CULP

# Culp Announces Results for Second Quarter Fiscal 2021

December 3, 2020

***Board of Directors Authorizes Five Percent Increase in Quarterly Cash Dividend on Solid Results and Strengthened Liquidity***

HIGH POINT, N.C.--(BUSINESS WIRE)--Dec. 3, 2020-- Culp, Inc. (NYSE: CULP) today reported financial and operating results for the second quarter ended November 1, 2020.

**Fiscal 2021 Second Quarter Financial Summary[(1)]**

- Net sales were $76.9 million, up 10.5 percent over the prior-year period, with mattress fabric sales up 12.2 percent and upholstery fabric sales up 8.7 percent compared with the second quarter of last year.
- Pre-tax income from continuing operations improved sequentially to $3.9 million, which included $680,000 in other expense relating mostly to foreign exchange rate fluctuations associated with China, compared with pre-tax income from continuing operations of $4.5 million for the prior-year period, which included $99,000 in other expense.
- Net income from continuing operations was $2.4 million, or $0.19 per diluted share, compared with net income from continuing operations of $2.2 million, or $0.18 per diluted share, for the prior-year period.
- The company's financial position reflected increased total cash and investments of $56.5 million and no outstanding borrowings as of November 1, 2020. This compares with a net cash position of $38.7 million as of the end of the fourth quarter of fiscal 2020. (See summary of cash and investments table on page 9.)
- Cash flow from operations and free cash flow for the first six months of fiscal 2021 were $22.7 million and $20.5 million, respectively, compared with cash flow from operations and free cash flow of $8.2 million and $5.6 million, respectively, for the prior-year period. (See reconciliation table on page 11.)
- The company announced a five percent increase in its quarterly cash dividend to $0.11 per share, commencing in the third quarter of fiscal 2021. At an annual indicated dividend of $0.44 per share, the yield is 3.03%, based upon yesterday's closing stock price of $14.50 per share. Notably, this is the company's eighth straight year of increasing its annual dividend.

[(1)] During the fourth quarter of fiscal 2020, the company sold its majority ownership interest in eLuxury, LLC, resulting in the elimination of its home accessories segment. Accordingly, the financial results for this segment are excluded from the reported financial performance of the company's continuing operations and are presented as a discontinued operation in the company's consolidated financial statements.

**Financial Outlook**

- Due to the continued economic impact of the COVID-19 pandemic and the lack of visibility as to its duration, the company is providing only limited financial guidance for fiscal 2021 at this time.
- Although subject to unforeseen changes that may arise in connection with the pandemic, the company is encouraged by the ongoing execution of its product-driven strategy and continued strength in demand for home furnishing products, as well as its opportunities for market share growth. The company expects sales and operating income for the third quarter of fiscal 2021

to be comparable to the prior-year period, with the mattress fabrics segment continuing its strong rebound and the upholstery fabrics segment facing ongoing headwinds relating to foreign exchange rate fluctuations associated with its operations located in China, customer supply chain constraints, and sales mix. The company also expects sales and operating income for the fourth quarter of fiscal 2021 to be dramatically improved for both segments as compared to the fourth quarter of fiscal 2020.

Commenting on the results, Iv Culp, president and chief executive officer of Culp, Inc., said, “We are pleased with our strong performance for the second quarter of fiscal 2021, which reflects the tireless efforts of our associates around the world and the strength and resilience of our global platform. Our dedicated team has done an outstanding job in following the protocols we have put in place to operate safely, while also meeting the rapid surge in demand with the high level of service and product quality that our customers know and expect from us. As we continue to navigate our way through these uncertain times, our top priority remains the health and safety of our employees, customers, suppliers, and the communities we serve. We are incredibly proud of our team’s continued drive to deliver innovative products and satisfy the evolving needs of our customers, while also integrating enhanced safety practices and new ways of working virtually throughout our business.

“Overall, we are very pleased with the top line performance for both our mattress fabrics and upholstery fabrics segments. This faster-than-expected recovery indicates an increased consumer focus on the home environment, as well as our ability to service this increase in demand through our strong global platform and stable supply chain. We are also benefitting from market share gains as our innovative products are resonating well with both new and existing customers. Additionally, we delivered significant sequential improvement in operating income as compared to the first quarter, consistent with our expectations.

“We further strengthened our balance sheet with increased liquidity, as total cash and investments reached $56.5 million. Based on this strong financial performance, we are pleased to announce that our Board of Directors approved a five percent increase in our quarterly dividend, which marks the eighth consecutive year of increasing our annual dividend. This is consistent with our capital allocation strategy and our commitment to generate value for our shareholders.

“Looking ahead, our customers’ ability to meet their demand is being challenged by supply chain constraints related primarily to non-fabric components, as well as labor shortages, which could temporarily delay their scheduled delivery of fabric orders from both our mattress and upholstery fabrics segments. Additionally, the ongoing impact and duration of the COVID-19 pandemic remains unknown. We are prepared for a range of macroeconomic scenarios and are confident in our ability to weather these near-term headwinds. Barring additional shutdowns, we are optimistic, based on current industry demand trends and market share opportunities, that we will deliver strong results in the second half of fiscal 2021. We are well positioned for continued growth and look forward to the opportunities ahead for our business in fiscal 2021,” added Culp.

**Segment Update**

*Mattress Fabrics Segment*

Sales for this segment were $40.0 million for the second quarter, up 12.2 percent compared with sales of $35.7 million in the second quarter of fiscal 2020.

