



Culp, Inc. (CULP)

Pare EPS Estimates After Recent Pre-Release; Still Expect CULP To Benefit From Solid Underlying Demand, Assumed Gradual Improvement Of Supply Chain Constraints; Maintain \$22 Price Target

	F2020		F2021		F2022E		F2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
July	\$0.16	\$0.08		\$0.18A		\$0.19		
Oct.	0.25	0.23		0.15	0.07	0.25		
Jan.	0.12	0.17		0.22	0.16	0.26		
Apr.	(0.43)	0.11		0.19		0.23		
EPS (FY)	\$0.10	\$0.59		\$0.74	\$0.61	\$0.93		
EPS (Cal.)	\$0.04	\$0.67	\$0.53E	\$0.89				
P/E (FY)					20.6x	13.5x		
P/E (Cal.)			23.7x	14.1x				

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. * Net cash includes short-term investments. Fiscal year ends the Saturday closest to April 30th. F2020 was a 53-week year; all others are 52 weeks. F2020-F2023E include \$0.03-\$0.06 in annual stock-based compensation expense. F2020 and F2021 exclude various non-recurring items (mostly asset impairment, discontinued operations and non-cash income tax charges) totaling \$2.42 and \$0.33, respectively. Sum of quarterly data may not equal full-year total due to rounding and/or changes in share count. NC=Not covered by Sidoti & Co., LLC. NM=Not Meaningful

Year	F2014	F2015	F2016	F2017	F2018	F2019	F2020	F2021	F2022E	F2023E
Rev.(Mil.)	\$287.2	\$310.2	\$312.9	\$309.5	\$323.7	\$281.3	\$256.2	\$299.7	\$320.3	\$339.9
GAAP EPS*	\$1.41	\$1.21	\$1.36	\$1.78	\$1.65	\$0.50	(\$2.31)	\$0.26	\$0.61	\$0.93

* Results adjusted for the home accessories segment (eLuxury) which was acquired in 1Q:F19 and then divested in 4Q:F20.

Description: Culp, Inc. (www.culp.com) manufactures, sources, and markets mattress fabrics and sewn covers used for mattress covers, foundations and other bedding products (53% of F2021 revenue); and upholstery fabrics, which includes cut and sewn kits, mainly used in the production of upholstered furniture (47% of F2021 revenue). International sales accounted for 27% of revenue in F2021. Headquarters are in High Point, NC.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
Early December	Early December	TBA	TBA	Oper. Income: \$1.3 million-\$1.6 million	\$2.0 million

- **Primarily due to various supply chain pressures (mostly in Vietnam) and adverse timing of shipments, last week, CULP stated that its 2Q:F22 revenue will be close to \$73.9 million, compared with our prior projection of \$82.9 million.**
- **Along with a tempered operating margin assumption, we now estimate 2Q:F22 EPS of \$0.07 (was \$0.15).**
- **With Vietnam recently reopening up, we expect sequentially improved results in 3Q:F22 and assuming a gradual normalization of supply chain constraints, we maintain our EPS estimates for 4Q:F22-F2023.**
- **As we see it, CULP will produce free cash flow per share of \$0.49 in F2022 and \$0.62 in F2023.**
- **We maintain our price target of \$22, which is based on about 23x our unchanged F2023 EPS estimate of \$0.93.**
- **With ample upside potential implied by this price target, we contend that shares of Culp, Inc. are undervalued.**
- **We maintain our Moderately Risky rating on shares of Culp, Inc.**

2Q:F22 results will be below our prior estimate... Last week, Culp, Inc. stated that due to various supply chain disruptions (mostly in Vietnam, which went into an extended COVID-19 shutdown in July), the company's sales for its October quarter were down 11% from 1Q:F22, thus implying 2Q:F22 revenue of around \$73.9 million, compared with our previous estimate of \$82.9 million. Most of the sales shortfall was in the upholstery fabrics segment and to a lesser extent, in the mattress fabrics segment. CULP also stated that its operating income in the October quarter will be in the \$1.3 million to \$1.6 million range versus our prior projection of nearly \$2.9 million. As such, we lower our 2Q:F22 EPS estimate to \$0.07 (from \$0.15).

