Mace Security International, Inc. (MACE) CEO Gary Medved on Q1 2021 Results - Earnings Call Transcript

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Mace Security International, Inc. (OTCQX:MACE) Q1 2021 Earnings Conference Call May 5, 2021 11:00 AM ET

Company Participants

Mike Weisbarth - Chief Financial Officer

Sanjay Singh - Executive Chairman

Gary Medved - President & Chief Executive Officer

Conference Call Participants

Andrew Shapiro - Lawndale Capital Management

Vijay Marolia - Regal Point Capital

Ken Fell - Fell Capital Management

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Mace Security International First Quarter 2021 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. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today Mr. Mike Weisbarth. Thank you. Please go ahead, Mr. Weisbarth.

Mike Weisbarth

Thank you, Rein, and good morning, everybody. Joining me on the call today is Sanjay Singh, our Executive Chairman; along with Gary Medved, our President and Chief Executive Officer of MACE. Please visit corp.mace.com under our newsroom section, where you can find additional materials, including the financial statements in the OTCQX report for the first fiscal quarter ended March 31, 2021, as well as our Q1 financial overview presentation.

Before proceeding, I'd like to point out that there are certain statements and information during the conference call that will constitute forward-looking statements and are based on management's expectations and information currently in the possession of management. When used during our conference call, the words or phrases such as will likely result, are expected to, will continue, is anticipated, estimated, 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 disruptions in domestic and international supply chains. 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 Sanjay for some comment about the quarter.

Sanjay Singh

Thank you very much, Mike. Hello, everyone and thank you for joining us. We started the year and the quarter with headwinds both external and internal. Our external headwinds were the weather in the Midwest, and supply chain delays in China and domestic. And internally, we had some issues on our plant floor with regards to efficiencies. Both are being addressed now. And Gary will elaborate on the details. As far as themes go, we are continuing to see strong demand across our consumer and e-commerce channels. And revenues from new products are very strong as well. And we intend on introducing at least three new products, the balance of 2021 and remain very optimistic about the year.

I will now turn the call over to Gary to comment on the first quarter 2021 operational results.

Gary Medved

Thank you, Sanjay. Good morning, everyone. And once again, thank you for joining us taking the time to hear more about Mace Security International. In our first quarter of 2021, we achieved progress on multiple fronts, while as Sanjay said addressing some challenging headwinds. As a backdrop, our first quarter is seasonally the lowest sales volume quarter of the year, as most outdoor activities have not yet ramped up, and there's still in hibernation, and the cost challenges in the first quarter are magnified by a lower volume base. We achieved an 18% sales growth over the first quarter 2020. But we were held back by a number of events.

Our estimates are about 15% due to supply chain and logistics constraints, coupled with the deadliest winter storm in North America in the last 25 years, which impacted incoming orders from some of our National Retail accounts. We had a 1% drop in overall revenue for the quarter due to the loss of a small private label tactical customer and a 6% drop from international compared to the first quarter of 2020 due mostly to a large ordered which shipped in the first quarter of last year, but was not repeated this year due to the ongoing COVID impact in that country.

In addition, we experienced increased costs associated with supply chain issues. Some of the headwinds from these issues have already been rectified and others are being addressed with permanent solutions. We should have them behind us in the second quarter of this year. We made process improvements to our manufacturing operations recognize some onetime non-recurring personnel cost. We also added higher caliber talent to our operations management team with significant Lean management skills. The supply chains also impacted our costs as we incur higher labor costs and other manufacturing expenses to fulfill past two orders with a focus on improving customer satisfaction. We have made and continue to make capital investments to increase production efficiency and reduce production costs.

These advancements will diminish our reliance on labor requirements and a very difficult labor environment. We have additional enhancements and development right now that are expected to be operational in the second and third quarters of this year. We are encouraged with the sales traction we continue to gain in our retail and digital channels. Sales for the quarter on our e-commerce sites increased over 90% compared to the first quarter of 2020. Overall, our retail and digital sales representing 79% of our total sales. As a point of reference for all of 2019 retail and digital sales represented 52% of our business.

