**Mace Security International Inc.**

**Moderator: Barrus, Mark**

**October 31, 2019**

**01:00 PM ET**

OPERATOR: This is Conference # 8266357

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| Operator: | Ladies and gentlemen thank you for standing by and welcome to the Mace Security International. Inc 3rd Quarter Earnings Call. At this time, all participants are in a listen-only mode. After the speaker's presentation there will be a question-and-answer session. To ask a question during this session, you will need to press the star one on your telephone.Please be advised that today's call is being recorded. If you require any further assistance, please press the star zero. I would now like to hand the conference over to your speaker today, Mr. Mark Barrus. Thank you. Please go ahead, sir. |
| Mark Barrus: | Thank you, Nan, and good afternoon, everyone. With me is Gary Medved, President and Chief Executive Officer of Mace. Please visit mace.com, Investor Relations/Transcripts & Presentations, where we have provided materials for this call.Before proceeding, I'd like to point out certain statements and information during this conference call will constitute forward-looking statements and are based on management expectations 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, limited 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 will now turn the call over to Gary to comment on the third quarter 2019 operational results. |
| Gary Medved: | Thank you, Mark. As stated in prior quarters in 2019, we are progressing on transforming Mace. We believe that this transformation process, while difficult, is poised to show results in the upcoming quarters. As a recap of the 2019 progress to date, early in the year, we began a comprehensive review of our balance sheet.And as a result, recorded the necessary charges as a result of slow-moving or obsolete inventory, uncollectible receivables and the write-off of assets relating to our exiting munitions business. We have also completely revamped our sales and marketing teams, brought new sales leadership into the organization and have added substantial new capabilities in retail sales, third-party work management and international sales.Our sales team FTEs have increased 150% over the prior year, and we have recently added to our e-commerce capabilities by engaging the largest Amazon-only representative firm in the country to take our Amazon e-commerce capabilities to a world-class level. These efforts are beginning to bear fruit as we have already been notified by a major retail customer of an additional product placement commitment, with additional commitments being evaluated currently.We have also added another major national retail chain as a new customer as well as several large retail chains, which have committed to immediate product placements. On the manufacturing front, we've been focusing on process improvements as well as reducing overall costs. To that end, we have simplified our manufacturing supervision structure, we've added important quality control documentation procedures as well as strengthened our procurement processes.These changes have resulted in a reduction in manufacturing overhead costs at an annual rate exceeding $200,000, which will begin to be realized in Q4. We are also aggressively working on identifying cost of these opportunities through vendor purchasing negotiations and targeting certain specific overhead costs, such as rent, freight and communication spend. I'll now turn the call back over to Mark so he can discuss details behind the financial performance. |
| Mark Barrus: | Thank you, Gary. As to the financial highlights themselves, third quarter net sales were $2,447,000 compared to $3,447,000 last year, a decrease of 29%. 9 months’ sales decreased to $8,126,000 from $8,653,000 in the 9 months ended September 30, 2018, which is a decrease of 6%. The decrease in quarter-over-quarter sales was primarily due in part to promotional product placements at a large customer in 2018 that were not repeated in 2019; weakness in our e-commerce sales; and a large customer B2B order in 2018 we elected not to participate in this year due to customer profitability.Gross profit for the third quarter of 2019 totalled $969,000 or 40% gross margin, which was up sequentially by $12,000 or 1% over the second quarter. Prior year third quarter gross profit was $1,498,000 with a 43% gross margin. The gross margin percentage drop is due to manufacturing overhead and labor variances in Q3 of 2019 versus the same period last year. As Gary mentioned, we expect an improvement in these variances through a reduction in manufacturing and supervisory salaries and other efficiencies beginning in Q4. The actual direct margin for product sales before labor and overhead variances was comparable within 1% period-over-period versus 2018.For the 9 months ended September 30, 2019, gross profit declined to $2,996,000 from $3,701,000 in 2018, a 19% decline, and was influenced by the same manufacturing overhead variances that occurred in the 3-month period and the write-off of the munitions inventory that impacted Q2 of 2019. Product margin before manufacturing overhead was also comparable, within 1%, in the 9-month period of 2019 versus 2018.Selling, general and administrative expenses for the third quarter were $996,000 compared to $1,149,000 in the same period last year, which is a decline of 13%. The detail of this decrease is reconciled in our OTC report, the MD&A discussion and is primarily due to decreased variable selling costs as well as decreased personnel costs. The 9-month SG&A costs for 2019 were $4,209,000 compared to $3,347,000 (sic) [$3,447,000] in 2018, which is an increase of 22%.The increase is primarily due to the large customer bad debt discussed in Q2 as well as increased legal and professional fees due to increased litigation, employee matters and the Tornado acquisition. As a result of the above, the company reported net loss after tax of $161,000 for the third quarter compared to $206,000 profit in 2018 or a $367,000 decline. 9-month net loss for 2019 was $1,623,000 compared to an $87,000 loss in the same period of 2018.EBITDA for the third quarter was a negative $36,000 compared to EBITDA of $311,000 in the third quarter of 2018 or a $347,000 decline. However, third quarter adjusted EBITDA was $9,000 compared to $363,000 in Q3 of 2018. The 9 months ended September 30, 2019, EBITDA was a negative $1,252,000 compared to a positive $227,000 EBITDA for the same period of 2018. 9 months adjusted EBITDA declined to a $163,000 loss in 2019 versus $367,000 positive in 2018.From a liquidity perspective, we saw a net increase in cash and cash equivalents of $188,000 from December 31, 2018, to the end of the third quarter. Our line of credit availability was $950,000 as of September 30, 2019. We anticipate our CapEx spending for the year to approximate $70,000. Finally, our tax net operating loss carryover was approximately $60 million, which was determined when we finalized our 2018 tax filings.I'll now turn the call back to Gary, who will discuss outlook and priorities for the remainder of 2019. |
