

# Fellow Shareholders:

Fiscal 2023 was a challenging period for Culp and the home furnishings markets as we experienced a slowdown in consumer demand, inflationary pressures, a tightened labor market, and elevated inventory levels at manufacturers and retailers. Throughout our 50 years in business, we have faced economic downturns and the various macroeconomic cycles that come with competing in a fashion driven, global marketplace. One of our enduring strengths has been our ability to navigate these challenges and pursue a strategic direction that supports our business and meets the needs of our valued customers. With a strong spirit of resilience, we have prevailed as an industry leader with a solid reputation as a financially stable and trusted supplier of innovative fabrics for bedding and furniture manufacturers.

We are fortunate to operate in two established market segments, upholstery fabrics and mattress fabrics, which have a history of steady growth. Culp is a proven leader in both segments, leading with design and innovation and a focused, product driven strategy supported by a flexible, global platform. While each business segment faced unique circumstances in fiscal 2023, we continued to focus on the aspects of our business we can control, while taking the necessary steps to withstand current macro dynamics and position our business for renewed growth when conditions normalize. Importantly, we remained diligent in maintaining a strong financial position by successfully managing our working capital, controlling credit terms and receivables, and focusing only on business-critical capital expenditures to prepare for fiscal 2024.

## **Mattress Fabrics Positioned for Renewed Growth**

For fiscal 2023, our mattress fabric sales were \$111.0 million, down 27.1 percent compared with sales of \$152.2 million for fiscal 2022. These results reflect a slowdown in consumer demand in the domestic mattress industry, with industry reports reflecting significant unit contraction over this time, as well as high inventory levels within our customers' supply chains. Our operating performance was primarily affected by inefficiencies driven by lower sales volumes; labor challenges; certain impairment charges, inventory markdowns, and losses from inventory close out sales; and higher raw material costs. However, we were encouraged to see strong sequential and year over year improvement beginning in the fourth quarter, driven mostly by the roll out of new customer placements, which were priced in line with current market conditions. We also began to benefit in the fourth quarter from improved operational efficiencies in our fabric manufacturing and lower costs resulting from declines in raw material prices, as well as the restructuring and rationalization of our cut and sew mattress cover platform in North Carolina initiated earlier in the year.

We believe we will see steady and sustainable improvement in the mattress fabrics business in fiscal 2024. Our new leadership team will continue to build upon our strong foundation as we execute a comprehensive business transformation plan focused on long-term improvement in every facet of our business, including sales, quality, marketing, and operational processes; supply chain optimization; employee engagement; and organizational management structure. While the pace of our improvement may depend somewhat on the recovery in the overall macroeconomic environment, we believe we are growing our market position with new program roll outs, and we are optimistic about additional program launches expected during calendar 2023.

The key driver of our success in the market will be our focus on design and innovation and developing new products for our customers. We are also engaging in a new commercial strategy to further improve our service and better supply our customers using our strong global platform. Another key differentiator for Culp is our use of consumer-focused research to identify current style trends and bedding preferences, allowing us to offer customers the latest products including cooling and sustainability-focused fabrics. We also have the unique ability to support customer demand for both mattress fabrics and sewn covers with our diversified supply chain and distribution strategy. We will continue to leverage these strengths to support our key initiatives in the year ahead, and we remain confident our transformation plan will sustain Culp's competitive advantage as a leading supplier of mattress fabrics and covers.

### **Product Diversification Supports Upholstery Fabrics**

For fiscal 2023, upholstery fabric sales were \$123.9 million, down 13.1 percent compared with sales of \$142.7 million for fiscal 2022. This decrease primarily reflects reduced demand in our residential business during fiscal 2023, driven by high inventory levels at manufacturers and retailers, and a slowdown in new retail business for the residential home furnishings industry, partially offset by higher sales in our hospitality/contract fabric business. While overall upholstery fabric sales were down for the fiscal year, we were encouraged to see our customers renewed focus on product introductions at recent furniture markets, and we expect to see gradual improvement in fiscal 2024. Our operating performance for the year was affected primarily by lower residential sales, as well as higher than normal inventory markdowns for residential fabrics and operating inefficiencies in our Read Window Products ("Read") business. These pressures were partially offset by a more favorable foreign exchange rate associated with our China operations, as well as lower overhead costs resulting from the restructuring of our cut and sew platforms in China and Haiti earlier in the year.