As we continue to expand our business model in these channels, it shortens the cycle time of consumer demand to sales orders for us. Customer purchase orders are closer to the time of consumption, it becomes more real time replenishment and sales recognition. We expect to achieve further sales expansion in these channels as we progress throughout the year. We have new products scheduled to launch in the back half of 2021 and others under development for beyond this year. We are striving to have our product assortment as a product category within retail environments and not individual offerings. We are keenly focused on providing community and family safety through individual empowerment and offering the products that consumers seek to attain their comfort and safety.

I'll now turn the call back over to Mike to discuss details behind the financial performance.

Mike Weisbarth

Thank you, Gary. First quarter net sales are $3.3 million and 18% increase from the $2.8 million for the first quarter of 2020. As Gary mentioned, that was with the whole back of up to 15% increase because of the various headwinds we had. The increase in net sales is driven by new direct to consumer sales along with an increase in retail sales from both the number of store locations that we're in, as well as the expanded product assortment within those stores. Gross profit increased $194,000 or 18% over the first quarter of 2020 results. We hold our margin rates consistent at 39% of net sales during the three months ended March 31, 2021 in spite of the headwinds that Gary and Sanjay both mentioned.

Deferred sales due to suppliers and logistic issues and inclement weather causes an estimated 90 basis points and our margin rate, additionally, the growth in our gross profit and margin rate was restrained by the onetime incremental manufacturing and direct labor, inefficiencies. SG&A expenses for the first quarter increased by 180,000 to $1.1 million or 32% of net sales. We fully expect to leverage these expenses down as we move through the year.

Selling, general and administrative expenses increase is primarily attributable to a greater investment in our advertising costs to promote our online initiatives. We also incurred higher variable sales dimensions, which are related along with your over your headcount increase to drive and support our future growth. We also had customer penalties for shipment delays due to our supply chain challenges. While we can't view these as one time in nature, the level of penalties is not expected to be repeated. As a result of the above our net income of $109,000 [ph] for the quarter was down 11,000 from the same three months in 2020. Net income was 3% of net sales, compared to 4%, achieved in the first quarter of last year. EBITDA for the first quarter of 2021 was $251,000 or 8% of net sales, compared to $240,000 in the same quarter in 2020 or 9% of net sales. We are still targeting a 15% EBITDA for this year. First quarter adjusted EBITDA was $324,000 versus $270,000 for the first quarter of 2020, as both quarters representing 10% of sales.

I will now turn the call back over to Gary, who will discuss our outlook and priorities as we move through 2021.

Gary Medved

Thanks, again Mike. We remain dedicated to driving our top line growth while we continue to streamline our manufacturing processes through continued investment in automation. We expect our initiatives to drive us towards our 50% gross profit target, and allow us to increase capacity to support our expected future growth without any significant additions to our cost structure. We continue to attract the retail customers and additional folks and existing customers while we expand our online presence.

At this time, I will stop and open the lines for questions. I would ask each caller to limit themselves to one question and one follow up to allow everyone a chance to participate. If we have additional time, we'll try to get you back into the queue.

Ran, please open the line for questions. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions] We have our first question from the line of Andrew Shapiro. Your line is now open.

Andrew Shapiro

Thank you. Guess, I could just get a few clarifications on yours and Michael's script. While your Q1 sales for your largest customer group, that's the consumer channel, according to your filings here increased by more than 33% from last year. Your total was only, I mean, still growth, but it was only 18% above last year's numbers. But it appears as you've highlighted that there were declines year-on-year in tactical and international. Can you disclose what country it is where the bulk of that year-on-year decline occurred in because of last year's bigger shipment and you know, whatever issues were if you can expand on those for this year?

Gary Medved

Yes. Good morning, Andrew. And so what had happened? Well, I can't evolve the country. But I can tell you this. They placed a large order to maintain their exclusivity at the end of Q4 2019. And it was right at the end of the year, they got that order in to hit a certain target for that year, to maintain exclusivity as a master distributor in their country. So the shipment rolled into Q1 of 2020. Okay, and it was a sizable shipment. So now, with that shipment left a year ago, Q1 of this year, the country is still hampered it is in Europe, I can tell you that. They're COVID cases are rapidly increasing, and they just have not gotten back to normal business. So they, as a result are sitting on inventory from 2020. Yet they laid off a lot of people their businesses way down from the prior year. So they did not repeat or replenish in Q1 of this year. We had a couple small orders go out throughout the year last year, but they're their whole countries in a bad way right now. So that that was the single most contributor to that international hit or miss I should say.

