Q2 2020 Mace Security International Inc Earnings Call

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TEXT version of Transcript

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Corporate Participants

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\* Gary Medved

Mace Security International, Inc. - President & CEO

\* Sanjay Singh

Mace Security International, Inc. - Executive Vice-Chairman

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Conference Call Participants

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\* Andrew Evan Shapiro

Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member

\* Kenneth Fell

\* Vijay Marolia

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Presentation

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Operator [1]

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Ladies and gentlemen, thank you for standing by, and welcome to the Mace Security International Second Quarter 2020 Earnings Conference Call. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Sanjay Singh, Executive Chairman. Thank you. Please go ahead, sir.

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [2]

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Thank you, Deborah, and good morning, everyone. With me is Gary Medved, President and Chief Executive Officer of Mace; and Rem Belzinskas, Corporate Controller. Please visit mace.com, Investor Relations, where you can find additional materials, including the financial statements and OTC report for the quarter ended June 30, 2020.

Before proceeding, I would like to point out that certain statements and information during this conference call will constitute forward-looking statements and are based on management 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, limit of 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 cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during this call.

I will now turn the call over to Gary Medved to comment on second quarter 2020 operational results.

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Gary Medved, Mace Security International, Inc. - President & CEO [3]

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Thank you, Sanjay, and thank you, everyone, for joining us today. I'm very pleased with Mace's performance in the second quarter of 2020, a direct result of the hard work of all dedicated Mace associates. Our business demonstrated increasing strength as the quarter progressed despite a few supply chain disruptions due to COVID-19. Going forward, our #1 priority remains the health and safety of all our employees.

From a product perspective, we are pleased that our customers continue to recognize the value of the Mace brand and love the exciting new look of our products and packaging introduced this spring. During the quarter, we placed several new products with a large national retail chain and a large national automotive retailer, another sign of the strong organic growth we continue to experience as a result of our new strategy implemented during 2019.

While many of our larger brick-and-mortar customers continued to operate during the pandemic, they did experience a drop in foot traffic in the early part of the quarter. However, once the lockdown was lifted mid-quarter, we experienced, and continue to experience, a substantial increase in incoming orders across all channels. We also experienced a substantial uptick in our e-commerce sales, a direct result of shelter-in-place and a strong shift towards online purchasing. We continue to experience a substantial increase in online traffic for our own website as well as our e-commerce partners', attributed to our social media advertising strategy initiated early Q2.

Also early in the quarter, we completed a national consumer insight survey. We gained several valuable data points about our target audience, opportunities to better educate our customers as well as specific product features our target audience desires. We've acted on these insights, and we'll continue to develop new strategies going forward based on this information.

I will now turn the call over to Sanjay to discuss details behind the financial performance.

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [4]

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Thank you, Gary. Second quarter net sales were $3.4 million, a 16% increase from $2.96 million in the same period last year. This increase in net sales was driven by organic growth, product line extensions to existing customers and the addition of new customers.

Gross profit increased $473,000 or 51% to $1.4 million or 40.8% of net sales during the 3 months ended June 30, 2020, compared with $927,000 or 31.2% of net sales during the 3 months ended June 30, 2019. Gross profit improved in the second quarter due to higher sales volume, improved efficiencies gained from higher production due to higher sales and the impact of onetime costs that occurred last year, primarily related to the discontinuation of the less-lethal munitions product line, and an E&O reserve.

SG&A expenses for the second quarter decreased by $578,000 to $841,000 or 24.5% of net sales compared with $1.4 million or 47.8% of net sales in the 3 months ended June 30, 2019. SG&A expense decreases are primarily attributable to a onetime receivables impairment last year as well as lower salaries and outside marketing expenses in the current year.

As a result of the above, net income improved by $1.059 million to $453,000 in the 3 months ended June 30, 2020, or 13.2% of net sales compared with a net loss of $606,000 in the same time period 2019.

EBITDA for the second quarter 2020 was $596,000 and or 17% of net sales compared to EBITDA of negative $481,000 in the same quarter of 2019 for an improvement of $1.077 million. Second quarter adjusted EBITDA was $655,000 compared to a negative $475,000 in the second quarter of 2019 for $1.130 million improvement.