“We were especially encouraged by the strong growth in sales and operating income for the mattress fabric segment during the second quarter,” said Sandy Brown, president of Culp’s mattress fabrics division. “The COVID-19 pandemic has generated greater consumer awareness and appreciation for overall comfort and wellness within the home environment, leading to an increase in discretionary spending on home furnishing products, including mattresses. We built on the momentum generated during the last eight weeks of the first quarter by utilizing our product-driven strategy for both mattress fabrics and sewn covers, as well as our global supply chain and dedicated attention to our customers. The strength and flexibility of our global manufacturing and sourcing operations in the U.S., Canada, Haiti, Asia, and Turkey enabled us to support current demand and serve the needs of our mattress fabric and cover customers.

“We remain pleased with the growth of our sewn mattress cover business, with demand trends for mattress covers exceeding pre-COVID levels. This trend is driven by the ongoing growth in the boxed bedding space, and we continue to work collaboratively with new and existing customers to develop fresh, innovative products.

“During this uncertain and rapidly evolving environment, we have managed our business with a firm focus on creative designs, innovative fabric and sewn cover products, and exceptional service. We are excited about ongoing developments in product innovation, including expanding our specialty finish options and virtual rendering services. We also expect that our increased capacity in North America resulting from our investment in additional equipment will be available during the fourth quarter of fiscal 2021. Finally, we believe that the domestic mattress industry, and, in turn, our business, will benefit from the recent preliminary antidumping duties imposed by the U.S. Department of Commerce on mattress importers from seven countries.

“Barring additional shutdowns or significant disruption in our customers’ supply chain for raw materials other than fabric, we believe we are well positioned to execute our strategy and increase market share during the second half of fiscal 2021,” added Brown.

*Upholstery Fabrics Segment*

Sales for this segment were $36.8 million for the second quarter, up 8.7 percent compared with sales of $33.9 million in the second quarter of fiscal 2020.

“We were very pleased with the solid growth in our upholstery fabric sales for the second quarter,” said Boyd Chumbley, president of Culp’s upholstery fabrics division. “Our residential upholstery business saw a significant increase in sales compared to the prior-year period, driven primarily by the increased consumer focus on the at-home experience and overall comfort. Through our strong platform in Asia, including our expanded cut and sew capabilities in Vietnam and our stable, long-term supplier relationships, we were able to respond quickly to meet the upsurge in demand from our customers and increase our market share. We have also generated a historically strong backlog in our residential upholstery business, reflecting the ongoing favorable demand trends for this business.

“Our line of highly durable, stain-resistant LiveSmart® performance fabrics, as well as our line of LiveSmart Evolve® performance plus sustainability fabrics, continued to experience favorable demand trends. We also recently launched LiveSmart Ultra™, which features a new antimicrobial finish as the next step in our LiveSmart performance brand evolution. These LiveSmart performance fabrics are important drivers of growth in our residential business.

“Our hospitality business remained under pressure by the ongoing COVID-19 disruption that continued to affect the travel and leisure industries. These lingering pressures also affected Read Window Products, our window treatment and installation business, during the quarter. While sales for our hospitality business remained relatively stable as compared to the first quarter, we expect that the disruption in hospitality and leisure will continue to affect this business in the near-term.

“Additionally, while we saw a material sequential improvement in our operating income as compared to the first quarter of fiscal 2021, our second quarter results compared to the prior-year period were materially affected by unfavorable China foreign exchange rate fluctuations, as well as sales mix. We expect these factors will continue to affect our operating income during the third quarter. Despite these pressures, we were encouraged by our solid operating margin for the second quarter.

“We are encouraged by the strong backlog in our residential upholstery business and are confident in our ability to meet this demand. We expect the strong performance in our residential upholstery business to continue, absent additional pandemic-related shutdowns or material disruption in our customers’ supply chain,” added Chumbley.

**Balance Sheet**

“As the ongoing impact of the COVID-19 pandemic remains uncertain, maintaining a strong financial position remains one of Culp’s top priorities for fiscal 2021,” added Ken Bowling, executive vice president and chief financial officer of Culp, Inc. “As of November 1, 2020, we reported $56.5 million in total cash and investments and no outstanding borrowings, up from our $38.7 million net cash position as of the end of the fourth quarter of fiscal 2020. For the first six months of fiscal 2021, we incurred $2.0 million in capital expenditures and spent $2.6 million on regular dividends. We also generated cash flow from operations of $22.7 million and free cash flow from operations of $20.5 million for the first half of fiscal 2021, compared with cash flow from operations of $8.2 million and free cash flow of $5.6 million for the prior-year period. (See reconciliation table on page 11.) This year-over-year improvement reflects a focused attention on working capital management during the first half of the year. While we are extremely pleased with our strong cash position and fortified balance sheet going into the second half of the year, it is important to note that our cash position will be affected by our strategic investments in working capital and planned capital expenditures during this period.”

**Dividends and Share Repurchases**

The company announced that its Board of Directors has approved a five percent increase in the company’s quarterly cash dividend to 11 cents per share, marking the eighth straight year of increasing the annual dividend. At an annual indicated dividend of $0.44 per share, the yield is 3.03%, based upon yesterday’s closing stock price of $14.50 per share. The next quarterly payment will be made on or about January 18, 2021, to shareholders of record as of January 8, 2021. The Board will continue to evaluate the appropriateness of the current dividend rate considering economic conditions and the company’s performance in upcoming quarters.