NR
Price Target: \$22
Price: \$12.55
Risk Rating: M

Anthony C. Lebedzinski
(212) 453-7015
(alebiedzinski@sidoti.com)

Key Statistics

Analysts Covering	3
Market Cap (Mil)	\$150
Enterprise Value	\$128
52-Week Range (NYSE)	18-12
5-Year EPS CAGR	17%
Avg. Daily Trading Volume	22,000
Shares Out (Mil)	12.203
Float Shares (Mil)	11.008
Insider Ownership	5%
Institutional Holdings	76%
Annualized Dividend	\$0.44
Dividend Yield	3.5%
FCF Per Share (F2023E)	\$0.62
FCF Yield (F2023E)	4.9%
Net Cash Per Share (F2023E)	\$3.47
Price to Book Value	1.2x
Return on Equity (F2023E)	8.7%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	0.5%
Short Interest Days To Cover	2.1
Russell 2000	2,427
Russell 2000 – Last 12 Months	42.4%
CULP – Last 12 Months	-7.3%



Source: FactSet Prices

Note that our revised EPS estimate still implies an effective tax rate of 30% and other expenses of approximately \$200,000 (mostly related to foreign exchange fluctuations).

Exhibit 1: Culp, Inc. Variance Analysis

(\$ in thousands except per share data)

	2Q:F22 Estimate	2Q:F21 Actual *	% Y-O-Y Change
Net Sales	\$73,915	\$76,851	-3.8%
Gross profit	10,209	14,261	-28.4%
<i>Gross margin (%)</i>	13.8%	18.6%	
Operating income (loss) *	1,450	4,518	-67.9%
<i>Operating margin</i>	2.0%	5.9%	
Net income *	902	2,792	-67.7%
Diluted EPS *	\$0.07	\$0.23	-67.9%

Source: Company reports, Sidoti & Co., LLC estimates; NM = Not Meaningful

* excludes one-time items

...however, we expect sequentially better results starting in 3Q:F22 and year-over-year improvements starting in 4Q:F22.

We think most of the adverse issues that hurt 2Q:F22 will prove to be transitory in nature (especially the prior shutdown of Vietnam, which is now returning to normal activity) and we still argue that the company will benefit from solid underlying demand in both of its segments. We also expect CULP to benefit from its own focus on product innovation and design creativity along with further diversification of its manufacturing and sourcing capabilities. Note that in February 2021, the company purchased the remaining 50% of its Haiti mattress cover operation and it has been working on opening another facility in Haiti for the production of cut and sewn upholstery kits. We also note that in October, CULP opened its new Innovation Center in Congdon Yards (High Point, NC) that provides creative space for designers and convenience for clients of the mattress fabrics and upholstery fabrics segments. We think this initiative will lead to more collaboration and synergies among its operating units. We think 2H:F22 and F2023 will benefit from more favorable timing of shipments though we also acknowledge that supply chain issues may prove to be a lingering uncertainty. All in, our revised estimates assume an approximate 3% revenue increase in 2H:F22 will be followed by a projected 6% revenue gain in F2023. In addition, we assume that the operating margin will bounce back to 5.4% in F2023 (from 3.6% estimated in F2022) as we expect higher segment margins for both the upholstery fabrics segment and the mattress fabrics segment.

As we see it, CULP's financials are likely to remain in solid shape. At the end of 1Q:F22, CULP had zero bank debt and \$37.4 million of cash and short-term investments (\$3.01 per share). Following free cash flow (FCF) of \$385,000 (\$0.03 per share) in F2020, free cash flow surged to \$14.8 million (\$1.20 per share) in F2021. Assuming profitability improvements, partly offset by comparatively less favorable working capital management (versus F2021) and increased cap-ex, we estimate free cash flow of \$6.1 million in F2022 (\$0.49 per share) and \$7.6 million in F2023 (\$0.62 per share). CULP has had a solid track record of steadily increasing its regular cash dividend since F2012 (now with a yield of 3.5%), paid several special cash dividends (total of \$1.72 per share) and strategically repurchased about 12% of its outstanding shares through F2021. In our view, the company will increase the regular cash dividend to an annualized rate of \$0.46 in F2022 and to \$0.48 in F2023 from \$0.44 currently and buy back a total of \$5 million of its shares in F2022-F2023. We exclude additional special cash dividends from our financial models.

Valuation	We maintain our Moderately Risky Rating and \$22 price target on shares of Culp, Inc. While we acknowledge ongoing supply chain constraints and increased operational costs, we still expect CULP to benefit from ongoing positive underlying demand environment. We also think the company will continue to maintain a balanced capital allocation strategy. During the past five years, shares of Culp, Inc. have traded in a range of 10x and 33x two-year forward consensus EPS estimates, with an average P/E multiple of 18x (excluding the extreme market volatility in spring 2020). Given the EPS gains that we project through F2023, along with balance sheet and cash flow strength, we think that CULP shares should trade at a higher-than-average P/E multiple. Our \$22 price target is based on roughly 23x our F2023 EPS estimate of \$0.93.		
Key Risks	The economy and consumer spending post COVID-19	Raw material costs/availability and supply chains	Foreign exchange rate changes and geopolitical risks

CULP, INC.

