



Culp, Inc. (CULP)

Maintain Moderately Risky Rating And \$20 Price Target As We Expect CULP To Benefit From EPS Recovery In 4Q:F22-F2023; We Also Highlight Solid Financials, 5% Dividend Yield

	F2020		F2021		F2022E		F2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
July	\$0.16	\$0.08		\$0.18A		\$0.19		
Oct.	0.25	0.23		0.07A		0.22		
Jan.	0.12	0.17		0.07		0.26		
Apr.	(0.43)	0.11		0.19		0.23		
EPS (FY)	\$0.10	\$0.59		\$0.51		\$0.86		
EPS (Cal.)	\$0.04	\$0.44E		\$0.82				
P/E (FY)				17.9x		10.6x		
P/E (Cal.)		20.7x		11.1x				

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	\$314.3	\$331.7
GAAP EPS*	\$1.41	\$1.21	\$1.36	\$1.78	\$1.65	\$0.50	(\$2.31)	\$0.26	\$0.51	\$0.86

* 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.

- **Following CULP's presentation at the Sidoti December Virtual Conference last week and 2Q:F22 results (reported December 1), we find the shares undervalued given our expectation of a solid EPS rebound in 4Q:F22-F2023, the company's strong balance sheet and free cash flow, along with a dividend yield of 5%.**
- **In our view, underlying demand for the company's mattress fabrics and upholstery fabrics will remain ahead of pre-pandemic levels, but various and ongoing supply chain constraints will likely impact the timing of shipments as well as quarterly revenue and EPS.**
- **During the conference, management stated that many consumers will likely remain focused on the home while operationally; CULP is focused on new product innovation, improving its sourcing capabilities and enhancing efficiencies.**
- **As we see it, CULP will maintain a solid, debt-free balance sheet and we project the company will produce free cash flow per share of \$0.38 in F2022 and \$0.60 in F2023. We think the free cash flow will be mostly used to pay the cash dividend and, to a lesser extent, share buybacks.**
- **Our price target of \$20 is based on 23x our unchanged F2023 EPS estimate of \$0.86. We maintain our Moderately Risky rating on CULP shares.**

We expect underlying demand to remain above pre-pandemic levels for CULP... As we see it, the pandemic has resulted in higher consumer demand for home furnishings including mattresses, especially bed-in-a-box products. Management also noted strong new placements and product developments for F2023, which we think will help CULP achieve revenue growth of 5.5% in F2023 following the estimated revenue gain of 4.9% in F2022. Recently, the company expanded capacity for cut and sewn upholstery kits with a new production facility in Haiti to support higher demand. CULP is also evaluating additional fabric production capabilities in Vietnam to add more cut and sew sourcing capacity. At the Sidoti conference, management also highlighted the recent opening of its new innovation campus in High Point, NC that was developed to increase collaboration between its business segments,

NR

Price Target: \$20

Price: \$9.12

Risk Rating: M

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Key Statistics

Analysts Covering	3
Market Cap (Mil)	\$110
Enterprise Value	\$95
52-Week Range (NYSE)	18-9
5-Year EPS CAGR	17%
Avg. Daily Trading Volume	25,000
Shares Out (Mil)	12.210
Float Shares (Mil)	10.998
Insider Ownership	5%
Institutional Holdings	76%
Annualized Dividend	\$0.46
Dividend Yield	5.0%
FCF Per Share (F2023E)	\$0.60
FCF Yield (F2023E)	6.6%
Net Cash Per Share (F2023E)	\$3.38
Price to Book Value	0.9x
Return on Equity (F2023E)	8.1%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	0.3%
Short Interest Days To Cover	2.1
Russell 2000	2,160
Russell 2000 – Last 12 Months	12.8%
CULP – Last 12 Months	-43.7%



which we think will lead to increased synergies. In addition, CULP noted that its higher-margin Read Window Products division (a subsegment of the upholstery segment) has started to rebound after a significant hit from COVID-19 on the travel and hospitality industries. We also think that an ongoing focus on new product innovation will benefit CULP, with the company looking to expand its performance products under the LiveSmart® and LiveSmart Evolve® brands.

