

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE FIRST QUARTER
OF FISCAL 2019

Mount Gilead, N.C. – December 21, 2018. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the first quarter of fiscal 2019 of \$20,601,000 as compared to \$22,399,000 for the first quarter of fiscal 2018. Net earnings for the first quarter of fiscal 2019 amounted to \$856,000, or \$0.36 per diluted Class A common share as compared to \$1,292,000, or \$0.54 per diluted Class A common share, for the first quarter of fiscal 2018.

FIRST QUARTER FISCAL 2019 COMPARED TO FIRST QUARTER FISCAL 2018

Consolidated net revenues totaled \$20.6 million for the first quarter of fiscal 2019 as compared to \$22.4 million for the first quarter of fiscal 2018. Sales related to our western/lifestyle boot products for the first quarter of fiscal 2019 totaled \$12.4 million as compared to \$13.3 million for the first quarter of fiscal 2018. This 7% decrease was primarily attributable to the decrease in sales of our El Dorado brand of premium western boots as our exclusive customer for the El Dorado brand placed a large stocking order in the first quarter of fiscal 2018 as they expanded this product to more of their retail stores and did not anniversary this order in the first quarter of fiscal 2019. Revenues from our work boot products decreased approximately 11%, from \$9.1 million for the first quarter of fiscal 2018 to \$8.1 million for the first quarter of fiscal 2019. This is primarily a result of decreased military boot sales.

Consolidated gross profit for the first quarter of fiscal 2019 amounted to approximately \$5.3 million as compared to \$6.2 million for the first quarter of fiscal 2018. Gross profit as a percentage of net revenues was down from 27.8% for the first quarter of fiscal 2018 to 25.8% for the first quarter of fiscal 2019. This is primarily attributable to inefficiencies in our military boot manufacturing as we hire and train new employees as well as discounts and closeouts in our John Deere and Dingo brands and air freight on our Laredo boots.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately \$4.2 million for the first quarter of fiscal 2018 and 2019. This stabilization in SG&A expenses resulted primarily from decreases in Dan Post sales commissions and the Corporate employee benefit provision offset by increases in marketing and advertising expenses related to the initiation of a digital media campaign by Dan Post and increases in salaries relating to the Dingo rebranding initiative.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2019 amounted to \$1.1 million as compared to \$2.0 million for the first quarter of fiscal 2018.

Financial Condition and Liquidity

Our financial condition remained strong at October 27, 2018 as cash and cash equivalents totaled \$19.2 million as compared to \$27.6 million at July 28, 2018. Our working capital decreased from \$55.4 million at July 28, 2018 to \$55.0 million at October 27, 2018.

We currently have two lines of credit totaling \$6.75 million, all of which were fully available at October 27, 2018. One credit line totaling \$1.75 million (which is restricted to one hundred percent of the outstanding receivables due from the Government) expires in January 2019. Our \$5.0 million line of credit, which also expires in January 2019, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary.

Net cash used by operating activities for the first quarter of fiscal 2019 amounted to \$1.2 million. Net earnings, as adjusted for depreciation, contributed approximately \$1.2 million of cash. Accounts receivable used approximately \$3.0 million of cash as first quarter sales outpaced customer payments. Both of our boot businesses provided approximately \$0.5 million of cash as efforts to reduce inventory levels paid off. The timing of payments for employee related expenses and income taxes provided approximately \$0.1 million of cash.

Net cash used by investing activities totaled approximately \$76,000, primarily for manufacturing machinery and equipment.

Net cash used in financing activities totaled \$1,520,000, which was primarily used for dividend payments.

We believe that our current cash and cash equivalents, cash generated from operations, and available credit lines will be sufficient to meet our capital requirements for the remainder of fiscal 2019.

