

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE THIRD QUARTER AND
FIRST NINE MONTHS OF FISCAL 2019

Mount Gilead, N.C. – June 14, 2019. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the third quarter of fiscal 2019 ending on April 27, 2019 of \$18,606,000 as compared to \$16,170,000 for the third quarter of fiscal 2018. Net earnings for the third quarter of fiscal 2019 amounted to \$386,000, or \$0.16 per diluted Class A common share as compared to \$78,000, or \$0.03 per diluted Class A common share, for the third quarter of fiscal 2018.

Consolidated net revenues for the first nine months of fiscal 2019 totaled \$59,945,000 as compared to \$59,041,000 for the first nine months of fiscal 2018. Net earnings for the first nine months of fiscal 2019 amounted to \$1,310,000, or \$0.55 per diluted Class A common share, as compared to net earnings of \$2,051,000, or \$0.85 per diluted Class A common share, for the first nine months of fiscal 2018.

THIRD QUARTER FISCAL 2019 COMPARED TO THIRD QUARTER FISCAL 2018

Consolidated net revenues totaled \$18.6 million for the third quarter of fiscal 2019 as compared to \$16.2 million for the third quarter of fiscal 2018. Sales related to our western/lifestyle boot products were \$9.6 million for the third quarter of fiscal 2019 as compared to \$10.1 million for the third quarter of fiscal 2018. This was primarily driven by a decline in our premium western boots sales. Revenues from our work boot products increased approximately 50%, from \$5.9 million for the third quarter of fiscal 2018 to \$8.8 million for the third quarter of fiscal 2019. This was primarily the result of increased military boot sales.

Consolidated gross profit for the third quarter of fiscal 2019 amounted to approximately \$4.2 million as compared to \$4.0 million for the third quarter of fiscal 2018. However, gross profit as a percentage of net revenues was down from 24.6% for the third quarter of fiscal 2018 to 22.5% for the third quarter of fiscal 2019. This drop was driven by a change in the sales mix of our western/lifestyle products, as well as an increase in freight cost. Additionally, margins were slightly impacted by management's decision not to renew our John Deere licensing agreement that expires in May 2019. Management plans to continue closing out our John Deere products over the next year.

Consolidated selling, general and administrative ("SG&A") expenses have slightly decreased from \$3.9 million for the third quarter of fiscal 2018 to \$3.8 million for the third quarter of fiscal 2019.

As a result of the above, the consolidated operating profit for the third quarter of fiscal 2019 amounted to \$0.4 million as compared to \$0.07 million for the third quarter of fiscal 2018.

FIRST NINE MONTHS FISCAL 2019 COMPARED TO FIRST NINE MONTHS FISCAL 2018

Consolidated net revenues for the first nine months of fiscal 2019 totaled \$60 million as compared to \$59 million for the first nine months of fiscal 2018. Our western and lifestyle product sales totaled \$34.2 million for the first nine months of fiscal 2019 as compared to \$36.5 million for the first nine months of fiscal 2018, with the decrease coming from declines in our premium western boots, as well as a general softness in most sectors of our western/lifestyle boot products. Net revenues from our work boot business increased from \$22.2 million for the first nine months of fiscal 2018 to \$25.5 million for the first nine

months of fiscal 2019. This increase in work boot products net revenues resulted primarily from higher military boot shipments associated with our government contracts.

Consolidated gross profit totaled \$14.1 million for the first nine months of fiscal 2019 as compared to \$15.2 million for the first nine months of fiscal 2018. Gross profit attributable to our western and lifestyle products totaled \$11.0 million for the first nine months of fiscal 2019, down from \$12.6 million for the first nine months of fiscal 2018. This decrease was primarily the result of lower sales volume, increased spending on air freight, and an increase in free freight for customers. Our work boot products gross profit increased from \$2.4 million for the first nine months of fiscal 2018 to \$2.8 million for the first nine months of fiscal 2019. This increase was driven by the higher military boot shipments mentioned above.

Consolidated selling, general and administrative (“SG&A”) expenses remained relatively consistent at \$12.6 million for the first nine months of fiscal 2019, as compared to \$12.5 million for the first nine months of fiscal 2018.

As a result of the above, the consolidated operating profit amounted to \$1.5 million for the first nine months of fiscal 2019 as compared to \$2.7 million for the first nine months of fiscal 2018.

