

Q&A

with Robert G. Culp, IV

We are extremely proud to share an important milestone for Culp, Inc. (together with its subsidiaries, "CULP") in fiscal 2022, as we celebrated our 50th year in business. Founded by Robert Culp, Jr. and Robert Culp, III in 1972 as a fabric converter, CULP is now a respected global leader in the home furnishings industry as one of the world's largest bedding and upholstery fabric companies. Importantly, as we have continued to evolve our business model and product mix to achieve sustainable growth over the past 50 years, we have adhered to the same values instilled in us by our founders – a relentless focus on innovative styling, and, above all, an unwavering commitment to meet the needs of our valued customers. From the beginning, our founders established the "CULP culture" of hard work, integrity, design innovation, customer service, dedication to our associates, and a commitment to our communities. We carry that same legacy forward today as we approach our second half-century of business, while also maintaining our commitment to the steady leadership and sound financial discipline that has been instilled in our culture by another long-term company leader, former chief executive officer and current board chairman, Frank Saxon.

Our aspirations for the future of CULP are inspired by the challenges and triumphs of the past. Our history of resilience and determination has supported our ability to adapt to a frequently changing environment and successfully navigate a global marketplace. Without question, the unique challenges of the COVID-19 pandemic and other macro-economic conditions affected our business in fiscal 2022. However, just as we have managed our business through other challenging periods, we are confident in our business strategy and remain very optimistic about CULP's future. As we look back at our rich history, our energy to reinvent ourselves and prevail in tough times was instilled in us by our founders and will continue to shape our future success. In this year's letter, we are proud to share this legacy with our shareholders and answer questions about CULP's remarkable journey and our recent strategic initiatives.

Q Over 50 years, CULP has managed through many economic cycles and challenging market conditions. Can you comment on how your resilience has played a role in moving the company forward under extraordinary conditions?

A Resilience was certainly part of CULP's DNA from the beginning, as demonstrated by our founders, who risked personal capital to launch the company and set ambitious goals to achieve exceptional growth. It was also demonstrated by another long-term CULP leader, former chief executive officer, Frank Saxon, who was instrumental in bringing about strategic and operational changes that allowed the company to survive and progress through a rapidly changing industry environment in the early 2000's, followed by the Great Recession in 2008. Over the past 50 years, through various economic downturns and the challenges of competing in a dynamic global marketplace, CULP has prevailed as a respected leader in our industry and a financially stable and trusted supplier of innovative fabrics for bedding and furniture manufacturers. Our history has been shaped over the years by facing challenging times with a strong spirit of resilience and agility.

Reviewing CULP's performance over the past two years, again resilience obviously comes to mind. The COVID-19 pandemic created unprecedented challenges for CULP and the home furnishings industry. In the initial stages of the pandemic, we had to close our facilities in Canada and Haiti for several weeks due to government mandates. We also adjusted our production schedules and furloughed workers at our U.S. facilities to align with severely reduced demand, while aggressively cutting costs and reducing inventory. Despite these challenges, we quickly pivoted to repurpose our available operations to produce face masks, bedding covers, and fabrics for healthcare operations and consumer health. This allowed us to support much-needed relief efforts as an essential business and keep as many workers as possible employed.

As restrictions were lifted and retail stores reopened, we then experienced an unexpected surge in demand for our products due to a greater consumer focus on the home. By leveraging our global platform, we quickly responded to meet the demands of our customers, again demonstrating the resilience of our team of associates around the globe. We also made several investments in fiscal 2021 to increase our capacity in mattress fabrics, and we began construction on a new facility in Haiti to expand our operations to include production of cut and sewn

upholstery kits. As such, we were well positioned to meet the needs of our customers during a period of high demand.

However, during fiscal 2022, our upholstery fabrics business was materially affected by temporary COVID-19-related shutdowns of our sourcing partners and customers in Vietnam during the second quarter, and our CULP operations in China were completely closed the last four weeks of the fiscal year. The closure in China prevented us from shipping goods in both our residential upholstery fabrics business and our sewn mattress cover business. Fortunately, the restrictions in China were lifted at the end of April, and we are especially proud of the tremendous response of our associates, who energetically returned to work and resumed operations at normalized capacity. Fiscal 2022 was also pressured by several macro-economic headwinds, including weakness in domestic mattress industry sales, a rapid rise in inflation, changing consumer spending patterns, and other geopolitical events, but our associates around the world continued to persevere, delivering innovative products, creative designs, and exceptional service for our customers.