Table 1: Culp, Inc. Income Statement

Fiscal year ends on the Sunday closest to April 30
Amounts in thousands of USD, except per-share data

	F2019	F2020	July	Oct.	Jan.	April	F2021	July A	Oct. E	Jan. E	April E	F2022 E	July E	Oct. E	Jan. E	April E	F2023 E
Net sales	\$ 281,325	\$ 256,166	\$ 64,464	\$ 76,851	\$ 79,341	\$ 79,063	\$ 299,719	\$ 83,047	\$ 73,915	\$ 82,709	\$ 80,592	\$ 320,263	\$ 81,817	\$ 80,567	\$ 89,497	\$ 88,014	\$ 339,894
Cost of sales	235,556	215,668	54,563	62,590	65,469	67,266	249,888	70,548	63,705	69,974	66,758	270,985	68,011	66,583	74,102	72,566	281,262
Gross profit	45,769	40,498	9,901	14,261	13,872	11,797	49,831	12,499	10,209	12,735	13,834	49,278	13,805	13,984	15,395	15,448	58,633
SG&A expenses	32,418	34,424	8,018	9,743	9,835	10,158	37,754	9,181	8,760	9,699	10,257	37,897	9,986	9,155	10,343	10,800	40,284
Restructuring (credit) expense	(825)	(70)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset impairments	-	13,712	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating income from continuing operations	14,176	(7,568)	1,883	4,518	4,037	1,639	12,077	3,318	1,450	3,036	3,577	11,381	3,819	4,829	5,052	4,648	18,348
Interest expense	(35)	(106)	(51)	-	-	-	(51)	-	-	-	-	-	-	-	-	-	-
Interest income	789	897	58	59	90	36	243	74	50	53	61	237	53	56	67	69	245
Gain on bargain purchase	-	-	-	-	-	819	819	-	-	-	-	-	-	-	-	-	-
Other expense	(1,383)	(902)	(366)	(680)	(1,010)	(152)	(2,208)	(237)	(211)	(247)	(264)	(959)	(254)	(221)	(222)	(271)	(968)
Pretax income	13,547	(7,679)	1,524	3,897	3,117	2,342	10,880	3,155	1,289	2,842	3,373	10,659	3,619	4,664	4,897	4,446	17,625
Income tax expense (benefit)	6,537	3,354	4,324	1,613	899	857	7,693	905	387	852	1,012	3,156	1,267	1,632	1,714	1,556	6,169
Income (loss) from investment in unconsolidated joint venture	(114)	(125)	67	100	(136)	-	31	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	6,896	(11,158)	(2,733)	2,384	2,082	1,485	3,218	2,250	902	1,989	2,361	7,503	2,352	3,031	3,183	2,890	11,456
Loss before income taxes from discontinued operations	(726)	(17,577)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income tax benefit from discontinued operations	113	68	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net loss from discontinued operations	(613)	(17,509)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income - GAAP (includes discontinued operations)	6,283	(28,667)	(2,733)	2,384	2,082	1,485	3,218	2,250	902	1,989	2,361	7,503	2,352	3,031	3,183	2,890	11,456
