



Our ability to finish the year as a stronger company reflects the extraordinary efforts and resilience of our associates around the world.



Robert G. Culp, IV

Fellow shareholders:



We are extremely proud to report a solid financial and operating performance for Culp in fiscal 2021.

The significant challenges created by the COVID-19 pandemic at the end of fiscal 2020 were followed by a surge in demand that was driven by a renewed consumer focus on the home environment. With exceptional execution by both our divisions, we were able to capitalize on this demand and market share opportunities to deliver solid growth in sales and an improved operating performance for the year. Net sales for fiscal 2021 were \$299.7 million, up 17 percent compared with the prior year, with mattress fabrics sales up 20 percent and upholstery fabrics sales up 14 percent. Our performance reflects the advantage of our diversified manufacturing and sourcing capabilities, the stability of our supply chain, the strong appeal of our product offerings, and the benefits of our digital design and marketing capabilities. Building on this solid foundation and driven by a spirit of innovation, we ended a tumultuous year with strength and positive momentum heading into fiscal 2022.

In addition to our improved sales and operating performance, our cash flow for the year and our balance sheet remained strong. We also continued to make investments in our business to increase capacity and position us for future growth, including our investment in additional knit machines for our mattress fabrics business, our acquisition of the remaining fifty percent ownership interest in our Haiti cut and sew mattress cover operation, and our recently commenced expansion of our Haiti operations to add a new facility dedicated to the production of cut and sewn upholstery kits.

Importantly, our ability to finish the year as a stronger company reflects the extraordinary efforts and resilience of our associates around the world. We appreciate their hard work, adaptability, and perseverance in the face of unique challenges and uncertainties. Across our businesses, our teams came together to continue servicing our customers throughout the pandemic, while remaining diligent in their efforts to provide a safe environment for our associates, customers, business partners, and the communities in which we live. We are grateful for their unwavering dedication and commitment to operational excellence.

Mattress Fabrics Segment

For fiscal 2021, mattress fabric sales were \$157.7 million, up 20 percent compared with \$131.4 million in fiscal 2020. This sales growth was driven by increased demand for home furnishings products, including mattresses, due to a greater consumer focus on the home. It also reflects our continued focus on production innovation and creative designs, together with our ability to meet the surge in demand and respond quickly to meet the needs of our customers through the flexibility of our global manufacturing and sourcing operations across six countries. We benefitted from market share gains across a diverse group of new and existing customers during fiscal 2021, including further growth in our sewn mattress cover business, which reflects the success of our fabric to cover model and the continued popularity of the boxed bedding space. Additionally, our on-shore, near-shore, and off-shore supply chain strategy proved to be a preferred platform for providing our mattress cover customers with the agility and value they need for their business.

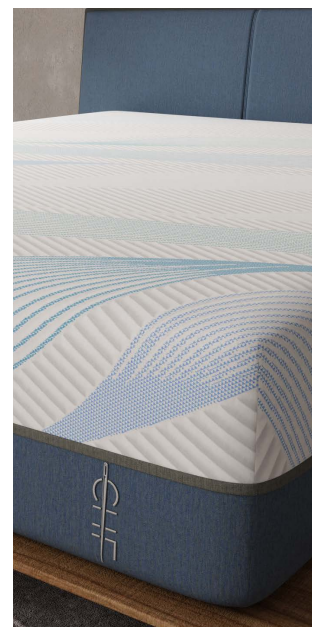


Our mattress fabrics business is focused on innovation and marketing capabilities, with expanded specialty finish and sustainability-focused options, as well as updated virtual rendering and digital project management services that allow us to work collaboratively with customers from concept ideation to final merchandising.



Our improved operating performance for fiscal 2021 primarily reflects our higher sales, offset somewhat by operating inefficiencies incurred to meet the surge in demand, as well as disruptions in our customers' supply chains for non-fabric components and labor shortages, increased freight and raw material costs, and unfavorable foreign currency fluctuations in Canada and China.

