



Today, we're launching "Let's Talk Carpenter," a conversation with Carpenter's President and CEO, Brad Beauchamp. How are you today, Brad?

I'm doing great today. It's a beautiful fall day in Richmond, and it's a great time of year to be around the Richmond area, so I'm in good spirits today. Thanks.

Absolutely. We are here to share some company updates with the Carpenter team. How did this idea come about?

That's an excellent question. As you know, we try to have good levels of communication on multiple different touchpoints with people. And sometimes communicating by an email or with a policy makes sense, and sometimes we've done it with town halls. And what we're really trying to do is get to the questions that people want and get them the answers that they want. So we thought this format might be good to do that, and hopefully it serves that purpose, and it's something that works and we can continue doing it.

We have some questions that were submitted by Carpenter employees. The first one is about our Recticel transaction that was finalized in June. In the first five months since closing the Recticel transaction, what are your impressions about how the merger has been successful?

I think that I've been extremely positive about how things have gone so far. This is certainly something that, as we've talked about, is not very familiar with lots of us. We weren't a big deal-making company before this, and it's certainly a pretty significant acquisition for the company, adding almost 35% to the topline revenue of the company, and adding about 30% to the workforce. So a pretty sizable acquisition, and you're never really sure what to expect at the very beginning. But I would say that so far, in lots of ways, it has exceeded my expectations.

When two companies merge, you expect to capitalize on synergies. Given the differences between legacy Carpenter and legacy Recticel operations, where do you see those synergies?

Well, the most obvious synergy first is in just scale and scope of Carpenter. So the new entity is the largest flexible foam manufacturer in the world, so the easiest synergies to take advantage of are our buying power on raw materials. So right out of the gate, we were able to negotiate and handle with our preferred vendors new agreements and new prices, which are helpful. So

that's the easiest thing to capture, but you've got to remember: In the acquisition, it's not just Recticel.

We think of Recticel sometimes from a legacy Carpenter standpoint as one entity, but the reality is that Recticel was made up of a couple of different companies. They were made up of OttoBock as well as Foam Partner and Recticel, so it's a little more complex when you start peeling it back than just a single entity. So there have been a lot of nuances to it. I think there's a lot of ways in which things that OttoBock was doing really well, Foam Partner did really well and Recticel did really well, that we've started to adopt and modify. Some people will recognize that maybe in the way certain reports look or how information about different plants and performance is going, and some of it is a little more behind the scenes and adoptive of policies, procedures, structure, those kinds of things.

One of the major focuses that we've had moving into this Recticel deal was the focus on One Team because we have so many different groups, as you said, coming together. What does One Team mean to you, and what does a successful integration of One Team look like for Carpenter?

My background growing up is I played a lot of sports and I was fortunate enough to play hockey in college, and I still play ice hockey today amongst other sports. So that concept of a team, you can have a lot of really great individuals, you can have a lot of really good all-star players, but if they don't play together as a team, then the success isn't there for the football club or whatever organization you're involved in. So when that concept of One Team was launched, really in my mind, that's how I think about it. It's trying to get everybody on the same page, get them thinking about things in a common set of language that we then can all then be pulling in the same direction, working toward a common goal. So that was really the genesis, or the birth, of the One Team concept, is that we all want to consider that we're a family together, working toward a common set of objectives.

Companies that thrive over the long-term are those that innovate and diversify. How is Carpenter innovating and diversifying?

I think that's a great question. I would modify the statement a little bit. In the research that I've done and the readings I've done, the companies that thrive are those that focus on their customers and making their customers happy, and focus on their employees and making sure that their employees are aligned and motivated and similarly structured.

I don't know that diversification of the markets is necessarily a precondition for being the most successful companies. You can find companies that are very focused on a particular product or product line that are extremely successful, and you can find diverse companies that are extremely successful.

I think that we felt that within Carpenter, what we wanted to try to do is have a focus on the things that we do really well, and then consider how those things can migrate into other

markets. And so the acquisition of Recticel and the focus with them was how we could bring some of Carpenter's strengths in operations and customer focus into newer markets for us where people are using similar kinds of products.

