

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE SECOND QUARTER AND
FIRST SIX MONTHS OF FISCAL 2021

Mount Gilead, N.C. – March 22, 2021. **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for the second quarter of fiscal 2021 of \$20,239,000 as compared to \$20,325,000 for the second quarter of fiscal 2020. Net earnings for the second quarter of fiscal 2021 amounted to \$728,000, or \$0.32 per diluted Class A common share as compared to \$576,000, or \$0.25 per diluted Class A common share, for the second quarter of fiscal 2020.

Consolidated net revenues for the first six months of fiscal 2021 totaled \$39,178,000 as compared to \$42,998,000 for the first six months of fiscal 2020. Net earnings for the first six months of fiscal 2021 amounted to \$1,222,000, or \$0.53 per diluted Class A common share, as compared to net earnings of \$1,568,000, or \$0.67 per diluted Class A common share, for the first six months of fiscal 2020.

SECOND QUARTER FISCAL 2021 COMPARED TO SECOND QUARTER FISCAL 2020

Consolidated net revenues totaled \$20.2 million for the second quarter of fiscal 2021 as compared to \$20.3 million for the second quarter of fiscal 2020. Sales related to our western/lifestyle boot products for the second quarter of fiscal 2021 totaled \$13.7 million as compared to \$12.7 million for the second quarter of fiscal 2020. This increase in net revenues is primarily a result of increased sales in our popular priced western boot sales offset by a decrease in our premium western boot sales. Revenues from our work boot products decreased approximately 13%, from \$7.5 million for the second quarter of fiscal 2020 to \$6.5 million for the second quarter of fiscal 2021. This was primarily a result of decreased military boot sales offset by an increase in our Dan Post work boot sales.

Consolidated gross profit for the second quarter of fiscal 2021 amounted to approximately \$5.6 million as compared to \$5.1 million for the second quarter of fiscal 2020. Gross profit, as a percentage of net revenues, was up from 24.9% for the second quarter of fiscal 2020 to 27.5% for the second quarter of fiscal 2021. This is primarily due to our lower margin military boot sales making up a smaller percentage of total sales.

Consolidated selling, general and administrative expenses totaled approximately \$4.8 million for the second quarter of fiscal 2021 as compared to \$4.4 million for the second quarter of fiscal 2020. This increase resulted primarily from increased commissions, healthcare and employee benefit expenses, offset by decreased spending in advertising.

As a result of the above, the consolidated operating profit for the second quarter of fiscal 2021 amounted to \$0.81 million as compared to \$0.65 million for the second quarter of fiscal 2020.

FIRST SIX MONTHS FISCAL 2021 COMPARED TO FIRST SIX MONTHS FISCAL 2020

Consolidated net revenues for the first six months of fiscal 2021 totaled \$39.2 million as compared to \$43.0 million for the first six months of fiscal 2020. Our western and lifestyle product sales totaled \$25.8 million for the first six months of fiscal 2021 as compared to \$26.6 million for the first six months of fiscal 2020, with the decrease primarily resulting from a decrease in our premium western boot sales. Net revenues from our work boot business decreased from \$16.5 million for the first six months of fiscal 2020 to \$13.4 million for the first six months of fiscal 2021. This decrease resulted primarily from decreased military boot sales offset by an increase in our Dan Post work boot sales.

Consolidated gross profit totaled \$10.6 million for the first six months of fiscal 2021 as compared to \$10.7 million for the first six months of fiscal 2020. Gross profit attributable to our western and lifestyle products remained relatively flat at approximately \$9.3 million for the first six months of fiscal 2021, as well as the first six months of fiscal 2020. Our work boot products gross profit declined from \$1.3 million for the first six months of fiscal 2020 to \$1.2 million for the first six months of fiscal 2021.

Consolidated selling, general and administrative expenses totaled approximately \$9.1 million for the first six months of fiscal 2021 as compared to \$8.9 million for the first six months of fiscal 2020. This increase resulted primarily from increased commissions and computer services expenses, offset by decreased spending in advertising.