Net income from cont. ops - excluding one-time items	10,051	1,277	958	2,792	2,093	1,408	7,251	2,250	902	1,989	2,361	7,503	2,352	3,031	3,183	2,890	11,456
Diluted share count	12,548	12,378	12,287	12,324	12,369	12,399	12,322	12,415	12,395	12,366	12,360	12,384	12,347	12,337	12,327	12,397	12,352
Diluted EPS - GAAP (includes discontinued operations)	\$ 0.50	\$ (2.32)	\$ (0.22)	\$ 0.19	\$ 0.17	\$ 0.12	\$ 0.26	\$ 0.18	\$ 0.07	\$ 0.16	\$ 0.19	\$ 0.61	\$ 0.19	\$ 0.25	\$ 0.26	\$ 0.23	\$ 0.93
Diluted EPS from cont. ops - excluding one-time items	\$ 0.80	\$ 0.10	\$ 0.08	\$ 0.23	\$ 0.17	\$ 0.11	\$ 0.59	\$ 0.18	\$ 0.07	\$ 0.16	\$ 0.19	\$ 0.61	\$ 0.19	\$ 0.25	\$ 0.26	\$ 0.23	\$ 0.93
Cash dividend per share	\$ 0.380	\$ 0.410	\$ 0.105	\$ 0.105	\$ 0.110	\$ 0.110	\$ 0.430	\$ 0.110	\$ 0.110	\$ 0.115	\$ 0.115	\$ 0.450	\$ 0.115	\$ 0.115	\$ 0.120	\$ 0.120	\$ 0.470
Margin analysis																	
Gross margin	16.3%	15.8%	15.4%	18.6%	17.5%	14.9%	16.6%	15.1%	13.8%	15.4%	17.2%	15.4%	16.9%	17.4%	17.2%	17.6%	17.3%
SG&A expenses as a % of sales	11.5%	13.4%	12.4%	12.7%	12.4%	12.8%	12.6%	11.1%	11.9%	11.7%	12.7%	11.8%	12.2%	11.4%	11.6%	12.3%	11.9%
Operating margin	5.0%	-3.0%	2.9%	5.9%	5.1%	2.1%	4.0%	4.0%	2.0%	3.7%	4.4%	3.6%	4.7%	6.0%	5.6%	5.3%	5.4%
Effective tax rate	48.3%	-43.7%	283.7%	41.4%	28.8%	36.6%	70.7%	28.7%	30.0%	30.0%	30.0%	29.6%	35.0%	35.0%	35.0%	35.0%	35.0%
Net margin, excl. one-time items	3.6%	0.5%	1.5%	3.6%	2.6%	1.8%	2.4%	2.7%	1.2%	2.4%	2.9%	2.3%	2.9%	3.8%	3.6%	3.3%	3.4%
Year-over-year % change																	
Total revenue	-13.1%	-8.9%	-8.8%	10.5%	15.8%	66.9%	17.0%	28.8%	-3.8%	4.2%	1.9%	6.9%	-1.5%	9.0%	8.2%	9.2%	6.1%
Gross profit	-29.2%	-11.5%	-20.2%	5.4%	20.4%	287.4%	23.0%	26.2%	-28.4%	-8.2%	17.3%	-1.1%	10.5%	37.0%	20.9%	11.7%	19.0%
SG&A expenses	-12.8%	6.2%	-12.4%	6.9%	11.4%	38.6%	9.7%	14.5%	-10.1%	-1.4%	1.0%	0.4%	8.8%	4.5%	6.6%	5.3%	6.3%
Operating income	-48.4%	-153.4%	-42.9%	2.5%	48.2%	NM	NM	76.2%	-67.9%	-24.8%	118.2%	-5.8%	15.1%	233.1%	66.4%	29.9%	61.2%
Pretax income	-49.6%	-156.7%	-56.0%	-14.3%	15.4%	NM	NM	107.0%	-66.9%	-8.8%	44.0%	-2.0%	14.7%	261.9%	72.3%	31.8%	65.4%
Net Income, excl. one-time items	-46.6%	-87.3%	-52.4%	-8.2%	36.6%	NM	467.8%	134.9%	-67.7%	-5.0%	67.7%	3.5%	4.5%	236.1%	60.0%	22.4%	52.7%
Diluted EPS, excl. one-time items	-46.3%	-87.1%	-51.9%	-7.5%	37.2%	NM	470.4%	132.4%	-67.9%	-4.9%	68.2%	3.0%	5.1%	237.6%	60.5%	22.0%	53.1%

