Mace Security International Inc.

Moderator: Mark Barrus
May 20, 2020
1:50 p.m. EST

OPERATOR: This is Conference #3254038.

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Mace Security International First Quarter Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session.

To ask a question during the session, you will need to press star one on your telephone. Please be advised that today's conference is being recorded. We'll now like to hand the conference over to the speaker today, Mr. Mark Barrus. Please go ahead.

Mark Barrus: Thank you, JP, and good afternoon everyone. With me is Gary Medved, President and Chief Executive Officer of Mace. Please visit mace.com Investor Relations where you can find additional materials including the financial statements and OTC report for the quarter ended March 31, 2020.

Before proceeding, I'd like to point out that certain statements and information during this conference call will constitute forward looking statements that 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, impact of the current COVID-19 health emergency and the ability of management to effectively manage the business.

Such factors could materially adversely affect Mace's financial performance. It could cost Mace's actual results for the future periods differ materially from any opinions or statements discussed during this call. I will now turn the call over to Gary to comment on the first quarter of 2020 operational results.

Gary Medved: Thank you, Mark. I am very pleased with Mace's performance in the first quarter of 2020, which is a result of the hard work of all dedicated Mace associates in a very difficult climb.

The quarter also represents continued execution against our financial priority of sustainable profitability, and we will continue to build on that financial performance in 2020.

From a net sales perspective, we are pleased that our customers continue to recognize the value of the Mace brand, and the exciting new products and packaging that we have been introducing.

We gain several significant new customers including a national automotive retail chain, as well as a large national travel center operator in the quarter. We also have a large national retail chain and another large automotive specialty retailer add new product placements.

As a result of the national health emergency, while we saw many of our large brick and mortar customers continue to operate, we believe others in our consumer channel saw reduce foot traffic or forced to close entirely.

Our e-commerce channel was somewhat impacted by supply chain issues, specifically delivery issues due to reprioritizing, a product delivery towards essential supplies. But saw the supply chain stabilized toward the end of the quarter and more of a traditional buying pattern emerge.

In the quarter, we also invested in the business and the brand by completing a significant national consumer insights study. We gained a number of very valuable data points about target audience opportunities, opportunities to better educate our customers, and specific product features that the marketplace is demanding.

Through the remainder of 2020, we will act on these insights. We also continued our disciplined expense performance throughout the quarter with a significant year over year reductions in discretionary professional services, salaries and wages, and a more focused use of e-commerce advertising compared to a year ago.

This discipline spending has helped lower our breakeven point so that we can continue our EBITDA generation on a sustainable quarter in-quarter out basis, as we have done for the past two quarters. I will now turn the call over to Mark to discuss details behind the financial.

Mark Barrus: Thank you, Gary. First Quarter net sales were 2,791,290 basis point increased from 2,712,000 last year. This increase in net sales was due primarily to increases to existing brick and mortar customers, a significant increase in international sales, while somewhat offset by a decline in tactical sales, compared with the same period in 2019.

Gross Profit increased $41,000 or 390 basis points to $1,081,000 or 38.7 percent of net sales during the three months ended March 31, 2020 compared with $1,040,000 or 38.3 percent of net sales during the three months ended March 31, 2019. This increase was primarily due to increased sales volumes.

Selling general administrative expenses for the first quarter decreased by $937,000 to 881,000 or 31.6 percent of net sales during the three months ended March 31, 2020 compared with $1,880,000 or 67 percent of net sales in the three months ended March 31, 2019.

The prior year's quarter was heavily influenced by executive severance and other salary expenses, large non-recurring legal and professional spend, and a non-cash charge for stock compensation expense, and the quarter ended 3/31/19 as more fully explained in our OTCQX quarterly report.

As a result of the above, net income improved by $976,000 to net income of $120,000 in the three months ended March 31, 2020, which equals 4.3 percent of net sales, compared with a net loss of $856,000 in three months ended March 31, 2019.

Even after the first quarter 2020 was $240,000 or 8.6 percent of net sales, compared to EBITDA of negative $736,000 in the same quarter of 2019, or at $976,000 improvement. First Quarter adjusted EBITDA was 270,000 compared to negative 223,000 in Q1 '19 or $493,000 improvement.

From a liquidity perspective, we saw a net increase in cash and cash equivalents of $76,000 from December 31, 2019 to March 31, 2020. The undrawn portion of our line of credit was $900,000 as of March 31, 2020.

As disclosed in the financial statements due to current economic uncertainty necessary to support the ongoing operations as well as the limited ability for us to access capital markets in a timely manner, the company applied for and was granted a Paycheck Protection Program loan to the US Small Business Administration in the amount of $619,000.

I will now turn the call back to Gary who will discuss outlook and priorities for the remainder of 2020.

Gary Medved: Thank you, Mark. In summary, I believe we are now seeing the result of our transformation paying off through improved SG&A and manufacturing cost, new customers and increased product placements for 2020 retailer recess, and the resulting sequential improvement to EBIUTDA throughout 219, I'm sorry 2019, and into the first quarter of 2020.

