

CULP

CULP, INC.

NYSE: CULP

Second Quarter Fiscal 2023

Summary Financial Information

December 7, 2022

FORWARD LOOKING STATEMENTS

This presentation 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 we will realize these expectations or meet our 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 or 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. Increases in freight costs, labor costs, and raw material prices, including increases in market prices for petrochemical products, can also significantly affect the prices we pay for shipping, labor, and raw materials, respectively, and in turn, increase our operating costs and decrease our profitability. Finally, disruption in our customers’ supply chains for non-fabric components may cause declines in new orders and/or delayed shipping of existing orders while our customers wait for other components, which could adversely affect our financial results. 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.

ABOUT NON-GAAP FINANCIAL INFORMATION

This presentation contains adjusted income statement information for the three-month and six-month periods ending October 30, 2022, which discloses adjusted loss from operations, a non-GAAP performance measure that eliminates items which are not expected to occur on a regular basis, including, for the periods presented, restructuring expense and restructuring-related charges associated with the exit of the company's cut and sew upholstery fabrics operation located in Shanghai, China, during the second quarter of fiscal 2023. The company has included this adjusted information in order to show operational performance excluding the effects of such items, which are not expected to occur on a regular basis. Details of these calculations and a reconciliation to information from our GAAP financial statements are set forth in the back of this presentation. Management believes this presentation aids in the comparison of financial results among comparable financial periods. We note, however, that this adjusted income statement information should not be viewed in isolation or as a substitute for loss from operations calculated in accordance with GAAP.

This presentation contains disclosures about free cash flow, a non-GAAP liquidity measure that we define as net cash provided by (used in) operating activities, less cash capital expenditures and payments on vendor-financed capital expenditures, plus any proceeds from sale of property, plant, and equipment, plus proceeds from the sale of long-term investments associated with our rabbi trust, less the purchase of long-term investments associated with our rabbi trust, and plus or minus the effects of foreign currency exchange rate changes on cash and cash equivalents, in each case to the extent any such amount is incurred during the period presented. Details of these calculations and a reconciliation to information from our GAAP financial statements are set forth in the back of this presentation. Management believes the disclosure of free cash flow provides useful information to investors because it measures our available cash flow for potential debt repayment, stock repurchases, dividends, additions to cash and investments, or other corporate purposes. We note, however, that not all of the company's free cash flow is available for discretionary spending, as we may have mandatory debt payments and other cash requirements that must be deducted from our cash available for future use. In operating our business, management uses free cash flow to make decisions about what commitments of cash to make for operations, such as capital expenditures (and possible financing arrangements for these expenditures), purchases of inventory or supplies, SG&A expenditure levels, compensation, and other commitments of cash, while still allowing for adequate cash to meet known future commitments for cash, such as debt repayment, and also for making decisions about dividend payments and share repurchases.

ABOUT NON-GAAP FINANCIAL INFORMATION (2)

This presentation contains disclosures about our Adjusted EBITDA, which is a non-GAAP performance measure that reflects net (loss) income excluding income tax expense (benefit), net interest income, restructuring expense and restructuring related charges, and a gain on bargain purchase, as well as depreciation and amortization expense, and stock-based compensation expense. This measure also excludes other non-recurring charges and credits associated with our business, if and to the extent incurred in the period presented. Details of these calculations and a reconciliation to information from our GAAP financial statements are set forth in this presentation. We believe presentation of Adjusted EBITDA is useful to investors because earnings before interest income and expense, income taxes, depreciation and amortization, and similar performance measures that exclude certain charges from earnings, are often used by investors and financial analysts in evaluating and comparing companies in our industry. We note, however, that such measures are not defined uniformly by various companies, with differing expenses being excluded from net income to calculate these performance measures. For this reason, Adjusted EBITDA should not be viewed in isolation by investors and should not be used as a substitute for net income calculated in accordance with GAAP, nor should it be used for direct comparisons with similarly titled performance measures reported by other companies. Use of Adjusted EBITDA as an analytical tool has limitations in that this measure does not reflect all expenses that are necessary to fund and operate our business, including funds required to pay taxes, service our debt, and fund capital expenditures, among others. Management uses Adjusted EBITDA to help it analyze the company's earnings and operating performance, by excluding the effects of expenses that depend upon capital structure and debt level, tax provisions, and non-cash items such as depreciation, amortization and stock-based compensation expense that do not require immediate uses of cash.