The company did not repurchase any shares during the second quarter of fiscal 2021, leaving the full $5.0 million available under the share repurchase program approved by the Board in March 2020. As previously disclosed, the company has temporarily suspended its share repurchases given the economic uncertainty related to COVID-19.

**About the Company**

Culp, Inc. is one of the world's largest marketers of mattress fabrics for bedding and upholstery fabrics for residential and commercial furniture. The company markets a variety of fabrics to its global customer base of leading bedding and furniture companies, including fabrics produced at Culp’s manufacturing facilities and fabrics sourced through other suppliers. Culp has operations located in the United States, Canada, China, and Haiti.

*This release contains “forward-looking statements” within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties that may cause actual events and results to differ materially from such statements. Further, forward looking statements are intended to speak only as of the date on which they are made, and we disclaim any duty to update such statements to reflect any changes in management’s expectations or any change in the assumptions or circumstances on which such statements are based, whether due to new information, future events, or otherwise. Forward-looking statements are statements that include projections, expectations, or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “plan,” “project,” and their derivatives, and include but are not limited to statements about expectations for our future operations, production levels, new product launches, sales, profit margins, profitability, operating income, capital expenditures, working capital levels, income taxes, SG&A or other expenses, pre-tax income, earnings, cash flow, and other performance or liquidity measures, as well as any statements regarding potential acquisitions, future economic or industry trends, public health epidemics, or future developments. There can be no assurance that the company will realize these expectations, meet its guidance, or that these beliefs will prove correct.*

*Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on our business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect us adversely. The future performance of our business depends in part on our success in conducting and finalizing acquisition negotiations and integrating acquired businesses into our existing operations. Changes in consumer tastes or preferences toward products not produced by us could erode demand for our products. Changes in tariffs or trade policy, or changes in the value of the U.S. dollar versus other currencies, could affect our financial results because a significant portion of our operations are located outside the United States. Strengthening of the U.S. dollar against other currencies could make our products less competitive on the basis of price in markets outside the United States, and strengthening of currencies in Canada and China can have a negative impact on our sales of products produced in those places. Also, economic and political instability in international areas could affect our operations or sources of goods in those areas, as well as demand for our products in international markets. The impact of public health epidemics on employees, customers, suppliers, and the global economy, such as the global coronavirus pandemic currently affecting countries around the world, could also adversely affect our operations and financial performance. In addition, the impact of potential goodwill or intangible asset impairments could affect our financial results. Finally, increases in market prices for petrochemical products can significantly affect the prices we pay for raw materials, and in turn, increase our operating costs and decrease our profitability. Further information about these factors, as well as other factors that could affect our future operations or financial results and the matters discussed in forward-looking statements, is included in Item 1A “Risk Factors” in our most recent Form 10-K and Form 10-Q reports filed with the Securities and Exchange Commission. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur.*

**CULP, INC.**
**CONSOLIDATED STATEMENTS OF NET INCOME**
**FOR THREE MONTHS ENDED NOVEMBER 1, 2020, AND NOVEMBER 3, 2019**
**Unaudited**
**(Amounts in Thousands, Except for Per Share Data)**

| | THREE MONTHS ENDED | | | | |
|---|---|---|---|---|---|
| | Amount | | | Percent of Sales | |
| | **November 1, 2020** | November 3, 2019 | % Over (Under) | **November 1, 2020** | November 3, 2019 |
| Net sales | **$ 76,851** | 69,550 | 10.5% | **100.0%** | 100.0% |
| Cost of sales | **(62,590)** | (56,024) | 11.7% | **81.4%** | 80.6% |
| Gross profit from continuing operations | **14,261** | 13,526 | 5.4% | **18.6%** | 19.4% |
| Selling, general and administrative expenses | **(9,743)** | (9,117) | 6.9% | **12.7%** | 13.1% |
| Income from continuing operations | **4,518** | 4,409 | 2.5% | **5.9%** | 6.3% |
| Interest expense | **—** | (21) | 100.0% | **0.0%** | (0.0)% |
| Interest income | **59** | 258 | (77.1)% | **0.1%** | 0.4% |
| Other expense | **(680)** | (99) | 586.9% | **0.9%** | 0.1% |
| Income before income taxes from continuing operations | **3,897** | 4,547 | (14.3)% | **5.1%** | 6.5% |
| Income tax expense (1) | **(1,613)** | (2,279) | (29.2)% | **41.4%** | 50.1% |
| Income (loss) from investment in unconsolidated joint venture | **100** | (16) | N.M. | **0.1%** | (0.0)% |
| Net income from continuing operations | **2,384** | 2,252 | 5.9% | **3.1%** | 3.2% |
| Loss before income taxes from discontinued operation (2) | **—** | (441) | (100.0)% | **—** | (0.6)% |
| Income tax benefit (2) (3) | **—** | 381 | (100.0)% | **—** | 86.4% |
| Net loss from discontinued operation (2) | **—** | (60) | (100.0)% | **—** | (0.1)% |
| Net income | **$ 2,384** | 2,192 | 8.8% | **3.1%** | 3.2% |
| Net income from continuing operations per share - basic | **$ 0.19** | $ 0.18 | 6.8% | | |
| Net income from continuing operations per share - diluted | **$ 0.19** | $ 0.18 | 6.6% | | |
| Net loss from discontinued operation per share - basic | **$ —** | $ (0.00) | (100.0)% | | |
| Net loss from discontinued operation per share - diluted | **$ —** | $ (0.00) | (100.0)% | | |
| Net income per share - basic | **$ 0.19** | $ 0.18 | 9.7% | | |
| Net income per share - diluted | **$ 0.19** | $ 0.18 | 9.5% | | |
| Average shares outstanding-basic | **12,298** | 12,408 | (0.9)% | | |
| Average shares outstanding-diluted | **12,324** | 12,408 | (0.7)% | | |

Notes

(1) Percent of sales column for income tax expense is calculated as a % of income before income taxes from continuing operations.