We are mindful that the unprecedented COVID-19 health emergency and the impact it had, and will continue to have on consumer spending, and brick and mortar retail travel make the outlook for the next quarter and potentially beyond that uncertain one. In response, we are appropriately redirecting capital and resources to areas of the business in which we see greater year term returns.

At this time, I 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. If we have additional time, we will try to get back into the queue. Operator, please open the line for question.

Operator: Yes, sir. And as a reminder to everybody on the line, in order to ask a question, please press star then the number one on your telephone keypad. Again, that is star one for questions. Their first question comes from the line of Andrew Shapiro. Your line is now open.

Andrew Shapiro: Hi, thank you. Can you hear me OK?

Gary Medved: Yes we can, Andrew.

Andrew Shapiro: OK. We always have to ask it these days since we're all at home. With the sales rebounding slightly but still below your recent highs in 2018 and early 2019, can you clarify or kind of walk us through a little bit more about what you're doing in various channels to grow the sales from your various revenue streams to higher heights?

Gary Medved: Well, the brick and mortar retail channel first which is the bulk of our business, I think everybody knows what we're doing there already. And, you know, the new packaging, the new colors, the new products, it's all resonating the family approaches resonating with retailers.

And, you know, for where we are right now, in this environment where we're pretty happy with the performance in brick and mortar retail.

Private Label, I think, you know, bear season is, you know, this time of the year is a is a good hit for us and there is some movement in delivery of orders that shifted out of March into the April, and I think that has an impact internationally. We're strong up to date.

And when I look at the – all things e-commerce, if you will, there's a strong focus on those channels right now that both Sanjay, our executive chairman, and I are focused on together, get a lot of our – getting a lot of our attention. And, you know, at the end of the day, Andrew, you know, we got our foot on the gas on all these channels, and we're not letting up anywhere.

We're still doing category reviews, although virtually, as we said in our opening comments, you know, we are getting product placement. We are landing new retailers, but there has been a hit with foot traffic. And so, overall, I think, you know, we're quite pleased with results given the given the economic climate that we're all in right now.

Andrew Shapiro: OK, there's a follow up. Of the accounts added during the quarter in the year, can you identify the more notable or larger ones and have the accounts recently added last quarter or the quarter before last, have these accounts sold through their initial inventory build and what's been your reorder experience this quarter, especially with the disruption in foot traffic.

Gary Medved: Well, we don't expose names of our retailers in calls like this, that whenever there's a reset in a retailer, chances are it's taking place in late Q1, which is been our experience, OK?

And so, the account that we added there was one in the early part of the year, which we got reorders for, and then the second was late quarter one ad and the new products are late quarter one out as well, simply because that's the calendar that retail is on.

So, again, you know, the – you know, we've been saying all during 2019, you know, we have to push hard to get these category reviews, these meetings. We did that. Decisions were made late last year for spring resets this year. And so far, nobody's put us on hold or canceled their decisions or change their mind from what we were told last fall.

So now, it's just a question of retail rolling them out and some maybe delay. There's others coming on board cause their customers in Q2. We'll talk more about those at the end of Q2 but, you know, everything that we thought was going to happen last fall is taking place now, OK, with the exception of the COVID-19 disrupting foot traffic with the retailer.

Andrew Shapiro: Great. I have more questions, so please come back to me. Thank you.

Operator: Next question comes from the line of Vijay Marolia. Your line is now open.

Vijay Marolia: Congratulations, guys, on the turn around? Quick question, do we have the capability of making (masks)?

Gary Medved: I'm sorry, can you repeat that again? We got cut off a little bit.

Vijay Marolia: Do we have the ability to sell masks?

Gary Medved: To sell masks?

Mark Barrus: Yes.

Gary Medved: We have the ability. We don't have anything out there right now. But, you know, we have the ability.

Mark Barrus: We have really good sourcing capacity from overseas where we do source a number of our products, and that would be probably where something like that could come from, and we do get approached from time to time.

But it currently doesn't really make sense in the way we sell and the nature of our customers to try to add that, that product. We really couldn't manufacture it per se if that was the question, but we could certainly source it if it made sense in the future.

Vijay Marolia: And would you be sourcing that from India, (inaudible) or something?

Gary Medved: Oh, there's no decision even the carrying out, let alone where we've been sourced, Vijay. So, you know, that is something we will have ...

Vijay Marolia: OK.

Gary Medved: OK.

Mark Barrus: Anything else? OK, operator, we can go to the next question, next caller.

Operator: Yes, sir. Next question comes from the line of Thurman Willis. Your line is now open.

Thurman Willis: Thank you for taking my call. Gary, with Mark's retirement from the company as CFO and the virus distancing rules, hindering a media replacement process, I know that you might not have the time to devote to Investor Relations.

What are the company plans to address this in terms of keeping hour on schedule? Is this something Sanjay could step up and help you? And now that he is full time executive with the company in mind, it makes sense to gain the hill from some outside expertise as well.

