CULP

CULP, INC.

NYSE: CULP
First Quarter Fiscal 2022
Summary Financial Information

September 1, 2021

FIRST QUARTER FISCAL 2022 FINANCIAL SUMMARY

- **Net sales were $83.0 million, up 28.8 percent over the pandemic-impacted prior-year period, with mattress fabrics sales up 19.3 percent and upholstery fabrics sales up 41.0 percent compared with the first quarter of last year.**

- **Income from operations (operating income) was $3.3 million, up 76.2 percent compared with income from operations of $1.9 million for the prior-year period.**

- **Net income was $2.3 million, or $0.18 per diluted share, compared with a net loss of $(2.7) million, or $(0.22) per diluted share, for the prior-year period, which included a $3.7 million non-cash net income tax charge. Excluding this net income tax charge, adjusted net income (non-GAAP) for the first quarter of last year was $1.0 million, or $0.08 per diluted share (see reconciliation table at the back of this presentation).**

- **The Company's financial position reflected total cash and investments of $44.0 million and no outstanding borrowings as of August 1, 2021 (see summary of cash and investments table at the back of this presentation).**

FIRST QUARTER FISCAL 2022 FINANCIAL SUMMARY (cont'd)

- Cash flow from operations and free cash flow were $1.6 million and negative $(782,000), respectively, for the first quarter of fiscal 2022 (see reconciliation table at the back of this presentation).

- The company announced its regular quarterly cash dividend of 11 cents per share, payable in October 2021. At an annual indicated dividend of $0.44 per share, the yield is 3.34 percent, based upon a closing stock price of $13.17 per share on August 31, 2021.

- The company repurchased 48,686 shares of Culp common stock during the first quarter of fiscal 2022, and has subsequently repurchased an additional 47,767 shares through August 31, 2021, leaving approximately $3.6 million available under the company's recently reinstated share repurchase program.

FINANCIAL OUTLOOK

- Although subject to uncertainties, the company is encouraged by the execution of its product-driven strategy and the resilience of its global platform, as well as its expanding market reach. The financial outlook provided for the second quarter of fiscal 2022 is a sequential comparison to the first quarter of fiscal 2022 due to the current inflationary pressures and volatility that were not present during the prior-year period.
- The company's net sales and consolidated operating income (income from operations) for the second quarter of fiscal 2022 are expected to be comparable to the first quarter of fiscal 2022.
- For the full fiscal 2022 year, the company reaffirms its expectations for net sales to continue increasing moderately, with a projected increase between 8 to 10 percent, and for consolidated operating income to increase significantly, with a projected increase between 20 to 25 percent, in each case as compared to fiscal 2021.
- The company's expectations for the second quarter and the full fiscal 2022 year are based on information available at the time of this press release and reflect certain assumptions by management regarding the company's business and trends. The outlook assumes there will be no further pandemic-related shutdowns and no greater-than-expected changes in freight and raw material costs, foreign currency exchange rates, labor availability, recent consumer trends, world events, or other circumstances beyond the company's control.

FIRST QUARTER 2022 HIGHLIGHTS

($ in millions)

GAAP	Q1 FY22	Q1 FY21	Change	
			$	%
Sales	$83.0	$64.5	$18.5	28.8%
Operating income	3.3	$1.9	$1.4	76.2%
Operating income margin	4.0%	2.9%		110 bp
Pre-tax income	$3.2	$1.5	$1.7	107.0%
Pre-tax margin	3.8%	2.4%		140 bp
Net income (loss)	$2.3	$(2.7)*	$5.0	NM
Net income (loss) per diluted share	$0.18	$(0.22)*	$0.40	NM

* Refer also to the Reconciliation of Selected Income Statement Information to Adjusted Results for the three-month period ending August 2, 2020, at the back of this presentation.

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FIRST QUARTER 2022 HIGHLIGHTS

($ in millions)

Adjusted (Non-GAAP)*	Q1 FY22	Q1 FY21	Change $	Change %
Adjusted income (loss)	$2.3	$1.0	$1.3	134.9%
Adjusted income (loss) per share	$0.18	$0.08	$.10	125.0%

* Refer to preceding Slide 5 for GAAP presentation as well as the Reconciliation of Selected Income Statement Information to Adjusted Results for the three-month period ending August 2, 2020, at the back of this presentation. The Reconciliation of Selected Income Statement Information to Adjusted Results only reflects adjustments for the first quarter of fiscal 2021, as there were no adjustments for the first quarter of fiscal 2022 (and, accordingly, the Q1 FY22 numbers shown in the table above reflect net income and net income per diluted share on a GAAP basis).