Sources: Company reports and Sidoti & Company, LLC estimates; Results exclude the home accessories segment (eLuxury) which was acquired in 1Q:F19 and then divested in 4Q:F20. Adjusted F2019 net income and 4Q:F20 adjusted loss assume a 35% effective tax rate

CULP, INC.

Table 2: Culp, Inc. Statement of Cash Flows
Fiscal year ends on the Sunday closest to April 30
Amounts in thousands of USD, except per-share data

	F2019	July	Oct.	Jan.	April	F2020	July	Oct.	Jan.	April	F2021	July A	F2022 E	F2023 E
Cash flows from operating activities:														
Net (loss) income	\$ 5,458	\$ 1,174	\$ 2,192	\$ (4,207)	\$ (27,826)	\$ (28,667)	\$ (2,733)	\$ 2,384	\$ 2,082	\$ 1,485	\$ 3,218	\$ 2,250	\$ 7,503	\$ 11,456
Adjustments to reconcile net (loss) income to net cash provided by operating activities:														
Depreciation	8,117	1,905	1,988	1,987	1,947	7,827	1,822	1,716	1,665	1,643	6,846	1,726	7,038	7,256
Amortization	780	176	177	177	117	647	118	117	115	116	466	121	401	350
Asset impairments	-	-	-	13,639	20,275	33,914	-	-	-	-	-	-	-	-
Reversal of contingent consideration related to discontinued operation	-	-	-	(6,081)	-	(6,081)	-	-	-	-	-	-	-	-
Loss on disposal of discontinued operation	-	-	-	-	1,606	1,606	-	-	-	-	-	-	-	-
Stock-based compensation	130	154	313	364	(217)	614	126	348	292	485	1,251	274	1,376	1,500
Deferred income taxes	2,027	(662)	715	(1,679)	(68)	(1,694)	3,693	726	(541)	(118)	3,760	(323)	6	2,895
Gain on bargain purchase	-	-	-	-	-	-	-	-	-	(819)	(819)	-	-	-
Gain on sale of property, plant, and equipment	(1,452)	(17)	(76)	(182)	37	(238)	-	-	-	(57)	(57)	-	-	-
Realized loss on short-term investments available for sale	94	-	-	-	10	10	-	6	-	(12)	(6)	-	-	-
Income from investment in unconsolidated joint venture	114	(13)	16	56	66	125	(67)	(100)	136	-	(31)	-	-	-
Foreign currency exchange loss (gain)	(17)	(47)	(59)	91	124	109	154	569	831	(34)	1,520	3	-	-
Changes in assets and liabilities:														
Accounts receivable	2,339	(375)	(460)	(2,050)	891	(1,994)	(4,757)	(2,906)	(3,288)	(1,166)	(12,117)	2,715	(1,869)	(2,427)
Inventories	3,841	(25)	(4,772)	(2,219)	6,179	(837)	7,592	(6,990)	(9,669)	1,842	(7,225)	(2,676)	(2,714)	(3,594)
Other current assets	41	161	(192)	(496)	869	342	(1,254)	79	466	(733)	(1,442)	(39)	43	(723)
Other assets	(65)	111	22	26	(207)	(48)	(24)	(16)	(17)	(1,395)	(1,452)	(556)	23	(382)
Accounts payable	(3,427)	(1,468)	5,032	(6,039)	2,974	499	2,544	11,612	5,459	(2,387)	17,228	2,723	3,593	(4,055)
Deferred revenue	(410)	285	(309)	23	104	103	183	(310)	(147)	312	38	154	155	74
Accrued expenses, deferred compensation and other, net	(1,492)	222	1,398	(1,078)	(1,559)	(1,017)	2,377	3,642	1,901	1,537	9,457	(4,336)	926	2,542
Accrued restructuring costs	124	(82)	(7)	(35)	-	(124)	-	-	-	-	-	-	-	-
Income taxes	(2,329)	524	246	(1,063)	167	(126)	807	1,245	(337)	(872)	843	(465)	(28)	751
Net cash provided by operating activities	13,873	2,023	6,224	(8,766)	5,489	4,970	10,581	12,122	(1,052)	(173)	21,478	1,571	16,452	15,644
Cash flows from investing activities:														
Capital expenditures	(3,261)	(935)	(1,475)	(1,662)	(513)	(4,585)	(500)	(1,541)	(2,279)	(2,344)	(6,664)	(1,953)	(10,400)	(8,000)
Net cash paid for acquisition of assets	(12,096)	-	-	-	-	-	-	-	-	(892)	(892)	-	-	-