Gary Medved: Hey, Thurman. First, our IR schedule is out there already. I think it was put out in the press release. Mark put that out a little while ago. Number two, even though there's a search underway, I don't think the distancing has impacted our search. You know, a lot of stuff a lot of meetings are being held virtually.

So I don't see a disruption to our IR schedule at this point. They may be all virtual, by com are done within this year, rather than in-person. But, you know, Mark is still in pocket here. He's, you know, he's still working at Mace. So I don't see any major disruptions to the schedule. I don't see, you know, that's requiring, you know, outside help for sure.

I think we got through the first IR conference a couple weeks ago. There'll be some polishing up on the presentation for the next one and further polishing as we go through the year. So I'm comfortable with the schedule. And Sanjay needs to step in anywhere he'll certainly be able to step in. But I think we got everything covered in the schedule will be taken care of.

Thurman Willis: To follow up on that, and back to Investor Relations, let me compliment you on the mic – Planet Micro Virtual Conference. It seemed to increase liquidity in the stock improves from 30 percent. Are we going to increase our exposure to other immediate conferences?

And how do you feel about doing my bimonthly telephonic conferences with five to 10 wealth managers on the phones was to get more fans in the stands and educating them on the potential of Mace, and to further enhance the stocks trading and liquidity?

And again, I know I'm saying this for the second time, but I am positive. Your excellent job and one-on-ones, and presentation which I heard at the Planet Conference was one of the key reasons for this happening.

Gary Medved: Thank you, Thurman. I don't know about more conferences this year that we've already scheduled in terms of IR conferences, OK. And secondly, I'm not – I don't think we're adamantly opposed to, you know, bimonthly meetings, you know, doing virtual meetings with, you know, some individuals out there. We get a group together. I don't think we're adamantly opposed to that.

Understand, we have a lot going on right now, especially in this environment. So they're – we got a lot of (pokers in the fire), a lot of things get attention all at one time. And, you know, we're going to stick by our IR conference schedule for now. We can talk about doing meetings with, you know, investors, you know, small groups of eight to 10, or whatever going forward. Like I said, we're not opposed to.

And did you know that from last year, my contention has always been, Thurman, that, you know, before we go out there and meet with anybody, we wanted to have a story to tell. You know, cleaning up last year was less of a story than where we are right now.

And I think as time goes forward, you know, that story is only going to grow and build, and it'll become more attractive to investors out there. I'm confident of that. And, you know, last year, this wasn't the time. This year we're breaking into it, and we're going to continue to – it's going to be part of our game plan going forward, so.

Thurman Willis: Great, great. I have one other question. Should I, to follow the instructions, should I get back in the queue? Can you come back to me with this one other question and follow up or should I ask it now?

Gary Medved: No, we'll come back to you.

Thurman Willis: OK. Thank you again for taking that question.

Gary Medved: Sure, Thurman.

Operator: Sorry, sir. Go ahead.

Mark Barrus: No, you can switch to the next caller.

Gary Medved: Direct it right to the next caller.

Operator: Yes, sir. We have a follow up question from Andrew Shapiro.

Andrew Shapiro: Thank you. Mace has (tax) net operating loss carry forwards equaling around $1 a share with our stock price at, you know, only 20 some odd cents a share.

And one way for Mace to create pre-tax income to better utilize this substantial asset is finding ways of monetizing our world famous Mace brand through royalty and licensing arrangements.

What are you guys doing or what are your thoughts at monetizing the use of the Mace brand and turning that brand recognition into some incremental pre-tax income?

Gary Medved: Well, I've been in favor of it since I came here. I think we have a list of opportunities that we've put together in house. We have been approached. You know, since I've been here, the timing and the story wasn't right with the particular company or those companies. But we feel we have an opportunistic list put together here that we'll be reaching out at the appropriate time.

As I just mentioned to Thurman couple minutes ago, we, you know, for where we are right now and with – the momentum we had coming into Q1 or I should say 2020, and then with COVID-19, really being, you know, playing the role of the great disrupter for all businesses this year.

We just have pressing opportunity, or I should say, pressing issues and schedules in other areas of the company, that the licensing thing needs to take a backseat for right now.

And quite honestly, I don't think there are going to be many companies out there wanting to entertain a partnership with licensing, given the COVID-19 environment that we're all in at this point.

So it's something that's going to get attention going forward. I can't give you a timetable simply because of where we are right now. With everything going on, but it is going to get attention.

We're in full bank of this. Sanjay is on board with it. I'm on board with it. Mark's been on board with it. It's the right company at the right time to partner with and that will happen. It's just a question of when, not if. OK?

Andrew Shapiro: OK. And related follow-up here is that acquisitions are also another likely value added way to use the NOL (tax) shield earlier than they would otherwise. And, you know, the company made an acquisition just as you and Mark came on board acquiring Tornado.

Can you describe, I guess, first, the – weather you were able to expand the sales of Mace's wider array of products to Tornado's acquired customer accounts as you hoped for? And where are you in having to pay the earn out on that acquisition and whereas that potential liability on the balance sheet?