| Gary Medved: | Thank you, Mark. As I said at the beginning of our remarks, we expect to see the results of our transformation beginning to take hold in Q4, with a more noticeable impact on financial results during the early spring season in 2020. That said, we are encouraged that for the 3 months ending September 2019, on an adjusted basis, we are essentially on a breakeven EBITDA level despite the top line drop in revenues that we've discussed.This bodes well for future financial performance when we execute our top line sales growth strategies. The company's Board of Directors also shares this sentiment and has agreed to enter a prearranged plan whereby each Board member will be purchasing company stock for the remainder of their annual Board term. At this time, I'll stop and open the line for questions. I would ask as each caller to limit themselves to one question with one follow one to allow everyone a chance to participate. If we have additional time, we will try to get back to you in the queue. Thank you.Operator, if you could please open the line for questions? |
| Operator: | As a remainder to ask a question, you will need to press star one in your telephone. To withdraw your question, please press the pound key. Please stand by while we compile the Q&A roaster.Our first question comes from Thurman Willis. |
| Thurman Willis: | I have one question and one comment. The large customer that we lost, any chance of us regaining that customer? What caused us to lose that customer, et cetera? |
| Gary Medved: | Thurman, first of all, we haven't lost any customers, okay, number one. And I'm sure the audience is interested in the revenue drop, and I'll just address the elephant in the room right off the bat here and we can put this to rest, hopefully. As everybody noticed, our revenue dropped roughly a little over $1 million for the year.There are basically 5 contributing factors to that. The first accounted for 48% of that drop, and that was solely due to 2 major promotions during the third quarter of 2018, which resulted in poor sell-through at this mass retailer. And based on that poor sell-through, they decided not to do any promotions this year. We still have our products hanging on the hooks, and we've added some new product going forward.The second contributing factor was about worth 24% of that drop, and that was a decision I made some months back to stop the heavy advertise spend on e-commerce and pivot the dollars over to developing a stronger SEO as well as content for that SEO. As I mentioned earlier, we're working with the largest and probably the best Amazon-only broker in the country. This is -- this program is only about 1.5 months old.And we're going to give it time, because we're confident they're going to get it done, just based on the meetings and presentations and conference calls that we have ongoing.Third item was due to -- 10% of that drop, and that was the B2B business that Mark alluded to earlier on. We did not repeat, nor will we in the future, doing business with this company. That was part of our write-off we spoke to in Q1 or Q2. The third quarter last year was a heavy buy by this company. And we will no longer be working with them going forward, but it did result in a comparable drop for this year Q3.Fourth item, another 10% contribution, as a result of quarter 3 last year, there was a heavy push to meet year-end sales targets and we offered up a large order to a national sporting good retailer. They took it. It severely impacted our Q1 sales at this retailer, because they ended up lopsided in terms of sales growth last year versus inventory growth. So the brakes were applied in Q1 of this year. So it hit us in Q1 and it hit us in Q3 from the comparable sales standpoint. This retailer is still strong. We will remain in all of their stores going forward and we have no concerns. In fact, we're looking to add 2 new items, spring 2020.The last piece, smaller, is about an 8% contribution. And that is a result of a national hardware chain we deal with, got on new packaging, basically, same packaging, just smaller footprint. Summer of last year, they bought heavy for that pipeline fill. Sales are fine with them, but we did not get that pipeline fill this year.So 48%, mass retailer promotions; 24%, e-commerce, swapping advertising dollars to SEO; 10%, B2B partner we won't be partnering with; 10% is the push to meet year-end sales targets last year at a sporting good retailer; 8% was a pipeline fill for small packaging going to a hardware chain. All totalled, 100% of our drop. We haven't lost any hooks. We've gained hooks. I can get into that if anybody has a question regarding those. But that's about it, Thurman. Hope you have the information you need. |
| Thurman Willis: | Yes. Second question is, and then I want you to come back in the queue, because I have one other, but I know you want to limit this to a couple of questions so we can get through, but I would like for you to come back to me. You made mention in the annual meeting that you would report when insiders purchase stock. I was most happy to see that your Chairman bought 1 million shares.And I'm wondering if you will soon be commenting on any additional insider purchases to give us confidence? Because right now, our stock, it's only trading at about $13 million market cap, which the Mace brand alone has got to be worth far more than $13 million. And then you mentioned about Board members would be purchasing stock. Can you put a little colour on that? |