Financial Condition and Liquidity

Our financial conditions remain strong at April 27, 2019 as cash and cash equivalents totaled \$20.4 million as compared to \$27.6 million at July 28, 2018. Our working capital decreased from \$55.4 million at July 28, 2018 to \$55.1 million at April 27, 2019.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at April 27, 2019. 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 2020. Our \$5.0 million line of credit, which also expires in January 2020, 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 2019.

For the first nine months of fiscal 2019, operating activities provided approximately \$5.0 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$2.2 million of cash. A reduction in inventory and accounts receivables provided approximately \$3.3 million of cash. Accounts payable and employee related expenses used approximately \$0.7 million.

Net cash used by investing activities totaled approximately \$10.0 million, which was used primarily for investing in securities.

Net cash used in financing activities totaled approximately \$2.2 million, which was used primarily for dividend payments.

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 27, 2019</u>	<u>July 28, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$20,419	\$27,605
Short term securities	12,071	2,211
Accounts and notes receivable, net	9,722	10,665
Inventories, net	16,095	18,427
Income tax receivable	616	1,127
Prepaid expenses and other current assets	<u>375</u>	<u>154</u>
Total current assets	<u>59,298</u>	<u>60,189</u>
Property and equipment, net	<u>6,729</u>	<u>7,375</u>
Other assets:		
Deposits	14	14
Long term securities	3,968	3,899
Real estate held for investment	3,782	3,775
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>12,876</u>	<u>12,800</u>
Total assets	<u><u>\$78,903</u></u>	<u><u>\$80,364</u></u>

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

	<u>April 27, 2019</u>	<u>July 28, 2018</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,513	\$2,968
Accrued employee benefits	142	423
Accrued payroll and payroll taxes	716	630
Other	799	733
Total current liabilities	<u>4,170</u>	<u>4,754</u>
Deferred tax liabilities	<u>621</u>	<u>621</u>
Total liabilities	<u>4,791</u>	<u>5,375</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,018,408 and 2,019,974 shares, respectively	2,018	2,020
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 373,775 and 374,272 shares, respectively	374	375
Unrealized losses on investments, net of tax	(33)	(28)
Retained earnings	<u>71,753</u>	<u>72,622</u>
Total shareholders' equity	<u>74,112</u>	<u>74,989</u>
Total liabilities and shareholders' equity	<u><u>\$78,903</u></u>	<u><u>\$80,364</u></u>

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

	Three Months Ended		Nine Months Ended	
	April 27, 2019	April 28, 2018	April 27, 2019	April 28, 2018
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net revenues	\$18,606	\$16,170	\$59,945	\$59,041
Cost of revenues	<u>14,425</u>	<u>12,198</u>	<u>45,871</u>	<u>43,871</u>
Gross profit	4,181	3,972	14,074	15,170
Selling, general and administrative expenses	<u>3,809</u>	<u>3,905</u>	<u>12,577</u>	<u>12,507</u>
Operating profit	372	67	1,497	2,663
Other income	<u>157</u>	<u>128</u>	<u>434</u>	<u>316</u>
Earnings before income taxes	529	195	1,931	2,979
Provision for income taxes	<u>143</u>	<u>117</u>	<u>621</u>	<u>928</u>
Net earnings	<u>\$386</u>	<u>\$78</u>	<u>\$1,310</u>	<u>\$2,051</u>
Earnings per common share:				
Diluted earnings per share:				
Class A	0.16	0.03	0.55	0.85
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	2,019,442	2,021,648	2,019,604	2,018,292
Class B	<u>374,104</u>	<u>374,798</u>	<u>374,180</u>	<u>379,254</u>
Total	<u>2,393,546</u>	<u>2,396,446</u>	<u>2,393,784</u>	<u>2,397,546</u>

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

	Nine Months Ended	
	April 27, 2019	April 28, 2018
Net cash provided by operating activities	5,047	7,408
Cash Flows from Investing Activities:		
Proceeds from sale of assets	152	-
Purchase of land for investment	(25)	(175)
Capital expenditures	(243)	(712)
Proceeds from securities	24	1,194
Purchase of securities	(9,959)	(782)
Net cash used in investing activities	(10,051)	(475)
Cash Flows from Financing Activities:		
Purchase of common stock	(53)	(133)
Dividends paid	(2,128)	(935)
Net cash used in financing activities	(2,181)	(1,068)
Net (Decrease) Increase in Cash and Cash equivalents	(7,185)	5,865
Cash and Cash Equivalents at Beginning of Year	27,604	28,057
Cash and Cash Equivalents at End of Year	\$20,419	\$33,922