

Fiscal 2019 was a tumultuous year for Culp. While our upholstery fabrics segment achieved another year of overall higher annual sales, we faced a number of significant headwinds throughout the year. In particular, the continued influx of low-priced imported mattresses from China and uncertainties surrounding international tariffs, as well as an overall weaker retail environment during the second half of fiscal 2019, affected our operating results. Additionally, in December 2018, our company suffered a profound loss with the passing of our beloved friend, colleague, and one of the company's founders, Rob Culp, III. Rob was widely recognized as a visionary and passionate leader who built a company known for innovation and an unwavering commitment to our customers. He was highly admired and respected both within our organization and throughout the industries we serve, and we miss the sharp wit, generosity, and kindness he shared daily with our dedicated team of associates.

In spite of these challenges, throughout fiscal 2019 we remained committed to Rob's vision of excellence and serving the needs of our valued customers. We continued to execute our product-driven strategy in each of our business segments, with a relentless focus on design creativity and product innovation. We also built upon strategic initiatives implemented over the last several years to further streamline operations, improve our cost structure, and maximize efficiencies. These initiatives included consolidating the weaving operations of our mattress fabrics segment to one facility, expanding production of our CLASS sewn mattress covers in Haiti and China to meet customer demand in the growing boxed bedding market, and developing strategic supplier relationships in Vietnam late in fiscal 2019 for additional sourcing of cut and sewn kits for our upholstery fabrics segment. Our flexible, global

manufacturing and sourcing platform has continued to support our business segments, allowing us to differentiate our products and respond to shifting demand trends.

Our ability to offer a diverse product mix and reach new market segments has been a key differentiator for Culp in all of our marketplaces and will remain our strategic focus going forward. Our acquisition of Read Window Products in late fiscal 2018 allowed us to expand our growing business in the hospitality industry with a meaningful sales contribution, and we further enhanced our market reach with the establishment of Culp Home Accessories, our finished products business offering bedding accessories and home goods direct to both consumers and businesses. Importantly, in spite of the ongoing challenges for the year, we generated cash flow from operations of \$13.9 million and free cash flow of \$11.5 million for fiscal 2019, and we have maintained a strong financial position, providing the flexibility to support our operations through a turbulent period and continue to pursue additional growth opportunities. With our focused efforts to protect our financial strength, Culp continues to represent a strong and stable supplier for our customers.

Mattress Fabrics Segment

For fiscal 2019, mattress fabric sales were \$145.1 million, compared with \$192.6 million in fiscal 2018. These results reflect the ongoing disruptions and uncertainties that have surrounded the domestic bedding industry, primarily related to the high volume of low-priced imported mattresses from China that began in late fiscal 2018 and continued through most of fiscal 2019. The supply of these products affected most of our major customers, resulting in reduced demand for our mattress fabrics and covers throughout the year.



During March and April of 2019, import activity began to slow in anticipation of the expected anti-dumping ruling from the U.S. Department of Commerce. This ruling came in May 2019, with the Department imposing punitive anti-dumping measures from 69 percent to as high as 1,731 percent against Chinese-made mattresses. We believe these duties will ultimately provide some relief for the domestic mattress industry, but the anticipation of this ruling led to an influx of these products at the end of calendar 2018 and continuing through February 2019, and a weaker mattress retail environment towards the end of fiscal 2019 delayed the sale of this excess inventory. This resulted in continued disruption in the bedding industry and reduced demand for our products through the end of the year.

Despite the turmoil, we continue to manage our business in an efficient and responsible manner and provide excellent service to our customers. We have worked hard to create a sustainable platform with enhanced capacity and distribution capabilities, and the flexibility and scalability of our operations have served us well, especially during the difficult market conditions we face. In fiscal 2019, we consolidated our weaving operations to one facility and expanded production of our CLASS sewn mattress covers in Haiti and China to meet customer demand. We also focused on controlling costs, providing customers with products that remain in demand, and upholding the exceptional level of customer service that is a hallmark of our business. We were pleased to achieve sound profitability with an 8.0 percent operating margin in fiscal 2019 in spite of the challenging business environment, and we will continue to reinvest in our business to maximize our operating efficiencies and delivery capabilities in fiscal 2020 and beyond.

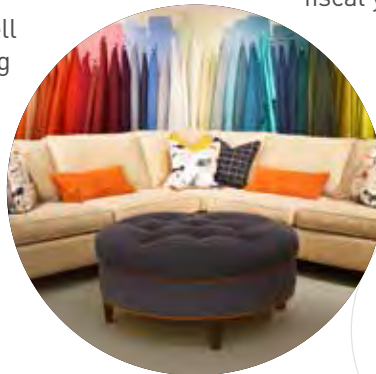
Additionally, our varied product mix of mattress fabrics and sewn covers across most price points and style trends has supported our diversification strategy with favorable results. CLASS, our mattress cover business, continued to perform well in fiscal 2019 with the support of our global sewing platform. We remain encouraged by the sales trends with our core mattress cover customers, as well as our ability to reach new customers and additional market segments like the popular and expanding boxed bedding space. We have also continued to expand our design

capabilities, launching product software and a new library system for cataloguing creations to drive marketing and enhance innovation. Additionally, we implemented a new digital marketing strategy and expanded our social media presence to enhance Culp's brand awareness and increase sales, especially with younger consumers.

