

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

Mount Gilead, N.C. – June 23, 2021. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the third quarter of fiscal 2021 of \$21,580,000 as compared to \$14,292,000 for the third quarter of fiscal 2020. Net earnings for the third quarter of fiscal 2021 amounted to \$1,197,000, or \$0.52 per diluted Class A common share as compared to a net loss of \$504,000, or (\$0.22) per diluted Class A common share, for the third quarter of fiscal 2020.

Consolidated net revenues for the first nine months of fiscal 2021 totaled \$60,758,000 as compared to \$57,291,000 for the first nine months of fiscal 2020. Net earnings for the first nine months of fiscal 2021 amounted to \$2,419,000, or \$1.05 per diluted Class A common share, as compared to net earnings of \$1,063,000, or \$0.45 per diluted Class A common share, for the first nine months of fiscal 2020.

THIRD QUARTER FISCAL 2021 COMPARED TO THIRD QUARTER FISCAL 2020

Consolidated net revenues totaled \$21.6 million for the third quarter of fiscal 2021 as compared to \$14.3 million for the third quarter of fiscal 2020. Sales related to our western/lifestyle boot products for the third quarter of fiscal 2021 totaled \$14.6 million as compared to \$6.5 million for the third quarter of fiscal 2020. This increase in net revenues is primarily a result of increased sales in both our popular priced western boot sales and in our premium western boot sales. Revenues from our work boot products decreased approximately 7%, from \$7.6 million for the third quarter of fiscal 2020 to \$7.0 million for the third 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 third quarter of fiscal 2021 amounted to approximately \$5.9 million as compared to \$2.7 million for the third quarter of fiscal 2020. Gross profit, as a percentage of net revenues, was up from 18.9% for the third quarter of fiscal 2020 to 27.5% for the third 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 \$4.4 million for the third quarter of fiscal 2021 as compared to \$3.4 million for the third 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 third quarter of fiscal 2021 amounted to \$1.5 million as compared to net operating loss of \$0.7 million for the third quarter of fiscal 2020.

FIRST NINE MONTHS FISCAL 2021 COMPARED TO FIRST NINE MONTHS FISCAL 2020

Consolidated net revenues for the first nine months of fiscal 2021 totaled \$60.8 million as compared to \$57.3 million for the first nine months of fiscal 2020. Our western and lifestyle product sales totaled \$40.3 million for the first nine months of fiscal 2021 as compared to \$33.1 million for the first nine months of fiscal 2020, with the increase primarily resulting from an increase in all our western boot sales. Net revenues from our work boot business decreased from \$24.0 million for the first nine months of fiscal 2020 to \$20.5 million for the first nine 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 \$16.5 million for the first nine months of fiscal 2021 as compared to \$13.4 million for the first nine months of fiscal 2020. Gross profit attributable to our western and lifestyle products increased to \$14.5 million for the first nine months of fiscal 2021, as compared to \$11.3 million for the first nine months of fiscal 2020. Our work boot products gross profit declined from \$2.0 million for the first nine months of fiscal 2020 to \$1.9 million for the first nine months of fiscal 2021.

Consolidated selling, general and administrative expenses totaled approximately \$13.5 million for the first nine months of fiscal 2021 as compared to \$12.3 million for the first nine months of fiscal 2020. This increase resulted primarily from increased commissions, healthcare, employee benefits, and computer services expenses, offset by decreased spending in advertising.

As a result of the above, the consolidated operating profit amounted to \$3.0 million for the first nine months of fiscal 2021 as compared to \$1.1 million for the first nine months of fiscal 2020.

Financial Condition and Liquidity

Our financial condition remained strong at May 1, 2021 as cash and cash equivalents totaled \$23.0 million as compared to \$21.0 million at August 1, 2020. Our working capital increased from \$57.5 million at August 1, 2020 to \$59.0 million at January 30, 2021.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at May 1, 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 nine months of fiscal 2021, operating activities provided approximately \$0.4 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$3.2 million of cash. Decreased inventory, other assets, and accrued income taxes provided approximately \$7.3 million of cash. Accounts receivable and accounts payable used approximately \$10.3 million of cash.

Net cash provided by investing activities totaled approximately \$3.8 million, primarily due to the sale of securities offset by the purchase of securities.

Net cash used in financing activities totaled \$2.1 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 third quarter of fiscal 2021, our western/lifestyle and western work product orders continued the upward trend we observed in the first and second quarters. Orders for these segments of our business were up 233% over the orders in the third quarter of fiscal 2020. This also represents an increase of 89% over orders in the third quarter of 2019 resulting 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 before the end of the calendar year. This is of course dependent on the level of orders we continue to receive. Shipments in the fourth quarter could be negatively impacted by the shortage of inventory.

The Company, through our affiliate American Mortgage and Investment Company (AMIC), currently has purchase sales agreements on two of our properties held for investment.

On February 12, 2020, AMIC signed a purchase sales agreement with Lennar Carolinas, LLC under which Lennar would purchase from AMIC 78 acres of undeveloped land in Berkeley County, South Carolina for \$1,650,000.00. This agreement originally had an investigation period of 120 days, but due to Covid-19, wetlands, and other issues, the investigation period was extended until November 29, 2021. Lennar is currently working through wetland issues with the Army Corps of Engineers and hopes to satisfactorily resolve these issues so that the project is feasible. Lennar can terminate this agreement for any reason prior to the expiration of the investigation period.