Proceeds from the sale of property, plant, and equipment	-	209	154	309	-	672	-	12	-	-	12	-	-	-
Proceeds from long-term note receivable associated with discontinued operations	1,894	-	-	-	1,523	1,523	-	-	-	-	-	-	-	-
Investment in unconsolidated joint venture	(120)	-	-	-	(220)	(220)	(90)	-	-	-	(90)	-	-	-
Proceeds (purchases) of short-term and long-term investments (Held to Maturity), net	25,680	5,000	-	(5,397)	(968)	(1,365)	(73)	628	(4,545)	5,982	1,992	(4,006)	(59)	(205)
Proceeds (purchases) of short-term investments (Available for Sale), net	2,448	-	-	(7,532)	6,583	(949)	(34)	(4,521)	(26)	5	(4,576)	(4,031)	(259)	(200)
Proceeds (payments) for life insurance policy, net	394	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds (purchases) of long-term investments (Rabbi Trust), net	222	(259)	(220)	(228)	(81)	(788)	(39)	(141)	(141)	(141)	(462)	(403)	(135)	(135)
Net cash (used in) provided by investing activities	15,161	4,015	(1,541)	(14,510)	6,324	(5,712)	(736)	(5,563)	(6,991)	2,610	(10,680)	(10,393)	(10,853)	(8,540)
Cash flows from financing activities:														
Proceeds (Payments) associated with lines of credit, net	-	-	-	-	30,765	30,765	(30,772)	-	-	-	(30,772)	-	-	-
Payments associated with Paycheck Protection Program Loan	-	-	-	-	7,606	7,606	(7,606)	-	-	-	(7,606)	-	-	-
Proceeds (Payments) on long-term debt, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments on vendor-financed capital expenditures	(1,412)	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from subordinated loan payable associated with the noncontrolling interest of discontinued operation	675	250	-	-	-	250	-	-	-	-	-	-	-	-
Cash paid for acquisition of business	-	(763)	(769)	-	-	(1,532)	-	-	-	-	-	-	-	-
Dividends paid	(4,732)	(1,241)	(1,241)	(1,304)	(1,289)	(5,075)	(1,291)	(1,292)	(1,354)	(1,355)	(5,292)	(1,356)	(5,573)	(5,805)
Repurchases of common stock	(3,323)	-	-	(728)	(952)	(1,680)	-	-	-	-	-	(723)	(2,500)	(2,500)
Common stock surrendered for withholding taxes payable, net	(1,319)	(44)	(7)	-	-	(51)	-	(25)	-	-	(25)	(50)	(50)	-
Capital contribution associated with the noncontrolling interest of discontinued operation	-	40	320	-	(360)	-	-	-	-	-	-	-	-	-
Payments of debt issuance costs	(50)	-	-	-	360	360	(15)	-	-	-	(15)	-	-	-
Net cash used in financing activities	(10,161)	(1,758)	(1,697)	(2,032)	36,130	30,643	(39,684)	(1,317)	(1,354)	(1,355)	(43,710)	(2,129)	(8,123)	(8,305)
Effect of exchange rate changes on cash and cash equivalents	(93)	(52)	(39)	(3)	(25)	(119)	35	60	96	(60)	131	3	120	105
(Decrease) increase in cash and cash equivalents	18,780	4,228	2,947	(25,311)	47,918	29,782	(29,804)	5,302	(9,301)	1,022	(32,781)	(10,948)	(2,404)	(1,097)
Cash and cash equivalents at beginning of year	21,228	40,008	44,236	47,183	21,872	40,008	69,790	39,986	45,288	35,987	69,790	37,009	37,009	34,605
Cash and cash equivalents at end of period	\$ 40,008	\$ 44,236	\$ 47,183	\$ 21,872	\$ 69,790	\$ 69,790	\$ 39,986	\$ 45,288	\$ 35,987	\$ 37,009	\$ 37,009	\$ 26,061	\$ 34,605	\$ 33,509
Free cash flow (cash from operations less cap-ex)	10,612	1,088	4,749	(10,428)	4,976	385	10,081	10,581	(3,331)	(2,517)	14,814	(382)	6,052	7,644
Free cash flow per share	\$ 0.85	\$ 0.09	\$ 0.38	\$ (0.84)	\$ 0.40	\$ 0.03	\$ 0.82	\$ 0.86	\$ (0.27)	\$ (0.20)	\$ 1.20	\$ (0.03)	\$ 0.49	\$ 0.62