... but timing of shipments and cost increases will likely skew profitability growth to 4Q:F22, which we think will further improve in F2023. Following the revenue increase of 17% in F2021 and the sales jump of 29% in 1Q:F22, revenue declined 3% in 2Q:F22 as CULP was hurt by the nearly three-month lockdown in Vietnam, which is a large source of upholstery fabrics for CULP. In 3Q:F22, there will likely be some continued near-term pressures relating to the company’s customers’ capacity limitations related to supply chain disruptions for non-fabric components, which we think will ease by 4Q:F22. To help offset higher freight and raw material costs, the company implemented price increases in both segments in 1Q:F22 and 2Q:F22 with further price increases being taken in 3Q:F22 to offset inflationary pressures though given the timing lag of price increases versus cost increases, we expect 3Q:F22 EPS will be down versus the year-ago quarter. Given the expected timing shifts of shipments to 4Q:F22 along with anticipated benefits of price increases, we project a strong EPS rebound in 4Q:F22. Our F2023 EPS estimate of \$0.86 also assumes a gradual normalization of the supply chain, a stabilization of raw material costs and still healthy demand for mattress fabrics and upholstery fabrics will result in operating margin improvement in both segments.

We expect the company’s financials to remain in excellent shape. At the end of 2Q:F22, CULP had zero bank debt and \$28.2 million of cash and short-term investments (\$2.29 per share). Following free cash flow (FCF) of just \$385,000 (\$0.03 per share) in F2020, free cash flow surged to \$14.8 million (\$1.20 per share) in F2021. Factoring in net income growth (on a GAAP basis), partly offset by comparatively less favorable working capital management (versus F2021) and increased cap-ex, we project free cash flow of \$4.7 million in F2022 (\$0.38 per share) and \$7.4 million in F2023 (\$0.60 per share). With the recent dividend increase to an annualized rate of \$0.46 per share, Culp, Inc. has demonstrated a consistent track record of raising its regular cash dividend since F2012. CULP has also paid out a few special cash dividends (total of \$1.72 per share) over time and from time to time, the company has also opportunistically bought back around 12% of its outstanding shares through F2021. We expect CULP will boost the regular cash dividend to an annualized rate of \$0.48 in F2023 and repurchase 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 \$20 price target on CULP shares. With the shares now trading at less than 11x our F2023 EPS projection, we argue that investors are overlooking the still-favorable demand that has been overshadowed by ongoing supply chain constraints and higher operational costs (which we think will start to “normalize” in early F2023). 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 growth 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 \$20 price target is based on 23x our F2023 EPS estimate of \$0.86.		
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. A	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	\$ 74,561	\$ 74,639	\$ 82,061	\$ 314,307	\$ 81,817	\$ 80,117	\$ 80,480	\$ 89,258	\$ 331,672
