

# Fellow Shareholders

We are proud to share another solid performance for Culp in fiscal 2016.

With total sales of \$312.9 million, we achieved our seventh consecutive year of overall annual sales growth. Both of our businesses achieved a strong operating performance with significantly improved profitability over fiscal 2015. Notably, our pre-tax income for the year was \$27.9 million, the highest in the company's history. Further, we achieved excellent free cash flow of \$15.2 million, slightly above last year's \$15.1 million, after spending \$11.5 million on capital expenditures. Return on capital was 32 percent, the highest return in Culp's history, compared with 28 percent in fiscal 2015.

Our performance for the year demonstrates consistent execution of our strategy with a focus on design creativity and product innovation, supported by exceptional customer service. Our success in the marketplace reflects our ability to deliver a wide range of innovative fabrics that keep pace with customer demand and style trends. We also made important strategic investments in our operations to expand our production and design capabilities and further enhance our competitive position. Importantly, we have maintained the financial strength to support a growth strategy that rewards both our customers and shareholders.

## Cash Returned to Shareholders

Our commitment to delivering value to our shareholders is reflected in our disciplined capital allocation strategy. In fiscal 2016, we returned over \$10.5 million to shareholders through dividends and share repurchases. In addition to our regular quarterly cash dividend of \$0.07 per share, our solid financial performance and excellent free cash flow provided an opportunity to pay a special dividend of \$0.21 per share, which was paid in July 2016. Notably, this was our fourth special dividend payment in five years. For fiscal 2016, the company purchased 100,776 shares of Culp common stock

for \$2.4 million, pursuant to the \$5.0 million share repurchase program authorized by the Board of Directors in February 2014, leaving \$1.9 million available under the previous program. The Board has since approved an increase in the authorization for the company to acquire its common stock back to a total of \$5.0 million.

Since June 2011, we have returned a total of approximately \$43.0 million to our shareholders in the form of regular quarterly and special dividends and share repurchases. We are pleased to be in a position to share our financial success with our shareholders, and we will continue to make this a top priority.

## Mattress Fabric Segment

For fiscal 2016, mattress fabric sales were \$186.4 million, up 3.7 percent, compared with \$179.7 million in fiscal 2015. These results mark another record performance for the year, topping the previous year's record with the highest annual mattress fabric sales and profits in Culp's history. We are especially pleased with our steady sales growth throughout the year, which has outperformed overall industry trends. In addition, we continued to make strategic investments for the future and expanded our operations in line with expected demand.

Operating income was \$26.5 million, a 22 percent increase over the prior year and a record performance. Return on capital in fiscal 2016 was 37 percent, another record for this segment, and an impressive accomplishment given a capital intensive business. Our strong operating performance in fiscal 2016 underscores the success of the capital investments we made in both our North Carolina and Canadian operations, with increased capacity, enhanced finishing capabilities and overall improved efficiency and throughput. We also realized lower input costs in fiscal 2016 and a more favorable currency exchange rate in Canada compared with the prior year.





"OUR ABILITY TO KEEP PACE WITH CURRENT STYLE TRENDS IS A CRITICAL ADVANTAGE FOR OUR CUSTOMERS."



Our focus on design and innovation clearly distinguishes Culp's products in the mattress fabric marketplace, and our mirrored manufacturing platform, technical expertise and reactive capacity support our ability to deliver these products with outstanding customer service. We have continued to execute a diversification strategy and further enhance our strong value proposition with a product mix of mattress fabrics and sewn covers across most price points and style trends. We are also pleased with the increased contribution this year from CLASS, our mattress cover business. Importantly, CLASS has allowed us to design from fabric to finished cover and reach new customers and additional market segments, especially the Internet bedding space, with solid growth prospects.

With our outstanding performance in fiscal 2016, we have established a strong competitive position in our mattress fabric business. We are excited about the opportunities to build upon our success as we move forward with our multi-year expansion plans. We are underway with additional projects in our North Carolina facilities to add more production capacity, expand our design facilities and significantly improve our distribution capabilities. We recently commenced the second phase of our Canadian expansion project, including additional equipment, finishing capabilities and a new distribution platform that will allow us to improve deliveries and better serve our customers in Canada. Together, these projects will further strengthen our infrastructure and support our growth strategy, and we look forward to the opportunities ahead for Culp during fiscal 2017.