But then, taking the next step further in terms of strategy is, can you describe your thoughts of the type of products and companies that you would like to consider for strategic acquisition if the price were right.

And in this COVID environment, there may be some more eager sellers to potentially pursue what I'm hopeful and looking forward to hearing what you accomplished with Tornado.

Gary Medved: Well, the first part of your question – yes, yes. The acquisitions were done the prior few years before I got here, you know, alarms and the private label business were both good acquisitions, and they continue to pay good dividends for us and we're expanding both of those businesses.

The third one, Tornado was kind of a smaller (talk) in January of '19. And we are expanding the brand but I'm pretty sure I've covered this in previous calls, Andrew, where, first of all, from their customer-based, you know, there are some overlaps with the Mace brand and their top customers and our top customers.

So we have to be really careful about that. And then number two, we, you know, we've been considering the Tornado brand is developing as an off brand for us, OK?

And that's taking place right now. We got our first placement of product that went out about two weeks ago to 55 chain of outlets. And it's too early for POS data at this point over the next 30, 60, 90 days we'll know what the sell through is like.

So we will be expanding the Tornado brand, but it won't be at the expense of the Mace brands so to speak. It'll be an addition to the Mace brand and serving a purpose that, you know, in a market that we don't serve with the premium Mace products.

To your point on acquisitions, Mark can speak to the financial aspects. But the one thing about acquisition, you know, you've heard me say about new products in the past number of times.

They got to be patented, patentable, they've got to be relevant. They got to add value to the end user. And, you know, some of that criteria carries over to acquisitions as well. You don't want to do acquisitions just for the sake of an acquisition, OK?

It's got to add something of value to us and the end user, it's got to solve a problem that we're looking for solution, rather than just, hey, they make pepper spray or they make this, let's go buy them.

I looked at, you know, the alarm company that Mace got, that was a good acquisition, because they didn't operate in that space. And I looked at the private label business and, you know, what we're doing with private label today.

So Tornado was a little bit of a repeat of the existing business. So any further acquisitions, I think you'll see a strong penchant for us to pay attention to what problem the dissolving for Mace, OK. And then we'll figure out a way to acquire. And Mark can add something on the financial front here as well.

Mark Barrus: Yes, I was going to say, Andrew, to your point, you know, there is a portfolio of things that we have looked at and are, I'll say some often on continuing discussions with.

And certainly, I think you're right with the economic situation and the health situation, you know, things can change pretty quickly in the seller's mind. So, you know, we have, by no means, shut the door, if you will. We do want to be very conscious of cash balances and keep our options open and as much flexibility as we can moving into the next couple quarters.

So, any acquisition will, you know, have some pretty strict criteria. But of course, you know, we – the discussions we have had, to some degree have been around, you know, sort of a portfolio of financing might involve some non-dilutive stock. It might involve notes. It might involve cash.

So we have a lot of different ways that we can go and, you know, by all means we are – we take those discussions and we look seriously at them. And, you know, this could change very quickly if it really seemed us to be a superior use of capital, we'd be able to take advantage of it.

Andrew Shapiro: OK, I have more questions, please come back to me.

Gary Medved: OK. Operator, you can switch us over to the next caller.

Operator: Yes, sir. We have a follow-up question from Thurman Willis. Your line is now open.

Thurman Willis: Yes, thank you for – thank you. I know we're in an uncertain market where should the economy improve, can Mace grow its revenues with these new markets you have 15 percent to 20 percent within new doors we are in that have not been announced?

Gary Medved: I don't think you're going to hear a CEO on any earnings call, step up to own 15 percent to 20 percent in this environment. What I can tell you is, our strategy was designed to give us nice returns nice growth numbers. You know, with the outlets that we've identified, the outlets were going out there, and we still stand by that, OK?

And you're right, this is a very uncertain environment. And for the retailers that are open, they're their foot traffic has been disrupted. You know, just the amount of people that are going out and about even when they're opening up the economy in certain pockets of the nation.

This isn't a (spigot) opening up, you know, with the word "go." You know, they're talking about the airlines being two to three years before they get back to what they once were, hotel industry, restaurants operating at half of their capacity.

So everybody's bracing themselves, Thurman, for, you know, we're going to ease into this slowly. And we're anticipating, you know, on your worst case, because things do slow down for us like that as well, OK? It's one of these things you plan for the worst and hope for the best.

So I can't sit here and say, yes, I feel comfortable we'll get 15 percent to 20 percent growth given this environment. What I can tell you is the program that we put together and the retailers we're going after and the strategies that we're laying out. They weren't designed for a 1 percent growth number. How's that?

Thurman Willis: Well, well said. And follow-up I add to that. You have mentioned, you have often mentioned new products and I was excited about the stun that you – or the stun gun that you're using for walkers.

But with new products that are proprietary, that are in the making, can you comment yet on any products that could be a game changer for the company, or give a little more insight, at least, into what customer needs, or functions these products might address?

Gary Medved: Well, in order to your questions, thank you. No, no, yes and no.

Thurman Willis: You got me on that.