As we look ahead to fiscal 2022, we are excited about growth opportunities for both fabric and sewn cover products for new and existing customers. We are also focused on new innovations with performance fabrics, including the recent introduction of our new mattress fabric, ChillSense™ powered by Repeve®. This fabric line combines cooling technology with a sustainability focus and reflects our commitment to developing products that are better for the environment. We continued to make important strides on our environmental sustainability initiatives during fiscal 2021 by utilizing more recycled yarn and environmentally friendly chemical processes and increasing our efforts to reduce and recycle waste. We achieved landfill-free status at all of our U.S. manufacturing facilities for the mattress fabrics business during the year, and we are planning to undertake additional initiatives in fiscal 2022 that we believe will further reinforce our commitment to sustainable production.





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Our spirit of innovation allowed Culp to capitalize on market share opportunities throughout fiscal 2021.



Our product driven strategy and relentless focus on innovation and design creativity supports the needs of a diverse and growing customer base.



Our global manufacturing and sourcing capabilities in the U.S., Canada, Haiti, Asia, and Turkey provide flexibility to serve the needs of our customers.

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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 amidst consumer desire for cleanability, ease of maintenance, and environmentally conscious products.



Although we face some ongoing pressures heading into fiscal 2022, we believe we are well positioned to gain market share, and we expect our solid top line performance to continue at improved profitability levels during the year. We have the ability to leverage our creative designs, innovative products, digital marketing strategies, and global production capabilities to enhance our leadership position and sustain Culp's competitive advantage as a leading supplier of mattress fabrics and



covers. In addition, beginning in the third quarter of fiscal 2021, the domestic mattress industry and, in turn, our business, began to realize some benefits from the preliminary antidumping duties imposed by the U.S. Department of Commerce on mattress imports from seven countries, and we are cautiously optimistic that this tailwind will continue in fiscal 2022.

Upholstery Fabrics Segment

For fiscal 2021, upholstery fabric sales were \$142.1 million, up 14 percent compared with \$124.8 million in fiscal 2020. Our sales growth for the year reflects increased demand in our residential upholstery fabrics business, fueled by a strong consumer focus on the home, but partially offset by lower annual sales for our hospitality business, which remained under pressure due to pandemic-related disruption affecting the travel and leisure industry. Our annual sales growth also reflects the benefits of

existing upholstery fabrics customer. We believe this move will enhance our speed to market, provide growth opportunities, and mitigate some risk for our upholstery fabrics business with near-shore capabilities that complement our strong Asian platform.

At the end of fiscal 2021, the backlog in our residential upholstery business remained historically strong, reflecting the favorable demand trends for this business. While we expect that certain



We ended a challenging year with positive momentum heading into fiscal 2022.

Franklin N. Saxon



market share gains and product innovation in our residential business, as well as the strength and flexibility of our platform in Asia. 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 amidst consumer desire for cleanability, ease of maintenance, and environmentally conscious products. In early fiscal 2021, we also launched LiveSmart Ultra™, which features a new antimicrobial finish as the next step in our LiveSmart performance brand evolution.

Our improved operating performance for fiscal 2021 reflects the significant increase in sales for our residential business, offset somewhat by reduced demand in our hospitality business, rising freight and raw material costs, and unfavorable China foreign exchange rate fluctuations. We also faced additional challenges related to customer supply chain disruptions for non-fabric components and the inadequate supply of shipping containers that has affected the entire home furnishings industry.

Looking ahead, we are excited to be expanding our capacity for cut and sewn upholstery kits with a new production facility in Haiti. Construction on this facility commenced during the fourth quarter of fiscal 2021 and is expected to be complete during the second quarter of fiscal 2022. The new facility will primarily support committed demand from an

near-term headwinds, including rising freight and raw material costs, may temporarily pressure our business during fiscal 2022, we are confident in our ability to navigate these headwinds and believe our business is well positioned for the long term. We expect our residential business will continue to benefit from strong demand, and we are cautiously optimistic that pent up demand for travel and leisure activity will eventually benefit our hospitality business once conditions normalize in the travel and leisure industry. Above all, we remain focused on providing innovative products that meet the changing demands of our valued customers.