(2) Effective March 31, 2020, we sold our entire ownership of eLuxury, LLC to its noncontrolling interest holder, resulting in the elimination of the home accessories segment at such time.

(3) Percent of sales column for income tax benefit is calculated as a % of loss before income taxes from discontinued operation.

**CULP, INC.**
**CONSOLIDATED STATEMENTS OF NET (LOSS) INCOME**
**FOR SIX MONTHS ENDED NOVEMBER 1, 2020, AND NOVEMBER 3, 2019**
**Unaudited**
**(Amounts in Thousands, Except for Per Share Data)**

| | SIX MONTHS ENDED | | | | |
|---|---|---|---|---|---|
| | Amount | | | Percent of Sales | |
| | **(4) November 1, 2020** | (4) November 3, 2019 | % Over (Under) | **November 1, 2020** | November 3, 2019 |
| Net sales | **$ 141,315** | 140,269 | 0.7% | **100.0%** | 100.0% |
| Cost of sales | **(117,153)** | (114,331) | 2.5% | **82.9%** | 81.5% |
| Gross profit from continuing operations | **24,162** | 25,938 | (6.8)% | **17.1%** | 18.5% |
| Selling, general and administrative expenses | **(17,761)** | (18,266) | (2.8)% | **12.6%** | 13.0% |
| Restructuring credit | **-** | 35 | (100.0)% | **(0.0)%** | 0.0% |
| Income from continuing operations | **6,401** | 7,707 | (16.9)% | **4.5%** | 5.5% |
| Interest expense | **(51)** | (21) | 142.9% | **0.0%** | 0.0% |
| Interest income | **117** | 518 | (77.4)% | **0.1%** | 0.4% |
| Other expense | **(1,046)** | (194) | 439.2% | **0.7%** | 0.1% |

| | | | | | |
|---|---|---|---|---|---|
| Income before income taxes from continuing operations | **5,421** | 8,010 | (32.3)% | **3.8%** | 5.7% |
| Income tax expense (1) | **(5,937)** | (3,971) | 49.5% | **109.5%** | 49.6% |
| Income (loss) from investment in unconsolidated joint venture | **167** | (3) | N.M. | **0.1%** | (0.0)% |
| Net (loss) income from continuing operations | **(349)** | 4,036 | (108.6)% | **(0.2)%** | 2.9% |
| Loss before income taxes from discontinued operation (2) | **—** | (1,062) | (100.0)% | **0.0%** | (0.8)% |
| Income tax benefit (2) (3) | **—** | 392 | (100.0)% | **0.0%** | 36.9% |
| Net loss from discontinued operation (2) | **—** | (670) | (100.0)% | **0.0%** | (0.5)% |
| Net (loss) income | **$ (349)** | 3,366 | (110.4)% | **(0.2)%** | 2.4% |
| | | | | | |
| Net (loss) income from continuing operations per share - basic | **$ (0.03)** | $ 0.33 | (108.7)% | | |
| Net (loss) income from continuing operations per share - diluted | **$ (0.03)** | $ 0.33 | (108.7)% | | |
| Net loss from discontinued operation per share - basic | **$ —** | $ (0.05) | (100.0)% | | |
| Net loss from discontinued operation per share - diluted | **$ —** | $ (0.05) | (100.0)% | | |
| Net (loss) income per share - basic | **$ (0.03)** | $ 0.27 | (110.5)% | | |
| Net (loss) income per share - diluted | **$ (0.03)** | $ 0.27 | (110.5)% | | |
| Average shares outstanding-basic | **12,293** | 12,403 | (0.9)% | | |
| Average shares outstanding-diluted | **12,293** | 12,413 | (1.0)% | | |

Notes

(1) Percent of sales column for income tax expense is calculated as a % of income before income taxes from continuing operations.

(2) Effective March 31, 2020, we sold our entire ownership of eLuxury, LLC to its noncontrolling interest holder, resulting in the elimination of the home accessories segment at such time.

(3) Percent of sales column for income tax benefit is calculated as a % of loss before income taxes from discontinued operation.

(4) See page 14 for our Reconciliation of Selected Income Statement Information to Adjusted Results for the six-month periods ending November 1, 2020 and November 3, 2019, which includes certain adjustments to income tax expense from continuing operation.

**CULP, INC.**
**CONSOLIDATED BALANCE SHEETS**
**NOVEMBER 1, 2020, NOVEMBER 3, 2019, AND MAY 3, 2020**
**Unaudited**
**(Amounts in Thousands)**

