

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE THIRD QUARTER AND
FIRST NINE MONTHS OF FISCAL 2017

Mount Gilead, N.C. – June 14, 2017. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the third quarter of fiscal 2017 of \$24,092,000 as compared to \$25,150,000 for the third quarter of fiscal 2016. Net earnings for the third quarter of fiscal 2017 amounted to \$1,202,000, or \$0.50 per diluted Class A common share as compared to \$681,000, or \$0.28 per diluted Class A common share, for the third quarter of fiscal 2016.

Consolidated net revenues for the first nine months of fiscal 2017 totaled \$82,078,000 as compared to \$85,681,000 for the first nine months of fiscal 2016. Net earnings for the first nine months of fiscal 2017 amounted to \$4,361,000, or \$1.81 per diluted Class A common share, as compared to net earnings of \$4,075,000, or \$1.68 per diluted Class A common share, for the first nine months of fiscal 2016.

THIRD QUARTER FISCAL 2017 COMPARED TO THIRD QUARTER FISCAL 2016

Consolidated net revenues totaled \$24.1 million for the third quarter of fiscal 2017 as compared to \$25.1 million for the third quarter of fiscal 2016. Sales related to our western/lifestyle boot products for the third quarter of fiscal 2017 totaled \$10.1 million as compared to \$12.5 million for the third quarter of fiscal 2016. This 19% decrease in net revenues is primarily a result of decreased sales in our premium western boots, children's boots, and women's fashion boots. Revenues from our work boot products grew approximately 9%, from \$12.6 million for the third quarter of fiscal 2016 to \$13.7 million for the third quarter of fiscal 2017, primarily due to an increase in production of military boots related to our multiple government contracts.

Consolidated gross profit for the third quarter of fiscal 2017 amounted to approximately \$5.8 million as compared to \$5.6 million for the third quarter of fiscal 2016. Gross profit as a percentage of net revenues was up from 22.3% for the third quarter of fiscal 2016 to 24.2% for the third quarter of fiscal 2017. This is primarily a result of the increase in work boot product sales, specifically our military boots.

Consolidated selling, general and administrative ("SG&A") expenses have decreased from \$4.5 million for the third quarter of fiscal 2016 to \$4.0 million for the third quarter of fiscal 2017. This was primarily driven by decreased expenditures for commissions, salaries, and advertising.

As a result of the above, the consolidated operating profit for the third quarter of fiscal 2017 amounted to \$1.8 million as compared to \$1.1 million for the third quarter of fiscal 2016.

FIRST NINE MONTHS FISCAL 2017 COMPARED TO FIRST NINE MONTHS FISCAL 2016

Consolidated net revenues for the first nine months of fiscal 2017 totaled \$82.1 million as compared to \$85.7 million for the first nine months of fiscal 2016. Our western and lifestyle product sales totaled \$38.0 million for the first nine months of fiscal 2017 as compared to \$47.2 million for the first nine months of fiscal 2016, with the decrease coming from declines in our women's, children's, and premium western boot sales. Net revenues from our work boot business grew from \$38.3 million for the first nine months of fiscal 2016 to \$43.2 million for the first nine months of fiscal 2017. This increase in work boot products net revenues resulted

primarily from higher military boot shipments associated with our U. S. Government contracts and commercial sales.

Consolidated gross profit totaled \$20.6 million for the first nine months of fiscal 2017 as compared to \$21.6 million for the first nine months of fiscal 2016. Gross profit attributable to our western and lifestyle products totaled \$13.2 million for the first nine months of fiscal 2017, down from \$16.8 million for the first nine months of fiscal 2016. This decrease in gross profit is directly correlated with the decrease in sales. Our work boot products gross profit grew from \$4.6 million for the first nine months of fiscal 2016 to \$7.1 million for the first nine months of fiscal 2017. This increase was driven by the higher military boot shipments mentioned above.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately \$13.8 million for the first nine months of fiscal 2017 as compared to \$15.1 million for the first nine months of fiscal 2016. This decrease in SG&A expenses resulted primarily from decreased expenditures for commissions, salaries, and advertising.

As a result of the above, the consolidated operating profit amounted to \$6.8 million for the first nine months of fiscal 2017 as compared to \$6.5 million for the first nine months of fiscal 2016.

Financial Condition and Liquidity

Our financial conditions remain strong at April 29, 2017 as cash and cash equivalents totaled \$28.1 million as compared to \$15.7 million at July 30, 2016. Our working capital increased from \$50.5 million at July 30, 2016 to \$53.8 million at April 29, 2017.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at April 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. Our \$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. 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 2017.