Sources: Company reports and Sidoti & Company, LLC estimates; Results exclude the home accessories segment (eLuxury) which was acquired in 1Q:F19 and then divested in 4Q:F20.

CULP, INC.

Table 3: Culp, Inc. Balance Sheet

Fiscal year ends on the Sunday closest to April 30
Amounts in thousands of USD, except per-share data

	F2019	July	Oct.	Jan.	F2020	July	Oct.	Jan.	F2021	July A	F2022 E	F2023 E
Current assets:												
Cash and cash equivalents	\$ 40,008	\$ 44,236	\$ 46,955	\$ 21,640	\$ 69,790	\$ 39,986	\$ 45,288	\$ 35,987	\$ 37,009	\$ 26,061	\$ 34,605	\$ 33,509
Short-term investments - Held-To-Maturity	-	-	-	3,171	4,271	5,092	5,005	9,785	3,161	1,661	3,340	3,495
Short-term investments - Available for Sale	5,001	-	-	7,580	923	983	5,462	5,548	5,542	9,698	5,801	6,001
Accounts receivable, net	23,373	23,661	23,890	25,848	25,093	29,893	32,960	36,397	37,726	35,008	39,595	42,022
Inventories	47,564	47,593	51,443	54,009	47,907	40,402	47,726	57,794	55,917	58,613	58,631	62,225
Current income taxes receivable	776	776	776	776	1,585	782	-	-	-	524	-	-
Current assets - Discontinued operation	3,707	3,557	4,760	4,738	-	-	-	-	-	-	-	-
Other current assets	2,816	2,617	2,745	3,112	2,116	3,547	3,509	3,116	3,852	3,889	3,809	4,532
Total current assets	123,245	122,440	130,569	120,874	151,685	120,685	139,950	148,627	143,207	135,454	145,782	151,784
Property, plant & equipment, net												
Property, plant & equipment, net	46,479	45,475	45,221	44,652	43,147	42,051	41,599	42,385	44,003	43,930	47,365	48,109
Goodwill	13,569	13,569	13,569	13,569	-	-	-	-	-	-	-	-
Intangible assets	3,899	3,805	3,711	3,617	3,380	3,286	3,192	3,098	3,004	2,910	2,603	2,253
Long-term investments - Rabbi Trust	7,081	7,347	7,575	7,804	7,834	7,916	8,060	8,232	8,415	8,841	8,550	8,685
Long-term investments - Held-To-Maturity	-	-	-	2,224	2,076	1,314	759	512	1,141	6,629	1,021	1,071
Right of use asset	-	5,488	4,883	4,574	3,903	6,443	6,165	6,206	11,730	11,447	14,530	14,635
Noncurrent income taxes receivable	733	733	733	733	-	-	-	-	-	-	-	-
Deferred income taxes	457	486	511	920	793	593	645	640	545	455	696	714
Investment in unconsolidated joint venture	1,508	1,520	1,504	1,668	1,602	1,759	1,859	1,723	-	-	-	-
Long-term note receivable affiliated with discontinued operation	830	1,800	1,800	1,800	-	-	-	-	-	-	-	-
Noncurrent assets - Discontinued operation	22,112	23,058	22,950	9,241	-	-	-	-	-	-	-	-
Other assets	643	526	496	464	664	540	547	555	2,035	2,582	2,012	2,394
Total assets	220,556	226,247	233,522	212,140	215,084	184,587	202,776	211,978	214,080	212,248	222,560	229,646
Current liabilities:												
Line of credit - China operations	-	-	-	-	1,015	-	-	-	-	-	-	-
Paycheck Protection Program Loan	-	-	-	-	7,606	-	-	-	-	-	-	-
Accounts payable - trade	22,734	21,855	26,336	20,422	23,002	25,746	38,247	44,946	42,540	45,285	46,098	42,047
Accounts payable - capital expenditures	68	50	398	175	107	333	68	240	348	48	383	380
Operating lease liability - current	-	2,270	2,090	2,033	1,805	2,387	2,316	2,273	2,736	2,727	2,748	2,750
Deferred revenue	399	684	375	398	502	685	375	228	540	694	695	769
Accrued expenses	8,632	8,104	8,263	7,257	5,687	7,852	11,684	13,574	14,839	9,950	15,858	16,830
Accrued restructuring costs	124	42	35	-	-	-	-	-	-	-	-	-
Current liabilities - Discontinued operation	2,213	1,431	1,907	2,094	-	-	-	-	-	-	-	-
Income taxes payable - current	1,022	1,116	1,539	455	395	613	1,413	1,129	229	253	238	364
Total current liabilities	35,192	35,552	40,943	32,834	40,119	37,616	54,103	62,390	61,232	58,957	66,020	63,140
Noncurrent liabilities:												
Line of credit - U.S. operations	-	-	-	-	29,750	-	-	-	-	-	-	-
Accrued expenses - long-term	333	333	333	233	167	117	-	-	-	-	-	-
Operating lease liability - long-term	-	3,081	2,614	2,384	2,016	4,214	4,008	4,179	6,821	6,665	9,729	9,937
Contingent consideration affiliated with discontinued operation	5,856	5,931	6,006	-	-	-	-	-	-	-	-	-
Income taxes payable - long-term	3,249	3,640	3,442	3,442	3,796	3,591	3,325	3,325	3,326	3,365	3,289	3,913
Deferred income taxes	3,176	2,543	3,283	2,013	1,818	5,311	6,089	5,543	5,330	4,917	5,487	8,401
Deferred compensation	6,998	7,232	7,429	7,637	7,720	7,869	8,000	8,179	8,365	8,795	8,272	9,842
Noncurrent liabilities - Discontinued operation	1,505	3,599	3,550	3,501	-	-	-	-	-	-	-	-
Total liabilities	56,309	61,911	67,600	52,044	85,386	58,718	75,525	83,616	85,074	82,699	92,798	95,234
Shareholders' equity												
Shareholders' equity attributable to Culp Inc.	159,933	160,146	161,520	159,843	129,698	125,869	127,251	128,362	129,006	129,549	129,762	134,413
Non-controlling interest - Discontinued Operation	4,314	4,190	4,402	253	-	-	-	-	-	-	-	-
Total liabilities and shareholders' equity	220,556	226,247	233,522	212,140	215,084	184,587	202,776	211,978	214,080	212,248	222,560	229,646

Sources: Company reports and Sidoti & Company, LLC estimates; Results exclude the home accessories segment (eLuxury) which was acquired in 1Q:F19 and then divested in 4Q:F20.

