**Mace Security International Inc.**

**Moderator: Barrus, Mark**

**May 14, 2019**

**01:00 PM ET**

OPERATOR: This is Conference # 6966839

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| Operator: | Good day. And thank you for standing by. My name is Lee and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Mace Security International, Inc. First Quarter 2019 Earnings Release.All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to draw your question, press the pound key. Thank you.It is now my pleasure to turn today's conference over to Mr. Mark Barrus. Sir, you may begin. |
| Mark Barrus: | Thank you, Lee, and good afternoon, everyone. With me today is Gary Medved, President and CEO of Mace.Please visit mace.com/investor-relations/shareholder-transcripts-presentations/, where we've loaded materials for this call.Before proceeding, I would like to point out that certain statements and information during this conference call will constitute forward-looking statements and are based on management's expectation and information currently in the possession of management.When used during our conference call, the words or phrases, will likely result, are expected to, will continue, is anticipated, estimate, projected, and intended to, or similar expressions are intended to identify forward-looking statements.Such statements are subject to certain risks, known and unknown and uncertainties including, but not limited to, economic conditions, limit of capital resources and the ability of management to effectively manage the business and integrate acquired businesses.Such factors could materially adversely affect Mace's financial performance. It could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during this call.I'll now turn the call over to Gary to comment on the first quarter 2019 financial results. |
| Gary Medved: | Thank you, Mark. Good afternoon everyone. As we stated in our last earnings call, Mace is in the process of resetting and we fully expect future performance to live up to our high expectations given the strength of our tremendous brand, the history of innovative products, and strong relationships with our customers.Our first quarter 2019 reflects several actions were taken in that resetting process. We recognize expenses for severance, non-cash charges for our stock compensation plan, and SG&A expenses that are necessary to help us in the process of resetting Mace.Finally, we completed the redesign of our logo, which appears on the cover this quarter's investor presentation on mace.com and related packaging, which will move into production into Q2. All these actions were taken at the same time as we continue to increase sales at a double-digit rate.I will now turn the call over to Mark. He can discuss details behind the financial performance. |
| Mark Barrus: | Thank you, Gary. As to the financial highlights themselves, first quarter net sales were $2,712,000 compared to $2,364,000 last year, an increase of $348,000 or 14.7%. This was a sequential 4.4% or $124,000 decrease from the Q4 sales of $2,836,000, which was expected as the first quarter is historically weaker after Q4 holiday spending. The increase in yearly quarter-over-quarter sales was due to strong performance in our custom and international businesses.Gross profit for the first quarter of 2019 totaled $1,071,000 with a 39% gross margin compared to $988,000 and 40% gross margin for the same period in 2018. This represents a year-over-year quarterly increase of $83,000 and a decline of 1% in margin. The increase in gross margin dollars was due to the sales increase, while the decrease in margin percentage was primarily due to a shift in sales mix from higher margin channels to lower margin channels.Selling, general and administrative expenses for the first quarter were $1.806 million compared to $1.213 million in the same period last year, an increase of $593,000 or 49%. This increase was due to higher spending due to employee matters, as well as an increase in hiring costs, brand building and advertising costs. A large portion of the non-cash charge for stock compensation expense due to the change in control provision in our stock plan was also contained in SG&A expense. A complete reconciliation of the SG&A change is located in our OTC report.As a result of the above, the company reported a net loss after tax of $856,000 for the quarter compared to a $334,000 loss in 2018 which is a $522,000 decline. EBITDA for the quarter was a loss of $736,000, compared to an EBITDA loss of $223,000 in the first quarter of 2018 or a $513,000 decline. Adjusted EBITDA showed a smaller decline of only $46,000 from loss of $177,000 in Q1, 2018 to a loss of $223,000 in the current quarter.From a liquidity perspective, we saw a net decrease in cash and cash equivalents of $29,000 in the first quarter. Our working capital increase accounted for $140,000 of the use in cash. The Tornado acquisition used a $150,000 in cash and there's a negative cash flow of $424,000 from other operating activities.Total liquidity, including cash and credit availability, was $890,000 as of 03/31/2019. We anticipate our CapEx spending for the year to approximate $100,000. Finally, our tax net operating loss carryover was approximately $60 million available in the first quarter of 2019.I will now turn the call back to Gary, who will discuss outlook and priorities for 2019. |