For the 6 months ended June 30, 2020, net sales increased $544,000 or 9.6%. EBITDA for the 6 months June 30, 2020, was $836,000 or 13.4% of net sales compared to a negative $1.2 million in the same period of '19 for an improvement of $2.1 million. Adjusted EBITDA for the 6 months ended June 30, 2020, was $913,000 compared to a negative $975,000 in the same period of 2019 for a $1.9 million improvement.

From a liquidity perspective, we saw a net increase in cash and cash equivalents of $1.3 million from December 31, 2019, to June 30, 2020. The undrawn portion of our line of credit was $900,000 at June 30, 2020. As disclosed in our 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 PPP loan from its bank through the U.S. SBA in the amount of $619,000 in the second quarter of 2020.

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

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Gary Medved, Mace Security International, Inc. - President & CEO [5]

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Thank you, Sanjay. Going forward, our internal focus includes process improvements, including manufacturing efficiency improvements and stringent cost control. Sanjay continues to work with Rem on gross to net reductions as well as E&O. Looking outward, our focus will be landing new retailers, introducing product line extensions and new products.

At this time, I will stop and open the line to questions. (Operator Instructions) Operator, please open the line for questions.

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Questions and Answers

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Operator [1]

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(Operator Instructions) And you do have a question from Vijay Marolia.

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Vijay Marolia, [2]

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Congrats on the quarter, gentlemen. I saw the significant reduction in SG&A. Do you see any risk to that increasing in the next few quarters?

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [3]

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Are there any risks? Well, we do see some investments taking place in the third and fourth quarters. As we finalize some of our digital plans, we are being very cautious with our spending and very pragmatic, but we do expect to see a bit of an increase. But we also see -- expect to see results on the top line from those investments.

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Operator [4]

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Our next question is from the line of Andrew Shapiro.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [5]

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I have a few questions. I'll ask the one and a follow-up and back out, but please come back to me. So I'm trying -- I saw in your slide deck for this call a chart that discusses or illustrates the incoming orders and the incoming orders being up huge as the quarter progressed then dropped down but now are rising again. This is a 12-day moving average thing. And you mentioned in the slides also a sizable Q3 backlog. So I'm assuming you would have quantified it if you were willing to or wanting to do that, but can you give some insight as to the backlog visibility? In other words, the backlog that you're describing, is it like a 1 or 2 month? What is like the turnaround time? Like a backlog for a Boeing jet is years. What's your backlog time duration like here?

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Gary Medved, Mace Security International, Inc. - President & CEO [6]

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Andrew, thank you. Yes, the 2 charts are referring, the 12-day moving average -- as explained on a chart is a 12-day moving average of incoming orders (inaudible) orders every day, and then we can kind of smooth that out. Taking the 12-day average, I found over the years that 12 days is a nice number. It's not too short, it's not too long, and it gives us pretty good identifiers. So that chart that you're referencing is on Slide 8 of the financial overview that we've included this year -- or this quarter.

And just in summary, that 0 line represents what our average daily incoming was for the first couple of months of the year straddled around that line, and then it took about nearly a 50% haircut from where it was when everybody locked down. Kind of short-lived, but it went on for a few weeks anyhow. And then once that opened up, it rose incredibly up to 250% of our normal average incoming orders over a 12- day period. The chart shows that it did come back down a little bit and then turned back up. And we're kind of riding in a range right now, Andrew, around those numbers that you see.

The backlog is heavy. I'm not going to lie. It continues to be heavy. It continues to come in heavy. And to put a time on it, it's almost a moving target. What it was just 3 weeks ago is different than what it is right now. And referencing Slide 9, I think, can give a better perspective of that because our -- I broke it down by month. And where April was down about 20% to previous April of last year, may was down, I think, around 5%. And then June shot up 65%.

So this graph has gone exponential. And I can't say it's continued that trend into Q3. Okay. We don't like to give hard numbers out for obvious reasons. And we can't anticipate we're going to -- what we're going to ship this quarter. The backlog is substantial. And like I said, it's building each day. Incoming orders are heavy, and we're doing everything we can from an operational standpoint. We've got a lot of purchase orders which are placed, a lot of components coming in on a daily basis. We've added another shift to fully staff practically. We have a couple of open positions, and our field room is just running flat out to get all the cans filled that they can.