The presentation contains disclosures about return on capital for both the entire company and for individual business segments. We define return on capital as operating income (loss) (measured on a trailing twelve-month basis and excluding certain non-recurring charges and credits, if applicable for the period presented) divided by average capital employed (excluding intangibles assets related to acquisitions at the divisional level only). Average capital employed is calculated over rolling five fiscal periods, depending on which quarter is being presented. Details of these calculations and a reconciliation to information from our GAAP financial statements are set forth at the back of this presentation. We believe return on capital is an accepted measure of earnings efficiency in relation to capital employed, but it is a non-GAAP performance measure that is not defined or calculated in the same manner by all companies. This measure should not be considered in isolation or as an alternative to net income or other performance measures, but we believe it provides useful information to investors by comparing the operating income we produce to the net asset base used to generate that income. Also, operating income on a trailing twelve-months basis does not necessarily indicate results that would be expected for the full fiscal year or for the following twelve months. We note that, particularly for return on capital measured at the segment level, not all assets and expenses are allocated to our operating segments, and there are assets and expenses at the corporate (unallocated) level that may provide support to a segment's operations and yet are not included in the assets and expenses used to calculate that segment's return on capital. Thus, the average return on capital for the company's segments will generally be different from the company's overall return on capital. Management uses return on capital to evaluate the company's earnings efficiency and the relative performance of its segments.

SECOND QUARTER FISCAL 2023 FINANCIAL SUMMARY

- ✦ Net sales were \$58.4 million, down 21.7 percent compared with the prior-year period, with mattress fabrics sales down 35.8 percent and upholstery fabrics sales down 4.5 percent compared with the second quarter of last year.
- ✦ Loss from operations was \$(11.9) million, as compared with income from operations of \$1.6 million for the prior-year period and as compared sequentially to a loss from operations of \$(4.7) million for the first quarter of fiscal 2023.
- ✦ The loss from operations for the second quarter of fiscal 2023 includes \$5.0 million in inventory impairment charges and loss on the sale of raw material and finished goods inventory associated with the company's mattress fabrics segment. It also includes approximately \$1.0 million in higher-than-normal inventory markdowns associated with the company's upholstery fabrics business, and \$713,000 in restructuring expense and related charges associated with the closure of the upholstery fabric segment's cut and sew facility in Shanghai, China.
- ✦ Net loss was \$(12.2) million, or \$(0.99) per diluted share, compared with net income of \$851,000, or \$0.07 per diluted share, for the prior-year period. The effective tax rate for the second quarter was negative (10.4)% and was affected by the company's mix of taxable income between its U.S. and foreign jurisdictions during the period.

SECOND QUARTER FISCAL 2023 FINANCIAL SUMMARY (CONT'D)

- ✦ The company's financial position reflected a solid balance sheet, with total cash and investments of \$19.1 million and no outstanding borrowings as of the end of the second quarter.
- ✦ Cash flow from operations and free cash flow were \$6.2 million and \$4.8 million, respectively, for the first six months of fiscal 2023, compared with cash flow from operations and free cash flow of negative \$(1.3) million and negative \$(5.8) million, respectively, for the first six months of fiscal 2022. (See reconciliation table at the back of this presentation)
- ✦ The company executed a non-binding term sheet during the second quarter with the lender of its existing domestic credit facility for a new secured credit facility of up to \$40 million, with borrowing availability under this facility based on certain of the company's accounts receivable and inventory. As compared to the company's existing credit facility, this proposed new facility is expected to provide improved borrowing availability and minimal financial covenants. The completion of the proposed credit facility is subject to the parties entering into applicable definitive agreements, which may contain additional or different terms from those described herein.