Cost of sales	235,556	215,668	54,563	62,590	65,469	67,266	249,888	70,548	63,834	63,815	68,070	266,267	68,011	66,228	66,627	73,588	274,454
Gross profit	45,769	40,498	9,901	14,261	13,872	11,797	49,831	12,499	10,727	10,824	13,990	48,041	13,805	13,889	13,854	15,670	57,218
SG&A expenses	32,418	34,424	8,018	9,743	9,835	10,158	37,754	9,181	9,087	9,134	10,251	37,652	9,986	9,381	9,417	10,818	39,602
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	1,640	1,691	3,740	10,389	3,819	4,508	4,436	4,853	17,616
Interest expense	(35)	(106)	(51)	-	-	-	(51)	-	-	-	-	-	-	-	-	-	-
Interest income	789	897	58	59	90	36	243	74	59	53	61	246	52	55	65	67	239
Gain on bargain purchase	-	-	-	-	-	819	819	-	-	-	-	-	-	-	-	-	-
Other expense	(1,383)	(902)	(366)	(680)	(1,010)	(152)	(2,208)	(237)	(404)	(473)	(506)	(1,619)	(254)	(424)	(425)	(518)	(1,622)
Pretax income	13,547	(7,679)	1,524	3,897	3,117	2,342	10,880	3,155	1,295	1,271	3,295	9,015	3,617	4,139	4,076	4,402	16,233
Income tax expense (benefit)	6,537	3,354	4,324	1,613	899	857	7,693	905	444	381	988	2,719	1,266	1,449	1,427	1,541	5,682
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	851	889	2,306	6,297	2,351	2,690	2,649	2,861	10,552
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	851	889	2,306	6,297	2,351	2,690	2,649	2,861	10,552
Net income from cont. ops - excluding one-time items	10,051	1,277	958	2,792	2,093	1,408	7,251	2,250	851	889	2,306	6,297	2,351	2,690	2,649	2,861	10,552
Diluted share count	12,548	12,378	12,287	12,324	12,369	12,399	12,322	12,415	12,316	12,287	12,281	12,325	12,268	12,258	12,248	12,318	12,273
Diluted EPS - GAAP (includes discontinued operations)	\$ 0.50	\$ (2.32)	\$ (0.22)	\$ 0.19	\$ 0.17	\$ 0.12	\$ 0.26	\$ 0.18	\$ 0.07	\$ 0.07	\$ 0.19	\$ 0.51	\$ 0.19	\$ 0.22	\$ 0.22	\$ 0.23	\$ 0.86
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	\$ 0.07	\$ 0.19	\$ 0.51	\$ 0.19	\$ 0.22	\$ 0.22	\$ 0.23	\$ 0.86
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%	14.4%	14.5%	17.0%	15.3%	16.9%	17.3%	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%	12.2%	12.2%	12.5%	12.0%	12.2%	11.7%	11.7%	12.1%	11.9%
Operating margin	5.0%	-3.0%	2.9%	5.9%	5.1%	2.1%	4.0%	4.0%	2.2%	2.3%	4.6%	3.3%	4.7%	5.6%	5.5%	5.4%	5.3%
Effective tax rate	48.3%	-43.7%	283.7%	41.4%	28.8%	36.6%	70.7%	28.7%	34.3%	30.0%	30.0%	30.2%	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%	1.1%	1.2%	2.8%	2.0%	2.9%	3.4%	3.3%	3.2%	3.2%
Year-over-year % change																	
Total revenue	-13.1%	-8.9%	-8.8%	10.5%	15.8%	66.9%	17.0%	28.8%	-3.0%	-5.9%	3.8%	4.9%	-1.5%	7.5%	7.8%	8.8%	5.5%
Gross profit	-29.2%	-11.5%	-20.2%	5.4%	20.4%	287.4%	23.0%	26.2%	-24.8%	-22.0%	18.6%	-3.6%	10.5%	29.5%	28.0%	12.0%	19.1%
SG&A expenses	-12.8%	6.2%	-12.4%	6.9%	11.4%	38.6%	9.7%	14.5%	-6.7%	-7.1%	0.9%	-0.3%	8.8%	3.2%	3.1%	5.5%	5.2%
Operating income	-48.4%	-153.4%	-42.9%	2.5%	48.2%	NM	NM	76.2%	-63.7%	-58.1%	128.2%	-14.0%	15.1%	174.9%	162.4%	29.8%	69.6%
Pretax income	-49.6%	-156.7%	-56.0%	-14.3%	15.4%	NM	NM	107.0%	-66.8%	-59.2%	40.7%	-17.1%	14.7%	219.6%	220.8%	33.6%	80.1%
Net Income, excl. one-time items	-46.6%	-87.3%	-52.4%	-8.2%	36.6%	NM	467.8%	134.9%	-69.5%	-57.5%	63.8%	-13.2%	4.5%	216.1%	197.9%	24.1%	67.6%
Diluted EPS, excl. one-time items	-46.3%	-87.1%	-51.9%	-7.5%	37.2%	NM	470.4%	132.4%	-69.5%	-57.2%	65.4%	-13.2%	5.8%	217.6%	198.8%	23.7%	68.3%

