

**McRAE INDUSTRIES, INC.**  
**REPORTS EARNINGS FOR THE SECOND QUARTER AND**  
**FIRST SIX MONTHS OF FISCAL 2019**

**Mount Gilead, N.C. – March 18, 2019.** **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for the second quarter of fiscal 2019 of \$20,738,000 as compared to \$20,472,000 for the second quarter of fiscal 2018. Net earnings for the second quarter of fiscal 2019 amounted to \$68,000, or \$0.03 per diluted Class A common share as compared to \$681,000, or \$0.28 per diluted Class A common share, for the second quarter of fiscal 2018.

Consolidated net revenues for the first six months of fiscal 2019 totaled \$41,339,000 as compared to \$42,870,000 for the first six months of fiscal 2018. Net earnings for the first six months of fiscal 2019 amounted to \$924,000, or \$0.39 per diluted Class A common share, as compared to net earnings of \$1,973,000, or \$0.82 per diluted Class A common share, for the first six months of fiscal 2018.

**SECOND QUARTER FISCAL 2019 COMPARED TO SECOND QUARTER FISCAL 2018**

Consolidated net revenues totaled \$20.7 million for the second quarter of fiscal 2019 as compared to \$20.5 million for the second quarter of fiscal 2018. Sales related to our western/lifestyle boot products for the second quarter of fiscal 2019 totaled \$12.2 million as compared to \$13.1 million for the second quarter of fiscal 2018. This 7% decrease in net revenues is primarily a result of decreased sales in our premium children's boots, as well as a general softness in most sectors of our western/lifestyle boot products. Revenues from our work boot products increased approximately 16%, from \$7.3 million for the second quarter of fiscal 2018 to \$8.5 million for the second quarter of fiscal 2019. This was primarily a result of increased military boots sales.

Consolidated gross profit for the second quarter of fiscal 2019 amounted to approximately \$4.6 million as compared to \$5.0 million for the second quarter of fiscal 2018. Gross profit, as a percentage of net revenues, was down from 24.2% for the second quarter of fiscal 2018 to 22.1% for the second quarter of fiscal 2019. This is primarily due to higher sales of military boots.

Consolidated selling, general and administrative expenses totaled approximately \$4.6 million for the second quarter of fiscal 2019 as compared to \$4.4 million for the second quarter of fiscal 2018. This increase resulted primarily from increased employee related expenses.

As a result of the above, the consolidated operating profit for the second quarter of fiscal 2019 amounted to \$0.03 million as compared to \$0.5 million for the second quarter of fiscal 2018.

On January 15, 2019, we received an award from the Government for Marine hot weather boots at a maximum of \$35,520,300 firm fixed price, indefinite delivery/indefinite quantity contract. This is a one year base contract with four one year option periods.

## **FIRST SIX MONTHS FISCAL 2019 COMPARED TO FIRST SIX MONTHS FISCAL 2018**

Consolidated net revenues for the first six months of fiscal 2019 totaled \$41.3 million as compared to \$42.9 million for the first six months of fiscal 2018. Our western and lifestyle product sales totaled \$24.6 million for the first six months of fiscal 2019 as compared to \$26.4 million for the first six months of fiscal 2018, with the decrease primarily resulting from a decrease in sales for women's western boots and premium children's boots. Net revenues from our work boot business increased from \$16.4 million for the first six months of fiscal 2018 to \$16.7 million for the first six months of fiscal 2019. This increase in work boot products net revenues resulted primarily from higher military boot shipments associated with our U. S. Government (the "Government") contracts.

Consolidated gross profit totaled \$9.9 million for the first six months of fiscal 2019 as compared to \$11.2 million for the first six months of fiscal 2018. Gross profit attributable to our western and lifestyle products totaled \$8.2 million for the first six months of fiscal 2019, down from \$9.3 million for the first six months of fiscal 2018. This decrease in gross profit is directly correlated with the decrease in sales. Our work boot products gross profit declined from \$1.8 million for the first six months of fiscal 2018 to \$1.6 million for the first six months of fiscal 2019.

Consolidated selling, general and administrative expenses totaled approximately \$8.8 million for the first six months of fiscal 2019 as compared to \$8.6 million for the first six months of fiscal 2018. This increase resulted primarily from increased expenditures for employee related expenses.

As a result of the above, the consolidated operating profit amounted to \$1.1 million for the first six months of fiscal 2019 as compared to \$2.6 million for the first six months of fiscal 2018.

### **Financial Condition and Liquidity**

Our financial condition remained strong at January 26, 2019 as cash and cash equivalents totaled \$21.2 million as compared to \$27.6 million at July 28, 2018. Our working capital decreased from \$55.4 million at July 28, 2018 to \$55.0 million at January 26, 2019.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at January 26, 2019. 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 2020. Our \$5.0 million line of credit, which also expires in January 2020, 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 2019.