SECOND QUARTER 2023 HIGHLIGHTS

(\$ in millions)

GAAP	Q2 FY23	Q2 FY22	Change	
			\$	%
Sales	58.4	74.6	(16.2)	(21.7%)
Operating income / (loss)	(11.9)	1.6	(13.6)	NM
Operating income margin	(20.4)%	2.2%		NM
Pre-tax income / (loss)	(11.0)	1.3	(12.3)	NM
Pre-tax margin	(18.9)%	1.7%		NM
Net income (loss)	(12.2)	0.9	(13.0)	NM
EPS per diluted share	(0.99)	0.07	(1.06)	NM

SECOND QUARTER 2023 HIGHLIGHTS

(\$ in millions)

	As Reported October 30, 2022	Adjustments	October 30, 2022 Adjusted Results **
Loss from Operations	(11.9)	0.7	(11.2)
Operating Income Margin	-20.4%	NM	-19.2%

Notes

* Please see the Reconciliation of Selected Income Statement Information to Adjusted Results at the back of this presentation.

** These amounts exclude restructuring expense and restructuring related charges and other costs associated with the exit from production of our upholstery fabrics cut and sew upholstery operation in Shanghai, China. See the Reconciliation of Selected Income Statement Information to the Adjusted Results at the back of this presentation for additional details.

SECOND QUARTER 2023 YTD HIGHLIGHTS

(\$ in millions)

GAAP	FY23 YTD	FY22 YTD	Change	
			\$	%
Sales	121.0	157.6	(36.6)	(23.2%)
Operating income	(16.7)	5.0	(21.6)	NM
Operating income margin	(13.8)%	3.1%		NM
Pre-tax income	(15.8)	4.5	(20.3)	NM
Pre-tax margin	(13.1)%	2.8%		NM
Net income (loss)	(17.9)	3.1	(21.0)	NM
EPS per diluted share	(1.46)	0.25	(1.71)	NM

SECOND QUARTER 2023 YTD HIGHLIGHTS

(\$ in millions)

	As Reported October 30, 2022	Adjustments	October 30, 2022 Adjusted Results **
Loss from Operations	(16.7)	0.7	(16.0)
Operating Income Margin	-13.8%	NM	-13.2%

Notes

* Please see the Reconciliation of Selected Income Statement Information to Adjusted Results at the back of this presentation.

** These amounts exclude restructuring expense and restructuring related charges and other costs associated with the exit from production of our upholstery fabrics cut and sew upholstery operation in Shanghai, China. See the Reconciliation of Selected Income Statement Information to the Adjusted Results at the back of this presentation for additional details.

Q2 SALES & OPERATING INCOME BRIDGES

(\$ in millions)

Sales	Change	
	\$	%
Q2 2022	74.6	
Mattress fabrics decrease	-14.7	-35.8%
Upholstery fabrics decrease	-1.5	-4.5%
Q2 2023	58.4	-21.7%

Operating Income	Change	
	\$	%
Q2 2022	1.6	
Mattress fabrics decrease	-12.1	NM
Upholstery fabrics decrease	-0.8	NM
Unallocated corporate expense decrease	0.0	-1.9%
Restructuring and Related Expense	-0.7	NM
Q2 2023	-11.9	NM

Q2 YTD SALES & OPERATING INCOME BRIDGES

(\$ in millions)

Sales	Change	
	\$	%
Q2 YTD 2022	157.6	
Mattress fabrics decrease	-28.3	-33.8%
Upholstery fabrics increase	-8.3	-11.2%
Q2 YTD 2023	121.0	-23.2%

Operating Income	Change	
	\$	%
Q2 YTD 2022	5.0	
Mattress fabrics decrease	-18.7	-276.6%
Upholstery fabrics decrease	-2.5	-75.6%
Unallocated corporate expense decrease	0.3	-4.9%
Restructuring and Related Expense	-0.7	NM
Q2 YTD 2023	-16.7	NM

Q2 MATTRESS FABRICS HIGHLIGHTS

(\$ in millions)

	Q2 FY23	Q2 FY22	Change	
			\$	%
Sales	26.2	40.9	-14.7	-35.8%
Operating Income / (Loss)	(9.0)	3.1	-12.1	NM
Operating Income Margin	-34.3%	7.7%		NM
Depreciation	1.5	1.6	0.0	-2.0%

Q2 YTD MATTRESS FABRICS HIGHLIGHTS

(\$ in millions)

