

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE FIRST QUARTER
OF FISCAL 2020

Mount Gilead, N.C. – December 18, 2019. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the first quarter of fiscal 2020 of \$22,674,000 as compared to \$20,601,000 for the first quarter of fiscal 2019. Net earnings for the first quarter of fiscal 2020 amounted to \$992,000, or \$0.42 per diluted Class A common share as compared to \$856,000, or \$0.36 per diluted Class A common share, for the first quarter of fiscal 2019.

FIRST QUARTER FISCAL 2020 COMPARED TO FIRST QUARTER FISCAL 2019

Consolidated net revenues totaled \$22.7 million for the first quarter of fiscal 2020 as compared to \$20.6 million for the first quarter of fiscal 2019. Sales related to our western/lifestyle boot products for the first quarter of fiscal 2020 totaled \$13.9 million as compared to \$12.4 million for the first quarter of fiscal 2019. This 11% increase can be attributed to improved sales for all brands in this segment, except John Deere. Revenues from our work boot products increased approximately 10%, from \$8.1 million for the first quarter of fiscal 2019 to \$9.0 million for the first quarter of fiscal 2020. This is primarily a result of increased military boot sales offset by a decrease in our John Deere brand. As mentioned in previous releases, John Deere sales are winding down as we exit this brand.

Consolidated gross profit for the first quarter of fiscal 2020 amounted to approximately \$5.7 million as compared to \$5.3 million for the first quarter of fiscal 2019. Gross profit as a percentage of net revenues was down slightly from 25.8% for the first quarter of fiscal 2019 to 25.0% for the first quarter of fiscal 2020. This is primarily attributable to increased manufacturing overhead, specifically healthcare costs, in our military division, as well as the margin impact of decreased sales for the John Deere brand.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately \$4.5 million for the first quarter of fiscal 2020 as compared to \$4.2 million for first quarter of fiscal 2019. This \$0.3 million increase is primarily due to increased healthcare costs, as well as salaries and commissions.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2020 amounted to \$1.2 million as compared to \$1.1 million for the first quarter of fiscal 2019.

In October 2019, the United States Government unexpectedly informed us that due to an overstocked position on temperate weather Army boots they would be drastically reducing their orders on this boot in the near future. As we work to replace this lost production, there could be a detrimental impact on our revenues and profitability in fiscal 2020 and possibly fiscal 2021.

Financial Condition and Liquidity

Our financial condition remained strong at November 2, 2019 as cash and cash equivalents totaled \$13.6 million as compared to \$12.8 million at August 3, 2019. Our working capital increased from \$54.5 million at August 3, 2019 to \$55.3 million at November 2, 2019.

We currently have two lines of credit totaling \$6.75 million, all of which were fully available at November 2, 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.

Net cash used by operating activities for the first quarter of fiscal 2020 amounted to \$1.0 million. Net earnings, as adjusted for depreciation, contributed approximately \$1.3 million of cash. Accounts receivable used approximately \$1.2 million of cash as first quarter sales outpaced customer payments and accounts payable used approximately \$1.4 million.

Net cash provided by investing activities for the first quarter of fiscal 2020 totaled approximately \$2.1 million, primarily due to the maturity of short term investments.

Net cash used in financing activities for the first quarter of fiscal 2020 totaled \$0.3 million, 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 2020.

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>November 2,</u> <u>2019</u>	<u>August 3,</u> <u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$13,596	\$12,799
Short term securities	10,945	13,209
Accounts and notes receivable, net	14,135	12,975
Inventories, net	19,762	19,761
Income tax receivable	38	406
Prepaid expenses and other current assets	<u>775</u>	<u>634</u>
Total current assets	<u>59,251</u>	<u>59,784</u>
Property and equipment, net	<u>6,447</u>	<u>6,612</u>
Other assets:		
Deposits	14	14
Long term securities	4,063	4,032
Real estate held for investment	3,803	3,800
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>12,992</u>	<u>12,958</u>
Total assets	<u><u>\$78,690</u></u>	<u><u>\$79,354</u></u>

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CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	<u>November 2, 2019</u>	<u>August 3, 2019</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,981	\$3,403
Accrued employee benefits	623	460
Accrued payroll and payroll taxes	554	713
Other	<u>819</u>	<u>751</u>
Total current liabilities	<u>3,977</u>	<u>5,327</u>
Deferred tax liabilities	<u>704</u>	<u>704</u>
Total liabilities	<u>4,681</u>	<u>6,031</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 1,967,559 and 1,967,559 shares, respectively	1,967	1,967
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 373,675 and 373,675 shares, respectively	374	374
Unrealized gains(losses) on investments, net of tax	(14)	(12)
Retained earnings	<u>71,682</u>	<u>70,994</u>
Total shareholders' equity	<u>74,009</u>	<u>73,323</u>
Total liabilities and shareholders' equity	<u><u>\$78,690</u></u>	<u><u>\$79,354</u></u>

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

	Three Months Ended	
	November 2, 2019	October 27, 2018
Net revenues	\$22,674	\$20,601
Cost of revenues	<u>17,016</u>	<u>15,292</u>
Gross profit	5,658	5,309
Selling, general and administrative expenses	<u>4,469</u>	<u>4,216</u>
Operating profit	1,189	1,093
Other income	<u>198</u>	<u>120</u>
Earnings before income taxes	1,387	1,213
Provision for income taxes	<u>395</u>	<u>357</u>
Net earnings	<u><u>\$992</u></u>	<u><u>\$856</u></u>
Earnings per common share:		
Diluted earnings per share:		
Class A	0.42	0.36
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	1,967,559	2,019,831
Class B	<u>373,675</u>	<u>374,239</u>
Total	<u><u>2,341,234</u></u>	<u><u>2,394,070</u></u>

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

	Three Months Ended	
	November 2, 2019	October 27, 2018
	<u> </u>	<u> </u>
Net cash provided by operating activities	(1,020)	(1,163)
Cash Flows from Investing Activities:		
Purchase of land for investment	(3)	(15)
Capital expenditures	(108)	(76)
Purchase of securities	(33)	(5,589)
Proceeds from sale of securities	2,265	-
Net cash used in investing activities	<u>2,121</u>	<u>(5,680)</u>
Cash Flows from Financing Activities:		
Repurchase company stock	-	(13)
Dividends paid	(304)	(1,507)
Net cash used in financing activities	<u>(304)</u>	<u>(1,520)</u>
Net (Decrease) Increase in Cash and Cash equivalents	797	(8,363)
Cash and Cash Equivalents at Beginning of Year	<u>12,799</u>	<u>27,605</u>
Cash and Cash Equivalents at End of Year	<u><u>\$13,596</u></u>	<u><u>\$19,242</u></u>