It is clear to see the last two years have presented numerous challenges and stressed the home furnishings industry both up and down. We believe the only way for companies to manage through times like these is to operate with a diversified manufacturing platform, an innovative spirit, and a strong balance sheet.

Q How has the company's strategy of product diversification evolved over the past 50 years?

A My father and grandfather launched R.G. Culp Associates, Inc. in 1972 as a distributor and convertor of fabrics for the upholstered furniture industry. While the young business grew rapidly, in 1976 they made one of the most important decisions in the company's history by diversifying into the mattress industry. In the late 1970's, as manufacturers began to buy fabric directly from textile mills rather than converters, CULP began to transition into a fully integrated manufacturer. Over the next two decades, the company completed this transition and diversified into nearly every category of fabric that manufacturers currently use for bedding and furniture. This strategy of diversification and plant expansion to 16 CULP facilities, supported by our initial public offering in 1983, led to tremendous growth in sales by 2000.

In 2003, we began to transform our upholstery fabrics business with a distribution platform in China, and we later expanded our production capabilities to use CULP fabric to make upholstery kits to be shipped back to U.S. furniture manufacturers. Today we have cut and sew upholstery fabric operations and sourcing capabilities in Asia and Haiti. During the same period from 2000 to 2007, our mattress fabrics business was flourishing. We added circular knit fabrics to our product line, and we also expanded the vertical integration of the mattress fabrics segment with two acquisitions, one in 2007 and one in 2008. We continued to enhance our product mix, expanding into cut and sewn mattress covers in 2012, and ultimately established our Haiti cut and sew platform in 2017. In 2018, we further expanded our product offering by adding window treatments through the acquisition of Read Window Products. Having a more diverse product mix has allowed us to reach new customers in the mattress fabrics segment and expand into the hospitality segment of the upholstery fabrics business.

Because we operate in two business segments, with diverse products, customers and markets, we have been less susceptible to changing market dynamics and there have been periods when one business supported the other. In our early days, our upholstery business was very strong, and the mattress business was just launching. Over time, especially with offshore competition affecting upholstery fabrics, the mattress division grew and now accounts for more than half of our business. Currently, despite recent challenges, both divisions enjoy a strong competitive position and are well positioned for the future.

Q *Over 50 years, as CULP has witnessed a significant shift in the global markets for the home furnishings industry, how has the company adapted its production?*

A The boldest and most transformative step we took as a company was the development of our Asian platform. As the new millennium began, the entire home furnishings industry was under siege from low-cost production in Asia. Demand for U.S. produced upholstery fabrics plummeted. CULP responded to this challenge and began the steps to exit most of our U.S. operations from 2000 to 2007 and develop a flexible, less capital-intensive global platform in China through strategic relationships with partner mills. We adopted a strategy to maintain control of the processes that add the most value, including design, fabric finishing, quality assurance, service, and marketing. These are the differentiators that set CULP apart. This strategic approach has allowed us to limit our investment in fixed assets and control our product

costs, while continuing to leverage our design and finishing expertise, industry knowledge, and strategic relationships. In 2019, we expanded our global platform to Vietnam for additional production of cut and sewn upholstery kits, and in 2021, we established a cut and sew operation in Haiti to complement our already existing sewn mattress cover facilities.

Our mattress business has typically been anchored in North America with primary fabric operations in North Carolina and Canada, along with other manufacturing and sourcing operations in China and Turkey. In fiscal 2017, in response to continued growth in sewn mattress cover demand, we entered a joint venture with a third-party mattress cover provider to construct a mattress cover manufacturing operation in Haiti. Following an expansion of this facility with a second building in fiscal 2020, we acquired the remaining fifty percent ownership interest from our previous joint venture partner in fiscal 2021, giving us full control over the operation. This strategic acquisition enhances our ability to effectively manage our global cut and sew platform by further expanding our capacity and improving our flexibility to meet customer demand from this near-shore operation. We also utilize our North Carolina facilities to prototype sewn mattress covers, and we frequently engage our CULP China platform to manufacture sewn mattress covers and to source additional sewn covers from third-party suppliers in Asia. These three manufacturing locations in North Carolina, Haiti, and China give us an on-shore, near-shore, and off-shore supply chain strategy that allows us greater agility in meeting demand for mattress covers from bedding producers.