So there's definitely been a shift, and we're trying all -- to do what we can to keep up. But the orders have not led up yet, okay? In summary. They're robust and continue to be robust.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [7]

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Okay. And so to the extent your sizable sales increase was to retailers, do you have much visibility on the sell through? Like to what extent was the sales increase in initial stocking orders? Or have you seen reorders come in now?

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Gary Medved, Mace Security International, Inc. - President & CEO [8]

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Oh, the reorders have been heavy. We get POS data from our retailers. And some we get on a weekly basis, others we get on a daily basis. And I can tell you this from 1 of our largest retail partners we get it on a daily basis. And last week's numbers were the highest sell-through rate that we've experienced with them. And that is point-of-sale number, that's what's moving off their hooks to consumers. Their replenishment orders are robust. So we're not seeing -- and I guess I should qualify what we're witnessing here is not a simple fact of somebody taking initial order for a new retailer or a new distributor dealer, and that's bumping up the numbers. These are ongoing numbers. This is heavy sell-through at the retail level. This is heavy sell-through at the distributor and dealer level as well. Okay? So without getting into exact numbers, I can tell you that one of our largest retail partners here is running POS, highest that we've seen ever.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [9]

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That's outstanding. Much higher than the other one.

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Gary Medved, Mace Security International, Inc. - President & CEO [10]

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Now I do want to say one thing about that, Andrew, if I could. There's a product, there's a look of the product, there's a look of the packaging. Our goal all along has been to make this a consumer-oriented product that grabs the consumers' attention as they're walking by retail displays. And that is working incredibly well. And plus, we're getting new locations in a large automotive national retailer, we then moved to the front of store. And that place took -- I'm sorry, that moved to a place months ago. When they saw that the new packaging the product was looking like and they bumped us up to the front of store, which is you probably can be -- are aware, that's valuable, valuable real estate. And we've seen a substantial uptick with that retailer since that move was made and then with the new packaging and products. So there are a lot of things working hand-in-hand here, okay, and it's paying out right now.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [11]

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Excellent. And by the way, it's a really impressively improved slide deck. So hopefully, most people find it and see it. And I'm assuming you'll kind of use that in your upcoming investor stuff. I have several more questions. I'll back out into the queue, but please come back to me.

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Gary Medved, Mace Security International, Inc. - President & CEO [12]

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Okay.

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Operator [13]

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(Operator Instructions) Your next question is from the line of Ken Fell.

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Kenneth Fell, [14]

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I just noticed on Slide #11, I think it is, where you talk about 2 new products that are outpacing your 2020 forecast by 250%. Can you identify these 2 products for me? I'm just curious.

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Gary Medved, Mace Security International, Inc. - President & CEO [15]

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Yes. One of them was a 2 pack Water Trainer kit that we came out with, introduced this spring. It shipped from here in February and was placed on the planogram in March. We were given an early forecast by our retail partner who has this on their hooks, and they gave us a forecast in January. They upped that forecast, I believe, in March, if I'm not mistaken, and we are far outpacing that forecast. And this 250% is an average between the 2 because the one. Because the one I just spoke of is much higher than that.

The second item was a -- the neon product line that we came out with. We used to have just all black on the shelves. And now we have the neon line out there. And we track the colors specifically on a daily basis to see which ones are moving through POS. And incredibly -- well, black and pink are always going to be the most popular. But the other colors we've introduced are very popular in their own right, and there's heavy sell-through on that. It's a 6-piece kit that we -- not kit, but a 6-piece package that goes out for the retailer. So there's 6 different products in there, color products, and those are exceeding what we had initially thought and was given forecast when we went out there.

A third item I didn't speak to or put in this presentation but there's 100-store test on another item on a clip strip, 4 locations, 100 store tests. We exceeded their expectations by 3x of what they thought it was going to do or what their target was. And then we learned about a month ago that they're adding it to -- or rolling it out to 1,500 additional stores. And we're building that product now for -- to ship in the next couple of weeks. So that's a huge boom for us. So again, this isn't rocket science here. This is simply matching up the look of the product to the expectation of the consumer. And I think we're hitting our stride on a number of these issues. So -- and the numbers are showing.

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Kenneth Fell, [16]

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Great. Great. So when you talk about product extensions, is this kind of the example with the neon colors and that kind of thing?

