, we ended the year with no debt and \$54.2 million in total cash and investments, the highest level achieved in the company's history.

Throughout fiscal 2017, we demonstrated consistent execution of our product-driven strategy in both businesses, reflecting our relentless focus on design creativity and product innovation. Our ability to offer a diverse product mix and meet the changing demands of our customers has served us well in the marketplace. At the same time, we have continued to make substantial investments in our growing mattress fabric business to enhance our production capabilities, improve our operating efficiencies and continue to provide exceptional customer service. Our newest product introductions and ability to reach different market segments have produced favorable results for the upholstery fabric business, and we look forward to the opportunities ahead to build on this momentum. Importantly, we have the financial strength and cash flow generation to support our strategy and take advantage of additional growth opportunities, including potential acquisitions, for both businesses.

## **Cash Returned to Shareholders**

In line with our capital allocation strategy, we returned \$6.3 million to shareholders in fiscal 2017 through regular and special dividends. Commencing in the third quarter, we raised our quarterly cash dividend from \$0.07 to \$0.08 per share, or \$0.32 per share on an annualized basis. Additionally, our strong balance

sheet and excellent free cash flow provided an opportunity to announce another special dividend of \$0.21 per share, paid in July 2017. We are proud of our dividend history, as this marks the fifth special dividend payment in the past six years for Culp. The company did not repurchase any shares in fiscal 2017, leaving \$5.0 million available under the share repurchase program. Notably, since June 2011, Culp has returned approximately \$50.0 million to shareholders in the form of regular and special dividends and share repurchases, reflecting our unwavering commitment to delivering value to our shareholders.

## **Mattress Fabric Segment**

We delivered another record performance in fiscal 2017, exceeding the previous year's results with \$190.8 million in sales, the highest annual mattress fabric sales in Culp's history. Our focus on design and innovation with a favorable product mix of mattress fabrics and sewn covers across most price points and style trends has allowed us to execute our diversification strategy and enhance our strong value proposition.

We are especially pleased to achieve these outstanding financial and operating results during a period of major transition across our production facilities. Operating income for the year was \$29.4 million, another record performance and an 11.0 percent increase over fiscal 2016. Return on capital in fiscal 2017 was 37.5 percent, also a record for our mattress fabric segment and a considerable return in such a highly capital-intensive business.

Throughout the past year, we made substantial investments and significant changes within our multi-country production facilities that will enable us to build upon our success and improve our service to customers. Our expansion projects in North Carolina, including a new distribution center and knitted fabric plant consolidation, were substantially complete by the end of the fiscal year, with additional equipment relocation and new installations finalized during the first quarter of fiscal 2018. As a result, we have expanded our capacity and created a more efficient production platform to support our continuous improvement initiatives and





QUALITY FABRICS  
WITH A FRESH EYE  
FOR STYLE



OUR DESIGN TEAM HAS DONE AN OUTSTANDING JOB IN KEEPING PACE WITH CURRENT STYLE TRENDS.



long-term growth strategy. Additionally, during the year, we completed a major expansion project at our Canadian operation, with additional finishing equipment and a new distribution center that allows us to ship directly to our customers in Canada. Together, these major investments significantly enhance our ability to serve all of our customers and strengthen Culp's leadership position in North America.

Our results for fiscal 2017 included a growing contribution from CLASS, our mattress cover business. Importantly, CLASS has allowed us to develop new products with our core customers and to reach new customers and additional market segments, especially the internet "bed in a box" space, with solid growth prospects. Along with our other consolidation projects in North Carolina, we moved our CLASS production platform during July 2017 to a new location that offers more efficient and streamlined production flow and access to a larger labor pool. Additionally, this facility includes an expanded showroom and product development space to further support our ability to capture new market opportunities and respond to changing demand trends with more robust product development activity.

In December 2016, we announced plans to expand our mattress cover capacity through a new joint venture production facility located in Haiti. The construction of this facility is underway and we expect to commence operations in the fall of 2017. This new mattress cover operation will complement our U.S. production capabilities with additional capacity via a mirrored platform, enhancing our ability to meet customer demand while remaining cost-competitive.

We are pleased with the significant progress we made in fiscal 2017, and we look forward to the opportunities ahead as we realize the benefits of our latest capital improvements and expansion projects. We enjoy a solid market position throughout the mattress industry with strong customer relationships in all product categories. More importantly, we have worked hard to create a sustainable production and distribution platform that will favorably position Culp for the long-term.

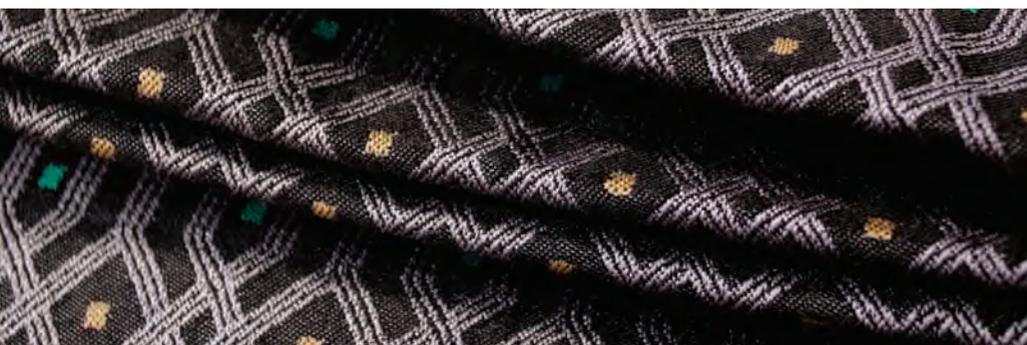
### Upholstery Fabric Segment

For fiscal 2017, upholstery fabric sales were \$118.7 million, down 6.1 percent compared with the prior year. The modest decline in annual sales reflects the soft retail environment for residential furniture. However, we were able to increase margins and report comparable profitability to last year. Operating income for the year was \$11.1 million and return on capital was 63.8 percent.

