

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE THIRD QUARTER AND
FIRST NINE MONTHS OF FISCAL 2018

Mount Gilead, N.C. – June 19, 2018. **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for the third quarter of fiscal 2018 ending on April 28, 2018 of \$16,170,000 as compared to \$24,092,000 for the third quarter of fiscal 2017. Net earnings for the third quarter of fiscal 2018 amounted to \$78,000, or \$0.03 per diluted Class A common share as compared to \$1,202,000, or \$0.50 per diluted Class A common share, for the third quarter of fiscal 2017.

Consolidated net revenues for the first nine months of fiscal 2018 totaled \$59,041,000 as compared to \$82,078,000 for the first nine months of fiscal 2017. Net earnings for the first nine months of fiscal 2018 amounted to \$2,051,000, or \$0.85 per diluted Class A common share, as compared to net earnings of \$4,361,000, or \$1.81 per diluted Class A common share, for the first nine months of fiscal 2017.

THIRD QUARTER FISCAL 2018 COMPARED TO THIRD QUARTER FISCAL 2017

Consolidated net revenues totaled \$16.2 million for the third quarter of fiscal 2018 as compared to \$24.1 million for the third quarter of fiscal 2017. Sales related to our western/lifestyle boot products were \$10.1 million for the third quarter of both fiscal 2018 and fiscal 2017. An increase in our premium western boots was offset by a decrease in children's boots. Revenues from our work boot products decreased approximately 57%, from \$13.7 million for the third quarter of fiscal 2017 to \$5.9 million for the third quarter of fiscal 2018. As expected, we experienced a decrease in production of military boots related to a gap in our multiple government contracts. The government is over inventoried on both the hot weather and temperate weather boots, which will continue to have an adverse affect on our sales of military boots for the foreseeable future.

Consolidated gross profit for the third quarter of fiscal 2018 amounted to approximately \$4.0 million as compared to \$5.8 million for the third quarter of fiscal 2017. Gross profit as a percentage of net revenues was up from 24.2% for the third quarter of fiscal 2017 to 24.6% for the third quarter of fiscal 2018. This is primarily a result of the decrease in work boot product sales, specifically our military boots.

Consolidated selling, general and administrative ("SG&A") expenses have slightly decreased from \$4.0 million for the third quarter of fiscal 2017 to \$3.9 million for the third quarter of fiscal 2018.

As a result of the above, the consolidated operating profit for the third quarter of fiscal 2018 amounted to \$0.07 million as compared to \$1.8 million for the third quarter of fiscal 2017.

FIRST NINE MONTHS FISCAL 2018 COMPARED TO FIRST NINE MONTHS FISCAL 2017

Consolidated net revenues for the first nine months of fiscal 2018 totaled \$59.0 million as compared to \$82.1 million for the first nine months of fiscal 2017. Our western and lifestyle product sales totaled \$36.5 million for the first nine months of fiscal 2018 as compared to \$38.0 million for the first nine months of fiscal 2017, with the decrease coming from declines in our women's western boots and premium kid's boots. Net revenues from our work boot business

declined from \$43.2 million for the first nine months of fiscal 2017 to \$22.2 million for the first nine months of fiscal 2018. This decrease in work boot products net revenues resulted primarily from lower military boot shipments associated with our government contracts.

Consolidated gross profit totaled \$15.2 million for the first nine months of fiscal 2018 as compared to \$20.6 million for the first nine months of fiscal 2017. Gross profit attributable to our western and lifestyle products totaled \$12.6 million for the first nine months of fiscal 2018, down from \$13.2 million for the first nine months of fiscal 2017. This decrease in gross profit is directly correlated with the decrease in sales. Our work boot products gross profit declined from \$7.1 million for the first nine months of fiscal 2017 to \$2.4 million for the first nine months of fiscal 2018. This decrease was driven by the lower military boot shipments mentioned above.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately \$12.5 million for the first nine months of fiscal 2018 as compared to \$13.8 million for the first nine months of fiscal 2017. This decrease in SG&A expenses resulted primarily from decreased employee related expenditures.

As a result of the above, the consolidated operating profit amounted to \$2.7 million for the first nine months of fiscal 2018 as compared to \$6.8 million for the first nine months of fiscal 2017.

