

# **McRAE INDUSTRIES, INC.**

## **REPORTS EARNINGS FOR THE FIRST QUARTER OF FISCAL 2016**

**Mount Gilead, N.C. – December 16, 2015. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for the first quarter of fiscal 2016 of \$31,730,000 as compared to \$29,239,000 for the first quarter of fiscal 2015. Net earnings for the first quarter of fiscal 2016 amounted to \$1,995,000, or \$0.93 per diluted Class A common share as compared to \$2,347,000, or \$1.07 per diluted Class A common share, for the first quarter of fiscal 2015.

### **FIRST QUARTER FISCAL 2016 COMPARED TO FIRST QUARTER FISCAL 2015**

Consolidated net revenues totaled \$31.7 million for the first quarter of fiscal 2016 as compared to \$29.2 million for the first quarter of fiscal 2015. Sales related to our western/lifestyle boot products for the first quarter of fiscal 2016 totaled \$18.4 million as compared to \$19.4 million for the first quarter of fiscal 2015. This 5% decrease in net revenues was primarily attributable to the general slowdown in the apparel and footwear industries, which looks to be continuing into the second quarter. Revenues from our work boot products grew approximately 35%, from \$9.8 million for the first quarter of fiscal 2015 to \$13.3 million for the first quarter of fiscal 2016 as the production of military boots related to our multiple government contracts continues to increase.

Consolidated gross profit for the first quarter of fiscal 2016 amounted to approximately \$8.7 million as compared to \$8.9 million for the first quarter of fiscal 2015. This decrease in gross profit was attributable to the sales mix being more heavily weighted towards lower margin products. Gross profit as a percentage of net revenues was down from 30.3% for the first quarter of fiscal 2015 to 27.2% for the first quarter of fiscal 2016, primarily attributable to the decline in overall profit margins for our military boot products. As we strive to improve labor inefficiencies due to a significant number of new employees compared to the same quarter last year, we expect to see improved margins.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately \$5.5 million for the first quarter of fiscal 2016 as compared to \$5.1 million for the first quarter of fiscal 2015. This increase in SG&A expenses resulted primarily from increased expenditures for advertising, salaries and health insurance costs. As a percentage of net revenues, SG&A expenses remained relatively constant at 17.2% for the first quarter of fiscal 2016 as compared to 17.3% for the first quarter of fiscal 2015.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2016 amounted to \$3.2 million as compared to \$3.8 million for the first quarter of fiscal 2015.

### **Financial Condition and Liquidity**

Our financial condition remained strong at October 31, 2015 as cash and cash equivalents totaled \$12.0 million as compared to \$15.4 million at August 1, 2015. Our working capital increased from \$49.7 million at August 1, 2015 to \$50.8 million at October 31, 2015.

We currently have two lines of credit with a bank totaling \$6.75 million, all of which was fully available at October 31, 2015. 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 2016. Our \$5.0 million line of credit, which also expires in January 2016, 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 2016.

Net cash used by operating activities for the first quarter of fiscal 2016 amounted to \$2,483,000. Net earnings, as adjusted for depreciation, contributed approximately \$2.2 million of cash. Accounts and notes receivable used approximately \$3.0 million of cash as first quarter sales outpaced customer payments. Inventory levels in both of our boot businesses used approximately \$2.6 million of cash as product demand remained strong. The timing of payments for accounts payable, employee benefits, and income taxes provided approximately \$0.9 million of cash.

Net cash used by investing activities totaled approximately \$589,000, primarily for a building addition and manufacturing equipment.

Net cash used in financing activities totaled \$338,000, which was mainly used for dividend payments.

## **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>October 31,</u> <u>2015</u>	<u>August 1,</u> <u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$12,027	\$15,437
Short term securities	250	500
Accounts and notes receivable, net	18,681	15,636
Inventories, net	28,325	25,757
Income tax receivable	0	879
Prepaid expenses and other current assets	<u>734</u>	<u>532</u>
Total current assets	<u>60,017</u>	<u>58,741</u>
Property and equipment, net	<u>6,453</u>	<u>5,817</u>
Other assets:		
Deposits	14	14
Long term securities	3,556	3,553
Real estate held for investment	3,594	3,594
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>12,276</u>	<u>12,273</u>
Total assets	<u><u>\$78,746</u></u>	<u><u>\$76,831</u></u>

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

	<u>October 31, 2015</u>	<u>August 1, 2015</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$5,441	\$5,599
Accrued employee benefits	2,140	1,627
Accrued payroll and payroll taxes	948	1,225
Accrued income tax	158	0
Other	<u>575</u>	<u>552</u>
Total current liabilities	<u>9,262</u>	<u>9,003</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,039,822 and 2,039,335 shares, respectively	2,040	2,040
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 390,003 and 391,189 shares, respectively	390	391
Retained earnings	<u>67,054</u>	<u>65,397</u>
Total shareholders' equity	<u>69,484</u>	<u>67,828</u>
Total liabilities and shareholders' equity	<u><u>\$78,746</u></u>	<u><u>\$76,831</u></u>

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

	<b>Three Months Ended</b>	
	<b>October 31, 2015</b>	<b>November 1, 2014</b>
Net revenues	\$31,730	\$29,239
Cost of revenues	<u>23,072</u>	<u>20,375</u>
Gross profit	8,658	8,864
Selling, general and administrative expenses	<u>5,456</u>	<u>5,058</u>
Operating profit	3,202	3,806
Other income	<u>89</u>	<u>55</u>
Earnings before income taxes	3,291	3,861
Provision for income taxes	<u>1,296</u>	<u>1,514</u>
Net earnings	<u><u>\$1,995</u></u>	<u><u>\$2,347</u></u>
Earnings per common share:		
Earnings per common share:		
Basic earnings per share:		
Class A	\$1.11	\$1.28
Class B	0.13	0.13
Diluted earnings per share:		
Class A	0.93	1.07
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	2,039,346	2,038,543
Class B	<u>391,071</u>	<u>391,981</u>
Total	<u><u>2,430,417</u></u>	<u><u>2,430,524</u></u>

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

	<b>Three Months Ended</b>	
	<b>October 31, 2015</b>	<b>November 1, 2014</b>
	<u>          </u>	<u>          </u>
Net cash provided by operating activities	(2,483)	(2,637)
Cash Flows from Investing Activities:		
Purchase of land for investment	0	(2)
Capital expenditures	<u>(589)</u>	<u>(123)</u>
Net cash used in investing activities	<u>(589)</u>	<u>(125)</u>
Cash Flows from Financing Activities:		
Purchase of common stock	(22)	0
Dividends paid	<u>(316)</u>	<u>(316)</u>
Net cash used in financing activities	<u>(338)</u>	<u>(316)</u>
Net (Decrease) Increase in Cash and Cash equivalents	(3,410)	(3,078)
Cash and Cash Equivalents at Beginning of Year	<u>15,437</u>	<u>18,880</u>
Cash and Cash Equivalents at End of Year	<u><u>\$12,027</u></u>	<u><u>\$15,802</u></u>