| Gary Medved: | Sure, Thurman. That is exactly what we did announce, is that all of our Board members have committed to a prearranged stock purchase plan that will cover their Board terms, which are annual terms. So they have, as insiders, put their money where their mouth is for the remainder of their Board terms.And as you know, other insiders have, as a component of their compensation plan, very heavily weighted equity components. And those are in play for other officer-employee insiders. So I think those plans, I think, speak for themselves. As people may or may not know, as an OTC, non-SEC reporting company, there are no requirements for insiders or any purchasers for that matter, to disclose their purchases of Mace stock.So we rely on self-reported information, and that's why there's no day-to-day reporting as there would be under SEC rules for insider or affiliate purchases. But all that being said, I think those factors do demonstrate that both insiders and management have confidence in the company. |
| Thurman Willis: | You did not comment on if there have been insider purchases that have not been announced. |
| Gary Medved: | Yes. The company is not aware of any insider purchases that have not been announced. |
| Thurman Willis: | Okay. And even though the OTC doesn't require it, I'm sure you would agree that the one thing that gives investors most confidence is to see when insiders are purchasing your stock. I know you know that I'm one of your biggest promoters, own 7% of the stock, support the company strongly, believe in the new management, believe in the new owners and new Board. And I hope that's understood totally. I would like to get back in the queue for my last commentary/question, if at all possible, please get back to me. |
| Gary Medved: | Sure. |
| Operator: | Our next question comes from the line of Ken Fell. |
| Ken Fell: | My question has to deal with the $200,000 in manufacturing savings that you highlighted. How were you able to achieve this? And do you see any further manufacturing savings in the near future? |
| Gary Medved: | Yes. That's -- Ken, thank you for the question. That is really a subset of a number of the programs that we have on the manufacturing side, but it is really one of the more quantifiable ones. So that $200,000 is a result of, we'll say, overweighted manufacturing supervisory salaries that were eliminated in the third quarter. So that -- actually, the $200,000 is actually a little bit light, because it doesn't include benefits as well.But that alone will drop straight to the bottom line. We have adequate -- more than adequate manufacturing supervision for the size of the workforce we have, and that really allows us to free up those resources to do other things. So that's the $200,000.There are other things that we have done and are doing in terms of improved vendor pricing, taking advantage of larger vendor purchases to try to capture volume discounts as well as have outside review of a number of our spending categories to really get experts to help us in those areas. So on a -- primarily on a contingent basis. So a lot going on in the manufacturing area, but that's where the $200,000 came from. |
| Kenneth Fell: | That's great. That's very helpful. My last question is, in Q2, you took that $322,000 reserve on the one customer account receivable. What is the status of this receivable, and are we able to maybe collect any or all of it? |
| Gary Medved: | Yes. Good question again, Ken. So that is in litigation. The customer, really, in our view, without any basis, elected not to pay us for sales that occurred well over a year ago at this point. They were in other litigation around this matter. And now we're the next batter up in their litigation rotation. So we had -- we have filed. There have been some preliminary motions, and there were some settlement discussions. Those are continuing. But we feel pretty strongly about getting paid when we sell people products. So we're going to see that through. So it is in litigation in a district court. |
| Kenneth Fell: | Great. And what do you think the time frame is going to be to get that resolved? |
| Gary Medved: | Yes. We're early on, it is not scheduled for trial, there were some motions back and forth where we attempted to get a default. And that did not come to pass. So I would say that they want to settle. We want our money. If it does go to court, who knows, you're looking at subsequent quarters before we have any substantive things to report. But my hope would be that they'll pony something up before then and we can move on. But I would say it's a matter of months, not weeks. |
| Operator: | Our next question comes from Andrew Shapiro. |
| Andrew Shapiro: | I have several questions. I'll ask a few and back out into the queue. These questions will be related to your partnership your licensing partnership with Kuros!, but I do have others on the Postal Service and some quarterly operating questions as well. So but one thing I do want to do a follow-up on was Thurman's question.You guys, in your script, you talked about the Board members are going to take their compensation in the form of equity with a purchase plan. I just want to have clear, will these then be open market purchases, adding to the stock's secondary market liquidity? Or are these going to be purchases of equity from the company? |
| Gary Medved: | So Andrew, we didn't say that it was a surrender of compensation in the form of equity. What we said was they have committed to prearranged stock purchases for the balance of their Board terms. |
| Andrew Shapiro: | Right. So the prearranged stock purchases, though, will they be open market or will they be buying them from the company? |
| Gary Medved: | I think we're going to kind of leave our description to what we've said so far. |
| Andrew Shapiro: | All right. Well, there's a big difference between the 2, as you know. So it would be helpful for that clarification down the road. Regarding Kuros!, it wasn't clear from last quarter's call as to what Mace Kuros! products and where, domestic or international, are full retail, less the royalty -- royalty fee versus -- which are products that Mace would sell, versus wholesale fill revenue that perhaps Kuros! was selling. Can you clarify this and discuss the Mace Kuros! efforts in the international markets as well? |
| Gary Medved: | Can you repeat the first part of that question, Andrew? |