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	Oct. 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	\$ 851	\$ 6,297	\$ 10,552
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	1,745	7,038	7,256
Amortization	780	176	177	177	117	647	118	117	115	116	466	121	146	455	377
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	435	1,376	1,500
Deferred income taxes	2,027	(662)	715	(1,679)	(68)	(1,694)	3,693	726	(541)	(118)	3,760	(323)	4	(854)	3,142
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)	-	(4)	-	-
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	167	-	-
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	2,726	(1,119)	(2,146)
Inventories	3,841	(25)	(4,772)	(2,219)	6,179	(837)	7,592	(6,990)	(9,669)	1,842	(7,225)	(2,676)	(5,074)	(1,603)	(2,718)
Other current assets	41	161	(192)	(496)	869	342	(1,254)	79	466	(733)	(1,442)	(39)	78	138	(709)
Other assets	(65)	111	22	26	(207)	(48)	(24)	(16)	(17)	(1,395)	(1,452)	(556)	(431)	73	(375)
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	(4,992)	2,957	(4,678)
Deferred revenue	(410)	285	(309)	23	104	103	183	(310)	(147)	312	38	154	(15)	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)	1,428	424	2,400
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)	37	(148)	750
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	(2,899)	15,188	15,424
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)	(1,948)	(10,470)	(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)	(1,670)	(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)	(34)	(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)	(177)	(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)	(3,829)	(10,923)	(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)	(1,343)	(5,546)	(5,768)
Repurchases of common stock	(3,323)	-	-	(728)	(952)	(1,680)	-	-	-	-	-	(723)	(1,029)	(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)	(2,372)	(8,096)	(8,268)
Effect of exchange rate changes on cash and cash equivalents	(93)	(52)	(39)	(3)	(25)	(119)	35	60	96	(60)	131	3	(5)	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)	(9,105)	(3,711)	(1,279)
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	26,061	37,009	33,298
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	\$ 16,956	\$ 33,298	\$ 32,019
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)	(4,847)	4,718	7,424
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)	\$ (0.39)	\$ 0.38	\$ 0.60