As a result of the above, the consolidated operating profit amounted to \$1.5 million for the first six months of fiscal 2021 as compared to \$1.8 million for the first six months of fiscal 2020.

Financial Condition and Liquidity

Our financial condition remained strong at January 30, 2021 as cash and cash equivalents totaled \$24.7 million as compared to \$21.0 million at August 1, 2020. Our working capital increased from \$57.5 million at August 1, 2020 to \$58.2 million at January 30, 2021.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at January 30, 2021. 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 2022. Our \$5.0 million line of credit, which also expires in January 2022, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary.

For the first six months of fiscal 2021, operating activities provided approximately \$0.1 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$1.8 million of cash. Decreased inventory, other assets, and accrued income taxes provided approximately \$5.5 million of cash. Accounts receivable and accounts payable used approximately \$7.1 million of cash.

Net cash provided by investing activities totaled approximately \$5.0 million, primarily due to the sale of securities offset by the purchase of securities.

Net cash used in financing activities totaled \$1.5 million, which was used primarily for repurchasing stock and 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 2021.

For the second quarter of fiscal 2021, our western/lifestyle and western work product orders continued the upward trend we observed in the first quarter. Orders for these segments of our business were up 32% over the orders in the second quarter of fiscal 2020. This has resulted in an open order position that is substantially larger than normal for this time of year. We are working with our manufacturing partners to increase our inventory levels as quickly as possible, but do not expect to be back in a normal stock of products until the fourth quarter of this fiscal year. This is of course dependent on the level of orders we continue to receive. Shipments in the third and fourth quarters could be negatively impacted by the shortage of inventory.

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: uncertainties associated with COVID-19 or coronavirus, including its possible effects on our operations, supply chain, and the demand for our products and services, 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>January 30, 2021</u>	<u>August 1, 2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$24,655	\$20,959
Equity investments	\$4,373	\$4,131
Debt securities	4,957	9,750
Accounts and notes receivable, net	13,525	8,027
Inventories, net	13,693	18,255
Income tax receivable	527	979
Prepaid expenses and other current assets	<u>412</u>	<u>858</u>
Total current assets	<u>62,142</u>	<u>62,959</u>
Property and equipment, net	<u>5,727</u>	<u>6,060</u>
Other assets:		
Deposits	14	14
Real estate held for investment	3,239	3,784
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>8,365</u>	<u>8,910</u>
Total assets	<u><u>\$76,234</u></u>	<u><u>\$77,929</u></u>

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

	<u>January 30, 2021</u>	<u>August 1, 2020</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,240	\$3,871
Accrued employee benefits	346	400
Accrued payroll and payroll taxes	579	457
Other	<u>787</u>	<u>692</u>
Total current liabilities	<u>3,952</u>	<u>5,420</u>
Deferred tax liabilities	<u>692</u>	<u>692</u>
Total liabilities	<u>4,644</u>	<u>6,112</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 1,923,823 and 1,957,142 shares, respectively	1,924	1,957
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 366,737 and 373,233 shares, respectively	367	373
Retained earnings	<u>69,299</u>	<u>69,487</u>
Total shareholders' equity	<u>71,590</u>	<u>71,817</u>
Total liabilities and shareholders' equity	<u><u>\$76,234</u></u>	<u><u>\$77,929</u></u>