| Andrew Shapiro: | Sure. So if you're selling product -- if Mace is selling the product, you're selling it for full retail, less whatever royalty payment you pay Kuros!. If you're filling under a Mace Kuros! label and Kuros! is selling it, I'm presuming that's a wholesale kind of revenue. It wasn't clear from last quarter's call, what of the 3 products, and whether it was just domestic and/or international, that Mace was going to be selling at full retail versus what, if any, you were going to do kind of wholesale fill revenue that Kuros! was selling. |
| Gary Medved: | Okay. Well, first of all, we're not doing any filling per se, okay? The product that we're manufacturing here at our plant is full packaged, ready for retail. And Kuros! buys that and sells it, okay? Just like any other retailer. And then internationally, we are not doing anything internationally with the business yet, okay?We're out there on Amazon, as you know, and mace.com. And we're pitching it to retailers, we're out, we go around the country meeting with them. We're waiting on their decisions going forward, okay? So there's not really a fill -- pure fill operation here. Kuros! buys regular packaged product, as if he were anybody else and then he moves it. And just to clarify – |
| Andrew Shapiro: | So if he buys it from you and moves it, does he then get it at a wholesale price, whereas if you're selling it at mace.com or Amazon, you're selling it for a retail price? |
| Gary Medved: | Yes, he's not paying us full retail as if he were buying it off of mace.com. He's getting pricing similar to like a retail channel. |
| Mark Barrus: | So the way -- the way to think of it, Andrew, is there's 3 components of potential revenue for Mace. The first is, as you said, we sell Kuros! through e-commerce, through retail, whatever channels, we pay a royalty, we get full price. The second channel is Kuros! himself, they choose to buy products from us, which Gary just explained.And then the third component is Kuros! also distributes, as everyone knows, these products overseas as part of his mission. And in that case, he will purchase products to distribute overseas. These are not branded products. That's the so-called fill business. We have a contractual right to participate and bid on that business, if we choose. That could be a third source of revenue for us. But as of right now, we are not -- we don't have any of those arrangements in place. So that's the fill versus Kuros! versus Mace sale. |
| Andrew Shapiro: | Yes. And now can you update and elaborate us on the partnership with Kuros! as to what has taken place so far? And what is to take place this quarter? And with the retail resets and placements in Q1? |
| Gary Medved: | Well, as I just mentioned, we're active on e-commerce sites, okay? And we're pitching it to retailers. We're just waiting for decisions to be made. And then there's also the matter of Kuros! has some issues that he needs to vet out and put to rest pertaining to the colour and everything with the previous partner. So from our standpoint, it's -- all systems are go.This is just something that -- the side issue is something that Kuros! has to deal with, with a previous partner that we're not involved in that aspect of it. So we're actively showing it to everybody in retail, brick-and-mortar retail. And simply just waiting on decisions for Q1 -- or Q2, I'm sorry. |
| Andrew Shapiro: | Right. Now can you discuss your success so far at supplanting Sabre, who I understand has now been sued by Kuros! for purposefully confusing the market with its similarly-looking packaged and labelled pepper product? |
| Gary Medved: | Well, to that end, being that we're only on e-commerce sites right now, there are 2 names that have been really well taken by not the rightful owners and being used. And that is the Mace brand and the Kuros! brand. And we are working right now with our Amazon partners to get control of our name as well as the Kuros! name.And then of course, Kuros! is helping out on that front as well. So we're all comfortable that we're going to get where we need to be, but there's going to be a little bit of grinding it out here in the beginning. And the lawsuit that you mentioned is just that, it's a confusingly similar product, as most everybody knows, they were the filling partner and when Kuros! moved the business, they kept the same look and colour and -- or close to the same colour anyhow. They might be 1 or 2 digits off -- |
| Andrew Shapiro: | I've read the complaint, and it's compelling -- to me, it's just a question of the time for the wheels of justice to work, but it's a compelling lawsuit. |
| Gary Medved: | It is. |
| Andrew Shapiro: | And Saber has been a very bad actor. |
| Gary Medved: | And from our standpoint, like I said, that's really between Sabre and Kuros!, that fight, if you will. And we're just going about our business because contractually, we do have the business and do have the rights to put the product out there, the legal rights. We have a signed -- the execute -- the fully executed contract by Kuros! and Mace and we're just going full steam ahead. |
| Andrew Shapiro: | Well, that's why I asked if you could discuss your success at supplanting them. Have you been given an indication that the new Mace Kuros! products will be in retailer category resets? Or when does that indication generally come? |
| Gary Medved: | Well, everybody's a TBD at this point, Andrew, they're making their decisions. We're still going to meetings, we're still doing presentations. And I know by Christmas, everybody would have made their decision for spring 2020 resets. Anybody familiar with retail would know that these buyers don't tip their hat to a potential vendor.They don't call and say, "Hey, I think you're going to get the business." So we're as in the -- as much as in the dark, if you will, as anybody else out there, just waiting to hear back. The only thing we know for sure are the retailers that have contacted us and said, "Hey, we're bringing on this product. We're bringing on these products." So we do have a -- we've landed, what is it, 3 new national retail accounts just recently, 1 of them is for sure bringing on the Kuros! products; 2 of them are smart -- starting with a smaller product offering on the Mace brand and they're going to evolve after that.So there's traction out there, but it would make it easier if we didn't have the, any pending litigation between any parties looming overhead. |