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Gary Medved, Mace Security International, Inc. - President & CEO [17]

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Right. We don't get down into the detail of product line. But, yes, it's neon colors. It's putting kits together, water trainer kits. It could be a clip strip item out there in the stores. We are working on new products, ground up new products -- from the ground up, I should say that we'll be introducing down the road. I don't have a time line on those right now as we're getting through the design, engineering and so forth.

So our goal here last spring when we started this whole mission, so to speak, was to become a very consumer-oriented, kind of customer-centric looking product. And I know we've achieved that because the retailers are really warming up to the new look of the products and the packaging. And then going forward, we have new products that we're working on. So we're going to get the growth through a lot of channels or a lot of efforts. This can be a key one right here.

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Operator [18]

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(Operator Instructions) We do have a question from Vijay Marolia.

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Vijay Marolia, [19]

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Gentlemen, I wanted to find out whether there was any new -- any news on the IR front. I love the slide deck, and I agree with what Andrew said, that's the best slide deck that I've seen from the company, I think since I've been a shareholder. If I'm a small-cap value manager or a special situations fund manager, I would love to get my hands on that. So just curious, is there anything on the IR front?

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Gary Medved, Mace Security International, Inc. - President & CEO [20]

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Yes. Thank you, Vijay. We're going to be sending out a press release here by the end of the week with the IR conference schedule for the remainder of the year. We do have 4 conferences. We don't have locked down the exact day and time on these. But in early September, we have the LD Micro 500 conference. Late September is the Investor Summit MicroCap conference. I'm assuming these are all going to be virtual, okay, right now. That one is supposed to take place in New York City. I don't see that happening by late September. Early October, October 8 is the OTC virtual investor conference. And then December 8 through 10 is the LD Micro main event.

So again, we'll be putting a press release out with all 4 of these on there. We're hoping to lock down to schedule, the exact day and time. If not, we'll at least have that honor and then update accordingly. And when we do lock in the day or time, they'll be posted on our website. So we have 4 more events. We've already done 2 this year. So that will be quite a bit for this year.

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [21]

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And Vijay, this is Sanjay. I also want to add to that, that I'm in the process of interviewing outside IR firms. So it's time for us to do that. This is absolutely the right time to do that. So...

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Operator [22]

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And your next question is from the line of Andrew Shapiro.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [23]

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I would be remiss if I didn't tell you that my dearly departed friend, Thurman Willis, is smiling from us from on above about the efforts you're now taking to bringing fans to the stand. So thank you for that.

Regarding your sizable growth rate of 50% year-over-year and over 125% increase from last quarter to tactical customers. And I know it's a very small portion of the company's sales as we're much more consumer focused, but do you feel the demand drivers are sustainable or the result of special demands from civil unrest events this past quarter that contributed to -- that are -- have led to this very sizable growth in that subsegment?

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [24]

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Andrew, I'll offer sort of some broad comments to that. We don't know. We can't state anything factually looking out in terms of trends. What we do see is a couple of different things. The POS sales that Gary brought up, that certainly reflects the social climate in the country. And we do see that being continuing, but not knowing where -- what that will look like in the next few quarters to be in a very specific fashion. But there is a general sentiment around personal safety and security.

Secondly, a lot of the social media advertising that we launched this quarter resulted in an uptick on the number of visitors to our website across all our platforms. So we certainly see an interest there and an awareness there, and we plan on capitalizing on that.

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Gary Medved, Mace Security International, Inc. - President & CEO [25]

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And Andrew, just to piggyback on that. The guidance that I just talked about, the packaging, the look of the product, getting like even on a clip strip program, getting those in locations in retail where women shop, because they are our #1 demographic, all this goes hand-in-hand. And you've heard me say before, the luck is defined by opportunity meeting preparation. And we've been preparing for growth for the last year plus since I came in here and repositioning the product as a consumer package -- consumer-oriented product. And when we get a retailer to move up to the front of store before any pandemic shift, and that was their strategy, because of what they were seeing from us, yes, you're going to get a bump. But this all goes hand-in-hand and we can't give any percentage. We just don't know what the extent of it is due to civil unrest or what have you. But I do know the things we were doing -- or the things we did were just already starting to work before COVID-19 really locked down the country in March, okay, or April. We were already seeing improvement.