Gary Medved: OK. That was good, Thurman. The, you know, my background has always been that that new product development. I like to go after game changes if I can. I'd like to focus on gaps that exist in the marketplace. Not play in (V2) and also brand or copycat. I mean, there's no nobility in any of that. For me, it's no excitement for sure.

So, you go back to our IR conference, and I think as I said, as much as I want to say about the topic, the IR conference, and you could probably draw your own conclusions, you know, what we have on the drawing board, so to speak, I'm pretty excited about.

But, again, I'm going to throw out there, you know, when we were putting together the presentation and impact IR presentation, and then past quarterly calls, we weren't staring down the barrel of a COVID-19 pandemic that could go on for another 3, 6, 9, 12 months before people start loosening up.

So, you know, much like the acquisition market, that Mark alluded to, you know, and how we got preservation in cash, and we're looking at this and so forth.

The same goes for new product development as well, you know, there are phases and new product development where you're spending a little bit money, then there's phases where you really got to step up and write a big check. And we're going to be very careful preserving cash going forward and keeping a very tight close eye on the economy.

But when we do launch a new product, you know, in these areas we're looking at, I think you'll be quite happy with them.

Mark Barrus: Yes. To layer onto that, you know, Thurman, I will tell you that, you know, Gary's got a very creative mind when it comes to new products. And it is a constant discussion with Sanjay, Gary and others around here.

There's been a fair amount of groundwork laid on some, you know, pretty significant things. We're just not ready to talk about it yet. But if you think longer term than, you know, the strength of this company, very good in what we do.

We have a manufacturing capability that we can really up our game in terms of production quite easily with the footprint we have now. So when you look over the longer term back – going back to your original question, is that a 15 percent growth or you know, I would say longer term it – that's a minimum. It's going to be more than that.

And new products will have a place. Selected acquisitions will have place. You know, potential use of the brand and expanding it, you know, those all have a place, but certainly new products is something that we've thought about.

And, you know, I'm not just, you know, talking about, you know, a feature here feature there. But, you know, products in terms of whole categories are thought about pretty regularly here and there's always, you know, drawings and models, parts floating around here. So it is something that will contribute longer term to grow.

Thurman Willis: Good. And finally, let me just say, during these times, I just want to personally thank you, as a large shareholder and a long term shareholder. Gary, to you, and Mark, and Sanjay and the entire team, thank you on behalf of the shareholders for your hard work.

Gary Medved: Appreciate that, Thurman. Thank you. Operator, I think we have the caller in queue.

Mark Barrus: We can go to the next caller up, later.

Operator: Yes, sir. We have a follow-up from Andrew Shapiro. Your line is now open.

Andrew Shapiro: All right. Thank you. Keen of your comments, I think Mark mentioned about the manufacturing capabilities and I think some of the other attributes and you're designing proprietary products and all that.

The company still has substantial OEM fill revenues that you're generating, basically providing the product and someone else's label. And, you know, by definition, it doesn't use the Mace brand name.

Can you summarize what the competitive advantages Mace provides to these customers that gets you this value added revenue that helps us, of course, absorbing corporate fixed costs versus other field manufacturers.

Gary Medved: I think what it, first of all, from our customer's point of view, we know for a fact that when they meet with the buyers out there that they're walking into their meetings and they talk about, hey, we have Mace brand product in our canisters. That is a selling point for them. And it is a buying point for the buyer.

And we've heard that, OK? We, you know, our product, you know, our fields are hanging on a lot of folks out there you may not know about. And, you know, I'm smart enough to know that, you know, my first start in this industry after I left a huge company went to a small company, they did nothing but private label in a different market.

And I was always bewildered by, OK, there's this powerful brands out there and you're making these products evolve. They made a lot of money off of them because, simply speaking, not every outlet out there wants to carry Mace brand, OK, or only Mace brand.

And if our products on three hooks and we have two, and private label has one, I'm happy with that. When I came here last January, I thought the private label business could even grow larger than it was and it is growing, and we're going to continue to grow it.

And there are a lot of niche companies or niche labels, I should say that, that serve markets, you know, that we may not be in, it may be smaller markets may be a different market. And, you know, the business proves growing in and profitable.

I'm not going to lie, it's different than running Mace brand product when you're running a lot more volume, but that's the nature of private label. And we handle that in house with, you know, operational improvements. But I think you gives us, you know, a product offering that is not just only Mace because there are other brands out there and we recognize that.

And I think it gives an advantage to the – to our customer when they go in and meet with other customers and say, hey, you know, we're bringing Mace product in here, but they may – it's serving a different market or a different type of canister that we don't sell or something like that.

So I think it's a win-win for both parties. You know, we just don't want to put our head in the sand and think there's nobody else out there. If anybody's going to do the field visits, I want to be the one doing it.

Andrew Shapiro: Some sounds good, although I think that they're going to brag and leverage off that it's a Mace product in their can and perhaps that gives you some pricing advantage over.

Gary Medved: Yes. Andrew, we were approached by people they want to actually put the Mace brand on their label, OK, and I won't do that, OK. But it's enough that they have a benefit.