### Upholstery Fabric Segment

For fiscal 2016, upholstery fabric sales were \$126.4 million, down 3.1 percent compared with \$130.4 million in fiscal 2015. In spite of slightly lower sales, we delivered a strong operating performance and solidified our reputation as an industry leader with exceptional products and service for our customers. Operating income for the year was \$11.3 million, up 39 percent over fiscal 2015, and return on capital was 65 percent, a new record for this segment.

Our strategic focus on three critical areas – driving design and innovation, providing a diverse range of

products, and expanding our customer base, both to new end-user markets as well as to a broader global marketplace – was the key driver of our performance for the year.

Our China platform provides us with significant manufacturing flexibility, and we have continued to leverage this capability to support our product-driven strategy. Sales of China produced fabrics accounted for 91 percent of upholstery fabric sales in fiscal 2016, and our improved operating performance reflects a more favorable product mix of fabric styles and price points. We also benefited from a more stable cost environment in China, with lower input costs for raw materials and a favorable currency exchange rate.

Looking ahead, in spite of uncertain retail market conditions, we remain confident about the long-term opportunities for our upholstery fabric business. We had impressive showings at all the major furniture markets this past year with solid placements. Customer response to our latest product offerings was favorable, especially with the introduction of our new "performance" line of highly durable, stain-resistant upholstery fabrics. We will continue our relentless drive to meet the changing demands of our customers and keep up with current style trends. As such, we believe Culp is well positioned for growth in upholstery fabric, especially as a stronger economy and a more stable U.S. housing market support higher consumer spending for home furnishings.

### Balance Sheet

Our disciplined approach to financial management has remained an important priority for Culp. As a result, we ended fiscal 2016 with a strong financial position of \$42.1 million in cash and cash equivalents and short-term investments, up from the previous year's ending balance of \$39.7 million, with no debt. Notably, this year over year increase in cash was achieved even after spending \$11.5 million on capital expenditures, \$8.1 million on dividends, and \$4.6 million on debt repayments and share repurchases, for a total of \$24.2 million spent during fiscal 2016. Free cash flow for the year was \$15.2 million, slightly up from last year's \$15.1 million.



"CULP HAS A PROVEN REPUTATION AS AN INDUSTRY LEADER KNOWN FOR INNOVATIVE PRODUCTS AND CREATIVE FABRIC DESIGNS."

# All style, no stain.



Top left, photo courtesy of Angelo Home



“FUNCTION + STYLE LIVE TOGETHER AT CULP”

As we look to fiscal 2017, we expect another year of strong free cash flow, with capital expenditures projected to approximate the \$11.5 million spent during fiscal 2016 and modest growth in working capital.

### Capital Allocation Strategy

Our performance for fiscal 2016 also reflects the consistent execution of our capital allocation strategy, as we again met our stated objectives for the year.

Our first priority is to fund organic growth in both of our businesses. In fiscal 2016, we spent \$11.5 million in capital expenditures, most of which related to our mattress fabric business. In line with our commitment to use additional cash for dividends and share repurchases, we increased our regular quarterly dividend by 17 percent to \$0.07 per share, or an annual rate of \$0.28 per share, commencing in the third quarter. We also repurchased 100,776 shares of Culp common stock for \$2.4 million at an average price of \$23.79 per share.

Our net cash position of \$42.1 million at the end of fiscal 2016 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. Commensurate with this strategy, we paid another special dividend of \$0.21 per share following the end of fiscal 2016. Together, these actions reflect our commitment to generating value for our shareholders and also demonstrate our confidence in Culp’s future.

### Looking Ahead

Our ability to drive creativity and innovation continues to set Culp apart in today’s global marketplace, and we intend to pursue this same strategic direction in the year ahead. We are well positioned to offer products that reflect current style trends and meet changing customer demand with our flexible and scalable global manufacturing platform, backed by exceptional service. We will continue to make the right investments to further enhance our design and production capabilities and strengthen our competitive advantage. Importantly, we have the financial strength to support these initiatives and, at the same time, deliver greater value for our shareholders. Above all, we are committed to outstanding performance for our customers as a financially stable and trusted source for innovative fabrics.

We are fortunate to be surrounded by an extraordinary group of seasoned Culp associates around the globe who consistently outperform our expectations. We are inspired every day by their dedication, talent and unwavering commitment in serving our customers. We also wish to acknowledge the outstanding leadership of our management team and board of directors. Together, we look forward to the opportunities before us in fiscal 2017 and beyond.

Thank you for your support of Culp.

Sincerely,

Franklin N. Saxon  
President and Chief Executive Officer

Robert C. Culp, III  
Chairman of the Board