Andrew Shapiro

Okay. And when the COVID numbers come down, and that country eventually gets vaccinated, etcetera, and reopens. This wasn't a loss of any particular customer, your relationship with this distributor, they're still in business. I'm presuming, but we're just trying to get a little bit of guidance of when we go back to stabilization or if it's a customer as you referred to in your filings on OTC market's about the decline in the tactical side where there was an OEM customer loss?

Gary Medved

Okay. First, the International customer is not a lost customer. Okay, there are still our master distributor in that country. Europe has a lot of issues with vaccinations. I know that the last week or two their numbers have started to come down a little bit. In terms of improving, they still have a long way to go. I think there have been a million new cases. Okay, over the last week in here. So yes, they have a lot of work to do over there, but the customer remains a massive distributor of ours. We did work with them to retain their exclusivity through all of this. We're still on great standing with them. And then with us, we just got to wait for them to get their COVID vaccinations rolled out as big as we did in this country.

To be your second part, the tactical was a small customer is about 1% of overall revenue for the quarter. This customer is more, this was an issue with a product that we do not run here at base with a solvent that we will not run late. And they came with the acquisition of Washington labs. They really wanted their original product run that we running that that particular ingredient in our plant. So I think they had an out, they found somebody who would run it for him, and they moved the business there. So that's what happened.

Andrew Shapiro

Okay. And then, the other follow-up on your script. This is more Michael's comment. He mentioned how you maintain your target of 15% EBITDA for the year, I just wanted to get clarification, because I've heard it in a few different ways, from prior quarter. And now here is that a 15% EBITDA target for the 12 months of 2020. Or just that you're going to hit a rate of 15% EBITDA by the end of the year.

Gary Medved

I think that's still a great achievement. I just wanted to you know, one is a much bigger achievement.

Andrew Shapiro

So, good clarification. I have more questions. Please come back to me.

Operator

Thank you. Our next question is from [indiscernible]. Your line is open.

Unidentified Analyst

Yes, hi. My question was along the lines of Andrew's last question. So your target is to hit 15% of EBITDA at some point this year, it's not what you expect to be the average for 2021.

Gary Medved

Correct, Howard, but you know, internally, we're muscling toward that as fast as we can. Okay, we're just so the folks on the call here. You know, we weren't really proud of the EBITDA number for Q1. Okay, there were some things in our control some a lot of things out of our control, but nevertheless, our goal is to get to 15% EBITDA as fast as possible. Okay. So stay tuned.

Unidentified Analyst

And you made the comment about the 50% gross margin. Do you have a timeline associated with that? Or will it take up 50 because you have the higher costs because you hired more people, etcetera? What is your timeline to get to 50%? And will it take a 50% gross margin to produce 15% EBITDA, given your higher cost structure?

Gary Medved

Okay, the timeline on a 50% gross profit is similar to the 15% EBITDA target is. We want to reach that number as fast as possible. As I mentioned in the opening comments, we have a number of initiatives to help us get there that are underway. These are CapEx projects. So there's a time involved with what's bringing them to fruition that we are targeting probably half of them this quarter, and half of them in Q3. And both of those are going to be big contributors to helping us march towards that 50% GDP number. Now, the 15% EBITDA. Okay, I'm sure, you're aware that's controlling everything else, everything after the GT line, okay, all the other expenses and SG&A [ph] and so forth. So, that's got to be a really smart spend. And as we mentioned in our press release, we are spending for future growth, okay, whether it's personnel, or building out the brand, in the digital space, and so forth.

So, we're marching towards a 50% GDP, we're marching towards a 15% EBITDA. I wish I could give you a hard number on it, hard date on it right now the by October 1 will be there or August 15. At this point, some of this stuff we have in motion, we only have targeted timelines to get it in house and then we have to implement. But I feel strongly between quarters two and three, we're going to see a noticeable bump in the efficiency absorption numbers would have to contribute to the GT lowering our overall costs. And then as we go forward, just really controlling expenses while we put money into growth areas.