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

	Three Months Ended		Six Months Ended	
	January 30, 2021	February 1, 2020	January 30, 2021	February 1, 2020
Net revenues	\$20,239	\$20,325	\$39,178	\$42,998
Cost of revenues	<u>14,672</u>	<u>15,265</u>	<u>28,575</u>	<u>32,281</u>
Gross profit	5,567	5,060	10,603	10,717
Selling, general and administrative expenses	<u>4,762</u>	<u>4,409</u>	<u>9,120</u>	<u>8,878</u>
Operating profit	805	651	1,483	1,839
Other income	<u>241</u>	<u>203</u>	<u>291</u>	<u>402</u>
Earnings before income taxes	1,046	854	1,774	2,241
Provision for income taxes	<u>318</u>	<u>278</u>	<u>552</u>	<u>673</u>
Net earnings	<u><u>\$728</u></u>	<u><u>\$576</u></u>	<u><u>\$1,222</u></u>	<u><u>\$1,568</u></u>
Earnings per common share:				
Diluted earnings per share:				
Class A	0.32	0.25	0.53	0.67
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	1,933,860	1,967,207	1,941,721	1,967,383
Class B	<u>367,295</u>	<u>373,675</u>	<u>368,065</u>	<u>373,675</u>
Total	<u><u>2,301,155</u></u>	<u><u>2,340,882</u></u>	<u><u>2,309,786</u></u>	<u><u>2,341,058</u></u>

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

	Common Stock, \$1 par value				Accumulated Other Comprehensive Income (Loss)	Retained Earnings
	Class A		Class B			
	Shares	Amount	Shares	Amount		
Balance, August 3, 2019	1,967,559	\$1,967	373,675	\$374	(\$12)	\$70,994
Unrealized gains on investments, net of tax					(2)	
Cash Dividend (\$0.13 per Class A common stock)						(256)
Cash Dividend (\$0.13 per Class B common stock)						(49)
Net earnings						992
Balance, November 2, 2019	1,967,559	\$1,967	373,675	\$374	(\$14)	\$71,682
Stock Buyback	(1,033)	(1)				(25)
Unrealized gains on investments, net of tax					42	
Cash Dividend (\$0.13 per Class A common stock)						(256)
Cash Dividend (\$0.13 per Class B common stock)						(48)
Net earnings						576
Balance, February 1, 2020	1,966,526	\$1,966	373,675	\$374	\$28	\$71,929
	Common Stock, \$1 par value				Accumulated Other Comprehensive Income (Loss)	Retained Earnings
	Class A		Class B			
	Shares	Amount	Shares	Amount		
Balance, August 1, 2020	1,957,142	\$1,957	373,233	\$373	\$0	\$69,487
Stock Buyback	(21,141)	(21)	(3,500)	(4)		(490)
Conversion of Class B to Class A Stock	2,300	2	(2,300)	(2)		-
Cash Dividend (\$0.13 per Class A common stock)						(253)
Cash Dividend (\$0.13 per Class B common stock)						(48)
Net earnings						494
Balance, October 31, 2020	1,938,301	\$1,938	367,433	\$367	\$0	\$69,190
Stock Buyback	(14,478)	(14)	(696)	0		(320)
Cash Dividend (\$0.13 per Class A common stock)						(252)
Cash Dividend (\$0.13 per Class B common stock)						(47)
Net earnings						728
Balance, January 30, 2021	1,923,823	\$1,924	366,737	\$367	\$0	\$69,299

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

	Six Months Ended	
	January 30, 2021	February 1, 2020
	<u> </u>	<u> </u>
Net cash provided by operating activities	140	(538)
Cash Flows from Investing Activities:		
Proceeds from sale of land	635	7
Purchase of land for investment	(160)	(3)
Capital expenditures	(202)	(255)
Sale of securities	9,852	6,015
Purchase of securities	<u>(5,118)</u>	<u>(93)</u>
Net cash used in investing activities	<u>5,007</u>	<u>5,671</u>
Cash Flows from Financing Activities:		
Repurchase of company stock	(850)	(26)
Dividends paid	<u>(601)</u>	<u>(608)</u>
Net cash used in financing activities	<u>(1,451)</u>	<u>(634)</u>
Net (Decrease) Increase in Cash and Cash equivalents	3,696	4,499
Cash and Cash Equivalents at Beginning of Year	<u>20,959</u>	<u>12,799</u>
Cash and Cash Equivalents at End of Period	<u><u>\$24,655</u></u>	<u><u>\$17,298</u></u>