While fiscal 2019 was a turbulent year for our mattress fabrics business, we are optimistic about the year ahead. Currently we expect the excess supply of low-priced mattress imports from China to continue through the first quarter of fiscal 2020, which will affect short term demand trends and operating performance. We also continue to monitor global trade uncertainties and the effect of potential additional tariffs on our business. Despite these ongoing challenges, we are pleased to see some recent improvements in retail demand trends, as well as many of our customers altering their supply chains away from China. We have the ability to leverage our creative designs, innovative products, and global production capabilities to enhance our leadership position and sustain Culp's competitive advantage, and we look forward to the opportunities ahead for our mattress fabrics business in fiscal 2020.

Upholstery Fabrics Segment

For fiscal 2019, upholstery fabric sales were \$135.7 million, compared with \$131.1 million in fiscal 2018. We were pleased to achieve another year of higher annual sales, supported by a meaningful contribution from our Read Window Products acquisition late in fiscal 2018, but also partially offset by the closure of our Anderson, South Carolina, operation in the second quarter and the impact of the additional external geopolitical issues that affected our business. The ongoing trade dispute between the U.S. and China and uncertainties surrounding tariffs caused significant disruptions across the supply chain for the furniture industry, especially towards the end of our fiscal year.



Throughout the year, we pursued a product-driven strategy with a sustained focus on innovation and creative designs, supported by our



“

Our ability to provide a diverse product offering allowed us to reach new market segments and expand our customer base in both the residential and hospitality markets in fiscal 2019.

”



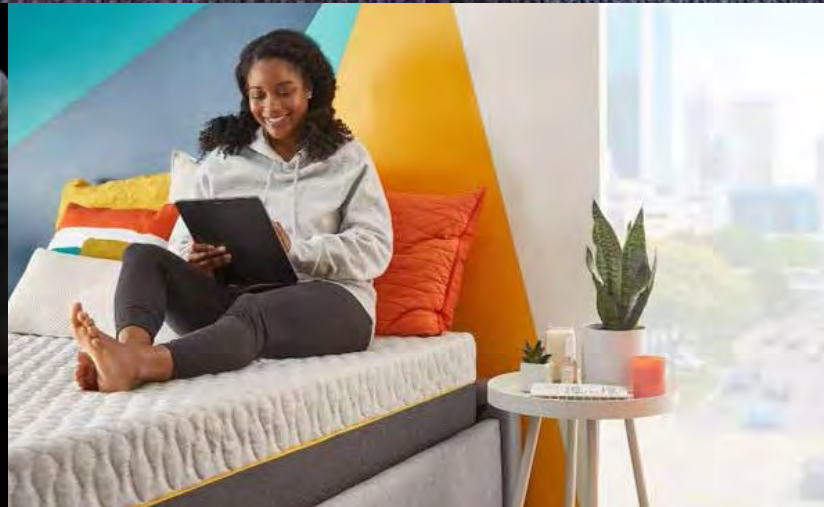
e LUXURY™
www.eluxury.com



“

Our varied product mix of mattress fabrics and sewn covers across most price points and style trends has supported our diversification strategy with favorable results.

”



substantial global platform. Our design team has done an outstanding job reflecting current style trends and meeting the changing demands of our customers. Additionally, higher sales were supported by our efforts to expand the breadth of our customer base to include a broader range of residential furniture customers, including e-commerce, and reaching additional international markets. We also saw continued growth in our popular and expanding line of highly durable, stain-resistant, LiveSmart® “performance fabrics.” We are particularly excited about the launch of LiveSmart Evolve™, a new line of fabrics featuring our LiveSmart® performance technology combined with recycled fibers to deliver a sustainable textile product for a new generation of environmentally conscious consumers. This new sustainable product category was launched in the first quarter of fiscal 2020 and supports Culp’s ongoing efforts to reduce landfill waste and design products for the betterment of tomorrow. We are also pleased with the contribution from Read Window Products, as fiscal 2019 marked the first full year of sales for Read’s custom window treatments and other products for the hospitality market. Our ability to provide a diverse product offering allowed us to reach new market segments and expand our customer base in both the residential and hospitality markets in fiscal 2019.

