

McRAE INDUSTRIES, INC. REPORTS EARNINGS FOR FISCAL 2017

Mount Gilead, N.C. – November 15, 2017. **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for fiscal 2017 of \$104,316,000 as compared to \$108,758,000 for fiscal 2016. Net earnings for fiscal 2017 totaled \$5,083,000 as compared to \$4,692,000 for fiscal 2016. Net earnings per diluted Class A common share were \$2.11 for fiscal 2017 as compared to \$1.93 for fiscal 2016.

CONSOLIDATED RESULTS OF OPERATIONS, FISCAL 2017 COMPARED TO FISCAL 2016

Consolidated net revenues for fiscal 2017 amounted to approximately \$104.3 million as compared to \$108.8 million for fiscal 2016. Our western/lifestyle boot segment, which includes western wear, ladies fashion, and children footwear products under the Dan Post, Laredo, Dingo, El Dorado, and John Deere brand names, experienced a decrease in revenue of 17% from \$58.8 million in 2016 to \$48.8 million in 2017. Women's fashion and premium children's boots had the largest sales decrease. Net revenues for our work boot segment, which includes Dan Post, Laredo, John Deere, and McRae Industrial work boot products along with our military boots, increased by 9.5% with sales increasing from \$49.7 million in fiscal 2016 to \$54.2 million in 2017. The military boot sales increased by 15.2% from \$39.6 million in 2016 to \$45.6 million in 2017, while all other work boot brands decreased 12.8% from \$10.1 million in fiscal 2016 to \$8.6 million in fiscal 2017.

Consolidated gross profit for fiscal 2017 totaled \$25.6 million as compared to \$26.9 million for fiscal 2016. Gross margin for the western/lifestyle segment decreased from 35% in fiscal 2016 to 34.2% in fiscal 2017. Gross margins on our work boot segment increased slightly from 12.3% in fiscal 2016 to 15.8% in fiscal 2017 because of manufacturing efficiencies, a higher volume of production, and better product mix in our military boots.

Consolidated selling, general and administrative ("SG&A") expenses amounted to \$17.8 million as compared to \$19.8 million for fiscal 2016. This was primarily driven by decreased commissions, salaries, advertising, and a company-wide effort to minimize expenditures.

As a result of the above, consolidated operating profit totaled approximately \$7.8 million for fiscal 2017 as compared to \$7.1 million for fiscal 2016.

FINANCIAL CONDITION AND LIQUIDITY

At July 29, 2017, our financial condition and liquidity remained strong as cash and cash equivalents totaled \$28.1 million as compared to \$15.7 million at July 30, 2016. Our working capital totaled \$56.5 million at July 29, 2017 as compared to \$52.8 million at July 30, 2016.

We currently have two lines of credit totaling \$6.75 million, both of which were fully available at July 29, 2017. 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 2018. The \$5.0 million line of credit, which also expires in January 2018, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary.

Net cash provided by operating activities for fiscal 2017 amounted to approximately \$14.8 million. Net earnings, as adjusted for depreciation, contributed approximately \$6.3 million of cash, and a reduction in income tax receivable contributed approximately \$0.7 million. Lower

inventory levels throughout the business provided approximately \$9.7 million of cash. The timing of payments for accounts payable and lower accrued payroll used approximately \$2.6 million of cash.

Net cash used in investing activities totaled approximately \$0.7 million. The majority was used for capital expenditures and the purchase of securities. This was partially offset by proceeds from the sale of securities.

Net cash used to finance our dividend payments and the purchase of common stock totaled approximately \$1.8 million.

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 fiscal 2018.

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)

	<u>July 29, 2017</u>	<u>July 30, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$28,057	\$15,673
Short term securities	505	501
Accounts and notes receivable, less allowances of \$1,625 and \$1,975, respectively	12,331	12,708
Inventories, net	18,273	27,944
Income tax receivable	329	1,055
Prepaid expenses and other current assets	550	433
Deferred tax assets	<u>1,674</u>	<u>2,130</u>
Total current assets	<u>61,719</u>	<u>60,444</u>
Property and equipment, net	<u>7,391</u>	<u>8,147</u>
Other assets:		
Deposits	14	14
Long term securities	3,804	3,520
Real estate held for investment	3,601	3,602
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>12,531</u>	<u>12,248</u>
Total assets	<u><u>\$81,641</u></u>	<u><u>\$80,839</u></u>