For the first nine months of fiscal 2017, operating activities provided approximately \$14.2 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$5.3 million of cash. A reduction in inventory, accounts receivables, and other assets provided approximately \$9.5 million of cash. Accounts payable and other liabilities used approximately \$0.6 million.

Net cash used by investing activities totaled approximately \$0.3 million, primarily for manufacturing equipment.

Net cash used in financing activities totaled \$1.5 million. Dividend payments used approximately \$0.9 million and common stock purchases used approximately \$0.6 million.

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 29, 2017</u>	<u>July 30, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$28,081	\$15,673
Short term securities	377	501
Accounts and notes receivable, net	12,344	12,708
Inventories, net	18,949	27,944
Income tax receivable	-	897
Prepaid expenses and other current assets	<u>262</u>	<u>433</u>
Total current assets	<u>60,013</u>	<u>58,156</u>
Property and equipment, net	<u>7,597</u>	<u>8,147</u>
Other assets:		
Deposits	14	14
Long term securities	3,667	3,520
Real estate held for investment	3,560	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>12,353</u>	<u>12,248</u>
Total assets	<u><u>\$79,963</u></u>	<u><u>\$78,551</u></u>

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

	<u>April 29, 2017</u>	<u>July 30, 2016</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$3,263	\$4,696
Accrued employee benefits	1,028	1,090
Accrued payroll and payroll taxes	1,006	1,207
Accrued income tax	98	-
Other	<u>775</u>	<u>698</u>
Total current liabilities	<u>6,170</u>	<u>7,691</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,014,842 and 2,030,658 shares, respectively	2,015	2,031
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 383,254 and 387,628 shares, respectively	383	388
Unrealized losses on investments, net of tax	(2)	(59)
Retained earnings	<u>71,397</u>	<u>68,500</u>
Total shareholders' equity	<u>73,793</u>	<u>70,860</u>
Total liabilities and shareholders' equity	<u><u>\$79,963</u></u>	<u><u>\$78,551</u></u>

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

	Three Months Ended		Nine Months Ended	
	April 29, 2017	April 30, 2016	April 29, 2017	April 30, 2016
Net revenues	\$24,092	\$25,150	\$82,078	\$85,681
Cost of revenues	<u>18,266</u>	<u>19,552</u>	<u>61,497</u>	<u>64,079</u>
Gross profit	5,826	5,598	20,581	21,602
Selling, general and administrative expenses	<u>3,990</u>	<u>4,517</u>	<u>13,767</u>	<u>15,089</u>
Operating profit	1,836	1,081	6,814	6,513
Other income	<u>123</u>	<u>78</u>	<u>277</u>	<u>271</u>
Earnings before income taxes	1,959	1,159	7,091	6,784
Provision for income taxes	<u>757</u>	<u>478</u>	<u>2,730</u>	<u>2,709</u>
Net earnings	<u><u>\$1,202</u></u>	<u><u>\$681</u></u>	<u><u>\$4,361</u></u>	<u><u>\$4,075</u></u>
Earnings per common share:				
Earnings per common share:				
Basic earnings per share:				
Class A	\$0.57	\$0.31	\$2.08	\$1.92
Class B	0.13	0.13	0.39	0.39
Diluted earnings per share:				
Class A	0.50	0.28	1.81	1.68
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	2,021,668	2,033,799	2,027,679	2,037,655
Class B	<u>384,860</u>	<u>388,381</u>	<u>386,688</u>	<u>389,818</u>
Total	<u><u>2,406,528</u></u>	<u><u>2,422,180</u></u>	<u><u>2,414,367</u></u>	<u><u>2,427,473</u></u>

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

	Nine Months Ended	
	April 29, 2017	April 30, 2016
Net cash provided by operating activities	14,192	4,364
Cash Flows from Investing Activities:		
Proceeds from sale of assets	87	-
Purchase of land for investment	(45)	(13)
Capital expenditures	(375)	(2,581)
Proceeds from securities	34	-
Purchase of securities	-	(78)
Net cash used in investing activities	(299)	(2,672)
Cash Flows from Financing Activities:		
Purchase of common stock	(546)	(340)
Dividends paid	(939)	(945)
Net cash used in financing activities	(1,485)	(1,285)
Net (Decrease) Increase in Cash and Cash equivalents	12,408	407
Cash and Cash Equivalents at Beginning of Year	15,673	15,437
Cash and Cash Equivalents at End of Year	\$28,081	\$15,844