

McRAE INDUSTRIES, INC. REPORTS EARNINGS FOR FISCAL 2016

Mount Gilead, N.C. – November 15, 2016. **McRae Industries, Inc. (Pink Sheets: MCRAA and MCRAB)** reported consolidated net revenues for fiscal 2016 of \$108,758,000 as compared to \$108,673,000 for fiscal 2015. Net earnings for fiscal 2016 totaled \$4,692,000 as compared to \$6,641,000 for fiscal 2015. Net earnings per diluted Class A common share were \$2.36 for fiscal 2016 as compared to \$3.17 for fiscal 2015.

CONSOLIDATED RESULTS OF OPERATIONS, FISCAL 2016 COMPARED TO FISCAL 2015

Consolidated net revenues for fiscal 2016 amounted to approximately \$108.8 million as compared to \$108.7 million for fiscal 2015. Sales for our western/lifestyle products decreased from \$67.1 million for fiscal 2015 to \$58.8 million for fiscal 2016 primarily as a result of softening in higher priced ladies fashion boots and premium kid's boots. Consolidated net revenues from our work boot products totaled \$49.7 million for fiscal 2016 as compared to \$41.3 million for fiscal 2015. This growth in work boot net revenues was the result of higher military boot production levels. As we continue to gain efficiencies, we expect to see even higher production levels in fiscal 2017. Net revenues associated with our other small businesses were insignificant for fiscal 2016 and we expect their contribution to be minimal in the future. We enter fiscal 2017 with cautious optimism as we face a retail business climate that continues to evolve as consumers' choices for products and delivery models continue to change.

Consolidated gross profit for fiscal 2016 totaled \$26.9 million as compared to \$29.3 million for fiscal 2015. Gross profit as a percentage of net revenues associated with our western/lifestyle boot segment amounted to 35.0%, down slightly from 35.7% for fiscal 2015 primarily due to changes in the product mix. Gross profit as a percentage of net revenues related to our work boot business fell from 12.5% for fiscal 2015 to 12.3% for fiscal 2016. This decline was primarily attributable to our military boot business making up a higher percentage of sales and carrying a considerably lower gross margin than other work boot products.

Consolidated selling, general and administrative ("SG&A") expenses amounted to \$19.8 million as compared to \$19.0 million for fiscal 2015. This increase in SG&A expenses was the result of higher health insurance costs. Our group health insurance costs increased over \$1.6 million from fiscal 2015 to fiscal 2016. This was partially offset by a decrease in employee benefit expenses.

As a result of the above, consolidated operating profit totaled approximately \$7.1 million for fiscal 2016 as compared to \$10.3 million for fiscal 2015.

FINANCIAL CONDITION AND LIQUIDITY

At July 30, 2016, our financial condition and liquidity remained strong as cash and cash equivalents totaled \$15.6 million as compared to \$15.4 million at August 1, 2015. Our working capital totaled \$52.8 million at July 30, 2016 as compared to \$51.3 million at August 1, 2015.

We currently have two lines of credit totaling \$6.75 million, all of which were fully available at July 30, 2015. 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 2017. The \$5.0 million line of credit, which also expires in January 2017, is secured by the inventory and accounts receivable of our Dan Post Boot Company subsidiary.

Net cash provided by operating activities for fiscal 2016 amounted to approximately \$5.2 million. Net earnings, as adjusted for depreciation, contributed approximately \$5.6 million of cash, along with deferred income taxes contributing approximately \$1.0 million. Accounts receivable provided approximately \$2.9 million of cash, as fourth quarter sales for our western/lifestyle segment decreased. Higher inventory levels in our military boot business, which were partially offset by lower inventory levels for our western/work boot business, used approximately \$2.2 million of cash. The timing of payment for accounts payable and lower accrued employee benefits, accrued payroll, and income tax payments used approximately \$2.4 million of cash.

Net cash used in investing activities totaled approximately \$3.4 million. The majority was used for capital expenditures, primarily for our manufacturing facility and ERP system.

Net cash used to finance our dividend payments totaled approximately \$1.3 million.

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 fiscal 2017.