| Gary Medved: | Thank you, Mark. Turning to operational issues, we have now completed the integration of the Tornado acquisition and transition all its inventory, assets and intangibles. We're excited by the possibility to expand Tornado legacy customer relationship and Tornado also has several unique products that we intend to capitalize on in the future.Mace also completed the two new license arrangements in Q1, but we have licensed the use of two globally known brands that will complement our Mace branded products. We expect these arrangements will allow us access to new customers and new channels, as well as expand offerings related to our existing products. These licenses were obtained at a minimal fixed obligation that will allow us to grow the topline beginning in Q3 of this year.At this time, we will stop and open the lines to questions. I would ask each caller to limit themselves to one question with one follow-on to allow everyone a chance to participate. And if we have additional time, we will try to get back in the queue.Operator, please open the line for questions. |
| Operator: | At this time, I'd like to remind everyone in order to ask a question, simply press star then the number one on your telephone keypad. Again if you wish to ask a question, simply press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.Your first question is from Thurman Willis from Private Investor. Your line is now open. |
| Thurman Willis: | Thank you for taking my call, Gary and Mark. I've asked this question in the past, but I wonder if the -- in the transition, there have been any changes? There are eight states that allow lethal weapons to be used in classrooms. My question is about RGO[?] gun of which I own one and it's an excellent product. I am wondering in synagogues, churches, schools, I think teachers would be much more at ease with RGO[?] gun than they would with a lethal weapon. Can you comment if you're going to be able to penetrate that market? |
| Gary Medved: | Thank you, Thurman. Certainly, the public space is on our list of areas to conquer so to speak that includes schools and churches and the like. Part of our reset here was taking a look at the channels that we're currently in and addressing those needs first and foremost.We have no shortage of opportunity out there and a number of other channels but based on current resources with the company, there isn't a priority order that we're going in and I can tell you that these places are on our map. They're near the top that we really need to take care of the channels that we're in right now with the existing products and the reset that we're in the middle of at this point.As I alluded to a little bit ago we have a new logo, new packaging, we have new channels lined up, we have meetings scheduled and that's where our focus is at this time. But as we work through that list, the public space is going to quickly come into our crosshairs so to speak. So it is on our list. We'll get attention, but we're currently not addressing that at this time. |
| Thurman Willis**:** | As a follow-up to that, I would take it probably the answer is the same. I understand I've been given information in the past that in college bookstore, fraternities, sororities that there was limited potential of which I vehemently disagree with and it is my understanding that the pepper spray can be sold in certain college bookstore, fraternities, sororities and I wonder if you're addressing this area? |
| Gary Medved: | Thank you again. Very good question and since our last earnings call, we reached out to one of the top campus bookstore operators in the country. They're either number one or number two. And we laid out our product offering, our program. They got back to us some period of time later and declining the program due to university's sensitivities.So we feel there is an avenue to get in to the -- it's less about getting into the campus bookstores, although, we'd love that. But it's more about reaching the students and I think we have some opportunities and some channels identified where we can come in at a different angle and get to the same consumer group or demographic that we would be targeting through the campus bookstores. |
| Mark Barrus: | For example, Thurman, we had a call with a very large well-known university about a month-and-a-half ago who offered us an alternative channel to directly reach the students. So well, we may not proceed with that particular one. I think the point is there are a number of ways to reach the students who ultimately, it's the question of sell-to versus sell-through and it's ultimately the students or the faculty on those campuses or the workers that would buy the product. So we're looking at different ways and trying to reach them and we think ultimately we're going to succeed in that. |
| Thurman Willis**:** | Thank you. I'll honor your request, but I would like to get back in the queue, because I want to hear about some globally known brands that you mentioned in your press release. But I'll get back in the queue. But thank you for taking my question. |
| Gary Medved: | Sure, Thurman. Thank you. |
| Operator: | And your next question comes from the line of Andrew Shapiro from Lawndale Capital. Your line is now open. |
| Andrew Shapiro: | Hi. Thank you. I will ask that question, can you elaborate more on the two agreements you referred to with globally known brands that you signed during the quarter? And are you either -- are you able to name those brands? And if not, what is the expected timing for when you'd be able to name your brands and your licenses? |
| Gary Medved: | Hi, Andrew. Thank you. At this time, I cannot name them, but I could tell you from a timing perspective, we should have press releases going out for at least the first when I'm targeting mid-June to late June. So roughly, four to six weeks from now we should be sending out a press release upon launch.The one after that is going to -- it could be a very good placement vehicle for us for a certain category of product we have in certain retail that we're currently not in at this point. And that is targeted for a late third, early fourth quarter launch and we'll be sending out a press release at that time.Those brands and their respective arenas are very well-known, one globally, known by practically everybody, the other one more for a specific channel, if you will. And it can be a great lead in product for us in a number of retail sectors or retail channels when we get in and we're pushing forward. We've got the final look at the packaging yesterday and we have our first prototype parts coming in already. And so I see no reason why we cannot hit mid-June to late June with the first one. And we have high hopes for both of these, we'll certainly be ramping up this year with the full year or both next year. |