| Mark Barrus: | And I think the other important thing, we're not trying to tip our hat or signal anything, but the Kuros! mission is very well received and it resonates with buyers as well as the general public. So the success that, that company and that brand has had in the past is one of the reasons why we chose to partner up with them and are 100% confident that this success will continue. So this is not a situation of where we are concerned at all. As Gary said, the timing on these decisions, I mean it's going to all [our big] meetings. And again, the buyers are -- the mission and brand is well received. |
| Andrew Shapiro: | And is -- go ahead. |
| Gary Medved: | I could just add one more piece. We've been providing some content to Kuros! recently, and he is putting together advertising and social media content that he'll be introducing here probably in the next week or 2. And then he's gearing up for a big advertising spend on TV down in the Texas market. In fact, we're all ready to go with this content, to give us, say, a big push right out of the gate.And in all presentations, it is a Kuros! Mace partnership. This isn't just simply the Kuros! name out there. He's pulling Mace in this and to establish -- basically to put the ground rules out there or draw a line in the sand, "Hey, Kuros! is partnered with Mace, nobody else. This is the product, this is who we're partnered with." And so the draft look I posted on LinkedIn this morning. You could take a look at it, it's not the final product, but it's kind of hinting in the direction we're going.So we're going to try to get out in front of it as much as we can with retailers, social media. Kuros! is going to do his share, he'll do his part down there. And we're hoping that everybody just sees the light of this thing for what it is and doesn't try to impede the progress of his mission of really helping these at-risk women around the world, so. |
| Andrew Shapiro: | Well, I would think that any retailer that was sensitive to the socially conscious mission of Kuros! would be more offended than maybe a typical retailer at the behavior and actions that are clearly purposeful, that Sabre, their former partner, undertook. And so I would just encourage anyone, frankly, to read the lawsuit, because when you read the lawsuit, it just makes you incensed that what Sabre has done.And so I would think and hope, both Kuros! and Mace use that as an opportunity to open additional doors into, not just supplant and get Mace Kuros! in there, but frankly, knock out Sabre completely, because who wants to do business with a partner like that? That's just my opinion, based on publicly filed litigation documents in the State of Texas. I'll back out of the queue right now, please come back to me. |
| Gary Medved: | Sure, Andrew. |
| Operator: | We have a follow-up question from Thurman Willis. |
| Thurman Willis: | Yes. I have a purpose in this madness, but I wanted to just make a few statements and let you respond on, if you will. Made my first investment in Mace about 7 years ago, and I recall presenting a 10-point plan to the Board at that time. And I recall telling the previous Board and management we couldn't starve ourselves to profitability.And that will be one aspect. I want to make sure that this management team is not going to try to starve itself to profitability. Can I stop with that and then catch a second question? Or would you rather me continue on with the sales having dropped to the point they are to reach the EBITDA, I just want to make sure that present management concurs that we can't starve ourselves to profitability we didn't have. Because it didn't work before, it's not going to work now and that we have a keen interest in growing revenues.Hello? |
| Gary Medved: | You there? |
| Thurman Willis: | Yes. Did you hear the question? |
| Gary Medved: | Yes. We did. Sorry, I think there was some technical -- but we did hear. |
| Thurman Willis: | I'm sorry. |
| Gary Medved: | We heard your whole question. Let me start over. I was just stating that when I came in here in January, it didn't look like the company was starving, it looked like it had been well-fed from a people count and an overhead count more in particular, in the amount of overhead dollars being spent. That being said, you can go back and review the transcripts from the first couple earnings calls that I was on, and I've always made it a point to stress that my goal is to get the right people in the right seat, on the right track, preferably in the right train, going in the right direction.And some of -- to achieve that, when I look at the overhead of the company, we were heavy in a couple of different areas and that was addressed. We were underperforming in 1 or 2 areas, that was addressed. And I think the example to calm your fears of us starving ourselves to profitability, that was never the goal, okay? I can tell you now if our revenue was double what it is right now, I would have the same structure in place, okay? I look at it as we were heavy where we didn't need to be heavy. We were underperforming where we should have been over performing, and we addressed all those positions.Now if you look at the amount of spend that we're putting into new packaging, even the products, going forward, the amount that we're spending on travel, getting in front of all these retailers. We've revamped our sales and marketing team. We've added a position here that we never had in this company before.As well as on the e-commerce side, where I said it would have been easy, Thurman, to drop all advertising and say we're not spending another dime, let's see what happens. But we didn't do that. We pivoted out of advertising and took those same dollars and pushed them over into content development and SEO or search engine optimization, which the fruits of those labors will be seen in the coming months.That isn't a switch that you flick it overnight and it's done. And we were still advertising on Amazon, okay? We built a new -- I wouldn't say built, but we redeveloped our website, and that took a substantial amount of resources in the form of capital to get that done. We invested a new equipment out in the plant for automated packaging, okay? So we can be more efficient out there. We're investing in the new products that we'll be launching in spring of 2020.So I don't think it's fair to just overall address the assessment here as starving ourselves to profitability, okay? And anybody in the world of exercise will tell you how you get stronger is you exercise. The process of exercising is tearing down muscles to let them rebuild stronger. That's us right now, okay?So we tore the company apart. We did a reset from a sales standpoint, a marketing standpoint, an operational standpoint, a logo standpoint, a branding standpoint, messaging standpoint, packaging standpoint, product standpoint. I think we've invested quite a bit, okay? We're just not wastefully spending on vast amounts of overheads but we're underperforming, okay? So hopefully, that answers your question. |