| | **Amounts** | | | | |
|---|---|---|---|---|---|
| | **(Condensed)** | (Condensed) | Increase (Decrease) | | (Condensed) |
| | **November 1, 2020** | November 3, 2019 | Dollars | Percent | * May 3, 2020 |
| Current assets | | | | | |
| Cash and cash equivalents | **$ 45,288** | 46,955 | (1,667) | (3.6)% | 69,790 |
| Short-term investments - Held-To-Maturity | **5,005** | — | 5,005 | 100.0% | 4,271 |
| Short-term investments - Available for Sale | **5,462** | — | 5,462 | 100.0% | 923 |
| Accounts receivable | **32,960** | 23,890 | 9,070 | 38.0% | 25,093 |
| Inventories | **47,726** | 51,443 | (3,717) | (7.2)% | 47,907 |
| Current income taxes receivable | **—** | 776 | (776) | (100.0)% | 1,585 |
| Current assets - Discontinued operation | **—** | 4,760 | (4,760) | (100.0)% | — |
| Other current assets | **3,509** | 2,745 | 764 | 27.8% | 2,116 |
| Total current assets | **139,950** | 130,569 | 9,381 | 7.2% | 151,685 |
| Property, plant & equipment, net | **41,599** | 45,221 | (3,622) | (8.0)% | 43,147 |
| Goodwill | **—** | 13,569 | (13,569) | (100.0)% | — |
| Intangible assets | **3,192** | 3,711 | (519) | (14.0)% | 3,380 |
| Long-term investments - Rabbi Trust | **8,060** | 7,575 | 485 | 6.4% | 7,834 |
| Long-term investments - Held-To-Maturity | **759** | — | 759 | 100.0% | 2,076 |
| Right of use asset | **6,165** | 4,883 | 1,282 | 26.3% | 3,903 |
| Noncurrent income taxes receivable | **—** | 733 | (733) | (100.0)% | — |
| Deferred income taxes | **645** | 511 | 134 | 26.2% | 793 |
| Investment in unconsolidated joint venture | **1,859** | 1,504 | 355 | 23.6% | 1,602 |
| Long-term note receivable affiliated with discontinued operation | **—** | 1,800 | (1,800) | (100.0)% | — |
| Noncurrent assets - Discontinued operation | **—** | 22,950 | (22,950) | (100.0)% | — |
| Other assets | **547** | 496 | 51 | 10.3% | 664 |

| | | | | | |
|---|---|---|---|---|---|
| Total assets | **$ 202,776** | 233,522 | (30,746) | (13.2)% | 215,084 |
| Current liabilities | | | | | |
| Line of credit - China operations | **$ —** | — | — | — | 1,015 |
| Paycheck Protection Program Loan | **—** | — | — | — | 7,606 |
| Accounts payable - trade | **38,247** | 26,336 | 11,911 | 45.2% | 23,002 |
| Accounts payable - capital expenditures | **68** | 398 | (330) | (82.9)% | 107 |
| Operating lease liability - current | **2,316** | 2,090 | 226 | 10.8% | 1,805 |
| Deferred revenue | **375** | 375 | — | — | 502 |
| Accrued expenses | **11,684** | 8,263 | 3,421 | 41.4% | 5,687 |
| Accrued restructuring costs | **—** | 35 | (35) | (100.0)% | — |
| Current liabilities - Discontinued operation | **—** | 1,907 | (1,907) | (100.0)% | — |
| Income taxes payable - current | **1,413** | 1,539 | (126) | (8.2)% | 395 |
| Total current liabilities | **54,103** | 40,943 | 13,160 | 32.1% | 40,119 |
| Line of credit - U.S. operations | **—** | — | — | — | 29,750 |
| Accrued expenses - long-term | **—** | 333 | (333) | (100.0)% | 167 |
| Operating lease liability - long-term | **4,008** | 2,614 | 1,394 | 53.3% | 2,016 |
| Contingent consideration affiliated with discontinued operation | **—** | 6,006 | (6,006) | (100.0)% | — |
| Income taxes payable - long-term | **3,325** | 3,442 | (117) | (3.4)% | 3,796 |
| Deferred income taxes | **6,089** | 3,283 | 2,806 | 85.5% | 1,818 |
| Deferred compensation | **8,000** | 7,429 | 571 | 7.7% | 7,720 |
| Noncurrent liabilities - Discontinued operation | **—** | 3,550 | (3,550) | (100.0)% | — |
| Total liabilities | **75,525** | 67,600 | 7,925 | 11.7% | 85,386 |
| Shareholders' equity | | | | | |
| Shareholders' equity attributable to Culp Inc. | **127,251** | 161,520 | (34,269) | (21.2)% | 129,698 |
| Non-controlling interest - Discontinued Operation | **-** | 4,402 | (4,402) | (100.0)% | — |
| | **127,251** | 165,922 | (38,671) | (23.3)% | 129,698 |
| Total liabilities and shareholders' equity | **$ 202,776** | 233,522 | (30,746) | (13.2)% | 215,084 |
| Shares outstanding | **12,303** | 12,412 | (109) | (0.9)% | 12,285 |

** Derived from audited financial statements.*

**CULP, INC.**
**SUMMARY OF CASH, INVESTMENTS, AND DEBT**
**NOVEMBER 1, 2020, NOVEMBER 3, 2019, AND MAY 3, 2020**
**Unaudited**
**(Amounts in Thousands)**

| | **Amounts** | | |
|---|---|---|---|
| | **November 1, 2020** | **(1)** November 3 2019 | May 3, 2020* |
| ***Cash and Investments*** | | | |
| Cash and cash equivalents | $ 45,288 | $ 47,183 | $ 69,790 |
| Short-term investments - Available for Sale | 5,462 | — | 923 |
| Short-term investments - Held-To-Maturity | 5,005 | — | 4,271 |
| Long-term investments - Held-To-Maturity | 759 | — | 2,076 |
| Total Cash and Investments | $ 56,514 | $ 47,183 | $ 77,060 |
| ***Debt*** | | | |
| Line of credit - China operations | $ — | $ — | $ 1,015 |
| Paycheck Protection Program Loan | — | — | 7,606 |
| Line of credit - U.S. operations | — | — | 29,750 |
| Total debt | $ — | $ — | $ 38,371 |
| Net Cash Position | $ 56,514 | $ 47,183 | $ 38,689 |

** Derived from audited financial statements.*

Notes

(1) As of November 3, 2019, cash and cash equivalents totaled $47.2 million, of which $47.0 million and $228,000 were classified as (i) cash and cash equivalents and (ii) within current assets – discontinued operation, respectively, in the accompanying Consolidated Balance Sheets.