So did it bump? Yes, it probably had something to the extent, we don't know.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [26]

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I'll try to rephrase or clarify my question. I was actually focused on the sales table that you have in your financial statements that broke down a small subsegment is sales to tactical customers. And I was just wondering if you felt -- when you referred to sizable growth in private label, do you consider your TakeDown to be private label? And that was a component of that solid sales growth? Or if not, did TakeDown products experience sales growth as well,

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Gary Medved, Mace Security International, Inc. - President & CEO [27]

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Partial sales growth. TakeDown is not considered private label. We own that brand. Okay. And as you know that it goes primarily to the LE or police tactical channels. So we've seen an uptick in that product line, we've seen an uptick in private label that serves the LE market, okay? It was moving along, and then the weekend of Memorial Day changed that substantially. And so it's out there, Andrew. But as you said, it's a small percentage of our overall revenue. And we don't have a whole -- we put enough focus on it, okay, to keep customers happy, and we're really happy with the business that we have there. And we're looking to doing some different things, to even grow that business with our private label customers. But to the extent -- TakeDown, it's our brand, it's moving. Then it's up to our private label customers on how well they're positioning their brands in the LE market. And we ride that wake, so to speak.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [28]

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Sure. So moving on to a bigger component and one that you mentioned and experienced triple digit growth, far exceeding your tactical growth is e-commerce. And I was just wondering if you could update us -- if there's any additional detail you can provide in terms of the scope and the size of e-commerce sales and how the various channels such as mace.com and Amazon and others performed. And do you -- has the average unit price moved up from prior year as a result of this? And are your conversion numbers rising?

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Gary Medved, Mace Security International, Inc. - President & CEO [29]

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Across e-commerce channels and mace.com, we're experiencing a triple-digit rate, okay, in both of those segments. I think the drivers are, one, we're doing a lot better with the SEO side on our e-commerce partners, okay, where people can find us, and we're gaining traction on search results there. And then on the mace.com side, I think a lot of that is contributed to the -- or related to, I should say, social media advertising and driving heavy traffic to our website. I wouldn't specifically say that the average selling price has gone up, but what I can tell you is the average order size has gotten substantially larger. And there's 1 or 2 good reasons for that, but we'd like to keep those reasons in-house. We're going to continue doing more of that. But mace.com is experiencing a nice surge in activity in terms of traffic. The conversion rate is improving, but it's nowhere near where we want it to be. And we may be greedy on that front, but we want it to be substantially higher than where it is. We're told that we're above average, but, okay, there's no fun in being above average. We want to be excellent and magnitudes higher than where we are.

And then on our e-commerce partners, like I said, a lot of that is we have a new partner managing the e-commerce business. And they're taking a different approach, a fresh approach, and we're seeing some early kickbacks on that as well. So e-commerce, it's all about SEO and getting traction with your brand and your product at the top of search results. And on mace.com, it's all about driving traffic, and once they get there, selling them a story on Mace products.

And so we're happy with the efforts, Andrew. I'm not going to lie, there's substantially more work to do and better numbers ahead for us on those fronts.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [30]

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In terms of your gross margin mix, I assume, but I would like to confirm, that e-commerce margins are higher than traditional retailers. And without being exact, can you provide a range for that higher level of gross margin? Is it 400 basis points, 800 basis points more or less?

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Gary Medved, Mace Security International, Inc. - President & CEO [31]

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It's more than less. And as you know, direct-to-consumer where we control it, okay, we're selling good, for the most part, suggested retail prices out of our catalog. And people are willing to pay up for the brand. So can you find a lower cost of retail? Yes, you can. But people come to our website. They're coming in droves right now, and they're paying a higher premium for it. So we enjoy very nice margins on our website. With other e-commerce partners, we enjoy, I'd say, decent margins. We're not hurting there. But then again, we're not in this to give this product away either, okay? So people are willing to pay for the Mace brand and we're going to have price integrity across everywhere that we're represented. So...

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [32]

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Right. And speaking of premium for the Mace brand, I think Vijay asked the question, and I'm just wondering, you guys have revamped the logo. You revamped the packaging, et cetera. What's the timing, I guess, of the rollout? And to what extent you can describe the rollout plans you have to now, like, push the brand, to help monetize this brand. Because the brand monetization and getting that premium and moving product out and whether it's licensing or otherwise, that's what's going to really, like, drive pretax income to have the benefit of the company's, I guess, it's around $56 million tax NOL?