| Andrew Shapiro: | Right. Can you, in terms of some clarity, is the more global brand the one that's in the latter part of the year or the one that's come in mid-to-late June? |
| Gary Medved: | The latter part of the year. |
| Andrew Shapiro: | Okay. |
| Gary Medved: | Simply because -- just to give you a reason, there's some -- there are some details we’re still ironing out on the packaging because currently right now, we're just finishing up the other brand and with a complete redesign of our Mace brand packaging for a specific consumer groups if you will, that's the top priority now. So with more well-recognized global brand, we have that slated for late third quarter, early fourth quarter launch. |
| Andrew Shapiro: | Okay. And then with respect to the channels, you did mention one, being retail, are both of these in the consumer channel? And if not, is it international, tactical, et cetera, what channels will these address? |
| Gary Medved: | They are the consumer channel both of them and we'll be going strong into retail, mass retail in addition to specialty or niche retail. Both have the opportunity to do very well wherever we take them. And it's just a matter now, we have a lot of stuff going through the pipeline, a considerable amount of moving parts right now for everything that we have in motion, so it might happen sooner than the late third quarter. But I don't want to put a promise out there. I think our next earnings call, I'll have a zeroed in date. |
| Mark Barrus: | I guess just to elaborate a little bit on that, Andrew, that when we say consumer, these will also potentially have e-commerce elements to them as well as potentially international. There really is no limit to where at least one or the other of the brands can go. So, when we say retail, that is more than just the brick and mortar retail. It would be across the other retail channels as well. |
| Gary Medved: | Exactly. |
| Andrew Shapiro: | Right. And are these products more than just -- we'll call it still customers. This is much more integrated Mace products. |
| Gary Medved: | Yes. In fact, I would call this more of a marketing partnership than anything else where Mace Security is doing all the heavy lifting, okay? So, this is much more than just the feel. This isn't the -- teaming up with a company that has a brand and getting filled by their pepper spray, so we're actually partnering up with both companies and we see a lot of opportunity for both. As Mark said in brick and mortar as well as the e-commerce and international. |
| Andrew Shapiro: | So, the margins you're targeting aren’t wholesale, they are retail margins? |
| Gary Medved: | They are retail margins. I mean ultimately, we'll be the one selling the products and depending on the channel, it could be retail or it could be closer to wholesale margins, but it just depends on the channel. There'll be a little bit of both that come through on this. |
| Andrew Shapiro: | Right. And are these agreements both of them locked down and locked and loaded? |
| Gary Medved: | They are. |
| Andrew Shapiro: | Okay, excellent. And last follow-up on this and I'll back out into the queue is, can you kind of quantify the total of the addressable market you anticipate these new product lines would address and in other words, how significant do you foresee this business being? |
| Gary Medved: | I guess not to put a specific number on it, but in terms of the addressable market, it would be everyone that takes our existing products now, it would be getting at that total addressable market in in different channels that we have now. I mean, very -- again, without getting too deep into it, it might be a situation of wherein retail channel A or store A and customers of these specific brands that are used to seeing these brands, we maybe in different stores or different channels, so the ultimate consumer addressable market is everyone domestically that's -- that would be an interested consumer in pepper spray products and of course internationally as well. |
| Andrew Shapiro: | But not cannibalizing your existing sales? |
| Gary Medved: | No. We don't think so, because these are different brands and they're going to appeal to people for different reasons. It'll be produced by Mace and fulfilled by Mace. So it will be the Mace quality and they'll be the acknowledged strength of Mace as a company underneath these products, like the way they're branded will, we think, exposed to some people that haven't thought about Mace pepper spray in their existing patterns. |
| Andrew Shapiro: | So they won't be branded Mace now -- then? |
| Gary Medved: | Yes. The Mace brand will be on the packaging. |
| Andrew Shapiro: | Oh, okay. Great. All right. I'll back out. I have more questions. Please come back to me. |
| Gary Medved: | Sure. |
| Operator: | Again, if you wish to ask a question, simply press star then the number one on your telephone keypad. And we have a follow-up question from Thurman Willis from Private Investor. |
| Thurman Willis: | Remember, last call, addressing the fact in your getting your arms around the company, that we don't have a broken company, we have a broken stock price. So my question and brief follow-up to that is, our stock is so undervalued that now we're basically trading at one-time market cap as one-time revenue. So have you had a chance to draw any conclusions or come up with any plans to get some more fans in the stands? |
