

Fiscal 2020 demonstrated Culp's perseverance in the face of extremely challenging business conditions. For most of the year, we were executing well on our strategic initiatives and generating momentum in both our mattress fabrics and upholstery fabrics businesses. However, the broad economic disruption caused by the COVID-19 pandemic significantly affected our performance beginning in our fourth quarter. In mid-March, we experienced a rapid drop in demand as retail home furnishing stores across the country closed and many of our customers shut down or substantially limited their operations. Despite the challenging conditions, Culp employees around the world have done an outstanding job, working cross-functionally across divisions to meet critical needs, serve our customers, and support essential services throughout this crisis. Additionally, the measures we have taken to strengthen our financial position, combined with our team's agility, innovation, and resilience, give us confidence in our ability to navigate the environment we are facing, to increase our market share, and to emerge as a stronger company as business conditions improve.

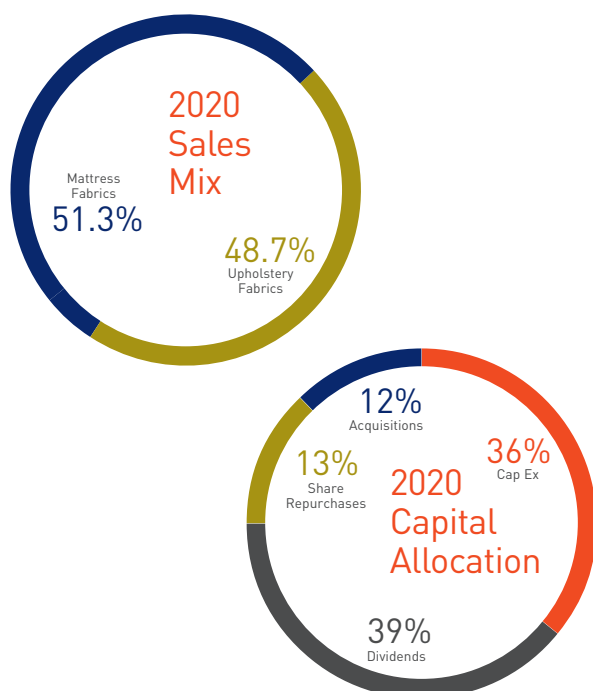
### COVID-19 Business Response

We have continued to closely monitor the impact of the COVID-19 pandemic on Culp's business, and our top priorities remain focused on safeguarding the health of our employees, managing our liquidity, and continuing to serve our customers. In line with these objectives, we took immediate and decisive steps in the fourth quarter of fiscal 2020 to support our business in this uncertain environment. Importantly, we have followed published guidelines by the Centers for Disease Control (CDC) and other government

health agencies in order to maintain as safe a work environment as possible, including implementing detailed cleaning and disinfecting processes at our facilities, instituting temperature checks, adhering to social distancing protocols, suspending non-essential travel, and providing remote work opportunities where possible. We also repurposed a portion of our available operations to manufacture critical products for healthcare and other essential industries, and took aggressive steps to manage our expenses, including:

- Implementing temporary salary reductions;
- Making workforce adjustments to align with demand;
- Suspending merit pay increases;
- Eliminating the cash compensation paid to our board of directors;
- Reducing or deferring non-essential capital expenditures and discretionary spending; and
- Working with our vendors and landlords to negotiate temporary terms.

Additionally, we sold our majority interest in eLuxury, an online retailer of bedding accessories and home goods, to focus on our core mattress and upholstery fabrics business segments and increase our liquidity. We do expect to maintain a strong working relationship with eLuxury going forward through supply and royalty arrangements designed to preserve a beneficial sales channel for Culp's core products. Together, these actions have served to mitigate the financial impact of the lower industry demand and shutdowns experienced as a result of COVID-19.



*"We will continue to lead through innovation, with creative designs, exciting new products, and outstanding service capabilities."*

**Robert G. Culp, IV**



### Mattress Fabrics Segment

For fiscal 2020, mattress fabric sales were \$131.4 million, down 9.8 percent compared with \$145.7 million in fiscal 2019. These results reflect the unprecedented disruption from the COVID-19 pandemic, which affected our sales for the fourth quarter and the year. Due to government-mandated closure requirements near the end of March, we shut down our facilities in Canada and Haiti for several weeks. We also adjusted our production schedules and furloughed workers at our U.S. facilities to align with the 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.

### Our global manufacturing

and sourcing platform, including the U.S., Canada, Haiti, Asia, and Turkey, provides a full complement of mattress fabrics and sewn covers, with the flexibility to adapt to evolving customer needs.

Additionally, prior to the COVID-19 outbreak, our results for fiscal 2020 were affected by continued disruption in the domestic mattress industry relating to low-priced mattress imports that moved from China to other countries. While we believe our strong global platform for fabric and covers has Culp well positioned to capture market share with imported mattresses going forward, we are also encouraged by the recent anti-dumping duty petitions filed with the U.S. International Trade Commission (ITC) and U.S. Department of Commerce against seven countries for

engaging in unfair trade practices, as well as the ITC's preliminary determination allowing these petitions to move forward. If successful, we believe the proposed relief being sought will benefit the domestic mattress industry and, in turn, be favorable for our business.

