

**McRAE INDUSTRIES, INC.**  
**REPORTS EARNINGS FOR THE SECOND QUARTER AND**  
**FIRST SIX MONTHS OF FISCAL 2023**

**Mount Gilead, N.C. – March 17, 2023. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for the second quarter of fiscal 2023 of \$30,769,000 as compared to \$31,426,000 for the second quarter of fiscal 2022. Net earnings for the second quarter of fiscal 2023 amounted to \$1,729,000, or \$0.76 per diluted Class A common share as compared to \$2,536,000, or \$1.12 per diluted Class A common share, for the second quarter of fiscal 2022.

Consolidated net revenues for the first six months of fiscal 2023 totaled \$64,552,000 as compared to \$59,014,000 for the first six months of fiscal 2022. Net earnings for the first six months of fiscal 2023 amounted to \$4,586,000, or \$2.02 per diluted Class A common share, as compared to net earnings of \$4,758,000, or \$2.11 per diluted Class A common share, for the first six months of fiscal 2022.

**SECOND QUARTER FISCAL 2023 COMPARED TO SECOND QUARTER FISCAL 2022**

Consolidated net revenues totaled \$30.8 million for the second quarter of fiscal 2023 as compared to \$31.4 million for the second quarter of fiscal 2022. Sales related to our western/lifestyle boot products for the second quarter of fiscal 2023 totaled \$22.8 million as compared to \$23.5 million for the second quarter of fiscal 2022. This decrease in net revenues was spread across most of our product lines, as the demand for western boots was unprecedented in the prior year and many retailers were in an over inventoried position for the quarter. Revenues from our work boot products increased from \$7.0 million for the second quarter of fiscal 2022 to \$8.2 million for the second quarter of fiscal 2023. This was primarily a result of increased military boot sales.

Consolidated gross profit for the second quarter of fiscal 2023 amounted to approximately \$8.0 million as compared to \$9.2 million for the second quarter of fiscal 2022. Gross profit, as a percentage of net revenues, was down from 29.1% for the second quarter of fiscal 2022 to 25.9% for the second quarter of fiscal 2023. This is primarily because of decreased margins on military boot sales driven by increased labor cost and rising material cost associated with fixed price military boot contracts. We continue to have difficult hiring and training qualified employees to work in our manufacturing facility.

Consolidated selling, general and administrative expenses totaled approximately \$6.1 million for the second quarter of fiscal 2023 as compared to \$5.7 million for the second quarter of fiscal 2022. This increase resulted primarily from increased employee related expenses and product samples.

As a result of the above, the consolidated operating profit for the second quarter of fiscal 2023 amounted to \$1.8 million as compared to \$3.4 million for the second quarter of fiscal 2022.

**FIRST SIX MONTHS FISCAL 2023 COMPARED TO FIRST SIX MONTHS FISCAL 2022**

Consolidated net revenues for the first six months of fiscal 2023 totaled \$64.6 million as compared to \$59.0 million for the first six months of fiscal 2022. Our western and lifestyle product sales totaled \$49.5 million for the first six months of fiscal 2023 as compared to \$43.4 million for the first six months of fiscal 2022, as our increases from the first quarter outweighed the decreases in the second. As noted in our first quarter earnings release, we do expect sales for these products to continue to decrease during the remainder of Fiscal 2023 as compared to the prior year. Net revenues from our work boot business increased from \$14.2

million for the first six months of fiscal 2022 to \$15.1 million for the first six months of fiscal 2023. This was primarily a result of increased military boot sales, offset by a decrease in Dan Post work boot sales.

Consolidated gross profit totaled \$18.3 million, or 28.3%, for the first six months of fiscal 2023 as compared to \$17.1 million, or 29.0%, for the first six months of fiscal 2022. This is primarily due to our lower margins on military boot sales as discussed for the quarter. This was exacerbated by the fact that military boot sales made up a larger percentage of total sales for the first six months of 2023 as compared to 2022.

Consolidated selling, general and administrative expenses totaled approximately \$12.2 million for the first six months of fiscal 2023 as compared to \$10.9 million for the first six months of fiscal 2022. This increase resulted primarily from increased commissions and employee related expenses.

As a result of the above, the consolidated operating profit amounted to \$6.1 million for the first six months of fiscal 2023 as compared to \$6.3 million for the first six months of fiscal 2022.

### **Financial Condition and Liquidity**

Our financial condition remained strong at January 28, 2023 as cash and cash equivalents totaled \$15.4 million as compared to \$15.3 million at July 30, 2022. Our working capital increased from \$67.0 million at July 30, 2022 to \$69.7 million at January 28, 2023.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at January 28, 2023. 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 2024. Our \$5.0 million line of credit, which also expires in January 2024, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary.

For the first six months of fiscal 2023, operating activities provided approximately \$2.6 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$5.1 million of cash. Increased inventory, accounts payable, and employee benefits used approximately \$8.5 million of cash. Decreased accounts receivable provided approximately \$6.2 million of cash.

Net cash used by investing activities totaled approximately \$0.8 million, primarily due to the purchase of fixed assets and securities.

Net cash used in financing activities totaled \$1.8 million, which was used primarily 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 2023.