	Q2 FY23 YTD	Q2 FY22 YTD	Change	
			\$	%
Sales	55.6	83.9	-28.3	-33.8%
Operating Income	(11.9)	6.8	-18.7	-276.6%
Operating Income Margin	-21.4%	8.0%		NM
Depreciation	3.1	3.1	0.0	0.6%

Q2 MATTRESS FABRICS KEY POINTS

- ❖ Sales were down 35.8% compared to same period last year, and down 10.7% sequentially from the first quarter of 2023.
- ❖ Sales were affected by a slowdown in consumer demand in the domestic mattress industry and mattress manufacturers still working through an excess of inventory that has delayed new product rollouts.
- ❖ Operating performance was significantly pressured, primarily by operating inefficiencies due to lower sales volume and \$5.0 million in inventory impairment charges and losses on the closeout sale of raw material and finished goods inventory.
- ❖ Began implementation of a rationalization and adjustment of cover platform, with planned closures of two leased facilities in High Point, North Carolina, during third quarter. This move is expected to generate approximately \$2.0 million in annualized costs savings, beginning late in third quarter of fiscal 2023.
- ❖ Remained focused on inventory reduction and cash generation during quarter; working to implement SKU rationalization program that is expected to improve operating efficiencies going forward.
- ❖ Continued focus on product-driven strategy, with emphasis on innovation, design creativity, quality, and strengthening customer relationships.
- ❖ Market position remains solid with strong new placements, although timing for new product rollouts is uncertain as customers work through their excess inventory.
- ❖ Management remains focused on controlling costs and improving business processes; will continue to make workforce adjustments to align with demand conditions.

Q2 UPHOLSTERY FABRICS HIGHLIGHTS

(\$ in millions)

	Q2 FY23	Q2 FY22	Change	
			\$	%
Sales	32.2	33.7	-1.5	-4.5%
Operating Income	0.3	1.0	-0.8	-74.5%
Operating Income Margin	0.8%	3.1%		(220) bp
Depreciation	0.2	0.2	0.0	2.6%

Q2 YTD UPHOLSTERY FABRICS HIGHLIGHTS

(\$ in millions)

	Q2 FY23 YTD	Q2 FY22 YTD	Change	
			\$	%
Sales	65.4	73.7	-8.3	-11.2%
Operating Income	0.8	3.3	-2.5	-75.6%
Operating Income Margin	1.2%	4.5%		(320) bp
Depreciation	0.4	0.4	0.0	0.3%

Q2 UPHOLSTERY FABRICS KEY POINTS

- ❖ Sales were down 4.5% compared with the prior-year period and down 3.3% sequentially over the first quarter of 2023.
- ❖ Sales for residential fabric business remained pressured by slowdown in new retail business for residential home furnishings industry and furniture manufacturers working through excess inventory.
- ❖ Solid demand in hospitality business, with higher sales for both hospitality/contract fabric business and Read Window Products compared with prior-year period.
- ❖ Operating performance was pressured by lower residential sales and approximately \$1.0 million in higher-than-normal inventory mark-downs, as well as operating inefficiencies in cut and sew facility in Haiti. These pressures were partially offset by significantly more favorable foreign exchange rate associated with operations in China, as well as improved contribution from Read.
- ❖ Restructured and rationalized China cut and sew platform during the quarter based on market dynamics and strength of Asian supply chain. This move is expected to generate approximately \$900,000 in annualized cost savings, while maintaining ability to scale platform and support customer demand levels going forward.
- ❖ Well positioned for long term with scalable global platform and innovative product offerings, including popular portfolio of LiveSmart® performance products and new product technologies, such as recently launched fabric collection featuring Nanobionic® infrared technology.

FREE CASH FLOW*

(\$ in millions)

	Q2 FY23 YTD	Q2 FY22 YTD
Net income	-17.9	3.1
Depreciation, amortization, & stock-based compensation	4.3	4.4
Non-cash inventory charges, Deferred taxes, other**	4.8	0.4
Gross cash flow	-8.8	8.0
Cash flow from working capital and changes in other assets/liabilities	15.0	-9.3
Cash flow from operations	6.2	-1.3
Capital expenditures, including payments that are vendor financed	-1.1	-3.9
Other	-0.3	-0.6
Free cash flow	4.8	-5.8

* See reconciliation at the back of this presentation.

