

**McRAE INDUSTRIES, INC.**  
**REPORTS EARNINGS FOR THE FIRST QUARTER**  
**OF FISCAL 2018**

Mount Gilead, N.C. – December 27, 2017. **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for the first quarter of fiscal 2018 of \$22,399,000 as compared to \$29,872,000 for the first quarter of fiscal 2017. Net earnings for the first quarter of fiscal 2018 amounted to \$1,292,000, or \$0.54 per diluted Class A common share as compared to \$1,527,000, or \$0.63 per diluted Class A common share, for the first quarter of fiscal 2017.

**FIRST QUARTER FISCAL 2018 COMPARED TO FIRST QUARTER FISCAL 2017**

Consolidated net revenues totaled \$22.4 million for the first quarter of fiscal 2018 as compared to \$29.9 million for the first quarter of fiscal 2017. Sales related to our western/lifestyle boot products for the first quarter of fiscal 2018 totaled \$13.3 million as compared to \$14.5 million for the first quarter of fiscal 2017. This 8% decrease was primarily attributable to the decrease in sales for men’s western boots and premium kid’s boots. Revenues from our work boot products decreased approximately 41%, from \$15.4 million for the first quarter of fiscal 2017 to \$9.1 million for the first quarter of fiscal 2018. This is primarily a result of decreased military boot sales. We have been awarded a new contract with the United States Government for hot weather Army combat boots. This contract is for a base year and four option years. However, due to the government’s over inventoried position on this product, the first delivery order was less than expected and the delivery time frame was extended. The contract for the temperate weather Army combat boots will not be awarded until January or February of 2018 and these contracts will also be for a base year and four option years. We are in the process of completing our obligations on the existing temperate weather Army combat boot contract. These developments are expected to negatively impact our military boot sales for fiscal 2018.

Consolidated gross profit for the first quarter of fiscal 2018 amounted to approximately \$6.2 million as compared to \$7.4 million for the first quarter of fiscal 2017. Gross profit as a percentage of net revenues was up from 24.7% for the first quarter of fiscal 2017 to 27.8% for the first quarter of fiscal 2018. This is attributable to the sales mix being more heavily weighted towards higher margin western and work boots.

Consolidated selling, general and administrative (“SG&A”) expenses totaled approximately \$4.2 million for the first quarter of fiscal 2018 as compared to \$5.0 million for the first quarter of fiscal 2017. This decrease in SG&A expenses resulted primarily from decreased expenditures for health insurance, computer and professional services, and salaries.

As a result of the above, the consolidated operating profit for the first quarter of fiscal 2018 amounted to \$2.0 million as compared to \$2.4 million for the first quarter of fiscal 2017.

**Financial Condition and Liquidity**

Our financial condition remained strong at October 28, 2017 as cash and cash equivalents totaled \$29.2 million as compared to \$28.1 million at July 29, 2017. Our working capital increased from \$54.3 million at July 29, 2017 to \$55.1 million at October 28, 2017.

We currently have two lines of credit totaling \$6.75 million, all of which were fully available at October 28, 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.

Net cash provided by operating activities for the first quarter of fiscal 2018 amounted to \$2.0. Net earnings, as adjusted for depreciation, contributed approximately \$1.6 million of cash. Accounts receivable used approximately \$1.6 million of cash as first quarter sales outpaced customer payments. Both of our boot businesses provided approximately \$1.0 million of cash as efforts to reduce inventory levels paid off. The timing of payments for employee related expenses and income taxes provided approximately \$1.0 million of cash.

Net cash used by investing activities totaled approximately \$500,000, primarily for manufacturing machinery and equipment.

Net cash used in financing activities totaled \$311,000, which was used 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 2018.

## **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 28, 2017</u>	<u>July 29, 2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$29,200	\$28,057
Short term securities	505	505
Accounts and notes receivable, net	13,914	12,331
Inventories, net	17,399	18,273
Income tax receivable	0	329
Prepaid expenses and other current assets	<u>436</u>	<u>550</u>
Total current assets	<u>61,454</u>	<u>60,045</u>
Property and equipment, net	<u>7,566</u>	<u>7,391</u>
Other assets:		
Deposits	14	14
Long term securities	3,848	3,804
Real estate held for investment	3,603	3,601
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>12,577</u>	<u>12,531</u>
Total assets	<u><u>\$81,597</u></u>	<u><u>\$79,967</u></u>

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**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)  
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	<u>October 28, 2017</u>	<u>July 29, 2017</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$2,522	\$2,510
Accrued employee benefits	1,450	1,144
Accrued payroll and payroll taxes	614	809
Accrued income taxes	1,020	589
Other	<u>778</u>	<u>714</u>
Total current liabilities	<u>6,384</u>	<u>5,766</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,014,842 and 2,014,842 shares, respectively	2,015	2,015
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 383,254 and 383,254 shares, respectively	384	384
Unrealized gains(losses) on investments, net of tax	26	(5)
Retained earnings	<u>72,788</u>	<u>71,807</u>
Total shareholders' equity	<u>75,213</u>	<u>74,201</u>
Total liabilities and shareholders' equity	<u><u>\$81,597</u></u>	<u><u>\$79,967</u></u>

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

	<b>Three Months Ended</b>	
	<b>October 28, 2017</b>	<b>October 29, 2016</b>
Net revenues	\$22,399	\$29,872
Cost of revenues	<u>16,162</u>	<u>22,504</u>
Gross profit	6,237	7,368
Selling, general and administrative expenses	<u>4,199</u>	<u>4,963</u>
Operating profit	2,038	2,405
Other income	<u>77</u>	<u>94</u>
Earnings before income taxes	2,115	2,499
Provision for income taxes	<u>823</u>	<u>972</u>
Net earnings	<u><u>\$1,292</u></u>	<u><u>\$1,527</u></u>
Earnings per common share:		
Diluted earnings per share:		
Class A	0.54	0.63
Class B	NA	NA
Weighted average number of common shares outstanding:		
Class A	2,014,842	2,030,658
Class B	<u>383,254</u>	<u>387,629</u>
Total	<u><u>2,398,096</u></u>	<u><u>2,418,287</u></u>

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

	Three Months Ended	
	October 28, 2017	October 29, 2016
Net cash provided by operating activities	<u>1,954</u>	<u>1,475</u>
Cash Flows from Investing Activities:		
Purchase of land for investment	(2)	(21)
Capital expenditures	(485)	(100)
Purchase of securities	<u>(13)</u>	<u>(85)</u>
Net cash used in investing activities	<u>(500)</u>	<u>(206)</u>
Cash Flows from Financing Activities:		
Dividends paid	<u>(311)</u>	<u>(314)</u>
Net cash used in financing activities	<u>(311)</u>	<u>(314)</u>
Net (Decrease) Increase in Cash and Cash equivalents	1,143	955
Cash and Cash Equivalents at Beginning of Year	<u>28,057</u>	<u>15,673</u>
Cash and Cash Equivalents at End of Year	<u><u>\$29,200</u></u>	<u><u>\$16,628</u></u>