| Mark Barrus: | Yeah. Thanks, Thurman. Our goal right now is to increase the performance of the company from a financial perspective, and we think that when that occurs, that will have a resulting flow-through in the investor interest in our stock. And we have 2018 behind us and we have a strong first quarter and a lot of respects, with a little bit more of the housekeeping and some of the cleanup that we alluded to before taking place in this quarter, we think that based on what we've seen in the first 90 days, there's really a tremendous acceleration that's going to occur as many of these research initiatives and we've just touched on a couple, the brands, there's a million things that Gary has going on in -- on the operating side, we have a number of, you name it, I mean, everyday there's new initiatives and, call it, sort of, a strengthening of the way we do things, we believe, as all things there that contribute to that performance.So, I mean, we’ve been fortunate that while we continue to grow the top line, the bottom line really, when you strip out the non-recurring -- I should -- I can't say non-recurring, but some of the unusual items that have occurred that we've alluded to before. If you strip those out and look at from adjusted basis, we're continuing along in the right path, but we think more importantly that, that will accelerate. So all those things together are the way we think and know that we'll have to -- will impact the stock price in the long run. |
| Gary Medved: | And Thurman, if I could add to that, Mark mentioned about other things and we certainly are paying attention to the top line growth initiatives here and for the most part that's been the majority of the research that we've been going through. Just a completely different presentation to retail a message that better resonates with the consumer as well as our customer, the buyer and whether it's packaging, the slide deck, the product whatever.In addition to that, we're also paying a lot of attention to what's going operationally on out in the plant. And there are a number of key initiatives as I mentioned last call Carl Smith is now solely dedicated to the role of VP of Operations, where he's been giving a tremendous amount of focus. We have a new production manager in-house, who hired in a couple of months ago. And so a number of these key initiatives are meant for the long run to better improve our efficiencies.And as a result of that our overall cost structure, improvement of gross profit margin and labor rate, absorption in the inventory, timing list of orders. And so once we get where we need to be on the operation for sales growth, we'll just have to add people at a lesser rate than we have in the past simply due to the efficiency.So not only do we look at driving the top line, but we look forward to driving the top line at a higher margin than we're used to. So there's just a lot of company-wide initiatives going on. |
| Thurman Willis: | To follow-up on that, can I then assume naturally that if we have top and bottom line growth that it -- looking through April and May, if you can comment that we're still at a double-digit rate? |
| Mark Barrus: | Yes. We aren’t going to talk just now about the exact growth rates in those two quarters. I will tell you that. We haven't seen anything that is a negative in terms of where we're going in growth right now. So I think our top line will continue along the trajectory.Again without being specific, it will continue in that sense directionally as we get into the second and third quarters. Those are traditionally stronger than the first quarter. So I think you'll see sequential growth and undoubtedly we'll see some quarter-over-quarter growth as well to be determined what that exactly will entail.We are looking very hard at managing costs both on the cost of sales and the manufacturing efficiency. I think that's probably a little bit further down the road, based on where we are on the pace of things.I think the SG&A while we've kept, for example, G&A pretty consistent as its percentage. We think we have some more room to go in terms of lowering on an absolute basis, which will go towards effectively the bottom line as well. Selling costs are another area where we are really applying a very critical lens on how we spend. We're not a rich company so we try to do it as effectively as we can, recognizing that it's important. So those things are probably a little bit closer to seeing some outcomes. So I fully expect that we'll see improvements in the second and third quarter, both topline as well as bottom-line from where we are now. |
| Thurman Willis: | I'd like to conclude by saying I like what I have seen from new management and I am hopeful that we'll continue to see that and I would reiterate this dip is where it really is emphatically as I can that pre-revenue increases many wealth managers like to hear about companies instead of post-revenue increases.So I again encourage weekly or by-monthly calls to wealth managers, because again we simply just do not have fans in the stands that know about Mace and the products that we have and I appreciate you listening to my message. |
| Gary Medved: | Thank you, Thurman. |
| Mark Barrus: | Thank you, Thurman.Operator, do we have any further questions? |
| Operator: | Yes, sir. Your next question is from Andrew Shapiro from Lawndale Capital. Your line is now open. |
| Andrew Shapiro: | Yes. You mentioned earlier here about new packaging. It sounded as if it was new packaging above and beyond that which you're doing with the new globally licensed brands.Now, new packaging is something that we had heard before and have seen from your predecessor management team. Are you guys continuing that, or is this new packaging of the new packaging that was done just last year or the year before? |