**CULP, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE SIX MONTHS ENDED NOVEMBER 1, 2020, AND NOVEMBER 3, 2019**
**Unaudited**
**(Amounts in Thousands)**

| | SIX MONTHS ENDED | |
|---|---|---|
| | Amounts | |
| | **November 1, 2020** | November 3, 2019 |
| Cash flows from operating activities: | | |
| Net (loss) income | **$ (349)** | $ 3,366 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation | **3,538** | 3,893 |
| Amortization | **235** | 353 |
| Stock-based compensation | **474** | 467 |
| Deferred income taxes | **4,419** | 53 |
| Gain on sale of property, plant, and equipment | **—** | (93) |
| Realized loss on short-term investments available for sale | **6** | — |
| (Income) loss from investment in unconsolidated joint venture | **(167)** | 3 |
| Foreign currency exchange loss (gain) | **723** | (106) |
| Changes in assets and liabilities: | | |
| Accounts receivable | **(7,663)** | (835) |
| Inventories | **602** | (4,797) |
| Other current assets | **(1,175)** | (31) |
| Other assets | **(40)** | 133 |
| Accounts payable | **14,156** | 3,564 |
| Deferred revenue | **(127)** | (24) |
| Accrued expenses and deferred compensation | **6,019** | 1,620 |
| Accrued restructuring costs | **—** | (89) |
| Income taxes | **2,052** | 770 |
| Net cash provided by operating activities | **22,703** | 8,247 |
| Cash flows from investing activities: | | |
| Capital expenditures | **(2,041)** | (2,410) |
| Proceeds from the sale of equipment | **12** | 363 |
| Investment in unconsolidated joint venture | **(90)** | — |
| Proceeds from the sale of short-term investments (Held to Maturity) | **1,800** | 5,000 |
| Purchase of short-term and long-term investments (Held to Maturity) | **(1,245)** | — |
| Purchase of short-term investments (Available for Sale) | **(5,010)** | — |
| Proceeds from the sale of short-term investments (Available for Sale) | **455** | — |
| Proceeds from the sale of long-term investments (rabbi trust) | **77** | — |
| Purchase of long-term investments (rabbi trust) | **(257)** | (479) |
| Net cash (used in) provided by investing activities | **(6,299)** | 2,474 |
| Cash flows from financing activities: | | |
| Payments associated with lines of credit | **(30,772)** | — |
| Payments associated with Paycheck Protection Program Loan | **(7,606)** | — |
| Proceeds from subordinated loan payable associated with the noncontrolling interest of discontinued operation | **—** | 250 |
| Cash paid for acquisition of business | **—** | (1,532) |
| Dividends paid | **(2,583)** | (2,482) |
| Common stock surrendered for withholding taxes payable | **(25)** | (51) |
| Capital contribution associated with the noncontrolling interest of discontinued operation | **—** | 360 |
| Payments of debt issuance costs | **(15)** | **—** |
| Net cash used in financing activities | **(41,001)** | (3,455) |
| Effect of exchange rate changes on cash and cash equivalents | **95** | (91) |
| (Decrease) increase in cash and cash equivalents | **(24,502)** | 7,175 |
| Cash and cash equivalents at beginning of year | **69,790** | 40,008 |
| Cash and cash equivalents at end of period (1) | **$ 45,288** | $ 47,183 |
| Free Cash Flow (2) | **$ 20,499** | $ 5,630 |

Notes

(1) As of November 3, 2019, cash and cash equivalents totaled $47.2 million, of which $47.0 million and $228,000 were classified as (i) cash and cash equivalents and (ii) within current assets – discontinued operation, respectively, in the accompanying Consolidated Balance Sheets.

**CULP, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE SIX MONTHS ENDED NOVEMBER 1, 2020, AND NOVEMBER 3, 2019**
**Unaudited**
**(Amounts in Thousands)**

(2) Reconciliation of Free Cash Flow:

| | **FY 2021** | FY 2020 |
|---|---|---|

| | | | |
|---|---|---|---|
| A) Net cash provided by operating activities | **$** | **22,703** | 8,247 |
| B) Minus: Capital Expenditures | | **(2,041)** | (2,410) |
| C) Plus: Proceeds from the sale of equipment | | **12** | 363 |
| D) Minus: Investment in unconsolidated joint venture | | **(90)** | — |
| E) Plus: Proceeds from the sale of long-term investments (rabbi trust) | | **77** | — |
| F) Minus: Purchase of long-term investments (rabbi trust) | | **(257)** | (479) |
| G) Effects of exchange rate changes on cash and cash equivalents | | **95** | (91) |
| Free Cash Flow | **$** | **20,499** | 5,630 |

