

McRAE INDUSTRIES, INC.
REPORTS EARNINGS FOR THE THIRD QUARTER AND
FIRST NINE MONTHS OF FISCAL 2023

Mount Gilead, N.C. – June 15, 2023. McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB) reported consolidated net revenues for the third quarter of fiscal 2023 of \$31,508,000 as compared to \$32,771,000 for the third quarter of fiscal 2022. Net earnings for the third quarter of fiscal 2023 amounted to \$2,084,000, or \$0.92 per diluted Class A common share as compared to \$2,547,000, or \$1.13 per diluted Class A common share, for the third quarter of fiscal 2022.

Consolidated net revenues for the first nine months of fiscal 2023 totaled \$96,060,000 as compared to \$91,786,000 for the first nine months of fiscal 2022. Net earnings for the first nine months of fiscal 2023 amounted to \$6,670,000, or \$2.94 per diluted Class A common share, as compared to net earnings of \$7,306,000, or \$3.23 per diluted Class A common share, for the first nine months of fiscal 2022.

THIRD QUARTER FISCAL 2023 COMPARED TO THIRD QUARTER FISCAL 2022

Consolidated net revenues totaled \$31.5 million for the third quarter of fiscal 2023 as compared to \$32.8 million for the third quarter of fiscal 2022. Sales related to our western/lifestyle boot products for the third quarter of fiscal 2023 totaled \$23.2 million as compared to \$24.2 million for the third 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 \$8.1 million for the third quarter of fiscal 2022 to \$8.7 million for the third quarter of fiscal 2023. This was primarily a result of increased military boot sales offset by decreases in Dan Post and Laredo work boot sales.

Consolidated gross profit for the third quarter of fiscal 2023 amounted to approximately \$8.7 million as compared to \$9.7 million for the third quarter of fiscal 2022. Gross profit, as a percentage of net revenues, was down from 29.5% for the third quarter of fiscal 2022 to 27.7% for the third 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, as well as, increased freight costs for Laredo western boot products and Laredo and Dan Post work boots.

Consolidated selling, general and administrative expenses totaled approximately \$5.9 million for the third quarter of fiscal 2023 as compared to \$5.8 million for the third quarter of fiscal 2022. This increase resulted primarily from increased employee related expenses and product sample costs.

As a result of the above, the consolidated operating profit for the third quarter of fiscal 2023 amounted to \$2.8 million as compared to \$3.8 million for the third quarter of fiscal 2022.

FIRST NINE MONTHS FISCAL 2023 COMPARED TO FIRST NINE MONTHS FISCAL 2022

Consolidated net revenues for the first nine months of fiscal 2023 totaled \$96.1 million as compared to \$91.8 million for the first nine months of fiscal 2022. Our western and lifestyle product sales totaled \$72.7 million for the first nine months of fiscal 2023 as compared to \$67.5 million for the first nine months of fiscal 2022. Net revenues from our work boot business increased from \$22.3 million for the first nine months of fiscal 2022 to \$23.8 million for the first nine months of fiscal 2023. This was primarily a result of increased military boot sales offset by decreases in Dan Post and Laredo work boot sales.

Consolidated gross profit totaled \$27.0 million, or 28.1%, for the first nine months of fiscal 2023 as compared to \$26.8 million, or 29.2%, for the first nine months of fiscal 2022. This is primarily due to our lower margins on military boot sales and additional freight costs for Dan Post and Laredo boots, 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 nine months of 2023 as compared to 2022.

Consolidated selling, general and administrative expenses totaled approximately \$18.1 million for the first nine months of fiscal 2023 as compared to \$16.7 million for the first nine 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 \$8.9 million for the first nine months of fiscal 2023 as compared to \$10.1 million for the first nine months of fiscal 2022.

Financial Condition and Liquidity

Our financial condition remained strong at April 29, 2023 as cash and cash equivalents totaled \$11.1 million as compared to \$15.3 million at July 30, 2022. Our working capital increased from \$67.0 million at July 30, 2022 to \$71.6 million at April 29, 2023.

We currently have two lines of credit totaling \$6.75 million, all of which was fully available at April 29, 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 nine months of fiscal 2023, operating activities provided approximately \$6.6 million of cash. Net earnings, as adjusted for depreciation, contributed approximately \$7.4 million of cash. Increased inventory, accounts payable, and employee benefits used approximately \$5.3 million of cash. Decreased accounts receivable provided approximately \$5.0 million of cash.

Net cash used by investing activities totaled approximately \$8.8 million, primarily due to the purchase of fixed assets and securities.