Despite these challenges, we continued to manage our mattress fabrics business with a relentless focus on creative designs, innovative products, and exceptional service. Our global manufacturing and sourcing platform, including the U.S., Canada, Haiti, Asia, and Turkey, supports these efforts with efficient production and distribution capabilities. This platform provides a full complement of mattress fabrics and sewn covers, with the flexibility to adapt to evolving customer needs. We are especially pleased with the continued







## Our line

of highly durable,  
stain resistant,  
LiveSmart® fabrics  
continues to be popular  
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growth of our CLASS sewn mattress cover business. Demand trends for mattress covers remain favorable, especially in the popular boxed bedding space, and we continue to develop fresh products with both new and existing customers. We expect to add fabric production capabilities in Vietnam, and we are also underway with a planned building expansion in Haiti, which will provide additional capacity and enhance our ability to produce sewn covers. We believe these expansions, expected to be completed during fiscal 2021, will allow us to better serve our customers, especially as market conditions improve. While demand for all of our products was disrupted by the COVID-19 pandemic, we are pleased to see a recent return to more favorable pre-COVID-19 demand trends for our CLASS sewn mattress covers, as we continue to capitalize on the robust growth trend for online boxed bedding.

We continued to invest in our design and marketing capabilities during fiscal 2020 with the latest technologies to improve the customer experience and speed to market with new digital tools and project management software. We are very pleased with the initial customer response to our new 3D rendering and merchandising services, marketed as "Re.Imagine Culp Home Fashions." In the face of recent travel restrictions and cancelled trade shows, we were able to leverage these unique capabilities to continue showcasing our products and supporting our customers through virtual design collaboration. Our dedicated and focused product development and creative teams are driving the spirit of innovation in our mattress fabrics business, and we are excited about the opportunities to take a leading role in providing design consultation and collaboration to connect our products with specific customer demand.

During fiscal 2020, we also enhanced our service platform as part of our ongoing efforts to be more responsive to customer demand with shorter lead times. We implemented a new inventory management process, which we believe will drive greater control and efficiency. Simultaneously, we are focused on sustainability throughout our operations by working to utilize more recycled yarns and environmentally friendly chemical processes. We are proud that we achieved landfill-free status at our Stokesdale, North Carolina, manufacturing facility, meaning



substantially all the waste generated from operations at this facility is diverted from the landfill and into a recycling program. These ongoing efforts reflect our commitment to manage our operations in an environmentally responsible manner and promote a sustainable future for Culp and our customers.

Looking ahead, there are many opportunities to advance our position as a leading provider of mattress fabrics and sewn covers. We believe we will benefit from our focused efforts to further our design and service capabilities with advanced technologies that support our sales and marketing efforts with both legacy and new customers. With scalable and efficient production competency across our global operations, and a renewed focus on innovation, Culp is well positioned to meet the needs of our customers in an expanding global marketplace, especially as market conditions improve.

#### Upholstery Fabrics Segment

For fiscal 2020, upholstery fabric sales were \$124.8 million, down 8.0 percent compared with \$135.7 million in fiscal 2019. Prior to the disruption in the fourth quarter from the COVID-19 pandemic, we were pleased with the solid sales and operating performance for our upholstery fabrics business. Throughout the year, we executed our product-driven strategy with a continued focus on innovation and creative designs that supports our diverse customer base and helps customers differentiate themselves in the marketplace. Our strong platform in Asia, including our

cut and sew capabilities in Vietnam, as well as our stable, long-term supplier relationships, continues to support our business and enable us to meet changing customer demands.

Beginning in the second half of March, we experienced a significant drop in orders and shipments as most of our U.S. customers and furniture retailers shut down or substantially limited their operations. Despite these challenges, our team of associates quickly responded to the new operating environment to support the needs of our customers. Our

business has traditionally relied heavily on trade show participation and in-person product showings. However, with travel restrictions and event cancellations, we quickly adapted by developing innovative virtual showcase presentations that allowed us to continue presenting our products to customers. We also adjusted our workforce to align with the significantly reduced demand and aggressively reduced discretionary spending.

Product innovation remains a hallmark of our success in the marketplace and provides a distinct competitive advantage for Culp. Our line of highly durable, stain resistant, LiveSmart® fabrics continues to be popular with both new and existing customers. We also remain excited about the demand trends for LiveSmart Evolve™, our line of sustainability fabrics featuring the use of recycled yarns along with the same stain-resistant performance. We expect to see continued growth in this line as a product that appeals to environmentally conscious consumers. It also reflects our company-wide commitment to environmental responsibility and demonstrates our ongoing efforts to lead through innovation. We are continuing to develop new generations of performance products featuring new finishes and technologies to further expand the LiveSmart® product offering.