FORWARD-LOOKING STATEMENTS

This press release includes certain forward-looking statements. Important factors that could cause actual results or events to differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements include: the effect of competitive products and pricing, risks unique to selling goods to the Government (including variation in the Government's requirements for our products and the Government's ability to terminate its contracts with vendors), changes in fashion cycles and trends in the western boot business, loss of key customers, acquisitions, supply interruptions, additional financing requirements, our expectations about future Government orders for military boots, loss of key management personnel, our ability to successfully develop new products and services, and the effect of general economic conditions in our markets.

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McRae Industries, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	<u>October 27, 2018</u>	<u>July 28, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$19,242	\$27,605
Short term securities	7,769	2,211
Accounts and notes receivable, net	13,663	10,665
Inventories, net	17,906	18,427
Income tax receivable	790	1,127
Prepaid expenses and other current assets	<u>462</u>	<u>154</u>
Total current assets	<u>59,832</u>	<u>60,189</u>
Property and equipment, net	<u>7,142</u>	<u>7,375</u>
Other assets:		
Deposits	14	14
Long term securities	3,831	3,899
Real estate held for investment	3,789	3,775
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Deferred tax assets	<u>1,068</u>	<u>1,068</u>
Total other assets	<u>13,814</u>	<u>13,868</u>
Total assets	<u><u>\$80,788</u></u>	<u><u>\$81,432</u></u>

McRae Industries, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	<u>October 27, 2018</u>	<u>July 28, 2018</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,885	\$2,968
Accrued employee benefits	570	423
Accrued payroll and payroll taxes	624	630
Other	<u>793</u>	<u>733</u>
Total current liabilities	<u>4,872</u>	<u>4,754</u>
Deferred tax liabilities	<u>1,689</u>	<u>1,689</u>
Total liabilities	<u>6,561</u>	<u>6,443</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,019,649 and 2,019,974 shares, respectively	2,020	2,020
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 374,196 and 374,272 shares, respectively	374	375
Unrealized gains(losses) on investments, net of tax	(126)	(28)
Retained earnings	<u>71,959</u>	<u>72,622</u>
Total shareholders' equity	<u>74,227</u>	<u>74,989</u>
Total liabilities and shareholders' equity	<u><u>\$80,788</u></u>	<u><u>\$81,432</u></u>

McRae Industries, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(Unaudited)

	Three Months Ended	
	October 27, 2018	October 28, 2017
	<u> </u>	<u> </u>
Net revenues	\$20,601	\$22,399
Cost of revenues	<u>15,292</u>	<u>16,162</u>
Gross profit	5,309	6,237
Selling, general and administrative expenses	<u>4,216</u>	<u>4,199</u>
Operating profit	1,093	2,038
Other income	<u>120</u>	<u>77</u>
Earnings before income taxes	1,213	2,115
Provision for income taxes	<u>357</u>	<u>823</u>
Net earnings	<u><u>\$856</u></u>	<u><u>\$1,292</u></u>
Earnings per common share:		
Diluted earnings per share:		
Class A	0.36	0.54
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	2,019,831	2,014,842
Class B	<u>374,239</u>	<u>383,254</u>
Total	<u><u>2,394,070</u></u>	<u><u>2,398,096</u></u>

McRae Industries, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	October 27, 2018	October 28, 2017
	<u> </u>	<u> </u>
Net cash provided by operating activities	(1,163)	1,954
Cash Flows from Investing Activities:		
Purchase of land for investment	(15)	(2)
Capital expenditures	(76)	(485)
Purchase of securities	<u>(5,589)</u>	<u>(13)</u>
Net cash used in investing activities	<u>(5,680)</u>	<u>(500)</u>
Cash Flows from Financing Activities:		
Repurchase company stock	(13)	
Dividends paid	<u>(1,507)</u>	<u>(311)</u>
Net cash used in financing activities	<u>(1,520)</u>	<u>(311)</u>
Net (Decrease) Increase in Cash and Cash equivalents	(8,363)	1,143
Cash and Cash Equivalents at Beginning of Year	<u>27,605</u>	<u>28,057</u>
Cash and Cash Equivalents at End of Year	<u><u>\$19,242</u></u>	<u><u>\$29,200</u></u>