Andrew Shapiro: I guess you could do that as long as they pay you the same wholesale price you're selling in Mace product to Walmart or anyone else to, right? You're getting the full margin.

Mark Barrus: Yes. In our returns, you know, private label does a lot for us. And it definitely allows us to scale. You know, as you mentioned, cover some fixed cost. These people, our customers have great relationships that we wouldn't otherwise have. So it's an expansion that we wouldn't get our hands on.

And overall, the margins are good. I mean, we are fair to our customers. But, you know, given, you know, the SG&A that the variable piece that doesn't go into that, you know, we get decent money. So all in all, we really couldn't be happier with our custom business.

Andrew Shapiro: Follow up question here about – just want to confirm the quality of this quarter's good results. Were any of the gross profit and margin or SG&A, improvements, the result of recoveries of past write offs?

Gary Medved: A very tiny piece was we had previously mentioned, you know, way back when a couple license arrangements that when we were doing the licensing.

On one of those, both we and our license partner concluded it wasn't the right time for that arrangement.

So we left some optionality that we could return to in the future, but we're able to exit that and recover in the mid $20,000 range of recovery, you know, a very small piece of our overall $890,000, $880,000 of SG&A.

So at that point, that's really the only, you know, little, you know, recovery, if you will that in there.

Andrew Shapiro: OK. And you disclosed a little and this is in April, so it's not on the balance sheet yet. You disclosed a little over $600,000 received from the Payroll Protection Program loan. Is this loans used in the company's anticipated employee count? Likely to result in the complete forgiveness in the next few months when that measurement is calculated?

Gary Medved: Yes, that's a good question. So we're – as you know, it's an eight week thing and we're in the middle of the eight weeks, so we don't know for sure. But I think an early anticipation would be that a portion of that will be forgiving, and probably a majority of it will be forgiven, but there's clearly not going – there's going to be a piece that will be repaid.

That's still a win-win for us because it's very low interest costs. You know, very, you know, good, you know, good addition to our credit, and, you know, we're very happy that we are able to qualify for it, because of our financial position in our overall availability of credit, somewhat difficult for us, given our large losses. So you don't have the exact numbers but more of it than not will be forgiven.

Andrew Shapiro: And then, you anticipate the remainder, which is only a 1 percent rate, which is fabulous to keep that for the full two-year period that it's provided for?

Gary Medved: Yes, in all likelihood, we would. You know, we did just so, you know, everyone's hearing it correctly on the call. You know, we did maintain employment throughout this period.

And in fact, in looking at those benchmarks of employees this year versus, you know, the required period and so on. We did not decrease employment and we did not decrease wages.

So, we were able to, if anything, you know, potentially add a little bit here and the end of this period. So we absolutely, you know, properly using those funds in supporting wages. And then you had a piece that we have to keep, we'll hang on to as long as we can at the very low interest rate.

Andrew Shapiro: Right. Although it seems to me that you've been – if your employee account has stayed the same and/or grown, and based on how it works, there's a chance that almost all of this loan, you know, because you're allowed to use it towards rent up to a cap in all of that. You make it most, if not all of it forgiven.

Is this potentially related to the PPP loan that there was some disclosure by the company about discussions for voluntarily reducing the company's unused bank line of credit, or can you provide a little greater color on what this is all about and what is meant by voluntary? Is it just saving money on the unused, you know, on the rate on unused?

Gary Medved: Well, I think that's a good question. So, you know, we had been, you know, we have gone, you know, we've gone in our banking partners for a couple years now. And, you know, our line of credit is really intended to be year-in and year-out use of working capital. It's not a – it's not intended to be a permanent piece in our capital structure.

So we had, you know, been in discussions with them about the right numbers. We had a million and a half dollar line. And there was discussion that, you know, we could potentially lower that a bit.

But those discussions, you know, while we still haven't from time to time kind of got pushed aside when the code of situation came. And, you know, our banking partner was super helpful to, you know, we went through that for the PPP loan, which, you know, obviously, that's another $600,000 for some portion of time that we now have to use.

So we don't have any plans at this time to change that availability and that limit on the line. But, you know, obviously there's no unused line commitment fee and we only pay interest on what we draw, so.

Andrew Shapiro: Oh, that's good.

Gary Medved: Yes.

Andrew Shapiro: OK. Thank you. I have more questions. So please come back to me.

Mark Barrus: Operator, is there anybody else in queue?

Operator: Hold on one second, sir. Again, in order to ask a question, please press star then the number one on your telephone keypad. We do have a follow-up question from Andrew Shapiro. Your line is now open.

Andrew Shapiro: OK, excellent. Well, I have a few that I'll ask here. What are you doing differently now in this current environment and what we all kind of expect to be a kind of a new normal, to market, to consumers that you weren't doing six months ago?

For example, you know, you previously reduced your e-commerce advertising expense, have you refocused your spending focus now that e-commerce is even more important than brick and mortar stores versus before the pandemic? And like how are you reallocating your e-commerce expenses to grow sales as well?