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)

	July 30, 2016	August 1, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$15,673	\$15,437
Short term securities	501	500
Accounts and notes receivable, less allowances of \$1,625 and \$1,975, respectively	12,708	15,636
Inventories, net	27,944	25,757
Income tax receivable	1,055	122
Prepaid expenses and other current assets	433	532
Deferred tax assets	2,130	2,270
Total current assets	60,444	60,254
Property and equipment, net	8,147	5,817
Other assets:		
Deposits	14	14
Long term securities	3,520	3,553
Real estate held for investment	3,602	3,594
Amounts due from split-dollar life insurance	2,288	2,288
Trademarks	2,824	2,824
Total other assets	12,248	12,273
Total assets	\$80,839	\$78,344

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

	<u>July 30, 2016</u>	<u>August 1, 2015</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$4,696	\$5,599
Accrued employee benefits	1,090	1,627
Accrued payroll and payroll taxes	1,207	1,225
Other	<u>698</u>	<u>552</u>
Total current liabilities	<u>7,691</u>	<u>9,003</u>
Deferred tax liabilities	<u>2,288</u>	<u>1,513</u>
Total liabilities	<u>9,979</u>	<u>10,516</u>
Shareholders' equity:		
Common Stock:		
Class A, \$1 par value; authorized 5,000,000 shares issued and outstanding, 2,030,658 and 2,039,335 shares, respectively	2,031	2,040
Class B, \$1 par value; authorized 2,500,000 shares; issued and outstanding, 387,629 and 391,189 shares, respectively	388	391
Unrealized losses on investments, net of tax	(59)	-
Retained earnings	<u>68,500</u>	<u>65,397</u>
Total shareholders' equity	<u>70,860</u>	<u>67,828</u>
Total liabilities and shareholders' equity	<u><u>\$80,839</u></u>	<u><u>\$78,344</u></u>

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

For Years Ended	<u>July 30, 2016</u>	<u>August 1, 2015</u>	<u>August 2, 2014</u>
Net revenues	\$108,758	\$108,673	\$103,629
Cost of revenues	<u>81,837</u>	<u>79,347</u>	<u>73,488</u>
Gross profit	26,921	29,326	30,141
Selling, general and administrative expenses	<u>19,782</u>	<u>19,025</u>	<u>18,660</u>
Operating profit	7,139	10,301	11,481
Other income	366	324	311
Interest expense	<u>-</u>	<u>(2)</u>	<u>(3)</u>
Earnings before income taxes	7,505	10,623	11,789
Provision for income taxes	<u>2,813</u>	<u>3,982</u>	<u>4,241</u>
Net earnings	<u><u>\$4,692</u></u>	<u><u>\$6,641</u></u>	<u><u>\$7,548</u></u>
Earnings per common share:			
Earnings per common share:			
Basic earnings per share:			
Class A	\$2.82	\$3.77	\$4.18
Class B	0.52	0.52	0.48
Diluted earnings per share:			
Class A	2.36	3.17	3.51
Class B	NA	NA	NA
Weighted average number of common shares outstanding:			
Class A	2,035,906	2,038,645	2,038,469
Class B	389,271	391,879	392,055
Total	<u><u>2,425,177</u></u>	<u><u>2,430,524</u></u>	<u><u>2,430,524</u></u>

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

For Years Ended	July 30, 2016	August 1, 2015	August 2, 2014
Cash Flows from Operating Activities:			
Net earnings	\$4,692	\$6,641	\$7,548
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	907	785	748
Amortization of bond premiums	-	3	10
(Gain) loss on sale of assets	(6)	-	(40)
Loss on sale of securities	62	-	-
Deferred income taxes	951	(75)	87
Changes in operating assets and liabilities:			
Accounts receivable, net	2,928	(2,208)	1,966
Inventories	(2,187)	(3,469)	758
Prepaid expenses and other assets	99	21	(85)
Accounts payable	(903)	1,821	(276)
Accrued employee benefits	(537)	(171)	91
Accrued payroll and payroll taxes	(18)	64	(48)
Income tax receivable/payable	(933)	816	(1,012)
Other	146	89	64
Net cash provided by operating activities	5,201	4,317	9,811
Cash Flows from Investing Activities:			
Proceeds from sale of assets	15	-	87
Purchase of land for investment	(17)	(9)	(7)
Capital expenditures	(3,237)	(3,380)	(650)
Proceeds from sale of securities	484	75	-
Purchase of securities	(609)	(3,183)	-
Net cash used in investing activities	(3,364)	(6,497)	(570)
Cash Flows from Financing Activities:			
Purchase of common stock	(342)	-	-
Issuance of common stock	-	-	-
Dividends paid	(1,259)	(1,263)	(1,165)
Net cash used in financing activities	(1,601)	(1,263)	(1,165)
Net (Decrease) Increase in Cash and Cash equivalents	236	(3,443)	8,076
Cash and Cash Equivalents at Beginning of Year	15,437	18,880	10,804
Cash and Cash Equivalents at End of Year	\$15,673	\$15,437	\$18,880