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	Oct. 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	\$ 16,956	\$ 33,298	\$ 32,019
Short-term investments - Held-To-Maturity	-	-	-	3,171	4,271	5,092	5,005	9,785	3,161	1,661	1,564	3,340	3,495
Short-term investments - Available for Sale	5,001	-	-	7,580	923	983	5,462	5,548	5,542	9,698	9,709	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	32,316	38,845	40,992
Inventories	47,564	47,593	51,443	54,009	47,907	40,402	47,726	57,794	55,917	58,613	63,781	57,520	60,238
Current income taxes receivable	776	776	776	776	1,585	782	-	-	-	524	613	-	-
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	3,811	3,714	4,423
Total current assets	123,245	122,440	130,569	120,874	151,685	120,685	139,950	148,627	143,207	135,454	128,750	142,519	147,168
Property, plant & equipment, net													
Goodwill	46,479	45,475	45,221	44,652	43,147	42,051	41,599	42,385	44,003	43,930	43,265	47,435	48,179
Intangible assets	13,569	13,569	13,569	13,569	-	-	-	-	-	-	-	-	-
Long-term investments - Rabbi Trust	3,899	3,805	3,711	3,617	3,380	3,286	3,192	3,098	3,004	2,910	2,816	2,549	2,172
Long-term investments - Held-To-Maturity	7,081	7,347	7,575	7,804	7,834	7,916	8,060	8,232	8,415	8,841	9,036	8,550	8,685
Right of use asset	-	-	-	2,224	2,076	1,314	759	512	1,141	6,629	8,353	1,021	1,071
Noncurrent income taxes receivable	-	5,488	4,883	4,574	3,903	6,443	6,165	6,206	11,730	11,447	13,649	14,530	14,635
Deferred income taxes	733	733	733	733	-	-	-	-	-	-	-	-	-
Investment in unconsolidated joint venture	457	486	511	920	793	593	645	640	545	455	452	696	714
Long-term note receivable affiliated with discontinued operation	1,508	1,520	1,504	1,668	1,602	1,759	1,859	1,723	-	-	-	-	-
Noncurrent assets - Discontinued operation	830	1,800	1,800	1,800	-	-	-	-	-	-	-	-	-
Other assets	22,112	23,058	22,950	9,241	-	-	-	-	-	-	-	-	-
	643	526	496	464	664	540	547	555	2,035	2,582	3,004	1,962	2,337
Total assets	220,556	226,247	233,522	212,140	215,084	184,587	202,776	211,978	214,080	212,248	209,325	219,262	224,961
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	40,525	45,462	40,787
Accounts payable - capital expenditures	68	50	398	175	107	333	68	240	348	48	176	383	380
Operating lease liability - current	-	2,270	2,090	2,033	1,805	2,387	2,316	2,273	2,736	2,727	2,878	2,748	2,750
Deferred revenue	399	684	375	398	502	685	375	228	540	694	679	695	769
Accrued expenses	8,632	8,104	8,263	7,257	5,687	7,852	11,684	13,574	14,839	9,950	11,019	15,563	16,423
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	646	201	338
Total current liabilities	35,192	35,552	40,943	32,834	40,119	37,616	54,103	62,390	61,232	58,957	55,923	65,052	61,447
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	7,914	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	3,099	3,207	3,819
Deferred income taxes	3,176	2,543	3,283	2,013	1,818	5,311	6,089	5,543	5,330	4,917	4,918	4,627	7,787
Deferred compensation	6,998	7,232	7,429	7,637	7,720	7,869	8,000	8,179	8,365	8,795	9,017	8,064	9,605
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	80,871	90,679	92,595
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	128,454	128,583	132,366
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	209,325	219,262	224,961

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%	5.2%	4.9%	8.1%
Return on average assets	3.1%	3.1%	2.7%	1.8%	NM	NM	NM	NM	1.5%	4.1%	3.2%	2.9%	4.8%
Return on invested capital	4.3%	4.3%	3.9%	2.5%	NM	NM	NM	NM	2.5%	6.3%	5.2%	4.9%	8.0%
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	\$ 10.43	\$ 10.43	\$ 10.79
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	\$ 10.20	\$ 10.23	\$ 10.61
Net cash and short-term investments (debt)/share	\$ 3.59	\$ 3.56	\$ 3.78	\$ 2.61	\$ 2.96	\$ 3.75	\$ 4.52	\$ 4.15	\$ 3.71	\$ 3.01	\$ 2.29	\$ 3.44	\$ 3.38
Current ratio	3.5	3.4	3.2	3.7	3.8	3.2	2.6	2.4	2.3	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%	0.0%
Days sales outstanding (DSO)	32	30	31	34	34	37	33	35	38	35	39	44	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	4.8	4.7	4.7

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

Appendix
Required Disclosures

Required Disclosures

Culp, Inc. (CULP-\$9.12) NR Price Target: \$20 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	
PT	11/10/21	12.6		22	
PT	12/2/21	10.9		20	



Valuation	We maintain our Moderately Risky Rating and \$20 price target on CULP shares. With the shares now trading at less than 11x our F2023 EPS projection, we argue that investors are overlooking the still-favorable demand that has been overshadowed by ongoing supply chain constraints and higher operational costs (which we think will start to “normalize” in early F2023). 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 growth 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 \$20 price target is based on 23x our F2023 EPS estimate of \$0.86.		
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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