I think that's really the approach as we take a look at it. How do we keep doing lots of the things that we do well and lots of the things that Recticel or Foam Partner or OttoBock did really well, and how we can leverage that to make sure that customers are extremely satisfied with Carpenter, not only just from the products, but in a delivery/service type of environment.

So along those lines, when we're talking about innovation, will any of the North American Carpenter plants be adopting new technologies or automation upgrades that is already being used by the Recticel Engineered Foams plants?

Yeah. I'd like to answer that in two ways.

One, there are certainly some innovative techniques, software packages, the ways to look at business that Recticel was doing that really attracted us as part of that, as something that we wanted to adopt for ourselves. They are running software things like Power BI, which we've started to incorporate some of that into what we're doing. And other activities that we're anxious to adopt and migrate, as it were, over to North America.

And then, when you look at it from a manufacturing standpoint, Recticel is sending a lot of materials over from Europe to the United States, and has a good platform of approvals and activities and products that we think would do really well in the North American market, but they lack the infrastructure, or the footprint, to make that happen. So we are going to look to actively invest in Carpenter locations in North America to add those capabilities so that the business can thrive in North America with those kinds of products that are new to us even though they've been within that Recticel family for a long time.

Carpenter has a strong name in the industry. Why doesn't Carpenter produce and sell Carpenter branded products?

That's an excellent question and certainly one that is not as simple as it first seems on the surface. I think the logic of that is really good. It's like, "Hey, we have a great name. Why aren't we out there with our own brand?" But part of what we do and what we've been successful doing for a long time is supporting our customers, and a lot of our customers are their own brand. So for Carpenter to come out with its own brand can create some confusion, can create some disruption in the market, and could cause customers to ask, "Is Carpenter my partner, or are they my competitor?" And it's a tricky balance, and certainly it's become more tricky as the lines of business have become blurred over the last several years. If you think about it, the bedding market is a good example.

You know, 15–20 years ago, the bedding industry was very traditional. It was sold through retailers; it was sold in either big box stores or furniture stores. And then along came the idea of

selling direct to consumers through the internet, and the bed-in-a-box era was born, and now today, there's a combination of things. You look at people that have direct to consumer channels, and retail channels, and selling through big boxes like Costco or Walmart. And it's a very confusing market and so there's a lot to sort through in terms of what do you do, how do you run your own brand.

And it's a lot of cost, frankly, associated with it. Some of the brand companies – Tempur-Sealy would be a good example; Casper would be another. Bassett, La-Z-Boy. – they're spending tens of millions of dollars, and in some cases, over a \$100 million a year, on marketing and advertising for that brand. So if you're going to be a brand in the market, you've got to be prepared to do those kinds of things that are required of a brand so that your name recognition carries the weight and generates more sales.

Can we publish the quarterly financial results internally?

So in terms of the financial results of the company, we're a private company and we continue to be a private company. And the results, while we want to communicate those within the company and to the employees, sometimes choosing the right format is important. And we've chosen that we would make those available through town halls and more verbal types of communications about how the company is doing. And that's really just to make sure that that type of information doesn't accidentally find its way out of the organization. And so, our tendency is to communicate that information, make that information available to employees. Because I think it's absolutely within everyone's interest to say, "How are we doing? I want to know," but do that in formats that satisfy that curiosity and that interest and that want to know how Carpenter's doing in a format that makes sure that we're ensuring the privacy of that information so that it doesn't make its way outside of the organization.

Switching gears a little bit to the business performance side, we had some questions about current economic situations. So there are some reports that business may be on the decline in the short-term. How is Carpenter performing currently, and what plans are in place to combat the current economic situation?