| Thurman Willis: | Well, that's what I -- I think it does. I just want to make sure. It was the old regime, I think they did try to -- maybe they misappropriated their funds, but I still think they tried to starve themselves to profitability with advertising and other various, et cetera. The new owners took, overall, about 17 months ago.And I noticed they commented on the -- sort of the Chairman wrote a letter about growing revenues 15%. And I recall being in the Annual Meeting of July of '19 and the many new ideas that were presented excited all of us, so that were there to a great degree. I recall you talking about your great plan, the U.S. Postal Service, other projects, Kuros!, et cetera.I haven't heard you talk anything about the U.S. Postal Service, that I didn't read anything in the press release yesterday that addressed getting new fans in the stands, Kuros!, the U.S. Postal Service, press releases with insider purchases. And those that saw revenues down 29% had to be alarmed, not understanding where you're headed. So I continue to be excited and I don't want to see the new regime do as the last regime, using the same old ideas. And so I want to be excited as a new investor on the new transition, and that comes through communication, of which I think we were promised press releases. I know you can't make those up.But I think we've had 1 in the last 90 days. And the only way we're going to get fans in the stands is to communicate. And then the best way is, of course, to give confidence to investors through insider purchases. And I'd still love to see the company come up with the funds to repurchase stock at below $0.30, because I think it's priced at such a ridiculous level.So can you just expound a moment on how the U.S. Postal Service, these are the things that you will be communicating more often, putting out more press releases, trying to get new fans in the stands, communicate better, et cetera. |
| Gary Medved: | Well, the 2 major points there, Thurman, one on the USPS, the ball is kind of out of our court at this point. We're waiting on final approval from the USPS on the packaging and artwork, okay? We've been waiting for a while now. And like all government entities, they move slow and stodgy-like. So we're waiting. We're trying to bump them along. And when we have news, everybody else will have news.Regarding the press releases, I know we've talked about this a number of times in these calls. When we have something relevant to put out there, we will do a press release, point number one. Point number two, I've written a few articles over the last couple of months, Mark Barrus has tried to get them in the form of a press release, but they were rejected because they're not press release worthy, okay? There are requirements you have to hit for it to be a press release for a company.And we didn't meet those requirements. So the articles wound up going out on our website, blog, e-mail newsletter, LinkedIn for Mace, LinkedIn for my personal account and getting substantial amount of views, but nevertheless, they won't go out in a press release.So I can't comment on people just buying stock, okay, or getting new fans in the stands. What I'm focusing on here is taking this company and giving it a more cohesive look from a branding perspective, offering a full continuum of personal safety, non-lethal personal safety products, more at a consumer-focused level than we've ever done before. And I can tell you it's resonating with the buyers, okay? We see the looks on their faces. We hear their comments.A couple of them have already stepped up and given us commitments, okay? I'm expecting more to come. And that's where my focus is, okay? So press releases, we'll do them when it's relevant. We don't do them just to do them. We'll still be putting information out there on the company. And when we have something worth noting, or worth releasing, we will release it. And to wrap up on USPS, the ball is in their court, there is nothing more I can do at this point but wait for them. All right |
| Thurman Willis: | I'll get out of the queue and let someone else go, but we should begin to see a pickup in revenues from this 2.44 million [re-up] . |
| Gary Medved: | Well, my contention has been for a long time now, because of the way national retailers operate, they do their spring resets after the holidays are over, after they clear out all the inventory in January, February and so forth. Then they start bringing new stuff in. And so late Q1, Q2 is when we expect this thing to take hold.Now I know I made the comment at the investors meeting back in July, in 6 months, I'll know if it's working. I stick by that, but that wasn't from a revenue tick going up or that's going up by 50% in a quarter. That was feedback from the retail buyers in these national chains getting back to us before year-end.So if you go back to July, I stick by my words, I'll know by the end of the year, 6 months from our investor meeting, if this plan is working. And it's going to be proven by the buyers e-mailing or calling us saying, "Hey, we're adding this line. We're adding this category. We're adding this product." Okay? So I'm not going to sweat it here on October 31, okay? I'll wait until the end of December to see who stepped up and then we'll go from there. So for now, I'm still sticking by my, "I'll know in 6 months if it's working." |
| Operator: | We have another follow-up question from Andrew Shapiro. |