** The non-cash inventory charge for the six-months ending October 30, 2022, represents a \$2.9 million impairment charge associated with our mattress fabrics segment, \$3.4 million related to markdowns of inventory estimated based on our policy for aged inventory, and \$98,000 for the loss on disposal and markdowns of inventory related to the exit of our cut and sew upholstery fabrics operation located in Shanghai, China. The non-cash inventory charge for the six-months ending October 31, 2021, represents markdowns of inventory estimated based on our policy for aged inventory.

RETURN ON CAPITAL*

(\$ in millions)

	October 30, 2022	October 31, 2021
Return on capital:		
Mattress fabrics	-18.2%	17.0%
Upholstery fabrics	15.2%	61.9%
Unallocated corporate	N/A	N/A
Consolidated	-19.5%	11.8%
Ending Capital Employed:		
Mattress fabrics	\$68.5	\$78.6
Upholstery fabrics	\$18.8	\$17.3
Unallocated corporate	\$4.0	\$3.6
Consolidated	\$91.3	\$99.5

* See reconciliation at the back of this presentation.

OPERATING WORKING CAPITAL

(\$ in millions)

	October 30, 2022	October 31, 2021
Accounts receivable, net	22.4	32.3
Inventories, net	52.2	63.8
Accounts payable	(24.3)	(40.5)
Accounts payable – capital expenditures	(0.2)	(0.2)
Operating working capital	50.2	55.4
Percent of sales*	20.7%	17.6%
Days sales outstanding	32.6	38.6
Inventory turns	4.3	4.0
Days accounts payable outstanding**	36.9	57.8

* Sales used in the calculation is an annualized amount derived from the year-to-date net sales.

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

(\$ in thousands)

	Quarter Ended January 30, 2022	Quarter Ended May 1, 2022	Quarter Ended July 31, 2022	Quarter Ended October 30, 2022	Trailing 12 Months October 30, 2022
Net loss*	\$ (289)	\$ (6,023)	\$ (5,699)	\$ (12,173)	\$ (24,184)
Income tax expense	1,284	253	896	1,150	3,583
Interest income, net	(214)	(26)	(17)	(79)	(336)
Depreciation expense	1,732	1,791	1,770	1,719	7,012
Restructuring expense	—	—	—	615	615
Restructuring related charge	—	—	—	98	98
Amortization expense	150	142	105	109	506
Stock based compensation	171	253	252	313	989
Adjusted EBITDA*	\$ 2,834	\$ (3,610)	\$ (2,693)	\$ (8,248)	\$ (11,717)
% Net Sales	3.5%	(6.3)%	(4.3)%	(14.1)%	(4.5)%

	Quarter Ended January 31, 2021	Quarter Ended May 2, 2021	Quarter Ended August 1, 2021	Quarter Ended October 31, 2021	Trailing 12 Months October 31, 2021
Net income	\$ 2,082	\$ 1,485	\$ 2,250	\$ 851	\$ 6,668
Income tax expense	899	857	905	444	3,105
Interest income, net	(90)	(36)	(74)	(59)	(259)
Gain on bargain purchase	—	(819)	—	—	(819)
Depreciation expense	1,665	1,643	1,726	1,745	6,779
Amortization expense	115	116	121	146	498
Stock based compensation	292	485	274	435	1,486
Adjusted EBITDA	\$ 4,963	\$ 3,731	\$ 5,202	\$ 3,562	\$ 17,458
% Net Sales	6.3%	4.7%	6.3%	4.8%	5.5%
% Over (Under)	(42.9)%	(196.8)%	(151.8)%	(331.6)%	(167.1)%

* Net loss and Adjusted EBITDA for the three-month and the trailing twelve month periods includes a non-cash charge totaling \$5.2 million, which represents a \$2.9 million impairment charge associated with our mattress fabrics segment and \$2.3 million related to markdowns of inventory estimated based on our policy for aged inventory.