The second property is under a May 2021 purchase sales agreement between Levi Grantham, LLC and AMIC. This agreement provides for Levi Grantham's purchase of approximately 167.82 acres of undeveloped land in Berkeley County, South Carolina for \$1,600,000.00. Levi Grantham has a due diligence period of 30 days which began on June 3, 2021 and they can cancel this agreement for any reason prior to expiration of the due diligence period. Closing will be on or before the later of the date that is sixty days after the expiration of the due diligence period or thirty days following the satisfaction of all contingencies set forth in the agreement.

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, our ability to complete the sale of our properties held for investment that are under contract, 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.

Contact:
D. Gary McRae
(910) 439-6147

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

	<u>May 1, 2021</u>	<u>August 1, 2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$23,040	\$20,959
Equity investments	\$5,695	\$4,131
Debt securities	4,934	9,750
Accounts and notes receivable, net	16,422	8,027
Inventories, net	12,370	18,255
Income tax receivable	61	979
Prepaid expenses and other current assets	<u>338</u>	<u>858</u>
Total current assets	<u>62,860</u>	<u>62,959</u>
Property and equipment, net	<u>5,495</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>\$76,720</u></u>	<u><u>\$77,929</u></u>

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

	<u>May 1, 2021</u>	<u>August 1, 2020</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,961	\$3,871
Accrued employee benefits	632	400
Accrued payroll and payroll taxes	431	457
Other	<u>846</u>	<u>692</u>
Total current liabilities	<u>3,870</u>	<u>5,420</u>
Deferred tax liabilities	<u>692</u>	<u>692</u>
Total liabilities	<u>4,562</u>	<u>6,112</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 1,910,923 and 1,957,142 shares, respectively	1,911	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>69,880</u>	<u>69,487</u>
Total shareholders' equity	<u>72,158</u>	<u>71,817</u>
Total liabilities and shareholders' equity	<u><u>\$76,720</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		Nine Months Ended	
	May 1, 2021	May 2, 2020	May 1, 2021	May 2, 2020
Net revenues	\$21,580	\$14,292	\$60,758	\$57,291
Cost of revenues	<u>15,643</u>	<u>11,591</u>	<u>44,219</u>	<u>43,872</u>
Gross profit	5,937	2,701	16,539	13,419
Selling, general and administrative expenses	<u>4,425</u>	<u>3,424</u>	<u>13,544</u>	<u>12,303</u>
Operating profit	1,512	(723)	2,995	1,116
Other income	<u>163</u>	<u>102</u>	<u>454</u>	<u>503</u>
Earnings before income taxes	1,675	(621)	3,449	1,619
Provision for income taxes	<u>478</u>	<u>(117)</u>	<u>1,030</u>	<u>556</u>
Net earnings	<u><u>\$1,197</u></u>	<u><u>(\$504)</u></u>	<u><u>\$2,419</u></u>	<u><u>\$1,063</u></u>
Earnings per common share:				
Diluted earnings per share:				
Class A	0.52	(0.22)	1.05	0.45
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	1,919,003	1,965,723	1,934,149	1,966,830
Class B	<u>366,737</u>	<u>373,487</u>	<u>367,623</u>	<u>373,612</u>
Total	<u><u>2,285,740</u></u>	<u><u>2,339,210</u></u>	<u><u>2,301,772</u></u>	<u><u>2,340,442</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
Stock Buyback	(12,900)	(13)				(319)
Cash Dividend (\$0.13 per Class A common stock)						(250)
Cash Dividend (\$0.13 per Class B common stock)						(47)
Net earnings						1,197
Balance, May 1, 2021	1,910,923	\$1,911	366,737	\$367	\$0	\$69,880

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
Stock Buyback	(1,882)	(2)	(442)	(1)		(51)
Unrealized gains on investments, net of tax					(281)	
Cash Dividend (\$0.13 per Class A common stock)						(256)
Cash Dividend (\$0.13 per Class B common stock)						(49)
Net earnings						(504)
Balance, May 2, 2020	1,964,644	\$1,964	373,233	\$373	(\$253)	\$71,070

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

	Nine Months Ended	
	May 1, 2021	May 2, 2020
Net cash provided by operating activities	404	1,479
Cash Flows from Investing Activities:		
Proceeds from sale of land	635	8
Purchase of land for investment	(160)	(3)
Capital expenditures	(250)	(449)
Proceeds from sale of fixed assets	2	0
Sale of securities	10,052	10,688
Purchase of securities	(6,522)	(293)
Net cash provided by investing activities	3,757	9,951
Cash Flows from Financing Activities:		
Repurchase of company stock	(1,182)	(80)
Dividends paid	(898)	(912)
Net cash used in financing activities	(2,080)	(992)
Net (Decrease) Increase in Cash and Cash equivalents	2,081	10,438
Cash and Cash Equivalents at Beginning of Year	20,959	12,799
Cash and Cash Equivalents at End of Period	\$23,040	\$23,237