

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE SECOND QUARTER AND
FIRST SIX MONTHS OF FISCAL 2022

Mount Gilead, N.C. – March 18, 2022. **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for the second quarter of fiscal 2022 of \$31,426,000 as compared to \$20,239,000 for the second quarter of fiscal 2021. Net earnings for the second quarter of fiscal 2022 amounted to \$2,536,000, or \$1.12 per diluted Class A common share as compared to \$728,000, or \$0.32 per diluted Class A common share, for the second quarter of fiscal 2021.

Consolidated net revenues for the first six months of fiscal 2022 totaled \$59,014,000 as compared to \$39,178,000 for the first six months of fiscal 2021. Net earnings for the first six months of fiscal 2022 amounted to \$4,758,000, or \$2.11 per diluted Class A common share, as compared to net earnings of \$1,222,000, or \$0.53 per diluted Class A common share, for the first six months of fiscal 2021.

SECOND QUARTER FISCAL 2022 COMPARED TO SECOND QUARTER FISCAL 2021

Consolidated net revenues totaled \$31.4 million for the second quarter of fiscal 2022 as compared to \$20.2 million for the second quarter of fiscal 2021. Sales related to our western/lifestyle boot products for the second quarter of fiscal 2022 totaled \$23.5 million as compared to \$13.7 million for the second quarter of fiscal 2021. This increase in net revenues was seen across the board for all product lines, as the demand for western boots continues to grow because of fashion and lifestyle influences in the market place. Revenues from our work boot products increased from \$6.5 million for the second quarter of fiscal 2021 to \$7.0 million for the second quarter of fiscal 2022. This was primarily a result of increased military and Dan Post work boot sales.

Consolidated gross profit for the second quarter of fiscal 2022 amounted to approximately \$9.2 million as compared to \$5.6 million for the second quarter of fiscal 2021. Gross profit, as a percentage of net revenues, was up from 27.5% for the second quarter of fiscal 2021 to 29.1% for the second quarter of fiscal 2022. This is primarily due to our lower margin military boot sales making up a smaller percentage of total sales, in addition to better margins on closeout sales.

Consolidated selling, general and administrative expenses totaled approximately \$5.7 million for the second quarter of fiscal 2022 as compared to \$4.8 million for the second quarter of fiscal 2021. This increase resulted primarily from increased commissions.

As a result of the above, the consolidated operating profit for the second quarter of fiscal 2022 amounted to \$3.43 million as compared to \$0.81 million for the second quarter of fiscal 2021.

FIRST SIX MONTHS FISCAL 2022 COMPARED TO FIRST SIX MONTHS FISCAL 2021

Consolidated net revenues for the first six months of fiscal 2022 totaled \$59.0 million as compared to \$39.2 million for the first six months of fiscal 2021. Our western and lifestyle product sales totaled \$43.4 million for the first six months of fiscal 2022 as compared to \$25.8 million for the first six months of fiscal 2021. Consistent with the quarter, this increase in net revenues was seen across the board for all product lines. Net revenues from our work boot business increased from \$13.4 million for the first six months of fiscal 2021 to \$14.2 million for the first six months of fiscal 2022. This increase resulted primarily from an increase in our Dan Post work boot sales.

Consolidated gross profit totaled \$17.1 million, or 29.0%, for the first six months of fiscal 2022 as compared to \$10.6 million, or 27.1%, for the first six months of fiscal 2021. Consistent with the quarter, this is primarily due to our lower margin military boot sales making up a smaller percentage of total sales, in addition to better margins on closeout sales.

Consolidated selling, general and administrative expenses totaled approximately \$10.9 million for the first six months of fiscal 2022 as compared to \$9.1 million for the first six months of fiscal 2021. This increase resulted primarily from increased commissions.

As a result of the above, the consolidated operating profit amounted to \$6.3 million for the first six months of fiscal 2022 as compared to \$1.5 million for the first six months of fiscal 2021.

Financial Condition and Liquidity

Our financial condition remained strong at January 29, 2022 as cash and cash equivalents totaled \$15.1 million as compared to \$23.5 million at July 31, 2021. Our working capital increased from \$58.0 million at July 31, 2021 to \$62.7 million at January 29, 2022.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at January 29, 2022. 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 2023. Our \$5.0 million line of credit, which also expires in January 2023, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary.

For the first six months of fiscal 2022, operating activities used approximately \$10.0 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$5.3 million of cash. Increased inventory, accounts receivable, and other assets used approximately \$16.0 million of cash. Decreased accounts payable and other accrued liabilities provided approximately \$0.9 million of cash.

Net cash provided by investing activities totaled approximately \$2.2 million. The sale of securities offset by the purchase of securities provided approximately \$1.9 million and the sale of land provided approximately \$0.6 million.