Innovation also drives our growth in upholstery fabrics, and we remain focused on a product-driven strategy with a diverse product mix and creative designs. Our industry-leading performance fabrics highlight our focus on innovation, and we are excited about the favorable market response and opportunities for growth with these product lines. Today's consumers are looking for furniture to match their lifestyles, with a high priority placed on stain-resistant, child-friendly, and pet-friendly fabrics. We strive to be forward focused for our customers and provide innovative products that matter to the consumer. Culp upholstery fabrics was the first business to offer performance fabrics at mid-market price points with our initial introduction of our iClean® and LiveSmart® brands in 2016. These popular product lines have expanded with our introduction of LiveSmart Evolve®, a performance plus sustainability-focused upholstery fabric line made in part with recycled fibers. We also recently introduced a wellness-focused fabric line featuring Nanobionic® infra-red technology as the next step in our evolution of performance fabrics. Since our initial launch of performance fabrics in 2016, these innovative products now account for approximately 40 percent of our upholstery fabric sales. Importantly, since 2019, Culp has also diverted over 112 million plastic water bottles from landfills, supporting our commitment to sustainability and working to meet the needs of environmentally conscious consumers.

Following a pull forward of demand for home goods during the early years of the COVID-19 pandemic, fiscal 2023 saw consumer spending trend away from home furnishings purchases in favor of more travel and entertainment-related expenditures. This has benefited our hospitality/contract fabric business, which accounted for approximately 29 percent of our upholstery fabrics sales during fiscal 2023 and plays an important role in our overall strategy of product diversification for this segment.

We are fortunate to have a solid foundation in our upholstery fabrics business with innovative products and a strong competitive position with key, financially stable customers in the retail home furnishings market. Our flexible global platform supports our strategies and is critical to

our consistent success. Going forward, we intend to further our strategic execution with new performance products and continue our focus on growing our hospitality business. In fiscal 2024, we also expect to benefit from the cost savings from our rationalized cut and sew platforms, as well as improved inventory management, a solid hospitality/contract fabric business, and improvement in our Read business.

### **Disciplined Financial Management Supports Business Strategy**

Throughout the past year, we maintained a relentless focus on cash generation and working capital management, including inventory reductions. We ended the year with a higher cash position than the prior year, with \$21.0 million in cash and no outstanding borrowings. We also generated cash flow from operations of \$7.8 million and free cash flow of \$6.9 million for fiscal 2023, an improvement of \$25.2 million and \$31.1 million, respectively, compared to the prior fiscal year (see reconciliation table at the back of this report). This demonstrates outstanding cash management and preservation in the face of challenging times. Importantly, we have no outstanding debt, and we entered into a new asset-based revolving credit facility in fiscal 2023 that enhances our liquidity position. As of the end of fiscal 2023, we had \$47.8 million in liquidity, consisting of \$21.0 million in total cash and \$26.8 million in borrowing availability under the company's domestic credit facility.

Our disciplined capital allocation strategy has been a consistent theme for Culp and supports our future roadmap for growth. To preserve liquidity and support future growth opportunities, the Board of Directors suspended the company's quarterly cash dividend on its common stock in June of 2022. We did not repurchase any shares during fiscal 2023, leaving approximately \$3.2 million available under the current share repurchase program.

### **Looking Ahead**

We are entering fiscal 2024 with a realistic but optimistic outlook for our business. While we face near-term challenges that may affect our sales for some period, we believe we can still improve our performance through more efficient operations, and we are well positioned for steady and sustainable improvement as market conditions rebound. We are excited about the transformation underway in our mattress fabrics segment and believe we have made significant progress in repositioning this business for stabilization and recovery. Our upholstery fabrics business is also well positioned with a diverse product mix and a growing hospitality business. We are fortunate to have a strong competitive position in both businesses, driven by our focus on innovation, a diverse product mix, and a flexible global platform. Additionally, customer service remains a hallmark for Culp, and our top priority is to meet the needs of our valued customers.

We are fortunate to have an outstanding team of dedicated associates around the globe who share our pursuit of operational excellence, a commitment to exceptional customer service, and a focus on financial stability despite the challenges of the marketplace. Together with our experienced management team and Board of Directors, we are committed to delivering greater value to our customers, employees, and shareholders in fiscal 2024 and beyond.

Thank you for your continued support of Culp.

Sincerely,

A handwritten signature in black ink that reads "RA G Culp, IV". The signature is written in a cursive, slightly stylized font.

Robert G. Culp, IV  
President and Chief Executive Officer