We are also pleased with the continued growth in our hospitality business throughout the year, as we have extended our reach in this market. This business was less affected by the COVID-19 disruption during the fourth quarter due to a strong pipeline of orders already in process. Read Window Products (Read), our window treatment and installation services business, provided a meaningful contribution for the year, and we are proud that Read reallocated a portion of its operations during the fourth quarter to sew face masks for essential healthcare workers. While we remain pleased with the diversification offered by our hospitality business, we recognize that ongoing pressure on the travel and leisure industries as a result of COVID-19 is affecting hotels and other hospitality venues. This pressure could negatively affect us, at least in the short-term, as customers may defer new refurbishing projects in the current environment.

Looking ahead, while the business environment remains uncertain due to the unknown duration of the COVID-19 pandemic and related economic fallout, we

## LiveSmart Evolve™,

our line of sustainability fabrics featuring the use of recycled yarns along with stain-resistant performance, appeals to environmentally conscious consumers.

*“We remain focused on executing our product-driven strategy and demonstrating the resilience and strategic advantage of our global platform and stable supply chain.”*

**Franklin N. Saxon**

believe we are well positioned to execute our strategy with favorable results as market conditions improve. We have a unique combination of innovative products, creative designs, a growing customer base across both the residential and hospitality markets, and a global platform to support our business and meet changing customer demand.

### Balance Sheet

We were pleased to end fiscal 2020 with a sound financial position, even while facing a challenging business environment and the disruption caused by the COVID-19 pandemic. As of May 3, 2020, we reported \$77.1 million in cash and investments and outstanding borrowings totaling \$38.4 million, for a net cash position of \$38.7 million. We maintained this position despite the material decline in sales during the fourth quarter by taking decisive steps to reduce our costs and improve our liquidity. In doing so, we ended the fourth quarter with net cash above our net cash position at the end of the third quarter, even with limited operations. We spent \$4.6 million for capital expenditures and returned \$6.8 million to shareholders in regular dividends and share repurchases during the fiscal 2020 year.

In the first quarter of fiscal 2021, we were able to repay the borrowings previously outstanding as of the end of fiscal 2020, such that we are once again debt-free. Additionally, on June 30, 2020, we amended our existing credit agreement to increase our financial flexibility for the future. As such, we believe we are well positioned to execute our growth strategy and maintain our position as a financially stable and trusted leader in today's global marketplace.

### Capital Allocation Strategy

Culp has always placed a high priority on conservative financial management and our capital allocation strategy reflects this discipline. Over the past year, this strategy has served us well given the challenging environment. In fiscal 2020, we reduced our capital expenditures while continuing to support our current operations. In line with our stated objective to return funds to shareholders, during the third quarter, we increased our quarterly cash dividend from \$0.10 to \$0.105 per share, or \$0.42 per share on an annual basis. Notably, this represents the company's seventh straight year of increasing our annual dividend. Importantly, the Board will continue to evaluate the appropriateness of the current dividend rate in light of economic conditions and the company's future performance.

We repurchased a total of 142,496 shares during fiscal 2020, leaving approximately \$3.3 million available under the share repurchase program approved by the board of directors in September 2019. The Board subsequently approved an increase in the company's share repurchase authorization back up to a total of

\$5.0 million in March 2020. However, during the fourth quarter, we suspended our share repurchases given the economic uncertainty related to the COVID-19 pandemic.

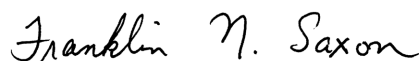
### Looking Ahead

As we continue to navigate our way through these uncertain times, the health and safety of our employees, customers, suppliers, and the communities we serve remain our top priority. While the duration of this economic and health crisis remains unknown, we are pleased that our business has improved since the end of fiscal 2020, and we are encouraged by positive sales trends and reports of increased consumer spending in the home furnishings sector. Our mattress fabrics segment and our upholstery fabrics segment have both seen better-than-expected increases in orders and operating results during the first quarter of fiscal 2021 as retail home furnishing stores have started to re-open.


Barring additional shutdowns as a result of COVID-19, we believe business will continue its solid return through the first half of fiscal 2021, and we will benefit from pent-up demand and increased consumer attention to the home environment and overall comfort. With the strength of our balance sheet, we are confident in our ability to withstand the ongoing disruption over the near-term and emerge from this crisis in a strong position. We remain focused on executing our product-driven strategy and demonstrating the resilience and strategic advantage of our global platform and stable supply chain. We will continue to lead through innovation, with creative designs, exciting new products, and outstanding service capabilities. Above all, we are grateful for the courage and dedication demonstrated by our 1,400 Culp associates around the globe who continued to support our business and our customers through this challenging year and provide confidence in our future success. With the support of our outstanding management team and board of directors, we have a solid foundation. Together, we will move Culp forward with a relentless focus on delivering value to our customers and shareholders.

Finally, we thank you, our shareholders, for your support.

Sincerely,



Franklin N. Saxon  
Executive Chairman



Robert G. Culp, IV  
President and Chief Executive Officer