For the first six months of fiscal 2019, operating activities provided approximately \$2.9 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$1.5 million of cash. Decreased inventory levels in both of our boot businesses provided approximately \$2.9 million of cash. Accounts receivable, accounts payable, employee benefit distributions, accrued payroll and payroll taxes, and income tax payments used approximately \$1.6 million of cash.

Net cash used by investing activities totaled approximately \$7.5 million, primarily for investing in securities.

Net cash used in financing activities totaled \$1.8 million, which was used primarily 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.

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

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

	<u>January 26, 2019</u>	<u>July 28, 2018</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$21,187	\$27,605
Short term securities	9,531	2,211
Accounts and notes receivable, net	11,665	10,665
Inventories, net	15,479	18,427
Income tax receivable	760	1,127
Prepaid expenses and other current assets	<u>438</u>	<u>154</u>
Total current assets	<u>59,060</u>	<u>60,189</u>
Property and equipment, net	<u>6,843</u>	<u>7,375</u>
Other assets:		
Deposits	14	14
Long term securities	3,854	3,899
Real estate held for investment	3,788	3,775
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Deferred tax assets	<u>          </u>	<u>          </u>
Total other assets	<u>12,768</u>	<u>12,800</u>
Total assets	<u><u>\$78,671</u></u>	<u><u>\$80,364</u></u>

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

	<u>January 26, 2019</u>	<u>July 28, 2018</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$2,584	\$2,968
Accrued employee benefits	141	423
Accrued payroll and payroll taxes	584	630
Other	<u>767</u>	<u>733</u>
Total current liabilities	<u>4,076</u>	<u>4,754</u>
Deferred tax liabilities	<u>621</u>	<u>621</u>
Total liabilities	<u>4,697</u>	<u>5,375</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,019,649 and 2,019,974 shares, respectively	2,019	2,020
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 374,196 and 374,272 shares, respectively	375	375
Unrealized gains(losses) on investments, net of tax	(124)	(28)
Retained earnings	<u>71,704</u>	<u>72,622</u>
Total shareholders' equity	<u>73,974</u>	<u>74,989</u>
Total liabilities and shareholders' equity	<u><u>\$78,671</u></u>	<u><u>\$80,364</u></u>

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

	Three Months Ended		Six Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Net revenues	\$20,738	\$20,472	\$41,339	\$42,870
Cost of revenues	<u>16,154</u>	<u>15,511</u>	<u>31,446</u>	<u>31,673</u>
Gross profit	4,584	4,961	9,893	11,197
Selling, general and administrative expenses	<u>4,551</u>	<u>4,404</u>	<u>8,767</u>	<u>8,603</u>
Operating profit	33	557	1,126	2,594
Other income	<u>156</u>	<u>111</u>	<u>276</u>	<u>189</u>
Earnings before income taxes	189	668	1,402	2,783
Provision for income taxes	<u>121</u>	<u>(13)</u>	<u>478</u>	<u>810</u>
Net earnings	<u><u>\$68</u></u>	<u><u>\$681</u></u>	<u><u>\$924</u></u>	<u><u>\$1,973</u></u>
Earnings per common share:				
Diluted earnings per share:				
Class A	0.03	0.28	0.39	0.82
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	2,019,538	2,018,387	2,019,684	2,016,614
Class B	<u>374,196</u>	<u>379,709</u>	<u>374,217</u>	<u>381,482</u>
Total	<u><u>2,393,734</u></u>	<u><u>2,398,096</u></u>	<u><u>2,393,901</u></u>	<u><u>2,398,096</u></u>

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

	Six Months Ended	
	January 26, 2019	January 27, 2018
	<u>          </u>	<u>          </u>
Net cash provided by operating activities	2,893	5,714
Cash Flows from Investing Activities:		
Purchase of land for investment	(23)	(171)
Capital expenditures	(82)	(627)
Sale of securities	24	
Purchase of securities	<u>(7,396)</u>	<u>(58)</u>
Net cash used in investing activities	<u>(7,477)</u>	<u>(856)</u>
Cash Flows from Financing Activities:		
Repurchase of company stock	(26)	
Dividends paid	<u>(1,818)</u>	<u>(622)</u>
Net cash used in financing activities	<u>(1,844)</u>	<u>(622)</u>
Net (Decrease) Increase in Cash and Cash equivalents	(6,428)	4,236
Cash and Cash Equivalents at Beginning of Year	<u>27,604</u>	<u>28,057</u>
Cash and Cash Equivalents at End of Year	<u><u>\$21,176</u></u>	<u><u>\$32,293</u></u>