**CULP, INC.**
**STATEMENTS OF OPERATIONS BY SEGMENT**
**FOR THE THREE MONTHS ENDED NOVEMBER 1, 2020, AND NOVEMBER 3, 2019**
**Unaudited**
**(Amounts in Thousands)**

| | **THREE MONTHS ENDED** | | | | |
|---|---|---|---|---|---|
| | Amounts | | | Percent of Total Sales | |
| Net Sales by Segment | **November 1, 2020** | November 3, 2019 | % Over (Under) | **November 1, 2020** | November 3, 2019 |
| Mattress Fabrics | **$ 40,030** | 35,666 | 12.2% | **52.1%** | 51.3% |
| Upholstery Fabrics | **36,821** | 33,884 | 8.7% | **47.9%** | 48.7% |
| Net Sales | **$ 76,851** | 69,550 | 10.5% | **100.0%** | 100.0% |
| Gross Profit from Continuing Operations by Segment | | | | Gross Profit Margin | |
| Mattress Fabrics | **$ 7,584** | 6,247 | 21.4% | **18.9%** | 17.5% |
| Upholstery Fabrics | **6,677** | 7,279 | (8.3)% | **18.1%** | 21.5% |
| Gross Profit from Continuing Operations | **$ 14,261** | 13,526 | 5.4% | **18.6%** | 19.4% |
| Selling, General and Administrative Expenses by Segment | | | | Percent of Sales | |
| Mattress Fabrics | **$ 3,202** | 2,953 | 8.4% | **8.0%** | 8.3% |
| Upholstery Fabrics | **3,390** | 3,806 | (10.9)% | **9.2%** | 11.2% |
| Unallocated Corporate expenses | **3,151** | 2,358 | 33.6% | **4.1%** | 3.4% |
| Selling, General and Administrative Expenses | **$ 9,743** | 9,117 | 6.9% | **12.7%** | 13.1% |
| Income from continuing operations by Segment | | | | Operating Income Margin | |
| Mattress Fabrics | **$ 4,382** | 3,294 | 33.0% | **10.9%** | 9.2% |
| Upholstery Fabrics | **3,287** | 3,473 | (5.4)% | **8.9%** | 10.2% |
| Unallocated corporate expenses | **(3,151)** | (2,358) | 33.6% | **(4.1)%** | (3.4)% |
| Income from Continuing Operations | **$ 4,518** | 4,409 | 2.5% | **5.9%** | 6.3% |
| Depreciation Expense by Segment | | | | | |
| Mattress Fabrics | **$ 1,501** | 1,701 | (11.8)% | | |
| Upholstery Fabrics | **215** | 192 | 12.0% | | |
| Discontinued Operation | **-** | 95 | (100.0)% | | |
| Depreciation Expense | **$ 1,716** | 1,988 | (13.7)% | | |

**CULP, INC.**
**STATEMENTS OF OPERATIONS BY SEGMENT**
**FOR THE SIX MONTHS ENDED NOVEMBER 1, 2020, AND NOVEMBER 3, 2019**
**Unaudited**
**(Amounts in Thousands)**

| | **SIX MONTHS ENDED** | | | | |
|---|---|---|---|---|---|
| | Amounts | | | Percent of Total Sales | |
| Net Sales by Segment | **November 1, 2020** | November 3, 2019 | % Over (Under) | **November 1, 2020** | November 3, 2019 |
| Mattress Fabrics | **$ 76,133** | 74,525 | 2.2% | **53.9%** | 53.1% |
| Upholstery Fabrics | **65,182** | 65,744 | (0.9)% | **46.1%** | 46.9% |
| Net Sales | **$ 141,315** | 140,269 | 0.7% | **100.0%** | 100.0% |

| Gross Profit from Continuing Operations by Segment | | | | | Gross Profit Margin | |
|---|---|---|---|---|---|---|
| Mattress Fabrics | **$ 12,191** | 11,938 | 2.1% | | **16.0%** | 16.0% |
| Upholstery Fabrics | **11,971** | 14,000 | (14.5)% | | **18.4%** | 21.3% |
| Gross Profit from Continuing Operations | **$ 24,162** | 25,938 | (6.8)% | | **17.1%** | 18.5% |
| **Selling, General, and Administrative Expenses by Segment** | | | | | **Percent of Total Sales** | |
| Mattress Fabrics | **$ 5,964** | 6,025 | (1.0)% | | **7.8%** | 8.1% |
| Upholstery Fabrics | **6,570** | 7,652 | (14.1)% | | **10.1%** | 11.6% |
| Unallocated Corporate expenses | **5,227** | 4,589 | 13.9% | | **3.7%** | 3.3% |
| Selling, General, and Administrative Expenses | **$ 17,761** | $ 18,266 | (2.8)% | | **12.6%** | 13.0% |
| **(Loss) Income from Continuing Operations by Segment** | | | | | **Operating (Loss) Income Margin** | |
| Mattress Fabrics | **$ 6,227** | 5,913 | 5.3% | | **8.2%** | 7.9% |
| Upholstery Fabrics | **5,401** | 6,348 | (14.9)% | | **8.3%** | 9.7% |
| Unallocated corporate expenses | **(5,227)** | (4,589) | 13.9% | | **(3.7)%** | (3.3)% |
| Subtotal | **$ 6,401** | 7,672 | (16.6)% | | **4.5%** | 5.5% |
| Restructuring credit | **—** | 35 | (100.0)% | | **0.0%** | 0.0% |
| Income from continuing operations | **$ 6,401** | 7,707 | (16.9)% | | **4.5%** | 5.5% |
| **Depreciation Expense by Segment** | | | | | | |
| Mattress Fabrics | **$ 3,132** | 3,321 | (5.7)% | | | |
| Upholstery Fabrics | **406** | 382 | 6.3% | | | |
| Discontinued Operation | **—** | 190 | (100.0)% | | | |
| Depreciation Expense | **$ 3,538** | 3,893 | (9.1)% | | | |