| Gary Medved: | Yes, yes and yes, Andrew. We are completely redesigning the Mace brand packaging for retail and we'll have two different segmented looks for that. And then in addition to that, we are designing new packaging from the ground up for the two brands that we define the agreements with.And then as I mentioned earlier, we have a new logo, more evolutionary than revolutionary, but it takes our existing logo and tweaks it enough to bring it into modern day, very professional look, not as generic so to speak but with the nice attractive professional bent to it. And that's being put across the all new packaging actually. So, -- |
| Andrew Shapiro: | Is the packaging that won some awards and was eco-friendly and all the other stuff. Is that being changed again or that's being continued? |
| Gary Medved: | No, that's what we're changing. It can be a lot less clutter on the front of the card, a lot less blocky approach to the presentation, the graphics on the front. The new packaging will be even more eco-friendly, more poignant. It’s poignant in getting the brand across as well as the features of the specific product in that package. And when we -- |
| Andrew Shapiro: | You're maintaining the card, you're just simplifying the message and juicing it up? |
| Gary Medved: | No, the card is new. It's the new side card. The colors are all brand new and we're going to have a consistent-- |
| Andrew Shapiro: | Yeah. |
| Gary Medved: | --we're going to have a consistent look across all products rather than different colored, different sized cards like we have today. |
| Mark Barrus: | In the sense of the eco-friendly card design is -- we still have an eco-friendly bend to the card design. Let's leave it at that. |
| Andrew Shapiro: | Okay. |
| Gary Medved: | And even more than we had one. |
| Andrew Shapiro: | Now, your revenues were up very nicely year-over-year, but down slightly sequentially. Was this just simply seasonality or anything else play into this reduction? |
| Mark Barrus: | We believe it’s primarily seasonality. I mean, historically Q4 is a quarter that contains holiday selling. And -- |
| Andrew Shapiro: | Right. |
| Mark Barrus: | -- the first quarter -- after the first couple -- two, three weeks into January slows -- retail sales are pretty slow out of the gate. So, we believe the seasonality. There's some things that are up more than others. You saw from our filing there, international, for example, had a pretty strong quarter-over-quarter. But the sequential decline, which wasn't a heck of a lot, but it, was seasonal in our view. |
| Andrew Shapiro: | Right. And is there anything in particular that led to the very nice sequential growth in international, any particular geography or particular programs? |
| Gary Medved: | I think the biggest thing there, Andrew, is a result of shot, we brought on a number of new distributors that we met with out in Vegas. And I forget the exact number, but I think it was either four or five new distributors. And these were done in an effort not to stack on top of the existing distributors. So, these are going in the countries where we did not have representation before, and initial orders that -- not really an exclusive, but they're the first ones with feet on the ground and setting up in their respective countries. So, I think that was the most of it.The second element was I met with our Polish distributor at SHOT and we talked about some programs and them growing the business and they stepped up nicely since January in orders. So, I think it's a result of both of those items right there. One is adding new distribution and the other is a couple of current distributors stepping up and apprehending with them at SHOT. |
| Andrew Shapiro: | And with the increase in international from existing as well as new distribution, is that -- what is tied to then the -- I would say meaningful increase in the accounts receivable and receivable days outstanding? |
| Mark Barrus: | Well, it's a little hard to mix, because international, in some cases requires some payment upfront. So we typically don't have as much receivable issues, if you will, for the international sale, so I would say, just really do an overall mix. I don't think there is a particular factor that would cause our working capital receivables to really change. At this point, pretty much driving along in line with the overall sales growth. |
| Andrew Shapiro: | All right. However, your day’s receivables actually did jump quite a bit in Q1. So to what do you attribute that to? Were there sizable sales right at the end of the quarter that contributed to that or what else was going on? |
| Gary Medved: | There is one particular customer situation that I don't want to go into the details of, but it is a pretty significant -- we think there's a one-time issue that we do think we'll successfully resolve. So we could point to that as being probably -- if there is one single factor in the quarter that that is probably it. They've gone beyond the due date and caused that lengthening, if you will, of the cycle. |
| Andrew Shapiro: | Okay. So it was large customer and they went beyond it. And it has not yet resolved itself though? |
| Gary Medved: | It is not yet resolved. We're working. We're in contact with the customer and it's a little bit of unusual arrangement in terms of the way the sale was structured. So it's not really a plain vanilla, customer going out of business retail concern, it's a little -- it's got some different aspects to it that we're trying to work through with them. |
| Andrew Shapiro: | When do you think that might be resolved, given that it's already May 15th or 14th and the quarter ended in March? |
| Gary Medved: | Yeah. It's -- like I said, it's ongoing and we're -- |