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Gary Medved, Mace Security International, Inc. - President & CEO [33]

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Yes. The -- yes, you're not far off of the NOL number. We have some things we're looking at, I can tell you that, and I know you're a strong proponent of leveraging the brand. But I'm sure you also agree, it's got to be the right situation. And so we have a couple that we're looking into. We've had some conversations. Certainly not willing to put anything out there now because these things could always take a different turn between now and then. But I would say probably late Q3, we might have something to talk about at that point, okay? If anything moves, it should be by then that we might have something to say. But at this point -- we get where you're coming from, Andrew. We agree with it. But like I told you early last year when I first came in here, the goal was to clean this thing up first and get it relaunched and really get people to recognize the brand and then start leveraging it after that and -- because the 2 go hand-in-hand. We need a strong retail presence out there at the same time. And I think now that we're starting to achieve that, the brand leveraging can come down the road of that (inaudible)

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [34]

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Let me clarify, and then I'll back out into the queue, if I could. I think you answered -- I made the mistake of asking the questions 2 parts. And you answered the back end part, which is on the licensing stuff. But on the front end part, do you have plans? Is there a timing for rollout that we should be looking to that we might notice a much greater marketing -- digital marketing, social media? I don't think you're doing TV yet. But just basically additional marketing that you're going to be putting in to now really create demand drivers for the product, for the Mace brand product.

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Gary Medved, Mace Security International, Inc. - President & CEO [35]

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Yes. Well, as mentioned already, we're doing a lot of that on social media, advertising on search advertising as well. But to your point, we have a conference scheduled for later this month. It's a 2-day on-site conference with a very well-recognized brand consultant, if you will, that we had this schedule for March and then COVID-19 hit and all travel was off. So we postponed it. And now we got a reschedule for late this year -- I'm sorry, late this month. That conference, we're going to use that to wrap up some key questions around the brand. I'm not going to get into them right now because it may lead to some other discussion during the conference. But the goal always was to do the consumer insight survey early in the year, which we finished. Number 2 was to have this conference or seminar held in-house with our key leadership team. And then #3 was to take that message and put it out through content, advertising, anything that's front-facing to the consumer out there and building the brand outlay.

So COVID-19 kind of threw a rent into that spin wheel. But now that we got it scheduled late this month, once we're finished up and wrapped up with that conference and taking the action items from there on who's going to be responsible for what and just melding this all together with the consumer insights survey and what we learned through that going forward. So much like the licensing of the brand, we're looking at late Q3, Q4 implementation to where the public will start to see or notice.

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Operator [36]

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(Operator Instructions) The next question is from the line of Ken Fell.

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Kenneth Fell, [37]

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Yes. Just -- I guess a follow-up on Andrew's brand leveraging, licensing the Mace brand question. Sanjay and Gary, are you guys looking actively maybe into acquisitions at this present time? Or are we more focused on the organic growth?

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [38]

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We are very open to acquisitions in general so long as it solves one of the -- it solves the problem, and it's good for our customers, so we're open to it. We are engaged in licensing discussions.

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Operator [39]

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Your next question is from Andrew Shapiro.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [40]

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Just been assessing the quality of your improved gross margins and your improved operating margins, so I just want to ask, I think I know the answer, but was there any reduction in the current quarter's cost of goods sold due to recoveries from past written off or reserved inventory or other items? And was there any reduction in the current quarter SG&A due to recoveries from past written off and reserved items?

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [41]

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Rem, do you want to get that?

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Gary Medved, Mace Security International, Inc. - President & CEO [42]

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Rem?

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [43]

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I'll answer it, Andrew. No. But as we've explained in the roll forward as well as in the opening that there were no onetime occurrences in this quarter. They were -- when you compare the two, that's where the big jump came in. I think there are about $489,000 worth of -- there were 2 primary events. One was an AR and impairment last year, and E&O. E&O and ammunitions issue last year but none this quarter.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [44]

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Okay. Nothing comes back to enhance it. So these are good, clean, great margin numbers. So that's one of the things I just wanted to make sure I got a comment on that.