NET CASH, INVESTMENTS, AND EQUITY

(\$ amounts in millions (other than \$ per share amounts), share amounts in thousands)

	Q2 FY23	Q2 FY22
Cash and cash equivalents	\$19.1	\$17.0
Short-term investments (Available for Sale)	\$0.0	\$9.7
Short-term investments (Held-to-Maturity)	\$0.0	\$1.6
Long-term investments (Held-to-Maturity)	\$0.0	\$8.4
Total cash and investments	\$19.1	\$36.6
Total debt	\$0.0	\$0.0
Net cash and investments	\$19.1	\$36.6
Shareholders' equity attributable to Culp, Inc.	\$102.1	\$128.5
Shares outstanding	12,294	12,210
Book value per share	\$8.31	\$10.52
Tangible Book value per share	\$8.10	\$10.28

CULP

CULP, INC.

NYSE:CULP

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Investor Contact:

Ken Bowling, *Chief Financial Officer*

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Q2 YTD RECONCILIATION OF SELECTED INCOME STATEMENT INFORMATION TO ADJUSTED RESULTS

CULP, INC.
RECONCILIATION OF SELECTED INCOME STATEMENT INFORMATION TO ADJUSTED RESULTS
FOR THREE MONTHS ENDED OCTOBER 30, 2022
Unaudited
(Amounts in Thousands)

	As Reported October 30, 2022	Adjustments	October 30, 2022 Adjusted Results
Net sales	\$ 58,381	—	\$ 58,381
Cost of sales (1)	(60,594)	98	(60,496)
Gross loss	(2,213)	98	(2,115)
Selling, general and administrative expenses	(9,103)	—	(9,103)
Restructuring expense (2)	(615)	615	—
Loss from operations	<u>\$ (11,931)</u>	<u>713</u>	<u>\$ (11,218)</u>

Notes

- (1) Cost of sales for the three-months ending October 30, 2022, includes restructuring related charges totaling \$98,000 which pertains to loss on disposal and markdowns of inventory related to the exit of our cut and sew upholstery fabrics operation located in Shanghai, China.
- (2) Restructuring expense for the three-months ending October 30, 2022, represents \$468,000 for employee termination benefits, \$80,000 that relates to a loss on disposal of equipment, \$47,000 for lease termination costs, and \$20,000 of other associated costs related to the exit of our cut and sew upholstery fabrics product line located in Shanghai, China.

Q2 YTD RECONCILIATION OF SELECTED INCOME STATEMENT INFORMATION TO ADJUSTED RESULTS

CULP, INC.
RECONCILIATION OF SELECTED INCOME STATEMENT INFORMATION TO ADJUSTED RESULTS
FOR SIX MONTHS ENDED OCTOBER 30, 2022
Unaudited
(Amounts in Thousands)

	As Reported October 30, 2022	Adjustments	October 30, 2022 Adjusted Results
Net sales	\$ 120,985	—	\$ 120,985
Cost of sales (1)	(119,071)	98	(118,973)
Gross profit	1,914	98	2,012
Selling, general and administrative expenses	(17,968)	—	(17,968)
Restructuring expense (2)	(615)	615	—
Loss from operations	<u>\$ (16,669)</u>	<u>713</u>	<u>\$ (15,956)</u>

Notes

- (1) Cost of sales for the six-months ending October 30, 2022, includes restructuring related charges totaling \$98,000 which pertains to loss on disposal and markdowns of inventory related to the exit of our cut and sew upholstery fabrics operation located in Shanghai, China.
- (2) Restructuring expense for the six-months ending October 30, 2022, represents \$468,000 for employee termination benefits, \$80,000 that relates to a loss on disposal of equipment, \$47,000 for lease termination costs, and \$20,000 of other associated costs related to the exit of our cut and sew upholstery fabrics product line located in Shanghai, China.

RECONCILIATION OF FREE CASH FLOW

**RECONCILIATION OF FREE CASH FLOW
FOR THE SIX MONTHS ENDED OCTOBER 31, 2022,
AND OCTOBER 30, 2021
Unaudited
(Amounts in Thousands)**

	FY 2023	FY 2022
A) Net cash provided by (used in) operating activities	\$ 6,167	\$ (1,328)
B) Minus: Capital Expenditures	(1,051)	(3,901)
C) Plus: Proceeds from the sale of equipment	465	—
D) Plus: Proceeds from the sale of long-term investments (rabbi trust)	46	—
E) Minus: Purchase of long-term investments (rabbi trust)	(505)	(580)
F) Effects of exchange rate changes on cash and cash equivalents	(296)	(2)
Free Cash Flow	<u>\$ 4,826</u>	<u>\$ (5,811)</u>

(Amounts in Thousands)

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CULP, INC.