In spite of the market challenges, we continued to execute our product-driven strategy with a sustained focus on innovation and creative designs, offering a more diverse product mix and expanding our sales into new markets. In fiscal 2017, we made progress in each of these key areas of strategic focus. Our design team has done an outstanding job in keeping pace with current style trends and meeting the changing demands of our customers. Notably, our "performance line" of highly durable, stain-resistant upholstery fabrics has been well received by our customers and was a strong performer for Culp in fiscal 2017. We are encouraged by the momentum we are seeing in this product category, and we look forward to the additional sales opportunities this provides for Culp.

While we faced a generally weaker sales environment in the residential furniture market, we achieved meaningful sales growth in the hospitality area, which accounted for a higher percentage of our overall sales in fiscal 2017 compared with the prior year. This trend is encouraging, as we continue our focus on diversifying our sales mix. Our global production capabilities support this strategy with the ability to leverage our flexible and scalable China platform and deliver a favorable range of fabric styles and price points. Sales of China produced fabrics accounted for 92 percent of upholstery fabric sales in fiscal 2017.

Looking ahead, in spite of uncertain retail market conditions, we have many reasons to be optimistic about the opportunities for our upholstery fabric business. Our showing at the April furniture market was encouraging with strong placements for Culp, especially with our "performance line" of fabrics, providing confidence in our sales prospects for fiscal 2018. We will continue to identify new market opportunities, including exploring potential acquisitions in the hospitality market that will complement our upholstery fabric





## WE DEMONSTRATED CONSISTENT EXECUTION OF OUR PRODUCT-DRIVEN STRATEGY IN BOTH BUSINESSES.

business, which is principally in the residential market. As the overall economy, housing market and consumer confidence improve, we believe Culp is well positioned to benefit from a return to more robust spending for home furnishings.

### Balance Sheet

Maintaining a strong financial position has remained a top priority, providing a distinct competitive advantage for Culp in today's marketplace. Notably, we ended the year with \$54.2 million in total cash and investments, a record level for Culp and up 29 percent from the previous year's ending balance of \$42.1 million, with no debt. This increase was achieved despite spending \$14.0 million for capital expenditures, including vendor-financed payments and investment in our joint venture in Haiti, and returning \$6.3 million to shareholders in regular and special dividends. Cash flow from operations for fiscal 2017 was \$33.0 million, compared with \$26.8 million in fiscal 2016. Free cash flow for the year was \$18.3 million, compared with last year's \$15.2 million, representing a 20 percent increase.

As we look to fiscal 2018, our capital expenditures are expected to be comparable to fiscal 2017 with modest projected growth in working capital. We are well positioned to make the capital investments and pursue any potential acquisitions that may develop to support our growth strategy, as well as continue to return funds to our shareholders.

### Capital Allocation Strategy

The disciplined use of capital is an integral part of Culp's overall business strategy. We are proud of our consistent execution as we again met our stated objectives for capital allocation in fiscal 2017.

As always, our top priority is to fund organic growth in both of our businesses. As such, we made significant investments in our growing mattress fabric business in fiscal 2017, including the Haiti joint venture. In line with our commitment to use additional cash for dividends and share repurchases, we increased our regular quarterly dividend by 17 percent to \$0.08 per share, or an annual rate of \$0.32 per share, commencing in the third quarter. We paid another special dividend of \$0.21 per share following the end of fiscal 2017, affirming our commitment to our shareholders and our

confidence in Culp's future growth prospects. The company did not repurchase any shares in fiscal 2017.

Our total cash and investments of \$54.2 million at the end of fiscal 2017 was well above our \$31.0 million target level, or ten percent of annual sales. These excess funds are intended for payment of special dividends and share repurchases, subject to cash availability in the United States, prevailing market conditions and the overall business outlook, and assuming there are no acquisition opportunities. We continue to look for suitable acquisitions that will add value to our operations and enhance our product mix.

### Looking Ahead

Our achievements in fiscal 2017 reflect our sustained focus on design creativity and product innovation, the flexibility of our global platform, our financial strength and the relevance of the Culp brand in the marketplace – all assets that will continue to serve us well in fiscal 2018 and beyond. We are proud of our leadership position and our favorable reputation as a trusted resource for innovative fabrics across the globe. As always, our strong performance would not have been possible without the extraordinary effort of our long-term associates throughout our operations who work hard every day to exceed the expectations of our customers. We also recognize the outstanding leadership and support of our management team and board of directors. We are especially grateful to our valued customers for their continued support of Culp.

In closing, we thank our fellow shareholders for your investment, and we look forward to sharing our continued success in the year ahead.

Sincerely,

Franklin N. Saxon  
President and Chief Executive Officer

Robert C. Culp, III  
Chairman of the Board