Unidentified Analyst

So just for clarity, it's fair to expect that to achieve a 15% EBITDA margin, you'll have to produce a 50% gross profit margin?

Gary Medved

The two don't have to be linked. Okay. So, you know, there was a concept of mutual exclusivity, we looked at the total income statement to be sure that, we're managing the operation side towards driving GDP, and we're managing the SG&A spend towards the 15% EBITDA number.

Unidentified Analyst

Okay, I'll come back into queue. Thanks very much.

Operator

Thank you. Our next question is from the line of Vijay Marolia. Your line is now open.

Vijay Marolia

Congratulations, guys. Are you guys able to hear me?

Gary Medved

Yep, definitely we are.

Vijay Marolia

I saw that although sales was only up 80%, I should say only in that, great sales increase. Very pleased to see operating cash flow up two and a half times that is a 46% increase. So stellar stewardship? Question is where we are on capacity, are we approaching 50% or still at around a third?

Gary Medved

Good morning, first of all, thanks for joining us, in terms of pure capacity and I look at it as a 24-17 100% capacity. Okay, we're below the 50% mark on that. And with some of the changes we have coming in, as we alluded to earlier, we're looking for improved output, you know, increased production. Basically, from when you when you start changing the plant and bringing in equipment and streamlining processes, that's when you can even add capacity, and not shut or equipment or a bigger building, so to speak after that. So the moves we're making are going to help us increase overall capacity. So we got a lot of runway in front of us before we're tapped out in terms of 168 hours a week. Absolutely got room in front of us.

Vijay Marolia

Thank you. I got another question. But I'll wait for the next.

Operator

Thank you. You have another question from Ken Fell with Fell Capital Management. Please state your first and last name before you ask your question. Your lines are open.

Ken Fell

Hello?

Gary Medved

Yes. Can you hear us?

Ken Fell

Hi. Yes, it's Ken Fell. How are you guys today?

Gary Medved

Oh, hey, good morning, Ken. Good.

Ken Fell

Really, thanks for taking my call. Thanks for putting this on. Really appreciate it. Gary, in your opening comments, you were talking about some suppliers were passing on some cost increases. Do you view that as a more temporary thing or cost increases be a little more permanent?

Gary Medved

I apologize. Ken, we had talked about there were increased costs related to getting past two orders out the door with our supply chain. Most of those we haven't gotten any cost increases. Okay. We're managing that very tightly. Our comments were related to freight, expediting shipping of components, as well as increased like maybe temporary labor overtime to get help to past two orders out the door. Those are the costs that we were referring to not supply chain costs in terms of the component cost.

Ken Fell

Great. Well, that's actually very good to hear because a lot of other companies are facing those challenges. So that's a really good thing.

Gary Medved

We're [indiscernible].

Ken Fell

Great. So just for clarification, and for other people who are on the call first quarter of the fiscal year is generally the weakest quarter out of the four, is that correct?

Gary Medved

Correct.

Ken Fell

It a seasonality thing.

Gary Medved

Yes, right when half the country was in snow and cold weather or worse, back in February with a winter storm hitting the Southwest. That impacts a lot of people going out and about, retail sales are impacted people who are out and about as much. And then there's a whole bear hibernation thing for our bear spring. So Q1 is seasonally lower. Q2 picks up, Q3 is our strongest, Q4 dips down and then rolls back into Q1. Our goal is to hopefully lift all of those higher, although you're still going to have a you know, Q1 will still be the week as we just want it to be a lot higher than it is right now or then it was.

Ken Fell

Oh, sure we all want that. That's true. One last thing Gary, you talked about the three new products for the rest of the year. Can you give us a little flavor of what's coming down the road?

Gary Medved

Well, what I can tell you can is it is not that they are not a stun gun, and they are not bear spray. Okay. So, we got a couple of new things we're looking at as well more than a couple, we got several things we're looking at. You know, we're just on the throes of gauging retail interest and then our goal was launched on Mace.com, where we get we talked about at the LD micro conference a few weeks back where we can really dial in on the user and demographics and so forth and so on to give us even better information to take the retail. So we got several things we're looking at. And I'm excited because I love working in that space. So but really just stay tuned on in terms of what they are and we will share that when the time is right.