| Andrew Shapiro: | Yeah. |
| Gary Medved: | --we're continuing to work through it with that. |
| Andrew Shapiro: | All right. Now the company hired a new sales leadership, a new VP of Sales and I think you're revamping some other things. Can you elaborate a little bit more on the woman you hired, her background, when she started? And also on what her focus will be to drive increased sales or what steps have already been taken place in your sales organization? |
| Mark Barrus: | Sure. Julie came to us with a strong background in retail, part of the Henkel Group, U.S. Cotton, strong marketing as well as sales background, very analytical approach, graded diagnostics, uncovering issues, as well as on the customer side developing the message, the look, the presentation and so forth.So she's been here for, I believe, just about two months now and dove in on day one and has really starting to bring a lot of clarity to the vision I had when I came in here, on what we could achieve and where we can be and so forth. So she's been an integral part of lining up this new presentation.She's been part of the packaging development process, a great study on margins, price points. If anything, we're probably going to have a lot more consistency and integrity in our pricing structure going forward than we've experienced in the past.She's a firm believer in the positioning of the Mace brand as a premium brand. We're not just trying to race to the bottom in price. We have a high quality product, a well-known brand and we want to be positioned as such. And so she's wrapping all that up.We are still -- we have an opening for a National Sales Director that would like to get filled here in the probably near to medium future but I've worked with Julie practically on a daily basis in getting ideas, set it out strategy, development, and so forth.So, probably most of the moving parts in the company right now are coming out of her office. She's got a lot going on and we have a long list of opportunities that we want to address going forward. So that's probably a quick summary on Julie Koenig. |
| Andrew Shapiro: | Okay. And in terms of the next three years, so I'm not trying to be like near-term guidance or anything like that, Mark. Over the next three years as you look at this, do you have a realistic EBIT margin range or target for the re-energized Mace that you guys envision? |
| Mark Barrus: | So, that's a good question, Andrew. The Board does and what I think it's fair to say is sort of in general terms that you want to look at least a 15% return on an EBITDA basis on your investment and you know ideally you'd like to exceed that.So our plans are put in place that over the long run that's a threshold that has to be there for return to the shareholders. And everything that we're doing is while we're working hard on a day-to-day basis, we are considering the longer term vision and how to get there.So we aren't doing things that are going to really sacrifice just for the sake of being good in the current quarter. We're really understanding and we're incented in this and everything is aligned in terms of how the company looks towards hitting that sustainable return year-after-year.And of course in this type of business, we're not super cyclical. So with all the potential business cycle things that occur, we do think on average that's a good number. |
| Andrew Shapiro: | Okay. I have several other questions. I'll back out into the queue though. Thank you. Please come back. |
| Operator: | Again if you wish to ask a question, simply press star then the number one on your telephone keypad. And there are no further questions at this time. You may continue. |
| Mark Barrus: | We can go back to Andrew one more time. Andrew, if you're -- we still have a few minutes left. |
| Operator: | Andrew Shapiro is again on the line. Your line is now open. |
| Andrew Shapiro: | Thank you. Okay. A few other ones. In international, we've talked a little bit about what's contributed to its growth and some new distribution, increased sales with some existing distributors who have stepped-up. I see on the Mace website though you have particular links to Mace India and Mace Chile and you, I think on the last call, talked about how some manufacturing or joint venture plans within India were on hold. These two particular links, are there new and larger or more focused initiatives there or in any other particular country areas you want to call out? |
| Gary Medved: | Well first and foremost, we own those domain names. Those are ours. India is a program put together by previous leadership that is still out there. I had a conference call with the manufacturer who would feed into that because the tariffs are just too great for us to go into India with our product.So I had a conference call with the manufacturer about two weeks ago. The distributor is the one pointing to on that link and they have products over there that was shipped over there from our location. But the longer-term approach needs to be to manufacture in that country to distribute in their country. I'm not too sure that we'll be making it in India versus China and then shipping it up India. That's ones of the programs on our radar. We just don't have the resources right now to address that.Chile is a distributor. We don't plan on manufacturing down there or anywhere in South America. But based some point signed up with those domain, we also have Mace Europe. You're probably familiar with that one too, which is probably more active.So India, yes, it's there, it's like in a whole lot of attention right now. And it's not going to really turn into any sort of engine for us until we are able to manufacture our product in India or China and ship it up to Delhi. Europe continues on and South America, there are no plans to set up manufacturing down there. But at some point, South America is going to get more attention than it gets today. |