Return on average equity	4.3%	4.3%	3.9%	2.5%	NM	NM	NM	NM	2.5%	6.3%	5.8%	8.7%
Return on average assets	3.1%	3.1%	2.7%	1.8%	NM	NM	NM	NM	1.5%	4.1%	3.4%	5.1%
Return on invested capital	4.3%	4.3%	3.9%	2.5%	NM	NM	NM	NM	2.5%	6.3%	5.8%	8.5%
Book value per share (fully diluted)	\$ 12.75	\$ 12.90	\$ 13.02	\$ 12.87	\$ 10.48	\$ 10.24	\$ 10.33	\$ 10.38	\$ 10.47	\$ 10.43	\$ 10.48	\$ 10.88
Tangible book value per share (fully diluted)	\$ 11.35	\$ 11.50	\$ 11.62	\$ 11.49	\$ 10.21	\$ 9.98	\$ 10.07	\$ 10.13	\$ 10.23	\$ 10.20	\$ 10.27	\$ 10.70
Net cash and short-term investments (debt)/share	\$ 3.58	\$ 3.56	\$ 3.72	\$ 2.56	\$ 2.92	\$ 3.70	\$ 4.50	\$ 4.09	\$ 3.68	\$ 3.01	\$ 3.55	\$ 3.47
Current ratio	3.5	3.4	3.2	3.7	3.8	3.2	2.6	2.4	2.3	2.3	2.2	2.4
Total debt to total capital	0.0%	0.0%	0.0%	0.0%	22.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Days sales outstanding (DSO)	32	30	31	34	34	37	33	35	38	35	43	43
Inventory turnover (COGS/ avg. invtry.)	4.7	4.6	4.5	4.2	4.5	4.8	4.4	4.1	4.8	5.4	4.7	4.7

Sources: Company reports and Sidoti & Company LLC estimates; NM = Not Meaningful

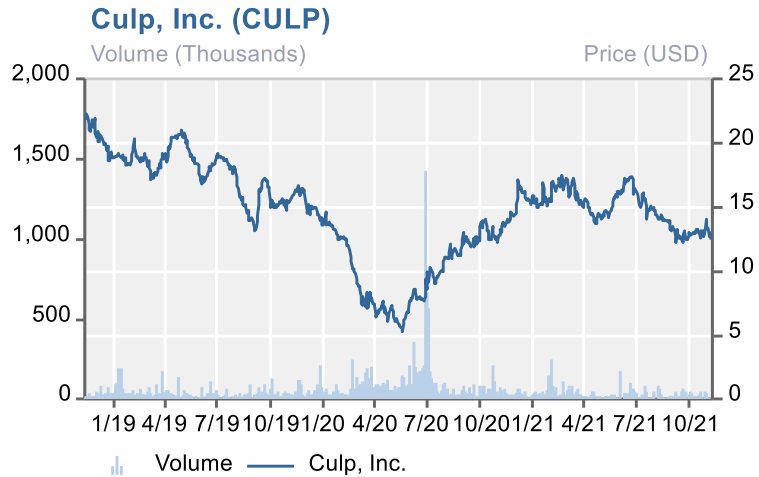
Appendix
Required Disclosures

Required Disclosures

Culp, Inc. (CULP-\$12.55) NR Price Target: \$22 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	5/13/21	14.3	NR	20	M
PT	6/10/21	17.3		20	
PT	6/17/21	17.1		22	
PT	8/24/21	13.9		22	
PT	9/2/21	13.3		22	
PT	10/20/21	13.1		22	



Source: FactSet Prices

Valuation	We maintain our Moderately Risky Rating and \$22 price target on shares of Culp, Inc. While we acknowledge ongoing supply chain constraints and increased operational costs, we still expect CULP to benefit from ongoing positive underlying demand environment. We also think the company will continue to maintain a balanced capital allocation strategy. During the past five years, shares of Culp, Inc. have traded in a range of 10x and 33x two-year forward consensus EPS estimates, with an average P/E multiple of 18x (excluding the extreme market volatility in spring 2020). Given the EPS gains that we project through F2023, along with balance sheet and cash flow strength, we think that CULP shares should trade at a higher-than-average P/E multiple. Our \$22 price target is based on roughly 23x our F2023 EPS estimate of \$0.93.		
Key Risks	The economy and consumer spending post COVID-19	Raw material costs/availability and supply chains	Foreign exchange rate changes and geopolitical risks

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