Balance Sheet

In addition to our improved sales and operating performance in fiscal 2021, our cash flow for the year and our balance sheet remained strong. We generated cash flow from operations of \$21.5 million compared with cash flow from operations of \$5.0 million for the prior year. As of May 2, 2021, we reported \$46.9 million in total cash and investments and no outstanding borrowings, up from our \$38.7 million net cash position as of the end of fiscal 2020. This year-over-year improvement reflects higher earnings and a focused attention on working capital management throughout the year. During fiscal 2021, we spent \$6.7 million in capital expenditures, primarily related to the mattress fabrics segment, and \$892,000 in acquisition-related expenses.



Employee training for Culp's newest facility in Haiti, which will be dedicated to producing cut and sewn kits for our upholstery fabrics business.

Capital Allocation Strategy

An inherent part of Culp's growth strategy has been a strong focus on conservative financial management and disciplined capital allocation. We strive to achieve a favorable balance between investing in our business operations to drive organic growth and returning funds to our shareholders. Following a year of reduced capital expenditures in fiscal 2020 due to the pandemic, in fiscal 2021 we made additional investments to expand our mattress fabric capacity, added a second building for mattress cover production in Haiti, and completed the purchase of the remaining fifty percent interest in our mattress cover joint venture in Haiti. We believe these investments, along with our other recently commenced investments for a new cut and sewn upholstery kit facility in Haiti and a new innovation campus in High Point, North Carolina, will enhance our speed to market and provide collaboration and growth opportunities in fiscal 2022.

We were pleased to maintain our quarterly cash dividend payment throughout the pandemic, and to increase this quarterly dividend payment for the eighth consecutive year, from \$0.105 per share to \$0.11 per share, or \$0.44 per share on an annual basis, beginning in the third quarter. For the fiscal year, we returned \$5.3 million to shareholders through regular quarterly cash dividends.

During the fourth quarter of fiscal 2020, our board of directors suspended our previously authorized share repurchase program given the ongoing economic disruption and uncertainties related to the COVID-19 pandemic. On March 2, 2021, our board of directors reinstated the share repurchase program. During fiscal 2021, we did not repurchase any shares of common stock. As a result, as of May 2, 2021, we had \$5.0 million available for additional repurchases.

Looking Ahead

Looking ahead, we are entering fiscal 2022 with a positive outlook for our business, despite some near-term headwinds. We are proud of our achievements during fiscal 2021, particularly our ability to utilize our manufacturing and sourcing capabilities across six countries to absorb the significant increase in demand throughout the year, while also continuing to deliver exceptional value and service for both new and existing customers. We are even more excited about the opportunities ahead for Culp and the encouraging demand trends for home furnishings. We are facing some ongoing pressures in both divisions related to continued customer capacity limitations, primarily due to supply chain disruption for non-fabric components and labor shortages, as well as increasing raw material and freight costs and ongoing foreign currency fluctuations in China and Canada. However, we expect that most of these headwinds are temporary and will be mitigated to some extent by pricing actions taken by both divisions near the end of fiscal 2021. We will also consider the need for additional pricing actions as inflationary pressures continue to escalate.

Despite these challenges, we expect to deliver an improved performance during fiscal 2022. We will maintain our relentless focus on innovation and emphasize efforts to increase our market share in both businesses and make progress on ESG initiatives throughout the year. Additionally, on the innovation front, we are excited to advance the tremendous synergies between our mattress and upholstery fabrics divisions by combining our design, innovation, and sales teams for both businesses into a shared space at our new innovation campus in downtown High Point, North Carolina. This design-driven space will pull our top creative talent together to support collaboration across divisions and develop new products and technologies.

We are fortunate to have an outstanding team of 1,400 dedicated associates around the globe who share our pursuit of operational excellence and commitment to exceptional customer service. Together with our experienced management team and board of directors, we are confident that Culp is well positioned to deliver value for our customers, employees, and shareholders in fiscal 2022 and beyond.

Sincerely,

Franklin N. Saxon
Executive Chairman

Robert G. Culp, IV
President and Chief Executive Officer