Gary Medved: First thought, you know, we – I think everybody can agree that retail has been decimated with this pandemic, sweeping through the nation or globally. But, you know, the strong retailers that we partnered with have all remained open, OK? So even though they may have seen a disruption in foot traffic, they're still up and running and still ordering product and still selling product.

Now that being said, on the e-commerce side, you know, the play was, you know, we started changing this mid last year, Andrew. We wanted to get a better handle on building out our SEO content, a plus content, you know, there's a lot of stuff that we needed to do differently. We add new images shot, you know, and those are on mace.com as well as amazon.com and some other dot com partners.

So that's been the push in the last six months, has been really to build out that content. And, you know, drive to the top of the search rankings. Now, going forward, there's more content that we were just talking the last couple days and a couple meetings.

What we're going to do there and go back to the IR conference when you ask what we're going to be doing differently than we were doing six months ago. I think you're going to see a bigger push into advertising and we're testing the waters.

I want to put that out there, we are testing the waters because of our type of product. You know, there's a certain way we have to go around running ads, whether on search engines or social media platforms. And we're just, I think, we're only five weeks into those tests right now and we're getting results back. And, you know, it's early, but they're encouraging.

Number two, back to the IR conference, I talked about generating content, you know. And you're going to see more and more of that coming out here starting in the next month or so. You know, that was a Q2 initiative of ours. And like I said earlier, Sanjay and I are involved in this, you know, waist deep. If anything is our number one initiative when we come in, in the morning, it's that.

So there's a lot of attention being paid to the content side, there's a lot of attention being paid to the – and when I say content, I mean, you know, just the product content on these websites. And there's a lot of attention paid to developing content going forward. We're in the early stages of that.

And then, we're also getting stats in areas where we haven't necessarily paid attention to before for our own website on things we could be doing better, things we could be doing differently opportunities that we may not be paying attention to.

So there's a lot of energy and focus being brought to the digital channel that wasn't here. Forget six months ago, it wasn't here two months ago, OK? And it's getting a lot of attention. Sanjay and I meet every day on it.

We have initiatives going forward. We made a couple changes to our website – to the mace.com today. And there's going to be a couple more coming in the next few days. So we're hearing the pinch points.

We did like an impromptu survey with a number of people outside the company that has ordered product, got pages of feedback from them on what changes they would like to see that would make it a nicer, better, easier shopping experience. And we're implementing as we sit here and talk right now, I just got an email that one of the changes was implemented.

So you're going to see more of this going forward. Our organic audience coming to our website is, although I don't share direct numbers, we were just talking this morning for websites at launch at the same time we did.

We're the top 1 percent of traffic. So that should tell you something about the number of people coming to our website, unique visitors per month.

And we're going to start taking advantage of that, not taking advantage but that those huge numbers coming in, we're going to start addressing them to get increase our conversion rate, which is substantially increased in the last 60 days, but we want to take it multiples higher than where it is right now.

So there's a lot of attention. You got to keep people in the organization here that are focused on it, and it's a daily topic and it's starting to get changed, changes made as we go forward. OK, this week. So hope that is exactly ...

Andrew Shapiro: So with this new focus, have you already experienced a rise in your search rankings?

Gary Medved: Well, OK. When you go to Amazon, OK, their search ranking, you know, you get ranked on a number of criteria, OK? And this is what I was saying just a couple minutes ago that, you know, we wanted to be very efficient at any advertising spend, OK? So the last six months, a heavy focus has been on everything but average heavy advertising dollars. Those will come, OK?

We needed to get the product content and product descriptions, A plus content. We'll be introducing, you know, lifestyle photos and videos going forward, reviews and those are the things that helped drive. And then sales ultimately health, that's criteria they look at, and then your advertising that you pay.

So I'm happy with e-commerce results of, you know, the last six months on Amazon, and I'm especially happy with what we've been seeing on mace.com in the last few months. And, you know, both are in the right direction, on the right track, and we just want to keep that momentum going. But we got a lot of changes coming to mace.com going forward, so.

Andrew Shapiro: OK. Internationally, you've grown international sales slightly for the same quarter of last year but it had been a grower for you. What is Mace doing to grow sales and what's what do you feel is working and what's not working towards tapping into this massive growth opportunity? As, you know, in some ways, our brand is a world known brand.

Gary Medved: Yes. First of all on the world opportunity, you know, recognize, once you get out of this country, OK, a lot of countries don't allow pepper spray to be sold, you know. Case in point, China, OK? The cost can have – the police can have it, but the consumer, all 1.3 billion of them cannot carry pepper spray. So yes.

Is that a huge market? Well, yes. Apple is going do much better there than Mace. And there are a number of countries in Europe that they don't allow pepper spray to be used.

So even though there are a number of countries out there, Andrew, you know, we met with a lot of companies that shot and we have an international sales director who operate out in Chicago. She joined us last, I think August or September. She's been doing a great job lining up new customers, adding new customers.

We've added a number of them each year after shot, OK, that the amount of paperwork that has to be taken care of licensing procedures and who can buy how it has to be shipped, it is not an easy task.