| Andrew Shapiro: | I have a few here, trying to get them in before, hopefully, you won't cut this thing off at 1 hour, because that leaves us only 12 minutes. I think last quarter, you said the duration of the Postal Service agreement might be 3 years. When does that 3-year start? And are there renewal options? |
| Gary Medved: | I believe the 3 years started when the agreement was executed last -- this past April or May, Q2 of this year, when it started, okay? And I believe there are renewal -- I don't have a copy in front of me, okay, but I think with every agreement, there is a renewal option in there. It might be a year-by-year, but I don't have it in front of me, Andrew, but I'm confident there is a renewal option in there, okay? |
| Andrew Shapiro: | So if they take forever to approve the artwork and the packaging and burn through a bunch of this thing, I'm assuming our payment obligations and delivery on our milestones doesn't start or a trigger against us until you actually can have an approved product packaging to sell, right? |
| Gary Medved: | Yes. Andrew, that's a good question. So there's a couple of things. Like any new partnership, we both have to find our way a little bit. This is new to them and it's new to us. So pepper sprays and alarms are unusual categories for some. So we are finding our way with our partner, the USPS. Having said that, there are some contractual protections in there, that should we choose to exercise them, they do not have an unlimited time to ponder and review packaging.There are actually hard cutoffs that we are kind of working with them and giving them a little bit of benefit of the doubt as we are early in the process here, to make sure they're comfortable completely with our products and our packaging. But there are protections in that contract that, should we choose to enforce them, would accelerate matters.But again, we're both finding our way on this partnership. And this has to ultimately have both parties to make it work, which we believe it will. So we are -- we do have some protections that this won't drag on forever and will cause the -- our license period to expire and cost us a bunch of money. That's not going to be the case. We're not going to let that happen. |
| Andrew Shapiro: | I have more. On the last call, you said you expected to have meetings for specific channels for the USPS joint product offering and might begin shipping product in November. I'm assuming, because the packaging is not yet approved, you have not had those meetings? Or have you had the meetings anyway and you're getting some feedback and what is that feedback? |
| Gary Medved: | We had 2 meetings, and then we put the program on hold, pending the final artwork approval. So we showed prototype packaging to a couple potential customers. One wants to run a 50-store test, I won't mention who, and we're waiting to be set up. But again, without final approval from the USPS, there's not much we can do.So at this point, we're not showing it to anybody else. We're still -- they still want to hold a meeting with us down in Washington, D.C., the USPS does. And they have contacts to help get us into some other potential partners in this channel with the USPS brand. But this is all kind of on hold right now until we get the final artwork approved. |
| Andrew Shapiro: | Okay. Fair enough. Now on your MD&A that you issued with your report on the OTC markets, with the second quarter in a row kind of weakness in both brick-and-mortar and e-commerce, can you elaborate and discuss on whether it's a sector weakness and we are maintaining share? Or whether we're losing some of our leading market share? |
| Gary Medved: | Okay. The one main reason I want to address the elephant in the room is for this reason. There's -- what we're seeing there is not a weakness out there in the category. There's not a weakness in brick-and-mortar, okay? The 5 areas that I pointed out in my opening, I think, for the first question for Thurman, okay, none of those contributing factors to the revenue drop from last year had anything to do with us -- with a weak category, with us losing business, okay? |
| Andrew Shapiro: | Sure. So Gary -- Gary, I understand the year-over-year declines are kind of one-offs. I totally understand that. The -- maybe it's seasonality then. But our sequential revenues from last quarter, our sequential revenues were down. And so I was just wondering, maybe I should have added into this menu of selections, is it seasonality, share loss or sector weakness between the September quarter just reported and the June quarter? |
| Mark Barrus: | Yes. Andrew, it's a good question. Just to clarify, I guess, sequentially, both Q1 and Q2 saw sequential growth. It was more modest in Q2 as we signaled last there. And as you're correct, it's sequential. So normally, Q3 is a pretty strong quarter for us. And so this was down sequentially.We -- as Gary said, we don't see it as sector weakness, this is a consumer product, and it is a bit of an impulse buy. And it's sort of a specialty category. So any overall consumer concerns in the economy are not, we think, what happened in this quarter. Obviously, that the overall retail environment is challenging, but that's another story. |
| Andrew Shapiro: | So is it just us maybe we ceded some market share in order -- with the decision not to do the low-margin promotional sales of this particular quarter, season versus -- normally, we'd be up in this quarter from June quarter and we're not. So that must mean that we just ceded some market share because we chose not to do last year's promotion. |
| Gary Medved: | Andrew, we did not choose to not do last year's promotions, again, okay? |
| Andrew Shapiro: | Your customer did? |
| Gary Medved: | Yes. Based on poor sell-through, and I mentioned that earlier, okay, they decided not to repeat those -- or repeat any promotions. We are working currently on a promotional calendar, okay? I'm not going to get into details on the phone here, but we're working on a promotional calendar that will mean more to the end consumer, mean more to our customer, the retailer, okay, than what we've done in the past, okay?They've just got to be positioned the right way, at the right time, the right product, the right price and not just put tons of product out there, so -- and I will add one more point to that. When those promotions went out last year, and they had a poor sell-through, what do you think the retailer did to rid themselves of that inventory? They liquidated. When they -- what do you think happens to the everyday product we have hanging on the shelf? |