**CULP, INC.**
**RECONCILIATION OF SELECTED INCOME STATEMENT INFORMATION TO ADJUSTED RESULTS**
**FOR THE SIX MONTHS ENDED NOVEMBER 1, 2020, AND NOVEMBER 3, 2019**

| | **SIX MONTHS ENDED (UNAUDITED)** | | | | | |
|---|---|---|---|---|---|---|
| | **As Reported November 1, 2020** | Adjustments | November 1, Adjusted Results | **As Reported November 3, 2019** | Adjustments | November 3, Adjusted Results |
| Income before income taxes from continuing operations | **$ 5,421** | — | 5,421 | **$ 8,010** | — | 8,010 |
| Income tax expense (1) (2) | **(5,937)** | 4,099 | (1,838) | **(3,971)** | 1,017 | (2,954) |
| Income (loss) from investment in unconsolidated joint venture | **167** | — | 167 | **(3)** | — | (3) |
| Net (loss) income from continuing operations | **$ (349)** | 4,099 | 3,750 | **$ 4,036** | 1,017 | 5,053 |
| Net (loss) income from continuing operations per share - basic | **$ (0.03)** | | $ 0.31 | **$ 0.33** | | $ 0.41 |
| Net (loss) income from continuing operations per share - diluted | **$ (0.03)** | | $ 0.30 | **$ 0.33** | | $ 0.41 |
| Average shares outstanding-basic | **12,293** | | 12,293 | **12,403** | | 12,403 |
| Average shares outstanding-diluted | **12,293** | | 12,305 | **12,413** | | 12,413 |

Notes

(1) The $4.1 million adjustment represents a $7.6 million non-cash income tax charge to record a full valuation allowance against the company's U.S. net deferred income tax assets, partially offset by a $3.5 million non-cash income tax benefit resulting from the re-establishment of certain U.S.

Federal net operating loss carryforwards in connection with U.S. Treasury regulations enacted during our first quarter regarding Global Intangible Low Taxed Income ("GILTI") tax provisions of the Tax Cuts and Jobs Act of 2017.

(2) The $1.0 million adjustment represents our estimated GILTI tax incurred through our second quarter of fiscal 2020.

**CULP, INC.**
**CONSOLIDATED STATEMENTS OF ADJUSTED EBITDA**
**FOR THE TWELVE MONTHS ENDED NOVEMBER 1, 2020, AND NOVEMBER 3, 2019**
**Unaudited**
**(Amounts in Thousands)**

| | Quarter Ended February 2, 2020 | Quarter Ended May 3, 2020 | Quarter Ended August 2, 2020 | Quarter Ended November 1, 2020 | Trailing 12 Months November 1, 2020 |
|---|---|---|---|---|---|
| Net (loss) income | $ (4,207) | $ (27,825) | $ (2,733) | $ 2,384 | $ (32,381) |
| Loss before income taxes from discontinued operation | 7,824 | 8,698 | - | - | 16,522 |
| Income tax (benefit) expense from continuing operations | (973) | 704 | 4,324 | 1,613 | 5,668 |
| Interest income, net | (258) | (37) | (7) | (59) | (361) |
| Asset impairments from continuing operations | — | 13,712 | — | — | 13,712 |
| Restructuring credit and related charges | (35) | — | — | — | (35) |
| Depreciation expense - continuing operations | 1,891 | 1,882 | 1,822 | 1,716 | 7,311 |
| Amortization expense - continuing operations | 102 | 117 | 118 | 117 | 454 |
| Stock based compensation | 364 | (199) | 126 | 348 | 639 |
| Adjusted EBITDA | $ 4,708 | $ (2,948) | $ 3,650 | $ 6,119 | $ 11,529 |
| % Net Sales | 6.9% | (6.2)% | 5.7% | 8.0% | 4.5% |

| | Quarter Ended January 27 2019 | Quarter Ended April 28, 2019 | Quarter Ended August 4, 2019 | Quarter Ended November 3, 2019 | Trailing 12 Months November 3, 2019 |
|---|---|---|---|---|---|
| Net income (loss) | $ 3,060 | $ (1,511) | $ 1,174 | $ 2,192 | $ 4,915 |
| Loss before income taxes from discontinued operation | 313 | 477 | 621 | 441 | 1,852 |
| Income tax expense from continuing operations | 1,274 | 3,091 | 1,692 | 2,279 | 8,336 |
| Interest income, net | (259) | (221) | (260) | (237) | (977) |
| Restructuring credit and related charges | 340 | — | (35) | — | 305 |
| Other non-recurring charges | 429 | 500 | — | — | 929 |
| Depreciation expense - continuing operations | 1,934 | 1,933 | 1,810 | 1,893 | 7,570 |
| Amortization expense - continuing operations | 126 | 113 | 101 | 102 | 442 |
| Stock based compensation | 479 | (243) | 154 | 313 | 703 |
| Adjusted EBITDA | $ 7,696 | $ 4,139 | $ 5,257 | $ 6,983 | $ 24,075 |
| % Net Sales | 10.5% | 6.2% | 7.4% | 10.0% | 8.6% |
| % Over (Under) | (38.8)% | (171.2)% | (30.6)% | (12.4)% | (52.1)% |

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Investor Contact:
Kenneth R. Bowling
Chief Financial Officer
336-881-5630

Media Contact:
Teresa A. Huffman

Senior Vice President, Human Resources
336-889-5161

Source: Culp, Inc.