So there are opportunities that there's a lot of work in each one of those opportunities, OK. The other issue is the markets are fragmented. When you go to go to Germany, they're fragmented, OK. So our strategy has been to setup master distributor.

You know, we keyed in on a few of them already in Europe, one particularly doing very well for us. And they even have reach outside of their own nation, time will tell, that I think dealing with master distributors in countries that allow pepper spray to be sold to consumers is ultimately where we're going to operate. And that's what's our sales director, (Julie), out in Chicago was challenge with doing.

And she put a lot of attention. I get a weekly update, a weekly phone call from her every week. And, you know, right now with COVID-19, you know, shipping docks aren't the same as they were.

So there's a lot of disruption in that right now, simply because of coronavirus, but it's getting a lot of attention. It's getting legs. And you know, we just got to operate where we're allowed to operate and where our product can be sold.

Andrew Shapiro: And on a previous call, you discussed three components of potential revenue to Mace, through your partnership with (Kiro's), with the first selling (Kiro's) products through e-commerce and then retail channels, and the second being curious purchasing products from you, and the third being (Kiro's) purchasing products, and distributing them overseas as part of its company mission.

Can you update us on how those three revenue streams are going? And in what products and channels is Mace already generating sales from this partnership? And what you see is the next biggest opportunity for Mace to grow revenue from this partnership?

Gary Medved: Well, where we're selling right now is all digital, OK. And you're probably aware, there are some legal proceedings between (Kiro) and a previous partner of his. So that's got to be remedied and put to bed before we could really address brick and mortar.

We continue to present the brick and mortar. We have some nice promotional presentations that we're going to be making the brick and mortar here in the next month or two virtually. That, you know, we keep it out there. And (Kiro) and I talked, you know, he knows what we're up against.

It doesn't help when there's legal issues because retail shot it away from getting involved until those are put to bed. And it doesn't help when the when the (Kiro's) brand name is – has been taken over by somebody – by a previous filling partner, OK.

So we can do everything that we can. Retail wise and we can do everything we can digitally, e-commerce. But at the end of the day, we got to get that brand away from his previous partner and back in our cradle.

And we got it – he has to get that the legal issues put to bed where retail won't have any hurdles to jump over or concerns. So this is an ongoing saga. There's not much more to add to it other than, you know, we're showing ...

Andrew Shapiro: Well, how's the digital sales going?

Gary Medved: They're going, OK, but I'm going to pivot right back to what I just said, 30 seconds ago, you know, that brand. You go out there and search for it, it doesn't take you where we want it to take you right now. And that has to change. And it's not an easy thing to do.

So, you know, there's the old adage, I'd rather sleep with the devil I know than the angel I don't. And here a point where it turns into a real issue. You know, that we're trying to move forward and we got to lasso around our ankles.

So we're doing what we can and (Kiro) is doing what he can. And when those two issues resolved, I think we'll see the growth that we all want to see, or an anticipated when we started the agreement, so.

Andrew Shapiro: Are there any other states or countries where legislation and regulation is evolving to better open pepper markets for us.

Gary Medved: The closest that I can tell you is in – it's up in The Netherlands. I can't recall who it was, but they're pushing through – because there's a company trying to – they can sell to the cops right now, but they're trying to push through legislation to sell to the consumer market.

And even if the legislation gets passed, it's a weaker pepper spray than we sell for our (canine) dispensers, OK, which is less than half of what we sell for the consumer version.

So, you know, it's almost like scoring somebody with milk when it's all said and done. It's pretty bland, but I guess if you're going to start somewhere, you got to start at the lower end.

You know, the distributors that we met with a shot clearly made the point that they do not want the consumer having anything stronger than what the police has. And police right now, the strength of the police units is like equal to our canine units which is half the burn of our personal pepper spray.

Andrew Shapiro: How about here in the United States?

Gary Medved: You know, the only thing that changed recently was stun gun laws for New York, that went all the way up to their Supreme Court last year. And the Supreme Court overturn the original ruling, so stun guns can now be sold in New York.

They claimed that was a violation of their rights that it wasn't as deadly as a firearm, and it kept climbing the ranks, and then the ruling finally came out that you can own a stun gun in New York.

Andrew Shapiro: And is Mace taking advantage of that?

Gary Medved: Yes. We have distributors already selling. But pepper spray is more confined by the age requirements, 18. Some states, if you have a criminal record prior to the age of 18, you cannot own pepper spray.

And then, the last requirement is the size of the canister, which is I believe, I think it maxes out at three ounces, which we don't have a three ounce pepper spray that we would sell in the retail market, anyhow. That's a lot of pepper spray, a lot of pepper spray. So that's really what you're talking about the size of the canister and the age requirements.

Andrew Shapiro: All right, thank you.

Gary Medved: OK. And so, I think at that time, we're just about an hour here. So thank you everyone for all these good questions and your interest in Mace. A transcript and recording of this call will be posted on our website shortly.

This concludes our Q1 2020 Earnings Call. Have a good day. Thank you, operator. Thank you everyone

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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