Net cash used in financing activities totaled \$0.6 million, which was used primarily 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 2022.

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 29, 2022</u>	<u>July 31, 2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$15,113	\$23,489
Equity investments	6,544	6,207
Debt securities	-	2,414
Accounts and notes receivable, net	29,765	16,382
Inventories, net	16,757	14,326
Prepaid expenses and other current assets	<u>550</u>	<u>323</u>
Total current assets	<u>68,729</u>	<u>63,141</u>
Property and equipment, net	<u>5,052</u>	<u>5,363</u>
Other assets:		
Deposits	14	14
Notes receivable	1,033	1,017
Real estate held for investment	3,036	3,238
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>9,195</u>	<u>9,381</u>
Total assets	<u><u>\$82,976</u></u>	<u><u>\$77,885</u></u>

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

	<u>January 29, 2022</u>	<u>July 31, 2021</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$3,126	\$2,714
Accrued employee benefits	988	660
Accrued payroll and payroll taxes	802	700
Income tax payable	296	236
Other	<u>812</u>	<u>795</u>
Total current liabilities	<u>6,024</u>	<u>5,105</u>
Deferred tax liabilities	<u>534</u>	<u>534</u>
Total liabilities	<u>6,558</u>	<u>5,639</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 1,893,635 and 1,893,423 shares, respectively	1,894	1,893
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 366,525 and 366,737 shares, respectively	366	367
Retained earnings	<u>74,158</u>	<u>69,986</u>
Total shareholders' equity	<u>76,418</u>	<u>72,246</u>
Total liabilities and shareholders' equity	<u><u>\$82,976</u></u>	<u><u>\$77,885</u></u>

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

	Three Months Ended		Six Months Ended	
	January 29, 2022	January 30, 2021	January 29, 2022	January 30, 2021
Net revenues	\$31,426	\$20,239	\$59,014	\$39,178
Cost of revenues	<u>22,273</u>	<u>14,672</u>	<u>41,877</u>	<u>28,575</u>
Gross profit	9,153	5,567	17,137	10,603
Selling, general and administrative expenses	<u>5,723</u>	<u>4,762</u>	<u>10,859</u>	<u>9,120</u>
Operating profit	3,430	805	6,278	1,483
Other income	<u>(21)</u>	<u>241</u>	<u>187</u>	<u>291</u>
Earnings before income taxes	3,409	1,046	6,465	1,774
Provision for income taxes	<u>873</u>	<u>318</u>	<u>1,707</u>	<u>552</u>
Net earnings	<u><u>\$2,536</u></u>	<u><u>\$728</u></u>	<u><u>\$4,758</u></u>	<u><u>\$1,222</u></u>
Earnings per common share:				
Diluted earnings per share:				
Class A	1.12	0.32	2.11	0.53
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	1,893,486	1,933,860	1,893,454	1,941,721
Class B	<u>366,674</u>	<u>367,295</u>	<u>366,706</u>	<u>368,065</u>
Total	<u><u>2,260,160</u></u>	<u><u>2,301,155</u></u>	<u><u>2,260,160</u></u>	<u><u>2,309,786</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 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

	Common Stock, \$1 par value				Accumulated Other Comprehensive Income (Loss)	Retained Earnings
	Class A		Class B			
	Shares	Amount	Shares	Amount		
Balance, July 31, 2021	1,893,423	\$1,893	366,737	\$367	\$0	\$69,986
Cash Dividend (\$0.13 per Class A common stock)						(246)
Cash Dividend (\$0.13 per Class B common stock)						(47)
Net earnings						2,222
Balance, October 30, 2021	1,893,423	\$1,893	366,737	\$367	\$0	\$71,915
Conversion of Class B to Class A Stock	212	1	(212)	(1)		-
Cash Dividend (\$0.13 per Class A common stock)						(246)
Cash Dividend (\$0.13 per Class B common stock)						(47)
Net earnings						2,536
Balance, January 29, 2022	1,893,635	\$1,894	366,525	\$366	\$0	\$74,158

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

	Six Months Ended	
	January 29, 2022	January 30, 2021
Net cash used in operating activities	(9,998)	140
Cash Flows from Investing Activities:		
Proceeds from sale of assets	564	635
Purchase of land for investment	-	(160)
Capital expenditures	(211)	(202)
Purchase of securities	(687)	(5,118)
Proceeds from sale of securities	2,542	9,852
Net cash provided by investing activities	2,208	5,007
Cash Flows from Financing Activities:		
Repurchase company stock	-	(850)
Dividends paid	(586)	(601)
Net cash used in financing activities	(586)	(1,451)
Net (Decrease) Increase in Cash and Cash equivalents	(8,376)	3,696
Cash and Cash Equivalents at Beginning of Year	23,489	20,959
Cash and Cash Equivalents at End of Period	\$15,113	\$24,655