Q1 SALES & OPERATING INCOME BRIDGES

($ in millions)

Sales	Change $	Change %
Q1 2021	$64.5	
Mattress fabrics increase	7.0	19.3%
Upholstery fabrics increase	11.6	41.0%
Q1 2022	$83.0	28.8%

Operating Income	Change $	Change %
Q1 2021	$1.9	
Mattress fabrics increase	1.8	95.7%
Upholstery fabrics increase	0.2	7.3%
Unallocated corporate expense increase	0.5	23.4%
Q1 2022	$3.3	76.2%

NET CASH, INVESTMENTS, AND EQUITY

($ and share amounts in millions)

	Q1 FY22	Q4 FY21	Q1 FY21
Cash and cash equivalents	$26.1	$37.0	$40.0
Short-term investments (Available for Sale)	9.7	5.6	1.0
Short-term investments (Held-to-Maturity)	1.7	3.2	5.1
Long-term investments (Held-to-Maturity)	6.6	1.1	1.3
Total cash and investments	$44.1	$46.9	$47.4
Total debt	$ 0.0	$ 0.0	$ 0.0
Net cash and investments	$44.1	$46.9	$47.4
Shareholders' equity attributable to Culp, Inc.	$129.5	$129.0	$125.9
Shares outstanding	12,276	12,313	12,292
Book value per share	$10.55	$10.48	$10.24
Tangible Book value per share	$10.32	$10.23	$9.97

FREE CASH FLOW*

($ in millions)

	Q1 FY22	Q1 FY21
Net income	2.3	(2.7)
Depreciation, amortization, & stock-based compensation	2.1	2.1
Deferred taxes, other	(0.3)	3.7
Gross cash flow	4.1	3.1
Cash flow from working capital and changes in other assets/liabilities	(2.5)	7.5
Cash flow from operations	1.6	10.6
Capital expenditures, including payments that are vendor financed	(2.0)	(0.5)
Investment in unconsolidated joint venture	0.0	(0.1)
Other	(0.4)	0.0
Free cash flow	$(0.8)	$10.0

* See reconciliation at the back of this presentation.

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ADJUSTED EBITDA

Reconciliation of Net Income to Adjusted EBITDA

	Quarter Ended November 1, 2020	Quarter Ended January 31, 2021	Quarter Ended May 2, 2021	Quarter Ended August 1, 2021	Trailing 12 Months August 1, 2021
Net income	$ 2,384	$ 2,082	$ 1,485	$ 2,250	$ 8,201
Income tax expense	1,613	899	857	905	4,274
Interest income, net	(59)	(90)	(36)	(74)	(259)
Gain on bargain purchase	—	—	(819)	—	(819)
Depreciation expense	1,716	1,665	1,643	1,726	6,750
Amortization expense	117	115	116	121	469
Stock based compensation	348	292	485	274	1,399
Adjusted EBITDA	$ 6,119	$ 4,963	$ 3,731	$ 5,202	$ 20,015
% Net Sales	8.0%	6.3%	4.7%	6.3%	6.3%

	Quarter Ended November 3, 2019	Quarter Ended February 2, 2020	Quarter Ended May 3, 2020	Quarter Ended August 2, 2020	Trailing 12 Months August 2, 2020
Net income (loss)	$ 2,192	$ (4,207)	$ (27,825)	$ (2,733)	$ (32,573)
Loss before income taxes from discontinued operation	441	7,824	8,698	—	16,963
Income tax expense (benefit) from continuing operations	1,930	(973)	704	4,324	5,985
Interest income, net	(237)	(258)	(37)	(7)	(539)
Asset impairments from continuing operations	—	—	13,712	—	13,712
Restructuring credit	—	(35)	—	—	(35)
Depreciation expense - continuing operations	1,893	1,891	1,882	1,822	7,488
Amortization expense - continuing operations	102	102	117	118	439
Stock based compensation	313	364	(199)	126	604
Adjusted EBITDA	$ 6,634	$ 4,708	$ (2,948)	$ 3,650	$ 12,044
% Net Sales	9.5%	6.9%	6.2%	5.7%	4.8%
% Over (Under)	(7.8)%	5.4%	N.M.	42.5%	66.2%