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Gary Medved, Mace Security International, Inc. - President & CEO [45]

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Yes. That was one of the reasons we had 2019 like we did.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [46]

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Yes. So Gary, are you experiencing the COVID circumstances right now getting in the way of your goal and attempt to see or make progress at getting retailers to have a personal safety category or personal safety section in their aisles? Or is that -- I know it takes time anyway, is that resonating through, I guess, your virtual Zoom calls and other things that you're making progress in that goal?

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Gary Medved, Mace Security International, Inc. - President & CEO [47]

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Yes. That's a good question, Andrew. So with all the category review meetings and conferences with -- I'm sorry, conference calls with buyers and -- this year, the last quarter, Zoom calls, we set that out as an overall strategy. Last year, was ultimately to have a personal safety category in retail where it was prominently displayed. So meeting with retailers over the last 1.5 years, they get that. They see it and they want to be attached. They want that category to be attached to the Mace brand because it means so much to so many people. And they also enjoy the margins that they get with it in a lift. So that being said, we've had retailers. Buyers are -- even higher than buyers like directors or DTs tell us at the corporate level, we get your strategy, we want to be a part of it, and we'll help you get there. But as you mentioned, these things take time. So how they roll out is by -- in existing retailers, you're adding -- you work to get another hook in there to broaden your product offering and not have 6 pepper sprays, but have different products in there to round out the category. Every year marching towards that end goal of having a non-lethal personal safety products display.

Other retailers where we're starting at ground 0, where we have no placement, and we're working to get in the door. Okay, they're not coming in with a full category. They're going to start themselves with 1, maybe 2 items, and then we will grow from there. So this is a monumental shift in the thinking of the average retail buyer and the retailer. Overall, I think they're now starting to witness the importance of personal safety products that don't kill people, and they see us as playing a huge role in that going forward.

So would I like to have it done yesterday or last year? Absolutely. But I also know they're in step with us, they are in concert with us, in achieving that. But both parties recognize that it's going to take a little while to get there. So for every product we get in, something has to come out. And no retailers spoons 6 products out or 8 products out to put in a Mace product display on day 1. So the strategy hasn't changed. The mission hasn't changed, and I'm going to dog it as long as I'm here to see if that happens.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [48]

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It certainly would play well in the acquisition opportunities, whereby, all of a sudden, you get more hooks because you have different expanded lines and Mace becomes a personal safety brand rather than (inaudible).

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Gary Medved, Mace Security International, Inc. - President & CEO [49]

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Right. And Sanjay raised a good point. Acquisitions as attractive as they could be now with the low cost of capital, we get that, but I think the more important thing is just to acquire for the sake of acquiring doesn't really get us much, okay, especially if we're going to tax the organization with implementation, integration, strategy, and there's a lot of effort that goes through an acquisition. And at the end of the day, you want that thing to be creating shareholder value and to acquire just to acquire. It's really got to be a good thing for us. It's got to be a great thing for our customers. We got to be solving a problem that exists and not just acquire for the sake of getting bigger.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [50]

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Well, that leads me to your Tornado acquisition because that would be like an example of that. And I saw that the company was able to prepay its Tornado acquisition contingent note at a discount. And with the use of some unregistered shares, I was just wondering when were those shares issued. And what are the restrictions, if any, attached to the sale of those shares? Or have they been sold already?

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Gary Medved, Mace Security International, Inc. - President & CEO [51]

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I can't comment on that without having the most accurate data in front of me. I can't tell you when they were issued. I wasn't part of that process. Mark Barrus was here, our previous CEO. I believe they were issued in Q2. And...

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [52]

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No, they were in Q2, but I didn't know if they were early Q2.

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Gary Medved, Mace Security International, Inc. - President & CEO [53]

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They have 12-month -- that, I can't tell -- restriction.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [54]

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12-month restriction.

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Gary Medved, Mace Security International, Inc. - President & CEO [55]

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All right. 12-month restriction on them. So it did allow us to close that agreement out prematurely. So we were happy to do that and accomplish that.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [56]

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Yes. And the discount that resulted in the gain. So that was great.

Regarding the only type of customer where there was a year-over-year decline, I just want to get a handle on some of this to know if it created backlog and if it's reversed. Can you further expand on the negative impacts to the availability of product that hindered your sales to international customers? And now in August, has the availability been remedied and the problem behind us?