Ken Fell

Agree looking forward to it. I will duck back into the cube really appreciate it guys. Thanks.

Operator

Thank you. We have another question from an attendee. Please state your first and last name. Your lines are open.

Gary Medved

You're on. Hello?

Unidentified Analyst

Hello?

Gary Medved

There we go. Yes, you're on.

Unidentified Analyst

Okay. So my question regarding the shares outstanding. Since you're not a reportable or registered company, can you give an idea of what the extent of insider ownership of the shares are in and are there other greater than 5% shareholders?

Gary Medved

Now, we've disclosed all of the large shareholders over 5%. And then as far as the insider holdings some of that is described as well as part of the old 5% holdings.

Unidentified Analyst

Where that disclosure? I hadn't seen it.

Gary Medved

That was in our year-end OTC QX report.

Unidentified Analyst

Okay.

Gary Medved

And you can find that at corp.mace.com under press releases.

Unidentified Analyst

I'm sorry, at corp.mace.com.

Gary Medved

Go to press releases, and then financial reports.

Unidentified Analyst

Okay. Thank you.

Operator

Thank you. We have a follow-up question from Andrew Shapiro. Please go ahead.

Andrew Shapiro

Actually, questions about your new retailers and the questions about your new products here. Last quarter, you discuss the addition of two new retailers who are going to roll out product at the end of Q2 or early Q3. And do you have any greater visibility on the timing of these two rollouts and when might you be able to name the two new national retailers that you are adding?

Gary Medved

The two retailers we don't have an exact time yet this will be when they do their resets, okay. And when they place the orders will be you know before that takes place. We don't have a lockdown time on it. I know all the paperwork, all the setup, the product setups, all, everything's been done at this point. We've also added two hooks to another automotive retailer that we do a lot of business with. Those will be added in Q3 and if I'm not mistaken, I think they just placed their opening order yesterday. And then lastly is one of the major retailers, a new retailer we're going after, adding us to their .com presence. Just at the end of last week, everything was finalized, setup, part numbers, all the data and information that they required. So really, we're just waiting for POS to get placed at this point. But we're on their timeline for that, not the other way around.

Andrew Shapiro

Right. And have you solidified the initial door numbers? I think Sanjay mentioned or added to the answer last quarter that we were talking about in the thousand, rather than hundreds in terms of door number?

Gary Medved

Well, yes, it's in the thousands -- both of them are in the thousands. When they rolled this out, we won't know until we get the opening PO [ph], how many stores are starting off with. Even when we get a new hook into a national retailer, they may start off with like 500 stores and add another 1,000 six months later, another 1,000 six months later. So, we don't know until we get that opening PO and see what all the detail is at that point. But the chains are both large.

Andrew Shapiro

Okay. And once you ship, would you then be able to name who these new national retailers are? I mean once they are in your...

Gary Medved

You know me, Andrew, they'll be on our website of where to buy.

Andrew Shapiro

Yes. But if I'm not in that particular zip code, I might not know, and I don't know what zip code to dial up. But as an investor, I care if you're selling new product at Cabela's in Montana. So, once you're comfortable that your competitors know where you're at, I'd appreciate it if you would let us investors know instead of making me guess what zip code to put into the website. Just FYI. I think that would be better for your investors.

Gary Medved

Not a problem and to your point, we got a hell of a display in Cabela's, too. I don't know if you've seen it, but just to let you know.

Andrew Shapiro

Well, I have not been in a Cabela's in Montana yet to do that and I wouldn't know the zip code. So, that's the point. Okay, in terms of new products, you had two new products in that hand grip Stunner and your neon extensions of Triple Action defense spray and also your bear spray that you introduced on the mace.com website last quarter. Can you update us on these products' performance on your website in Q1 and has either product migrated into other digital platforms? And how have either performed on those other digital platforms? And what is your status and experience of introducing either into the bricks and mortar retail yet?