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OPERATING WORKING CAPITAL

($ in millions)

	August 1, 2021	May 2, 2021	August 2, 2020
Accounts receivable, net	$35.0	$37.7	$29.9
Inventories, net	58.6	55.9	40.4
Accounts payable	(45.3)	(42.5)	(25.7)
Accounts payable – capital expenditures	(0.0)	(0.3)	(0.3)
Operating working capital	$48.3	$50.8	$44.3
Percent of sales*	14.5%	16.9%	17.1%
Days sales outstanding	37.6	42.8	41.2
Inventory turns	4.9	4.8	5.3
Days accounts payable outstanding**	58.5	58.0	44.3

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

** Accounts payable also includes accounts payable – capital expenditures.

Q1 MATTRESS FABRICS HIGHLIGHTS

($ in millions)

	Q1 FY22	Q1 FY21	Change	
			$	%
Sales	$43.1	$36.1	$7.0	19.3%
Operating Income (Loss)	3.6	1.8	$1.8	95.7%
Operating Income Margin	8.4%	5.1%		330 bp
Depreciation	$1.5	$1.6	$(0.1)	(6.7)%

Q1 MATTRESS FABRICS KEY POINTS

- Growth in mattress fabrics sales driven by continued strength of product offerings, supplemented by price increase implemented during the first quarter to help offset certain inflationary pressures.
- Maintained focus on customer marketing, product innovation, and creative designs during the quarter, and further expanded digital design platform to offer enhanced accessibility to customers.
- Demand trends for sewn mattress covers remained strong, as on-shore, near-shore, and off-shore supply chain strategy, as well as fabric-to-cover model, continued to provide a preferred platform that provides customers with the agility and value they need for their business.
- Improved operating performance compared to prior-year period reflects solid increase in sales, somewhat offset by increased raw material prices, freight costs, unfavorable foreign currency fluctuations in Canada and China, and inefficiencies due to labor shortages in the U.S. and Canada.
- As compared to the fourth quarter of fiscal 2021, the improvement in operating performance was primarily driven by a favorable product mix and the price increase implemented during the first quarter to help cover expected inflationary pressures, but results were further affected by operating inefficiencies due to labor shortages and additional increases in freight and raw material costs, particularly during the second half of the quarter.
- Surcharge being imposed during second quarter to help offset inflationary pressures, while also continuing to engage in cost control measures. Surcharge will not take effect until midway through the quarter, resulting in temporary cost-price lag that will affect operating performance during the period.
- Current inflationary conditions, labor shortages, and other near-term headwinds expected to continue during fiscal 2022, but confident in ability to navigate these challenges with compelling business model that leverages efficient global platform, innovative products, creative designs, and digital marketing strategies.

Q1 UPHOLSTERY FABRICS HIGHLIGHTS

($ in millions)

	Q1 FY22	Q1 FY21	Change	
			$	%
Sales	$40.0	$28.4	$11.6	41.0%
Operating Income	$2.3	$2.1	$0.2	7.3%
Operating Income Margin	5.7%	7.5%		(180) bp
Depreciation	$0.2	$0.2	$0.0	7.3%

Q1 UPHOLSTERY FABRICS KEY POINTS

- Strong growth in sales for first quarter, driven by significant increase in residential business compared to prior-year period, and supplemented by price increase effective during the quarter.
- Continued to benefit from growth in market share reach, flexibility of Asian platform, and success of product innovation strategy, including ongoing popularity of LiveSmart® portfolio of products.
- Hospitality business, particularly Read Window Products, remained under significant pressure from ongoing COVID-19 disruption that continues to affect travel and leisure industries.
- Operating performance for first quarter, as compared to prior-year period and fourth quarter of fiscal 2021, was negatively affected by dramatic increase in freight costs and lower sales in Read Window Products business, as well as start-up costs for new Haiti facility. Operating performance as compared to prior-year period also pressured by foreign currency fluctuations in China.
- Previously implemented price increase helped offset foreign currency exchange rate fluctuations to some extent, as intended, and an additional freight surcharge is being imposed during the second quarter to help cover the continued rise in freight costs.
- Began to see growing backlog in Read Window Products business during first quarter, but given the typically longer-term (six to nine month) time frame for project installations, there is a temporary lag between impact of pandemic-related disruption and improved results for this business.
- Strong backlog in residential upholstery business reflects continued favorable demand.
- Expect near-term headwinds, including rising freight and labor costs, customer supply chain constraints, and ongoing pandemic-related disruption to temporarily pressure business during fiscal 2022, but well positioned to sustain and enhance competitive advantage over long term with product-driven strategy, flexible Asian platform, upcoming addition of new Haiti platform, and long-term supplier relationships.