| Andrew Shapiro: | Okay. And then can you elaborate on what changes you've implemented and what changes are still to be implemented and towards enhancing this company's prospects to deliver on the large opportunity that exists for Mace Tactical, which, I think for the quarter didn't really have anything meaningful, I mean much meaningful growth or even sales levels? |
| Gary Medved: | Right. The -- okay. You're probably aware, Andrew, from being on previous calls over the last year or two that this program has had a start and stop motion and in January at SHOT, we started up and re-launched that again for the third time in as many years.But for the first time we actually put a program together where we went back and analyzed all of our cost on the products. We got a cleaner price sheet that first of all made us competitive. We redesigned the catalog, cleaned that up and got the digital version out quickly, the printed version that just came in about a week ago. And we have all new sales sheet that we put together for all the items on the LE side and the munition side that are going to be shipping -- they're actually shipping today.Now in lieu of all that, we have two new distributor groups that we brought -- I'm sorry, rep agencies that we brought in. One for East Coast and one for the Midwest. Very strong in this category and I think they're going to do a great job for us.And then lastly was attend -- over the last few months, attending working and tactical defense training, and these reps going through a number of tactical officer association training, where they have weekly training exercises going on conferences and we just finished up with the West Coast on Friday and they got back over the weekend.And so when I look at all the pieces -- and keep in mind too, right when we launch SHOT, I think it was a week or so later the government shut down for about a week, for a month or six weeks or something, I can't recall what. But everything with the \_\_\_\_\_ came to a screeching halt. Paperwork wasn't even getting filled out or approved for anything. So even though we launched with SHOT, everything came to a standstill until mid-March or whenever. So we took that as an opportunity to get the price sheets all cleaned up, print it and sent out, catalog redesign, digital versions sent out.Now, we've got the printed version of sales sheet. We got rep agencies hired, tactical shows have been attended and we have a few more going through the month of June. And then the heavy emphasis for the second half of this year is going to be less on tactical shows and training and exercising and more on working with the rep agencies more one-to-one on the leads that have been generated over the last six months to start generating revenue.These programs tend to have a long sales cycle when you're dealing with state governments, county governments, city governments. So we've got to try to match up with their fiscal year budgeting process and that's when we should see something that start to bear fruit.But for now, it's been a lot of upfront homework and getting all the collateral material and pricing and the rep agencies lined up and attending shows and conferences. And that's where we put our effort, the first half of the year, second half a year's, curating all those leads, following up, follow-up presentations. And like I said, we should know by the end of December that this program is going to bear fruit for us. |
| Andrew Shapiro: | So what are the major shows planned in the upcoming months for Mace Tactical? |
| Gary Medved: | They are less about major -- I think the last major show was last weekend at the West Coast Tactical Officers Association or Tac Off[?] the few that we have remaining are not -- there's one for the USMC, Marine Corps, down at Quantico. That was a hard nut to crack, but we got in. So that's going to be in the month of June. And then in addition to that we have three, I believe its three demos where there are multiple agencies.So like, say one in Indiana as an example. I can't recall where all three are, but there's an example in Indiana. We will get like 10 or 12 agencies to attend that demonstration and all those attendees will get certified on our product, and then our campaign starts at that point, the reps are involved, they’re at demonstration. The attendees get certified, they have all the material, the reps are there to answer questions. And then, it's a question -- following up with them periodically, getting into their coding and budgeting process for the new fiscal year. |
| Mark Barrus: | And just one point of clarification for those that don't know the company as well as you do, Andrew. We actually go to market under the Take Down brand, it's not Mace tactical, it's under a Take Down. |
| Andrew Shapiro: | Right. And -- okay. And then with your new website activated at the end of June. So it's coming up on a year anniversary of that. How has Mace used this new improved website to drive sales growth and is the average unit price continuing to rise? And what do you need to do to expand on or increase online sales further? |
| Gary Medved: | Well, the first part of question, every month and those are certainly numbers that I look at closely every month. Sales are much higher, much higher than they were this time last year. They continue to grow. The average selling price is higher than it was a year ago. That continues to grow.I think, going forward, in large part, it's going to come back to the content marketing that we're working with the group here in Cleveland and getting that message out and we meet with them at least once or twice a week.There are new campaigns going out, whether it's social media or blog or newsletters. We have new asset photography that we own, our Mace Moment campaign has been -- it's like a soft launch at this period. And we have a number of things on the horizon that we'll be doing.But the long and short of it is, when you're dealing with a content marketing program, it's a long runway to get that up and going. But once it gets going, it's more solid than traditional marketing and just advertising in your face, so to speak. |