Financial Condition and Liquidity

Our financial conditions remain strong at April 28, 2018 as cash and cash equivalents totaled \$33.9 million as compared to \$28.1 million at July 29, 2017. Our working capital increased from \$54.3 million at July 29, 2017 to \$55.2 million at April 28, 2018.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at April 28, 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. 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 2018.

For the first nine months of fiscal 2018, operating activities provided approximately \$7.4 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$3.0 million of cash. A reduction in inventory, accounts receivables, and other assets provided approximately \$5.9 million of cash. Accounts payable and accruals for income taxes and employee related expenses used approximately \$1.5 million.

Net cash used by investing activities totaled approximately \$0.5 million, primarily for manufacturing equipment.

Net cash used in financing activities totaled \$1.1 million. Dividend payments used approximately \$0.9 million and common stock purchases used approximately \$0.1 million.

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>April 28, 2018</u>	<u>July 29, 2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$33,922	\$28,057
Short term securities	-	505
Accounts and notes receivable, net	10,830	12,331
Inventories, net	14,014	18,273
Income tax receivable	205	329
Prepaid expenses and other current assets	<u>440</u>	<u>550</u>
Total current assets	<u>59,411</u>	<u>60,045</u>
Property and equipment, net	<u>7,157</u>	<u>7,391</u>
Other assets:		
Deposits	14	14
Long term securities	3,866	3,804
Real estate held for investment	3,777	3,601
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>12,769</u>	<u>12,531</u>
Total assets	<u><u>\$79,337</u></u>	<u><u>\$79,967</u></u>

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

	<u>April 28, 2018</u>	<u>July 29, 2017</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,414	\$2,510
Accrued employee benefits	317	1,144
Accrued payroll and payroll taxes	691	809
Accrued income tax	-	589
Other	<u>762</u>	<u>714</u>
Total current liabilities	<u>4,184</u>	<u>5,766</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,019,867 and 2,014,842 shares, respectively	2,020	2,015
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 374,379 and 383,254 shares, respectively	374	384
Unrealized losses on investments, net of tax	(35)	(5)
Retained earnings	<u>72,794</u>	<u>71,807</u>
Total shareholders' equity	<u>75,153</u>	<u>74,201</u>
Total liabilities and shareholders' equity	<u><u>\$79,337</u></u>	<u><u>\$79,967</u></u>

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

	Three Months Ended		Nine Months Ended	
	April 28, 2018	April 29, 2017	April 28, 2018	April 29, 2017
Net revenues	\$16,170	\$24,092	\$59,041	\$82,078
Cost of revenues	<u>12,198</u>	<u>18,266</u>	<u>43,871</u>	<u>61,497</u>
Gross profit	3,972	5,826	15,170	20,581
Selling, general and administrative expenses	<u>3,905</u>	<u>3,990</u>	<u>12,507</u>	<u>13,767</u>
Operating profit	67	1,836	2,663	6,814
Other income	<u>128</u>	<u>123</u>	<u>316</u>	<u>277</u>
Earnings before income taxes	195	1,959	2,979	7,091
Provision for income taxes	<u>117</u>	<u>757</u>	<u>928</u>	<u>2,730</u>
Net earnings	<u>\$78</u>	<u>\$1,202</u>	<u>\$2,051</u>	<u>\$4,361</u>
Earnings per common share:				
Diluted earnings per share:				
Class A	0.03	0.50	0.85	1.81
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	2,021,648	2,021,668	2,018,292	2,027,679
Class B	<u>374,798</u>	<u>384,860</u>	<u>379,254</u>	<u>386,688</u>
Total	<u>2,396,446</u>	<u>2,406,528</u>	<u>2,397,546</u>	<u>2,414,367</u>

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

	Nine Months Ended	
	April 28, 2018	April 29, 2017
Net cash provided by operating activities	7,408	14,192
Cash Flows from Investing Activities:		
Proceeds from sale of assets	-	87
Purchase of land for investment	(175)	(45)
Capital expenditures	(712)	(375)
Proceeds from securities	1,194	34
Purchase of securities	(782)	-
Net cash used in investing activities	(475)	(299)
Cash Flows from Financing Activities:		
Purchase of common stock	(133)	(546)
Dividends paid	(935)	(939)
Net cash used in financing activities	(1,068)	(1,485)
Net (Decrease) Increase in Cash and Cash equivalents	5,865	12,408
Cash and Cash Equivalents at Beginning of Year	28,057	15,673
Cash and Cash Equivalents at End of Year	\$33,922	\$28,081