Gary Medved

Okay, the first part of the question, both are doing well on the digital platforms. Our stun device is available at mace.com and even though it's only been out there, I think for like six weeks or something, I think it's like the eighth top-selling item out of everything that we sold this year on mace.com and that's year-to-date. So, that's taking in the first few months that it wasn't even posted there. Since it's been posted, it's much higher in the ranks. I think it's like number four, since we introduced it. So, that's doing quite well when you consider the competition that it has even at mace.com. In terms of the bear spray, bear spray is doing very well. Not only on our mace.com, but also with Amazon. And we've gotten a few retailers and Dick's Sporting Goods just placed their opening order I think about a week or two ago. They took a good bit and then they came back last week and ordered even more. So, both are good hits for us. We have other retailers, big fighters switching over as well as Academy Sports, but those haven't taken place yet. Okay? So, it's rolling out, it's getting out there and considering this is our launch year, this will just build a lot of momentum going into 2022 right out of the chute. So, overall, we're happy with the performance of them, given how recently they just launched.

Andrew Shapiro

And the neon extensions of Triple Action defense spray, you don't consider that -- it sounds like it's a new product, more of a product line extension. Is that then out into the bricks and mortar yet? Or that's just online as well?

Gary Medved

No. That's just online at mace.com at this point and it's also working its way up into the top 10. That's been out even a few weeks less than the stun guns were put out there. Okay? So, I think by the next quarter, we'll have a better handle on that one, too. We've been out there much longer, we're talking a little, just a few weeks and it's been out there now. So, let's wrap around on that one on Q2 earnings call. A little bit of shine, a little bit more light on it?

Andrew Shapiro

Okay. And lastly, in the new product side, from the last call, you discussed two new product extensions placed in key retailers as a test that had exceeded sales targets nicely and that they were either expanding the doors or moving them upfront with the case of AutoZone, et cetera. Can you update us on the recent quarterly experience of these kind of product extensions? And what is your experience with gaining reorders? Is that happening?

Gary Medved

It's happening. One in particular? No, the first one to our national retailers on our clip strip, neon pink hard case doing extremely well and I think we still have another 1,500 stores to roll that out to the that they're building out. So, we're only going to see an increase in that going forward and then the others that you're talking about is mostly adding the Be [ph] online to a couple retailers and getting some improved placement on that. I know we're working really well with a national retailer right now. Just seem to be in a good stride with them at this point. They're doing some different things with placement, pulling the front of store. We're looking for some new product additions at the end of this year with them. So, Andrew, you've heard me say a number of times on these calls, wrapping the Mace brand and the legacy of the brand around new products and innovation is really where the strong retail management, is the space we need to really focus on from a retail standpoint, okay. I think most of that have been ignored for a number of years, whether it's the brand, the retail management, the new product introduction and I think retail is waiting for this brand to be woken up.

So we got a lot of levers pulled right now and a lot of stuff in motion that I think is only going to solidify our presence going forward. Now in terms of digital, we just see the numbers growing on digital. We've touched on briefly at the beginning. So, that's great that it's a launch path for new products, mace.com and other dotcoms, whether they're retail links or whatever, but it just gives us a great place to put new products out there and see how they do and what sticks and what doesn't. Price points that people or consumers are willing to pay. So, it's starting to come together. But we got some catching up to do to get where the brand really needs to be.

Andrew Shapiro

Are these exclusive programs? Or have you, or will you be able to add other retailers as your rolled like this clip out into Walmart? Are you able to put those into other retailers?

Gary Medved

We're able to. There's no exclusivity. This goes back to retail management. If you don't have to do that, you don't want to do it. I'd like to really look at the retailer, who their audience is, the item that you just mentioned, did that work in a place like Dallas; probably not. So, we look at the retailer, we look at who their consumer is and then try to match a product or product line to that. They're entertaining different consumers and different price points and so forth and we want to be in-line with that. So, if we have success with one item, or a clip strip or whatever, it doesn't mean it has to be that same item but the concept of doing that as another retailer, we can give them the numbers and say, 'Hey, here's what we're doing. Here's the turn. We think this product in this type of offering would work at your location' and then work with them from that standpoint.

Andrew Shapiro

Okay, thanks. I'll back out. I have some more questions especially for Michael. But so, come back to me.

Gary Medved

Okay. He's waiting here for you, Andrew.

Andrew Shapiro

I know. Bated breath.

Mike Weisbarth

Thank you, man.