## **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, 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 28, 2023</u>	<u>July 30, 2022</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$15,350	\$15,315
Equity investments	6,227	6,088
Debt securities	4,458	4,458
Accounts receivable, net	19,890	26,092
Inventories, net	29,726	24,484
Prepaid expenses and other current assets	<u>491</u>	<u>317</u>
Total current assets	<u>76,142</u>	<u>76,754</u>
Property and equipment, net	<u>5,248</u>	<u>5,151</u>
Other assets:		
Deposits	14	14
Notes receivable	994	977
Real estate held for investment	3,036	3,036
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	<u>2,824</u>	<u>2,824</u>
Total other assets	<u>9,156</u>	<u>9,139</u>
Total assets	<u><u>\$90,546</u></u>	<u><u>\$91,044</u></u>

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

	<u>January 28, 2023</u>	<u>July 30, 2022</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$3,002	\$5,168
Accrued employee benefits	1,124	2,172
Accrued payroll and payroll taxes	1,051	1,188
Income tax payable	236	284
Other	<u>1,034</u>	<u>958</u>
Total current liabilities	<u>6,447</u>	<u>9,770</u>
Deferred tax liabilities	<u>25</u>	<u>25</u>
Total liabilities	<u>6,472</u>	<u>9,795</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 1,895,135 and 1,895,035 shares, respectively	1,895	1,895
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 365,025 and 365,125 shares, respectively	365	365
Retained earnings	<u>81,814</u>	<u>78,989</u>
Total shareholders' equity	<u>84,074</u>	<u>81,249</u>
Total liabilities and shareholders' equity	<u><u>\$90,546</u></u>	<u><u>\$91,044</u></u>

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

	Three Months Ended		Six Months Ended	
	January 28, 2023	January 29, 2022	January 28, 2023	January 29, 2022
Net revenues	\$30,769	\$31,426	\$64,552	\$59,014
Cost of revenues	<u>22,788</u>	<u>22,273</u>	<u>46,277</u>	<u>41,877</u>
Gross profit	7,981	9,153	18,275	17,137
Selling, general and administrative expenses	<u>6,134</u>	<u>5,723</u>	<u>12,180</u>	<u>10,859</u>
Operating profit	1,847	3,430	6,095	6,278
Other income	<u>456</u>	<u>(21)</u>	<u>267</u>	<u>187</u>
Earnings before income taxes	2,303	3,409	6,362	6,465
Provision for income taxes	<u>574</u>	<u>873</u>	<u>1,776</u>	<u>1,707</u>
Net earnings	<u><u>\$1,729</u></u>	<u><u>\$2,536</u></u>	<u><u>\$4,586</u></u>	<u><u>\$4,758</u></u>
Earnings per common share:				
Diluted earnings per share:				
Class A	0.76	1.12	2.02	2.11
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	1,895,062	1,893,486	1,895,049	1,893,454
Class B	<u>365,098</u>	<u>366,674</u>	<u>365,111</u>	<u>366,706</u>
Total	<u><u>2,260,160</u></u>	<u><u>2,260,160</u></u>	<u><u>2,260,160</u></u>	<u><u>2,260,160</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		
<b>Balance, July 31, 2021</b>	1,893,423	\$1,893	366,737	\$367	\$0	\$69,986
Cash Dividend (\$0.13 per Class A common stock)						(246)
Cash Dividend (\$0.13 per Class B common stock)						(47)
Net earnings						2,222
<b>Balance, October 30, 2021</b>	1,893,423	\$1,893	366,737	\$367	\$0	\$71,915
Conversion of Class B to Class A Stock	212	1	(212)	(1)		-
Cash Dividend (\$0.13 per Class A common stock)						(246)
Cash Dividend (\$0.13 per Class B common stock)						(47)
Net earnings						2,536
<b>Balance, January 29, 2022</b>	1,893,635	\$1,894	366,525	\$366	\$0	\$74,158

	Common Stock, \$1 par value				Accumulated Other Comprehensive Income (Loss)	Retained Earnings
	Class A		Class B			
	Shares	Amount	Shares	Amount		
<b>Balance, July 30, 2022</b>	1,895,035	\$1,895	365,125	\$365	\$0	\$78,989
Cash Dividend (\$0.14 per Class A common stock)						(265)
Cash Dividend (\$0.14 per Class B common stock)						(51)
Net earnings						2,857
<b>Balance, October 29, 2022</b>	1,895,035	\$1,895	365,125	\$365	\$0	\$81,530
Conversion of Class B to Class A Stock	100	-	(100)	-		-
Cash Dividend (\$0.64 per Class A common stock)						(1,212)
Cash Dividend (\$0.64 per Class B common stock)						(233)
Net earnings						1,729
<b>Balance, January 28, 2023</b>	1,895,135	\$1,895	365,025	\$365	\$0	\$81,814

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

	<b>Six Months Ended</b>	
	<b>January 28, 2023</b>	<b>January 29, 2022</b>
Cash Flows from Operating Activities:		
Net earnings	4,586	4,758
Adjustments to reconcile net earnings to net cash used in operating activities	(1,960)	(14,756)
Net cash used in operating activities	2,626	(9,998)
Cash Flows from Investing Activities:		
Proceeds from sale of assets	-	564
Capital expenditures	(594)	(211)
Purchase of securities	(246)	(687)
Proceeds from sale of securities	10	2,542
Net cash provided by investing activities	(830)	2,208
Cash Flows from Financing Activities:		
Dividends paid	(1,761)	(586)
Net cash used in financing activities	(1,761)	(586)
Net (Decrease) Increase in Cash and Cash equivalents	35	(8,376)
Cash and Cash Equivalents at Beginning of Year	15,315	23,489
Cash and Cash Equivalents at End of Period	\$15,350	\$15,113