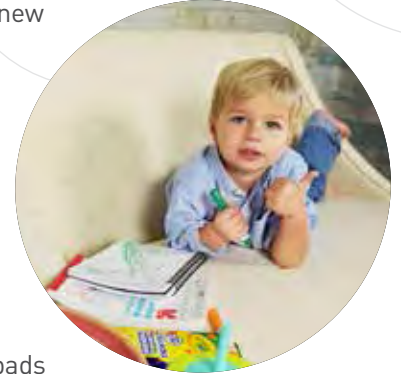
Looking ahead, we expect the soft retail demand trends for furniture, as well as the impact of the continued uncertainties surrounding tariffs and the associated geopolitical risks, to continue affecting our business at least through the early part of fiscal 2020. Late in fiscal 2019, we developed strategic relationships in Vietnam for additional sourcing of our cut and sewn kits, which has allowed us to begin altering our supply chains to meet customer demands in conjunction with the ongoing trade disputes between the U.S. and China. This flexible manufacturing and sourcing platform allows us to differentiate our products and respond to shifting demand trends, which we believe positions us well for the long term. Above all, we remain focused on providing innovative products that meet the changing demands of our valued customers.

Home Accessories Segment

Commencing in the third quarter of fiscal 2019, we began reporting a new home accessories business segment, which includes the operations of eLuxury, our e-commerce and finished products

business offering bedding accessories and home goods. For the period since the June 2018 majority investment in eLuxury, sales for this segment were \$16.0 million.

Since our investment in eLuxury, we have worked hard to establish this new business segment and create a combined platform that supports both business-to-consumer and business-to-business sales of finished products. During the second half of fiscal 2019, we developed and launched new products in coordination with Culp’s other divisions, including mattress pads and mattress protectors made with Culp mattress fabrics and dog beds made with our LiveSmart® performance fabrics. We experienced some delays and increased costs as we worked through typical product roll-out, sampling and marketing issues for these new products, and also saw reduced demand for legacy mattress pad products during fiscal 2019. We are also monitoring continued global trade uncertainties and how additional tariffs may affect some of our finished products. However, we are encouraged by more recent sales trends on legacy products, as well as our progress related to new products, which we have now introduced to various marketplaces. Additionally, we are focused on expanding our sales channels beyond eLuxury’s e-commerce platform to reach business retailers, both in brick and mortar stores and through their online platforms, as well as customers in the hospitality industry.



Balance Sheet

Our ability to maintain a strong financial position has been an important advantage for Culp, especially as we experienced more challenging business conditions this past year. We were pleased to end fiscal 2019 with a strong balance sheet, reporting \$45.0 million in cash and investments and a \$675,000 subordinated loan payable as of April 28, 2019. We have maintained this position despite spending \$4.8 million for capital expenditures, including vendor financed payments and investments in Haiti, funding \$12.1 million in acquisition-related costs, and returning \$8.1 million to shareholders in regular dividends

and share repurchases. Additionally, in spite of the headwinds for the year, we generated cash flow from operations of \$13.9 million in fiscal 2019, and free cash flow of \$11.5 million for the year.

For fiscal 2020, we will remain focused on disciplined financial management. We are well positioned to execute our growth strategy and make the right investments to support our operations and continue to serve our valued customers.

Capital Allocation Strategy

Our capital allocation strategy is inherent in every aspect of our overall business strategy and reinforces our commitment to deliver value to our shareholders. Following the completion of a multi-year expansion and efficiency project in our mattress fabrics division, we returned to a more maintenance level of capital expenditures in fiscal 2019 to support our operations and fund organic growth in all of our businesses.

In line with our stated objective to use additional cash for dividend payments and share repurchases, commencing in the third quarter, we increased our quarterly cash dividend from \$0.09 to \$0.10 per share, or \$0.40 per share on an annualized basis. Importantly, we have raised the quarterly cash dividend every year since we reinstated dividend payments in fiscal 2012. Additionally, for fiscal 2019 Culp repurchased approximately 160,000 shares, leaving \$1.7 million available under the share repurchase program approved by the Board in June 2016. Since June 2011, we have returned approximately \$65.0 million to shareholders in the form of regular quarterly and special dividends and share repurchases.

Looking ahead

While the past year was characterized by many unique challenges for our business, we have worked tirelessly to adjust to changing market conditions

and support our valued customers. We are proud of our ability to continue to move Culp forward and maintain our strong competitive position as a financially stable and trusted leader in today's global marketplace. As we begin another year, we will remain focused on our product-driven strategy in all of our businesses. We believe our ability to leverage our creative designs, innovative products, sustainable global platform, and outstanding service capabilities will drive our success. Although we expect the soft retail demand trends for furniture, as well as the continued uncertainties surrounding tariffs and the associated geopolitical risks, to continue at least through the early part of the year, we are optimistic as we look to the opportunities ahead for Culp. The dedication and commitment of everyone associated with Culp, including our loyal associates around the globe, outstanding management team, and board of directors, provides us with a solid foundation and gives us the ability to look confidently to the future. Importantly, the values and vision of excellence instilled by our departed co-founder, Rob Culp, continue to inspire all that we do, and we will continue to honor his legacy in the management of Culp in fiscal 2020 and beyond.

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

Sincerely,

Franklin N. Saxon

Franklin N. Saxon
Chairman and Chief Executive Officer

Robert G. Culp, IV

Robert G. Culp, IV
President and Chief Operating Officer