Net cash used in financing activities totaled \$2.1 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>April 29, 2023</u>	<u>July 30, 2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$11,098	\$15,315
Equity investments	6,221	6,088
Debt securities	12,207	4,458
Accounts receivable, net	21,130	26,092
Inventories, net	26,559	24,484
Income tax receivable	62	0
Prepaid expenses and other current assets	<u>433</u>	<u>317</u>
Total current assets	<u>77,710</u>	<u>76,754</u>
Property and equipment, net	<u>5,108</u>	<u>5,151</u>
Other assets:		
Deposits	14	14
Notes receivable	973	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>9,135</u>	<u>9,139</u>
Total assets	<u><u>\$91,953</u></u>	<u><u>\$91,044</u></u>

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

	<u>April 29, 2023</u>	<u>July 30, 2022</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,539	\$5,168
Accrued employee benefits	1,560	2,172
Accrued payroll and payroll taxes	957	1,188
Income tax payable	0	284
Other	<u>1030</u>	<u>958</u>
Total current liabilities	<u>6,086</u>	<u>9,770</u>
Deferred tax liabilities	<u>25</u>	<u>25</u>
Total liabilities	<u>6,111</u>	<u>9,795</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 1,895,735 and 1,895,035 shares, respectively	1,896	1,895
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 364,425 and 365,125 shares, respectively	364	365
Retained earnings	<u>83,582</u>	<u>78,989</u>
Total shareholders' equity	<u>85,842</u>	<u>81,249</u>
Total liabilities and shareholders' equity	<u><u>\$91,953</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		Nine Months Ended	
	April 29, 2023	April 30, 2022	April 29, 2023	April 30, 2022
Net revenues	\$31,508	\$32,771	\$96,060	\$91,786
Cost of revenues	<u>22,769</u>	<u>23,106</u>	<u>69,046</u>	<u>64,984</u>
Gross profit	8,739	9,665	27,014	26,802
Selling, general and administrative expenses	<u>5,949</u>	<u>5,847</u>	<u>18,129</u>	<u>16,705</u>
Operating profit	2,790	3,818	8,885	10,097
Other income (loss)	<u>150</u>	<u>(287)</u>	<u>417</u>	<u>(100)</u>
Earnings before income taxes	2,940	3,531	9,302	9,997
Provision for income taxes	<u>856</u>	<u>984</u>	<u>2,632</u>	<u>2,691</u>
Net earnings	<u><u>\$2,084</u></u>	<u><u>\$2,547</u></u>	<u><u>\$6,670</u></u>	<u><u>\$7,306</u></u>
Earnings per common share:				
Diluted earnings per share:				
Class A	0.92	1.13	2.94	3.23
Class B	NA	NA	NA	NA
Weighted average number of common shares outstanding:				
Class A	1,895,656	1,893,705	1,895,251	1,893,538
Class B	<u>364,504</u>	<u>366,455</u>	<u>364,909</u>	<u>366,622</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		
Balance, July 31, 2021	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
Balance, October 30, 2021	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
Balance, January 29, 2022	1,893,635	\$1,894	366,525	\$366	\$0	\$74,158
Conversion of Class B to Class A Stock	800	1	(800)	(1)		-
Cash Dividend (\$0.13 per Class A common stock)						(246)
Cash Dividend (\$0.13 per Class B common stock)						(47)
Net earnings						2,084
Balance, April 30, 2022	1,894,435	\$1,894	365,725	\$366	\$0	\$75,949

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, July 30, 2022	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
Balance, October 29, 2022	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
Balance, January 28, 2023	1,895,135	\$1,895	365,025	\$365	\$0	\$81,814
Conversion of Class B to Class A Stock	600	1	(600)	(1)		-
Cash Dividend (\$0.14 per Class A common stock)						(265)
Cash Dividend (\$0.14 per Class B common stock)						(51)
Net earnings						2,084
Balance, April 29, 2023	1,895,735	\$1,896	364,425	\$364	\$0	\$83,582

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

	Nine Months Ended	
	April 29, 2023	April 30, 2022
Cash Flows from Operating Activities:		
Net earnings	6,670	7,306
Adjustments to reconcile net earnings to net cash used in operating activities	(34)	(6,933)
Net cash used in operating activities	6,636	373
Cash Flows from Investing Activities:		
Proceeds from sale of assets	-	566
Capital expenditures	(702)	(504)
Purchase of securities	(10,608)	(3,556)
Proceeds from sale of securities	2,535	2,916
Net cash provided by investing activities	(8,775)	(578)
Cash Flows from Financing Activities:		
Dividends paid	(2,077)	(880)
Net cash used in financing activities	(2,077)	(880)
Net (Decrease) Increase in Cash and Cash equivalents	(4,217)	(1,085)
Cash and Cash Equivalents at Beginning of Year	15,315	23,489
Cash and Cash Equivalents at End of Period	\$11,098	\$22,404