Q *How has your relentless focus on product innovation and design creativity played into your strategy to make CULP a world-class marketer?*

A Our founders were classic entrepreneurs and inspiring innovators with a passion for new products and creative design that continues to be an enduring strength for CULP. We compete in fashion-driven industries, and we strive to differentiate ourselves by placing a sustained focus on product innovation and design creativity. Our product-driven strategy has served us well in both businesses, as our product mix has constantly evolved in line with changing consumer demand trends and preferences related to bedding, upholstered furniture, and, more recently, window treatment products. We believe our success ultimately depends on our ability to provide our customers with appealing colors, designs, patterns, and textures that distinguish their products. Throughout our history, we have led by innovation,

introducing new products for all segments of the markets we serve, such as expanding into cut and sewn upholstery kits and developing leather-like fabrics in upholstery fabrics, and creating fashion-forward designs for mattress fabrics, adding knitted products, and establishing a sewn mattress cover business. We are fortunate to have a flexible global platform that supports our product-driven strategy. Our ability to offer a diverse product mix and reach new market segments has been a key differentiator for CULP and will remain our strategic focus going forward. We also have outstanding design capabilities in both of our businesses and over the years we continued to invest in technology, software, research, and most importantly, people, to become a design leader and world-class marketer.

From a product innovation standpoint, one of our more recent success stories in the upholstery fabrics segment was the 2016 introduction of a line of durable, stain resistant, LiveSmart® performance fabrics, which we have continued to expand in line with growing demand. We are particularly excited about the recent addition of LiveSmart Evolve®, featuring our LiveSmart performance technology combined with recycled fibers. Since the introduction of this sustainability-focused fabric line in 2019, we have helped upcycle over 86 million plastic water bottles, while offering environmentally conscious consumers the ability to have their home furnishings purchases reflect their commitment to bettering the environment.

To further support our culture of product innovation and design creativity, we opened our new innovation campus in High Point in early fiscal 2022. This space combines our design, innovation, and sales teams for both businesses into a shared location to support collaboration across divisions and bring our top creative talent together. Today, our dedicated product development and creative teams are driving the spirit of innovation at CULP, and we are excited about the opportunities to take a leading role in providing design consultation and collaboration to connect our products with customer demand.

Q *How has CULP managed through the challenges of fiscal 2022 and positioned the company for the future?*

A The fiscal year started off strong for both of our businesses, with moderate pressure on profitability and continued supply chain disruptions. However, as the year progressed, the rapid rise in inflation, changing consumer spending patterns, COVID-related disruptions, and other geopolitical events materially affected the

performance of our businesses. Importantly, we have maintained our strong customer relationships despite the ongoing disruptions, and our sales for the year were \$294.8 million, slightly below fiscal 2021 sales of \$299.7 million. We took several pricing and cost-reduction actions throughout the year to help mitigate the external pressures, but with the ongoing volatility, we are taking additional measures in fiscal 2023 to align our business to meet current demand trends and diligently manage our liquidity. In addition, in June we announced the closing of our new secured credit facility, which we believe enhances the company's financial flexibility and provides us with sufficient liquidity to navigate the ongoing headwinds. We also made the difficult decision to suspend the quarterly cash dividend, as we believe that preserving capital is in the best interest of the company to support future growth opportunities and the long-term interests of our shareholders. We are strategically taking these steps to adapt to the near-term challenges, while ensuring that we remain well-positioned to continue to meet the needs of our customers now and when conditions normalize.

Regardless of the challenges we face, our associates around the world continue to persevere. They are the reason for our past success, and they provide us with confidence for the future. Together with our experienced management team and board of directors, we will continue to honor our proud legacy of 50 years of innovation, style, quality, and service. We will also continue to address changing market conditions with resilience and the sound financial discipline instilled in us by Frank Saxon. As Frank transitions his role with the company, I am extremely grateful for his dedicated leadership and stewardship over his many years with CULP, and especially pleased that we will continue to work together and benefit from his experience and guidance as board chairman and strategic advisor to the company. Importantly, we are very optimistic about CULP's future and remain focused on delivering greater value for our customers, employees, and shareholders in fiscal 2023 and beyond.

Thank you for your support of CULP.

Sincerely,



Robert G. Culp, IV
PRESIDENT AND CHIEF EXECUTIVE OFFICER