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To Our Shareholders:

Last December, I accepted the position of President and CEO of our Company and I am now honored to write my first annual letter to our shareholders. As we look back on fiscal 2019, it was the year that we began our transformation to become a sustainable organization that can carry on a 125-year legacy of delivering outstanding furniture products and customer service. A legacy, however, is just a proud past and not a proxy for the future. When I took over the role of CEO, I was fully aware that we had some serious challenges that were being reflected in our sub-standard financial and operational performance. Of course, there were the external headwinds that the whole industry faced such as the significant tariffs levied against Chinese imported products. The biggest problem, however, was self-inflicted—\$100 million that had been invested over the past five years was eroding shareholder value rather than creating it. The opportunity we have today is to reverse that trend and become the Flexsteel capable of generating new levels of profitability. With a stronger foundation and greatly improved execution, the entire team is intensely focused on achieving our stated goal of a run rate earnings before interest and tax margin of 7%+ by the end of 2021. That would put us at the high end of Flexsteel’s historical profitability.

Roadmap to Recovery

Our Board of Directors and management team agreed that decisive and quick measures were necessary to put us on the path to recovery. We identified initiatives for better serving our customers, generating profitable growth and improving shareholder returns. At the same time, we committed to transparent communications with our shareholders and have issued a series of progress reports and instituted quarterly conference calls to reflect that promise. Within the timeframe of six months, we executed a plan to right size our manufacturing footprint and our cost structure. In summary, we closed our Riverside, California and Harrison, Arkansas facilities; consolidated our warehousing operations at our Huntingburg, Indiana facility, and exited the Custom Design Hospitality Product and Commercial Office Product lines, both of which were non-core businesses. We developed a go-forward plan to reboot the ERP system on the same platform while significantly reducing its scope, customization and complexity. All these measures came with a price tag in 2019—total restructuring charges were \$10.0 million, inventory impairment related to the restructuring was \$7.7 million and an additional \$21.3 million attributable to the ERP impairment. We remain financially stable and focused on our mission to unlock the future potential of Flexsteel.

Looking Forward

The business decisions we are making right now will give us the capability to reach growth and profitability heights not yet achieved in Flexsteel’s long and storied history. We have stabilized our foundation and narrowed our focus on the product development activities that will answer the needs and desires of today’s consumers. We are especially intent on regaining the ground we lost with our e-

commerce customers due to the flawed initial implementation of the ERP system. Our efforts are bearing fruit and we are seeing some positive signs in re-establishing these relationships. In our traditional retail channel, we are focused on high-demand merchandise like recliners, motion products and case goods that leverage our North American manufacturing capabilities. We are also working hard to decrease our exposure to China by moving our supply chain to other countries in order to mitigate the tariff impact and return to pricing levels compatible with our customer base. Very important to our future success, we have recruited top talent to fill specialized roles in digital marketing and operations. I am really proud of our entire team and their commitment to putting Flexsteel squarely on the path to growth and profitability.

In Closing

We have the right people in place and a clear direction to continue this journey together to re-energize our Company and accomplish our goals of better serving our customers, generating profitable growth and improving shareholder returns. I want to thank our Board of Directors for their guidance, all our employees for their contributions, and we are most grateful for the support of our shareholders.

Sincerely,

Jerry Dittmer

President and Chief Executive Officer

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