| Mark Barrus: | And I think the other important thing there to point out too, mace.com is just one piece of our overall e-commerce efforts. While the sales are growing very nicely, it is by no means our largest piece of our e-commerce. We have a tremendous presence on Amazon and several other marketplaces.You may have seen in fact some news today regarding walmart.com that's moving to free one-day shipping. So, there are really a lot of other channels that fall into e-commerce that have seen -- they're very significant pieces of the business overall in addition to the mace.com. |
| Andrew Shapiro: | Right. Right. And of the accounts added during the quarter and -- are there any notable or larger ones? And of those that were recently added, for example, you talked about some new distributors internationally. Have they sold through their initial inventory build and started on reorders? |
| Gary Medved: | We added a few accounts. We actually won a couple accounts back that we had managed to lose over the years. And in some other accounts, we got more products placed than we've had previously. So, without naming names, there has been some -- there's been a lot of work with some success coming with it.But clearly, the big hitter is that I want to go after are in our future and they'll be -- we're probably going to spend the summer and the early fall with nothing but traveling around, visiting, get in these meetings and presentations in front of people about the new program that we're offering.So, although, we're adding them monthly, if you will, they're either existing accounts adding more product or they're a couple of smaller accounts or smaller chains that have been added. But, clearly, the big ones are in our future. And in terms of going through inventory, I mean for folks we've added, we're seeing repeat orders, okay. Again when they're the smaller of the two types of customers, there's going to be a small impact, but not as great as if we can land some of these other margins we want to go after. |
| Andrew Shapiro: | Right. Two other ones, so this year is the beginning of the expiration. This and next year have a decent amount of the company's NOLs. At present you're round $60 million of tax NOL, am I right? And are there steps that you are able to take or planning on taking other than of course generating profits to use or to refresh the expiring NOLs or where at least in the near-term likely to see a bunch of this roll-off? |
| Mark Barrus: | Yes, Andrew and I think again we touched this briefly on the last call. The best way to do it is to earn profits as you just mentioned. There are some things you can do on the margins about if you will refresh thing and basically accelerating income and pushing off expenses. Those work on the margins and are I think something that we will have to undertake with the upcoming tax filings later on in the year. |
| Andrew Shapiro: | Right. But it's, we still have around 60 and what comes off is only what five to seven. Does that sound right? |
| Mark Barrus: | Yes, that's correct. |
| Andrew Shapiro: | Okay. And then, you've talked a lot about the initiatives of cutting costs, growing sales various things you're doing. Obviously, another way of addressing the NOLs is to be able to and to make acquisitions of pre-tax income or assets or companies that would enhance our profitability. Is there any near-term focus right now on new acquisitions? And if so, in terms of what areas are you looking or the company's cash balance is too low right now to be having that as a near-term activity or resource allocation? |
| Gary Medved: | This is Gary, Andrew. As far as acquisitions, we work with a firm here in Cleveland that keeps their ear to the pavement so to speak and constantly reaching out and talking to and doing some homework on potential acquisition targets and we meet probably once every six or eight weeks, Mark and I do and talk about what they're seeing, what they're hearing and who they talked to and so forth. I think it's always a bucket that you want to keep warm. But in terms of timing for Mace Security International right now, from a resource standpoint, I'm not talking monetarily as much as the people, we are pretty much stretched with the task at hand. And I think acquisitions are going to certainly play a role in our future, but probably nothing before the end of this year, early next year.And I think with the program that we have going on right now with the opportunity that we have laying ahead of us, we have plenty to accomplish with what we have in-house. We just need to get it out there and I think the acquisitions are going to be -- I'm interested in them. Some I've done in the past. I think they will certainly be a part of our growth story. They have to be right. They have to be at the right time and at the right price. And we have to be able to integrate them, if we're going to do it. And right now we do not have the resources to do that. I don't know if Mark wants to add anything to that, but from my chair that's pretty much how I look at it. |
| Mark Barrus: | Yeah. I don't have anything to add to that. Thanks, Gary. |
| Gary Medved: | Well, I think we're about at the end of our time here. Operator, I think we used up our 60 minutes. So I think, at this point, we will call for the conclusion. |
| Operator: | This concludes today's conference call. Thank you everyone for participating. You may now disconnect. |