Operator

Thank you. We have another follow up question from Vijay Marolia. Please, go ahead.

Vijay Marolia

Hey, guys. I love what you said about the retail waking up to the brand. And the brand, I think is if not our most undervalued asset, certainly one of them. And when the prior management was here, in one of the shareholder meetings, I brought up product placement, potentially teaming up with influencers, which could be a cheaper alternative -- and the reason why I bring that up is, I was actually surprised to learn that the median age of the U.S. population is 38. So, I'm actually one of the older people now. And in the in the world, the median age is 30. And as we know, young people are going to be on the mobile phones, they're going to be online, and it looks like we're having success online. So, the question is, in terms of the DTC awareness project, Phase Three, any thoughts about influencer or product placement?

Gary Medved

Good question and good commentary as well. So, to be to be clear, as we talked about the last earnings call in the LD Micro Conference at the end of March. Our strategy has been to really focus on the consumer and the consumer is shopping at two ways -- they're either doing it online or they're going to brick and mortar retails. And both of those are getting an excessive amount of attention from us. Focusing on the brand, dialing into the demographic, and there's a big push for us on the DTC side, .com and mace.com in particular, to really reach out to the right audience at the right time. And I remember two plus years ago when I came here and I go to even Amazon and typed in 'mace', and what I saw was just unbelievable, it was none of our products.

Vijay Marolia

Right, I remember that.

Gary Medved

And when I Googled 'mace', I was embarrassed by what came up. Now, here it is two plus years later, and a lot of effort by a lot of people and a lot of energy -- not to mention money. And I'm more pleased with the results now. It does speak to there's a long way to go to get really where we want to be. But I know we're in the right direction. The numbers are boring that out and we just got to keep doing what we're doing and we recognize that people are mobile now. They want to be able to buy right on their phones. We're tailoring our website to that experience, or whether they're on their laptop at home, or if they drop by brick and mortar retail. So we need to be where the consumers are. The messaging to the digital sphere is where we're focusing now to reach them. And the Mace brand is a powerful, powerful asset that's been underutilized, and so we're doing more to get that out there.

Vijay Marolia

Thank you.

Gary Medved

Sure. Thank you.

Operator

Thank you. And I have another follow up from Andrew Shapiro. Please, go ahead.

Andrew Shapiro

Okay. Before we put Mike up to bed, another question for you, Gary, real quick. Last quarter's call, you guys specifically called out or in the Q&A, there were supply chain disruptions that continued through Q1, impacting having a sufficient stock of the very popular Pepper Gun with strobe light to meet what was a sizable Q1 demand. I was wondering if those problems had been cleared up? And when were they cleared up, or when will they be overcome? Do you feel the demand for the product has migrated to competitors? Or if you have the supply and they're flying out the door?

Gary Medved

Okay, we got that one under control during Q1, that particular item that you just mentioned, Andrew. Still selling quite well and I don't believe anybody's walked to the competitor yet. We are the only ones with that product, that exact product. So, there has been a tremendous amount of work done on the supply chain and there's a tremendous amount of work that we need to do. But that product itself isn't the particular issue that we have coming into Q2.

Andrew Shapiro

Lots of companies, especially one small, like this one have talked about supply chain issues. Are there are there particular supply chain issues that permeate and cross-multiple product lines for you? They're all just very different ones.

Gary Medved

There's a domestic and then there's an international issue. The international issue as we go forward, we got to really pay attention to the logistics of getting the product over here, the components over here. So, that turned out to be a challenge during Q1 and we're getting a handle on it. Now, domestically, -- and remember, the overriding umbrella on all these is COVID, because of the number of employees that aren't working, because the COVID, suppliers, or even the ports where COVID really hit them hard with a lot of workers and people not coming back to work and ships lined up out in the ocean and two, three-week backlog sitting on water. At both ends, mind you, not just here but overseas as well. So those really drove the international disruption. The domestic side was still COVID-related to a large extent going through late last year -- second half of last year into Q1 -- less of an issue now. But then the severe weather down south and the disruption with oil and plastic, resin and things like that, we're managing that daily, just keep a very, very close eye on it and navigating around that.