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

	<u>July 29, 2017</u>	<u>July 30, 2016</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,510	\$4,696
Accrued employee benefits	1,144	1,090
Accrued payroll and payroll taxes	809	1,207
Other	<u>714</u>	<u>698</u>
Total current liabilities	<u>5,177</u>	<u>7,691</u>
Deferred tax liabilities	<u>2,263</u>	<u>2,288</u>
Total liabilities	<u>7,440</u>	<u>9,979</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,030,658 and 2,039,335 shares, respectively	2,015	2,031
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 387,629 and 391,189 shares, respectively	384	388
Unrealized losses on investments, net of tax	(5)	(59)
Retained earnings	<u>71,807</u>	<u>68,500</u>
Total shareholders' equity	<u>74,201</u>	<u>70,860</u>
Total liabilities and shareholders' equity	<u><u>\$81,641</u></u>	<u><u>\$80,839</u></u>

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

For Years Ended	July 29, 2017	July 30, 2016	August 1, 2015
	<u> </u>	<u> </u>	<u> </u>
Net revenues	\$104,316	\$108,758	\$108,673
Cost of revenues	<u>78,739</u>	<u>81,837</u>	<u>79,347</u>
Gross profit	25,577	26,921	29,326
Selling, general and administrative expenses	<u>17,755</u>	<u>19,782</u>	<u>19,025</u>
Operating profit	7,822	7,139	10,301
Other income	357	366	324
Interest expense	<u>-</u>	<u>-</u>	<u>(2)</u>
Earnings before income taxes	8,179	7,505	10,623
Provision for income taxes	<u>3,096</u>	<u>2,813</u>	<u>3,982</u>
Net earnings	<u><u>\$5,083</u></u>	<u><u>\$4,692</u></u>	<u><u>\$6,641</u></u>
Earnings per common share:			
Earnings per common share:			
Diluted earnings per share:			
Class A	2.11	1.93	2.73
Class B	NA	NA	NA
Weighted average number of common shares outstanding:			
Class A	2,024,470	2,035,906	2,038,645
Class B	<u>385,830</u>	<u>389,271</u>	<u>391,879</u>
Total	<u><u>2,410,300</u></u>	<u><u>2,425,177</u></u>	<u><u>2,430,524</u></u>

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

For Years Ended	July 29, 2017	July 30, 2016	August 1,
	<u> </u>	<u> </u>	<u> </u>
Cash Flows from Operating Activities:			
Net earnings	\$5,083	\$4,692	\$6,641
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	1,211	907	785
Amortization of bond premiums	-	-	3
(Gain) loss on sale of assets	(2)	(6)	-
Loss on sale of securities	6	62	-
Deferred income taxes	398	951	(75)
Changes in operating assets and liabilities:			
Accounts receivable, net	377	2,928	(2,208)
Inventories	9,671	(2,187)	(3,469)
Prepaid expenses and other assets	(117)	99	21
Accounts payable	(2,186)	(903)	1,821
Accrued employee benefits	54	(537)	(171)
Accrued payroll and payroll taxes	(398)	(18)	64
Income tax receivable/payable	726	(933)	816
Other	16	146	89
Net cash provided by operating activities	<u>14,839</u>	<u>5,201</u>	<u>4,317</u>
Cash Flows from Investing Activities:			
Proceeds from sale of assets	13	15	-
Purchase of land for investment	-	(17)	(9)
Capital expenditures	(465)	(3,237)	(3,380)
Proceeds from sale of securities	833	484	75
Purchase of securities	(1,040)	(609)	(3,183)
Net cash used in investing activities	<u>(659)</u>	<u>(3,364)</u>	<u>(6,497)</u>
Cash Flows from Financing Activities:			
Purchase of common stock	(545)	(342)	-
Dividends paid	(1,251)	(1,259)	(1,263)
Net cash used in financing activities	<u>(1,796)</u>	<u>(1,601)</u>	<u>(1,263)</u>
Net (Decrease) Increase in Cash and Cash equivalents	12,384	236	(3,443)
Cash and Cash Equivalents at Beginning of Year	<u>15,673</u>	<u>15,437</u>	<u>18,880</u>
Cash and Cash Equivalents at End of Year	<u><u>\$28,057</u></u>	<u><u>\$15,673</u></u>	<u><u>\$15,437</u></u>