| Andrew Shapiro: | I know. Just -- it just flushes it for a while. |
| Gary Medved: | It's a rippling effect and it's an ugly rippling effect. So it's great. Everybody's happy, clapping hands and stuff. Look what we did for the third quarter of '18. There's nothing for free in this retail market. These guys are smart. They got AI working for them in terms of inventory levels versus sell-through, purchase. |
| Andrew Shapiro: | It all -- you guys have to -- you or the retailer have to generate sell-through. You need to generate demand pull-through rather than all the other crap that was done in the past. |
| Gary Medved: | And to do that, we are looking at a completely different way of going about any type of promotional activity, okay? And I love what I see, okay? And the next step is – |
| Andrew Shapiro: | When will that be implemented? The demand pull-through. |
| Gary Medved: | The next step is to get in front of the buyers, okay, and work on a promotional calendar for next year, okay? And we're actively trying to schedule those meetings now. But that's as far as I want to go right now on an open line. But suffice it to say, we're just taking a completely different look at the way we do promotions than what was done in the past, okay? Because these retailers, they want 80% to 90% sell-through in a month. They don't want 23% in 2 months. |
| Andrew Shapiro: | Yes. So you referred to a decline in e-commerce sales. Can you clarify the extent and elaborate on whether the decline in online sales occurred from mace.com, Amazon and/or others? |
| Mark Barrus: | Well, we don't break that out, Andrew, but it was targeted in really one of the e-commerce sites that you mentioned, and there were, as Gary mentioned before, a decision was based on advertising redirected to other causes. So the other channels that didn't have the advertising were continuing strong. |
| Andrew Shapiro: | Now last quarter, you described that the actual direct margin for product sales before overhead, was comparable to prior year. With another quarter under your belt, and additional manufacturing efficiencies employed under your strategy, how did the actual direct margin for product sales before overhead, because I understand under-absorption because sales are down, this quarter compared to prior year? |
| Mark Barrus: | It was within 1%. |
| Andrew Shapiro: | Okay. Within 1% -- within 100 bps below or above? |
| Mark Barrus: | It was 1% below, and that was based on margin. We had stronger custom sales -- not -- I'm sorry, it was based on mix. We had stronger custom sales. |
| Andrew Shapiro: | Mix. All right, got it. |
| Gary Medved: | And we have time for about one more, Andrew. We're up against it here. |
| Andrew Shapiro: | Well, I wish everybody didn't chew up all that damn time. I have so many good questions here I want to be asking. |
| Gary Medved: | What's your best ones? Save them for next quarter. (inaudible) Best ones. |
| Andrew Shapiro: | I am not waiting for 5 months. I would like to have a call with you guys off-line to get some of these answers. |
| Gary Medved: | Sure. |
| Andrew Shapiro: | But the SG&A reduction that you had in Q3 was decently sizable. It was about a 680 basis point improvement when compared to the prior quarter. What would that improvement look like when you exclude the one-timers from Q2? I'm assuming this is something you've done internally or some other Board member asked you of this, so I can understand what kind of ongoing spending adjustments have been made? |
| Mark Barrus: | Yes, that's a great question. So we'll hit that up here as we end this. So if you go chase back through our OTC report, we break out specifically category by category where the SG&A changed. So I'll just look at the 3 months because it's easier to get a handle on.Really, there are a couple of categories there that are variable categories related to sales. So commissions to reps and e-commerce fulfilment fees to Amazon are related to sales. So that's going to go up and down. Everyone always -- it'll go the same direction. The same way, to a degree, we have some control over the advertising expenses. So the $153,000 decrease, you'll see that really, most of that is related to the variable selling and advertising decisions we made. |
| Andrew Shapiro: | Mark, you're talking about versus prior year. And I saw that breakout. I understand. |
| Mark Barrus: | Okay. Okay. |
| Andrew Shapiro: | What I'm going at is sequential. From last quarter, you had -- it's not $153,000. It's 400-and-some-odd thousand. It's a nice reduction from last quarter, but the issue is when you take out the one-timers, what would that improvement look like, excluding the one-timers? And can I expect that this level of ongoing spending efficiency would benefit us as you ramp up revenues? |
| Mark Barrus: | Yes. I understand your question, Andrew. So if you took out the one-timers in Q2 that impacted SG&A, I think you -- I don't have the exact figure, but I think you'd still see a positive sequential improvement in overall SG&A, excluding that. So in other words, we continue to make progress on SG&A, even if you took out some of the negative things that occurred in Q2. |
| Andrew Shapiro: | Right. That's what I was trying to get at. Okay. Like last quarter, last quarter, I only had a few questions left over, and we were supposed to have a follow-up and 3 months passed and we didn't have a follow-up. Next quarter is year-end, so that means a follow-up is more than 3 months.I have many more questions I didn't get to on this call because you limited it to an hour and someone took a lot of time. So I would like to have you guys arrange with me a call so I can get some of these other questions that hopefully won't involve -- they're just more for color and clarity and wouldn't involve any other – |
| Mark Barrus: | Yes. Andrew, your questions are good as our other investors, and I will get in touch with you and we'll hand your call back. So operator, I think that's pretty much where we're at in terms of our hour limit. And I think we're through at this point. |
| Operator: | Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. |