So, these are all manageable with proper lead times, expected and built into the system to where we're not looking at something for X number of weeks, but now it's X plus Y number of weeks. And we got to manage around that. So when I say we could, probably come out of these during Q2, I know we're in much better condition we are than we were coming out of Q4. We're at much better condition coming out of Q1 and we're really hoping to have these issues behind us and new lead times built in and POS place with the proper lead times with common floor and so forth going forward. Okay, so -- there are still force majeure, we may get a freak storm going through here or something else might happen to tie up the ships out in the ocean. But right now, we got a lot of people looking at that.

Andrew Shapiro

Are there some parts or components that it might make sense to source domestically?

Gary Medved

Yes. Rather not get into that side of the discussion, Andrew, for competitive reasons.

Andrew Shapiro

Okay.

Gary Medved

We're not just relying on the current supply chain, period.

Andrew Shapiro

Okay, all right. Michael, I saw from the filing that you're getting the nice principal discount to prepay your remaining balance on the 5%. Washington land seller note. When is that anticipated and will you be using excess cash or drawing on the company's 2.5% bank credit agreement to make that pay off?

Mike Weisbarth

Thanks for the question, Andrew. We are just bidding, doing that with the agreement we have in the second quarter here. And we do not expect to be borrowing to make that repayment.

Andrew Shapiro

Okay. And when you say you have an agreement, does the agreement have a particular date in terms of the payoff? Or is it something that you can pay off sooner rather than later and save the 5%? accretion?

Mike Weisbarth

It as a payoff date here in the second quarter.

Andrew Shapiro

Okay. All right. And is that the end? Because we're in the middle.

Mike Weisbarth

It's in the back half.

Andrew Shapiro

Okay. And your recent filing say you still hadn't applied for forgiveness, I didn't know if that was effective as of the end of March and you have applied, or you haven't applied as of today and just wondering what you guys are waiting for? And when do you do expect to apply and start the clock ticking for formal forgiveness?

Mike Weisbarth

Right. Well, we'll have that clock ticking here in the second quarter.

Andrew Shapiro

Okay, And what would you say the quarter's EBITDA, the cash conversion rate is, as you kind of specified your goal is to drop it, to improve it by X percent. I was wondering where you are relative to target and what are the next steps on the plate to improve this rate further?

Mike Weisbarth

Right now, where we were in the first quarter was not where we want to be longer-term, and we've got some work towards that goal. But we think we -- well, we feel we've got some things in place to get us to our targets and we'll let you know on the progress of that as we move forward through the year.

Andrew Shapiro

Okay. And without all that much profit this quarter, we obviously don't chew into the company's tax NOLs. Can you remind us what the level was as of the -- well, end of that last quarter or this quarter is probably the same -- but what is the level of NOLs? And I didn't know if there were any that have expired, or expiring in the near term here that would drop that number.

Mike Weisbarth

Right. We were at about -- it's just like you said, same at the end of the first quarter that we were at the end of the year, at $51 million in NOL and based on what would expire this year, we feel we'd be able to utilize those and that we would not expect to have any to just outright expire without utilization.

Andrew Shapiro

Okay, excellent. And your next Investor Relations, we'll call it, it will be a virtual conference, because things are still virtual -- have you guys solidified that date and when that's going to be yet? I think it's coming up in a few weeks, but without a date yet.

Gary Medved

Actually, it's in two weeks, I believe the May 17, around there. Because they haven't given us a firm time slot yet. Soon as we have it, we'll be able to pop that on our website.

Andrew Shapiro

Okay, great. Thank you.

Gary Medved

And Andrew, we'll also do a press release around that event as well.

Andrew Shapiro

Sure. Yes, thanks.

Gary Medved

Okay. Thank you.

Operator

Thank you. We don't have any further questions at this time. Presenters, please continue.

Gary Medved

Right. No further questions, then -- yes, we only had a few minutes left anyhow. So, thank you, everyone, for joining. We greatly appreciate your interest in Mace. If you have any further questions, anything that we can answer, just let us know. And we will hope to see or hear everybody at the Investor Summit on somewhere around May 17 through 19. Once we have a firm time booked for our website in a press release, to announce that. Thank you much. Thank you. Have a good day. Thank you, Operator, friend.

Mike Weisbarth

Thank you very much.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect. Have a great day.