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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. Finally, increases in market prices for petrochemical products can significantly affect the prices we pay for raw materials, and in turn, increase our operating costs and decrease our profitability. 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.

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ABOUT NON-GAAP FINANCIAL INFORMATION

This presentation contains adjusted income statement information, which discloses adjusted net income (loss) and adjusted earnings per share, non-GAAP performance measures that eliminate (a non-cash income tax charge in connection with a full valuation allowance against the Company's U.S. net deferred income tax assets, as well as a non-cash income tax benefit resulting from the re-establishment of certain U.S. Federal net operating loss carryforwards in connection with the recently enacted final regulations regarding the Global Intangible Low Taxed Income ("GILTI") tax provisions of the Tax Cuts and Jobs Act of 2017. The company has included this adjusted information in order to show operational performance excluding the effects of this non-cash income tax charge and non-cash income tax benefit, 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 net income or earnings per share calculated in accordance with GAAP. In addition, the calculation of the company's income taxes involves numerous estimates and assumptions, which we have made in good faith.

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, plus any proceeds from sale of property, plant, and equipment, less investment in unconsolidated joint venture, plus proceeds from life insurance policies, less premium payments on life insurance policies, less payments on vendor-financed capital expenditures, 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 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 income (loss) excluding loss before income taxes from discontinued operations, income tax expense (benefit) from continuing operations, and net interest income, as well as depreciation and amortization expense from continuing operations, and stock-based compensation expense. This measure also excludes asset impairment charges from continuing operations, gain on bargain purchase, restructuring and related charges and credits, as well as other non-recurring charges and credits associated with our business. 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.

Q1 RECONCILIATION OF SELECTED INCOME STATEMENT INFORMATION TO ADJUSTED RESULTS

CULP, INC.
RECONCILIATION OF SELECTED INCOME STATEMENT INFORMATION TO ADJUSTED RESULTS
FOR THE THREE MONTHS ENDED AUGUST 2, 2020
Unaudited
(Amounts in Thousands, Except for Per Share Data)

	As Reported August 2, 2020	Adjustments	August 2, 2020 Adjusted Results
Income before income taxes	$ 1,524	—	1,524
Income tax expense (1)	(4,324)	3,691	(633)
Income from investment in unconsolidated joint venture	67	—	67
Net (loss) income	$ (2,733)	3,691	958
Net (loss) income per share - basic	$ (0.22)		$ 0.08
Net (loss) income per share - diluted	$ (0.22)		$ 0.08
Average shares outstanding-basic	12,287		12,287
Average shares outstanding-diluted	12,287		12,294

Notes

(1) The $3.7 million adjustment represents a $7.2 million non-cash income tax charge to record a full valuation allowance against the company's U.S. net deferred income tax assets, partially offset by a $3.5 million non-cash income tax benefit resulting from the re-establishment of certain U.S. Federal net operating loss carryforwards in connection with U.S. Treasury regulations enacted during our first quarter regarding Global Intangible Low Taxed Income ("GILTI") tax provisions of the Tax Cuts and Jobs Act of 2017.

RECONCILIATION OF FREE CASH FLOW

RECONCILIATION OF FREE CASH FLOW
FOR THE THREE MONTHS ENDED AUGUST 1, 2021, AND AUGUST 2, 2020
(UNAUDITED)
(AMOUNTS IN THOUSANDS)

Reconciliation of Free Cash Flow (1):

		FY 2022	FY 2021
A) Net cash provided by operating activities	$	**1,571**	10,581
B) Minus: Capital Expenditures		**(1,953)**	(500)
C) Minus: Investment in unconsolidated joint venture		**—**	(90)
D) Plus: Proceeds from the sale of long-term investments (rabbi trust)		**—**	39
E) Minus: Purchase of long-term investments (rabbi trust)		**(403)**	(78)
F) Effects of exchange rate changes on cash and cash equivalents		**3**	35
Free Cash Flow	$	**(782)**	9,987

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