So when we looked at it, the COVID situation was in some ways very good for Carpenter's business inherently. So when people were staying at home and earning income or getting supplements from the government to supplement their income, they had a lot of disposable income and didn't have a lot of avenues outside of the home to spend on those activities. So what they did is they painted their houses, they did a lot of home improvement projects. And some of that translated quite nicely for us into a lot of sales regarding furniture and bedding.

So 2021 and for the most part of 2022 were really excellent years for Carpenter as a company. That's really the pre-Recticel merger, and Recticel saw a similar kind of thing – a high level of demand. At the same time, there was also some restrictions on the supply of chemicals, which helped keep the prices of things relatively high. So when we're talking about how is the business

doing overall, we would be comparing it, in those two years, to the two best years the company had had.

When I sat down with the Board of Directors and we talked about what we thought 2023 would look like, we felt that it would be more of a return to what we had seen in 2017, 2018 and 2019, and those were very good years for the company. Two of those three years were of the top five of the company, so nothing to really sneeze at. And we're really tracking along those metrics. We're tracking very similar to what those averages were back then. I know it feels like coming down from a high level, right, taking a step down. And things are slower than we would like, but overall, it's been a good year.

Now, we just spoke a little bit about what led to 2023 and what we're planning for this year, but let's talk about next year. What is Carpenter's outlook for 2024, and could you share a bit of the high-level strategy for our business?

Sure. So, heading into 2024 now, as we take a look at it, we think that the business conditions will continue to remain soft probably for the first six months of the year. We certainly would be happy if it turned positive sooner than that. And we certainly were thinking that the first half of 2023 would be slow with an improvement in business, and we just haven't seen that. Whether it's inflation taking a bit out of people's disposable incomes, or it's the decision to still continue to buy things or spend on experiences like travel, I think all of those factors are weighing on what people are spending in terms of home furnishings. So I think that trend will continue, certainly we see in North America with interest rates being higher that home builds are starting to pause, and resales, so there may be some challenges still in 2024, but we expect things to moderate and turn a corner and start to improve.

Our strategy as a company is to look at leveraging four drivers for growth that we have. The first would be our polyol business, and so our polyol business continues to perform very well. That's both internal consumption of polyol as well as external sales, and we want to continue to grow that business. We're adding personnel resources into that group to help fuel growth along those lines.

Secondly, we would look at the market diversification, and that's really where Recticel comes into play, and the acquisition done with that was really, as it relates to things that are not necessarily Living & Care and Comfort related, other uses of flexible foam that come into play. And we really see that as being a key driver for future growth in 2024.

We're going to keep our eye on the ability to diversify geographically and see if it makes some sense for us. There's nothing imminent with that, but we're absorbing some new locations through the acquisition of Recticel that include Asia, which Carpenter has not been a part of before, and we want to see how we can grow in that market as well as other areas.

And then lastly, the big driver, and I don't know that we can say it'll pay a lot of dividends necessarily in 2024, is sustainability. And we really have a lot of active projects and a lot of

active work going on the use of foam as it comes back to us, in the form of a mattress or furniture, and how we use those foam pieces to sell again or make into new products. And we also have a very active projects on foam back into chemicals, and those are requiring a lot of development and time, and they're not easy solutions, but they're ones that we think will pay dividends down the road. Maybe not necessarily in 2024, but we really see that as being a very positive for the future of the company.

It sounds like Carpenter has an exciting future ahead.

Absolutely.

Well, I'd like to thank you for your time today. We also want to say thank you to everyone who sent in questions for Brad. We weren't able to answer every question this time, but we're glad to provide some updates to the team.

Sure. I appreciate the time and the opportunity. I think this, hopefully, is a good format and will encourage people to submit questions. As we said, we're always open for feedback, and we like the idea that people are interested in the business, and active and engaged in it. So there are really no questions, from my perspective, that we wouldn't want to try to tackle in a format like this. Or certainly, if I'm making a visit and you're hesitant to ask a question, submit it, and if you want to point it out and ask me when I'm there, I'm happy to do that as well.

Great! So we will look forward to the next "Let's Talk Carpenter" in 2024.

Thanks!