RETURN ON CAPITAL EMPLOYED BY SEGMENT FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2021

Unaudited (Amounts in Thousands)

	Adjusted Operating Income (Loss) Twelve Months Ended	Average Capital Employed (3)	Return on Avg. Capital Employed (2)
October 31, 2021 (1)			
Mattress Fabrics	\$ 12,321	\$ 72,390	17.0%
Upholstery Fabrics	9,771	15,793	61.9%
Unallocated Corporate	(11,458)	1,737	N.M.
Total	\$ 10,634	\$ 89,919	11.8%

Average Capital Employed

	As of the three Months Ended October 31, 2021				As of the three Months Ended August 1, 2021				As of the three Months Ended May 2, 2021			
	Mattress Fabrics	Upholstery Fabrics	Unallocated Corporate	Total	Mattress Fabrics	Upholstery Fabrics	Unallocated Corporate	Total	Mattress Fabrics	Upholstery Fabrics	Unallocated Corporate	Total
Total assets (4)	\$ 97,390	\$ 55,862	\$ 56,073	\$ 209,325	\$ 96,846	\$ 55,187	\$ 60,215	\$ 212,248	\$ 97,861	\$ 53,875	\$ 62,344	\$ 214,080
Total liabilities	(18,818)	(38,560)	(23,493)	(80,871)	(21,298)	(39,983)	(21,418)	(82,699)	(22,410)	(38,709)	(23,955)	(85,074)
Subtotal	\$ 78,572	\$ 17,302	\$ 32,580	\$ 128,454	\$ 75,548	\$ 15,204	\$ 38,797	\$ 129,549	\$ 75,451	\$ 15,166	\$ 38,389	\$ 129,006
Cash and cash equivalents	—	—	(16,956)	(16,956)	—	—	(26,061)	(26,061)	—	—	(37,009)	(37,009)
Short-term investments - Available-For-Sale	—	—	(9,709)	(9,709)	—	—	(9,698)	(9,698)	—	—	(5,542)	(5,542)
Short-term investments - Held-To-Maturity	—	—	(1,564)	(1,564)	—	—	(1,661)	(1,661)	—	—	(3,161)	(3,161)
Current income taxes receivable	—	—	(613)	(613)	—	—	(524)	(524)	—	—	—	—
Long-term investments - Held-To-Maturity	—	—	(8,353)	(8,353)	—	—	(6,629)	(6,629)	—	—	(1,141)	(1,141)
Long-term investments - Rabbi Trust	—	—	(9,036)	(9,036)	—	—	(8,841)	(8,841)	—	—	(8,415)	(8,415)
Deferred income taxes - non-current	—	—	(452)	(452)	—	—	(455)	(455)	—	—	(545)	(545)
Income taxes payable - current	—	—	646	646	—	—	253	253	—	—	229	229
Income taxes payable - long-term	—	—	3,099	3,099	—	—	3,365	3,365	—	—	3,326	3,326
Deferred income taxes - non-current	—	—	4,918	4,918	—	—	4,917	4,917	—	—	5,330	5,330
Deferred compensation	—	—	9,017	9,017	—	—	8,795	8,795	—	—	8,365	8,365
Total Capital Employed	\$ 78,572	\$ 17,302	\$ 3,577	\$ 99,451	\$ 75,548	\$ 15,204	\$ 2,258	\$ 93,010	\$ 75,451	\$ 15,166	\$ (174)	\$ 90,443

	As of the three Months Ended January 31, 2021				As of the three Months Ended November 1, 2020			
	Mattress Fabrics	Upholstery Fabrics	Unallocated Corporate	Total	Mattress Fabrics	Upholstery Fabrics	Unallocated Corporate	Total
Total assets (4)	\$ 91,842	\$ 52,803	\$ 67,333	\$ 211,978	\$ 83,667	\$ 46,837	\$ 72,272	\$ 202,776
Total liabilities	(21,503)	(38,061)	(24,052)	(83,616)	(21,628)	(30,287)	(23,610)	(75,525)
Subtotal	\$ 70,339	\$ 14,742	\$ 43,281	\$ 128,362	\$ 62,039	\$ 16,550	\$ 48,662	\$ 127,251
Cash and cash equivalents	—	—	(35,987)	(35,987)	—	—	(45,288)	(45,288)
Short-term investments - Available-For-Sale	—	—	(5,548)	(5,548)	—	—	(5,462)	(5,462)
Short-term investments - Held-To-Maturity	—	—	(9,785)	(9,785)	—	—	(5,005)	(5,005)
Long-term investments - Held-To-Maturity	—	—	(512)	(512)	—	—	(759)	(759)
Long-term investments - Rabbi Trust	—	—	(8,232)	(8,232)	—	—	(8,060)	(8,060)
Deferred income taxes - non-current	—	—	(640)	(640)	—	—	(645)	(645)
Income taxes payable - current	—	—	1,129	1,129	—	—	1,413	1,413
Income taxes payable - long-term	—	—	3,325	3,325	—	—	3,325	3,325
Deferred income taxes - non-current	—	—	5,543	5,543	—	—	6,089	6,089
Deferred compensation	—	—	8,179	8,179	—	—	8,000	8,000
Total Capital Employed	\$ 70,339	\$ 14,742	\$ 753	\$ 85,834	\$ 62,039	\$ 16,550	\$ 2,270	\$ 80,859

	Mattress Fabrics	Upholstery Fabrics	Unallocated Corporate	Total
Average Capital Employed (3)	\$ 72,390	\$ 15,793	\$ 1,737	\$ 89,919

Notes

- (1) See last page of this presentation for calculation.
- (2) Return on average capital employed represents the last twelve months operating income as of October 31, 2021, divided by average capital employed. Average capital employed does not include cash and cash equivalents, short-term investments Available-For-Sale, short-term and long-term investments Held-To-Maturity, long-term investments – Rabbi Trust, income taxes receivable and payable, noncurrent deferred income tax assets and liabilities, and deferred compensation.
- (3) Average capital employed was computed using the five quarterly periods ending October 31, 2021, August 1, 2021, May 2 2021, January 31, 2021, and November 1, 2020.
- (4) Intangible assets and goodwill are included in unallocated corporate for all periods presented and therefore, have no effect on capital employed and return on capital employed for our mattress fabrics and upholstery fabrics segments.

CULP, INC.
CONSOLIDATED STATEMENTS OF ADJUSTED OPERATING INCOME (LOSS)
FOR THE TWELVE MONTHS ENDED OCTOBER 30, 2022, AND OCTOBER 31, 2021
Unaudited
(Amounts in Thousands)

	Quarter Ended				Trailing 12 Months 10/30/2022
	1/30/2022	5/1/2022	7/31/2022	10/30/2022	
Mattress Fabrics	\$ 364	\$ (2,901)	\$ (2,921)	\$ (9,002)	\$ (14,460)
Upholstery Fabrics	2,446	(116)	542	262	3,134
Unallocated Corporate	(1,707)	(2,366)	(2,359)	(2,478)	(8,910)
Operating income (loss)	<u>\$ 1,103</u>	<u>\$ (5,383)</u>	<u>\$ (4,738)</u>	<u>\$ (11,218)</u>	<u>\$ (20,236)</u>

	Quarter Ended				Trailing 12 Months 10/31/2021
	1/31/2021	5/2/2021	8/1/2021	10/31/2021	
Mattress Fabrics	\$ 3,297	\$ 2,274	\$ 3,611	\$ 3,139	\$ 12,321
Upholstery Fabrics	3,863	2,613	2,267	1,028	9,771
Unallocated Corporate	(3,123)	(3,248)	(2,560)	(2,527)	(11,458)
Operating income	<u>\$ 4,037</u>	<u>\$ 1,639</u>	<u>\$ 3,318</u>	<u>\$ 1,640</u>	<u>\$ 10,634</u>
% Over (Under)	<u>(72.7)%</u>	<u>(428.4)%</u>	<u>(242.8)%</u>	<u>(784.0)%</u>	<u>(290.3)%</u>