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Gary Medved, Mace Security International, Inc. - President & CEO [57]

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Yes. The international front, there are really 2 issues, okay? First of all, the country started shutting down outside of our borders before we did, if you remember how this pandemic swept through Asia, then over to Europe and then the United States. So a lot of the activity that was in motion was put on hold. And these companies didn't just work from home. They literally shut down, these distributors and partners of ours. So we lost at least 2 months until they started opening up their doors again. And that delayed shipments. Now we have a nice backlog of order book of international shipments. I don't want to say backlog because it's not like we're running huge past dues here, but we do have a nice order book for international shipments currently sitting out there. And it's -- they're going to start shipping here by late August, early September. We'll -- you'll see a nice bump in international.

And then the other side of that, too, is when this swept through, there were supply chain disruptions here and there. They were sparse, but they impacted us one way or the other where we couldn't get a component, couldn't get this, couldn't get that, and they were shut down. And when they opened up, they had lost some of their workforce. When they were furloughed, they found other jobs or whatever. I think we've managed through the bulk of that, both on the international side and then, to another extent, the supplier base that we use domestically. So those issues have been worked through, and Q3, you'll see a difference in numbers.

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [58]

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I'd also like to add the fact that when you see the kind of demand that Gary highlighted, as you can understand, given our lead times, that did cause some issues in terms of being out of stock on items. Now in the whole scheme of things, we managed through it. So it wasn't just international. It was domestic as well. It's not reflected in our numbers, but it was part of the supply chain. I mean, any supplier or major retailers, especially in these types of categories, when you see those kinds of demands, that was not forecasted. And -- but we're managing through it. I just wanted to make sure that the whole frame is clearly understood.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [59]

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Right. It's great to hear on the international that it's a backlog built rather than lost sales. Do you expect the year-over-year growth going forward or simply a return to normalized levels? And I say this because there was a period of time -- but I don't know if you call it civil unrest, but around the New Year's holiday, when there were stories of immigrant attacks, et cetera, around New Year's in Europe, and that caused a huge spike in international sales of pepper. Now in these times with various protests and things that have gone internationally, not just up here in the United States, do you think by moving through the backlog that you've built up here because of the COVID closures and all that, that there is a sustainable and higher level of demand internationally once this backlog kind of gets caught up?

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Gary Medved, Mace Security International, Inc. - President & CEO [60]

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Well, okay. You've got multiple parts in there. The international side, yes, they tend to have, I wouldn't say explosive opportunities, but peak and valley opportunities. We get hits occasionally like that. We'll get a lot of government tender quotes coming in -- or request for quotes coming in. We -- as I explained last year, when we brought Julie Evans on in Chicago to handle international sales, the goal was to move to master distributors in countries, lock up one key distributor in a country and move to the next one. And she's been implementing that. We're adding new distributors. That's really our strategy, okay. If something happens globally, again, I'm going to -- I mentioned that luck is when preparation meets opportunity. If something happens, our distributors should be -- we're not selling 1 piece (inaudible). We're trying to push heavier orders for them, the stock inventory in their DC, have it on the shelf, whatever it may be.

So what happens internationally, Andrew, and obviously, we have no control over that. And I think in terms of growth, I truly think that the new norm when everything does settle down, if it does settle down, the new norm will probably be decently into the double digits above what our old norm was. I think it might settle in somewhere around the 20%, we might see as high as 30%. But I think a lot of people over the last few months have really started paying attention of personal safety. And I think with the more people carrying our product, that's the more advertising we're getting for our product, the more conversations that it generates amongst the crowds out there, okay? When somebody sees somebody else carrying Mace brand pepper spray, it's a conversation starter.

So I think the norm that we're going to see going forward is going to be higher than the old norm. Like I said, 20% might be reasonable, but I wouldn't be surprised if it was high as 30% when all the dust settles.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [61]

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Now with all the social distancing and summer vacation time we're going to fall, it's that other season as well for that, especially people are working remotely, they're going to be less tethered to the office, there's this huge surge in outdoor activity. And as long as there's a huge surge in outdoor activity, I have to imagine, but can you kind of provide in your consumer number, maybe, again, a range of impact on the bear spray market that you guys have? And then kind of separately, because it could be bear spray or other consumer spray activities, in your consumer number, kind of like what share of it is private label?

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Gary Medved, Mace Security International, Inc. - President & CEO [62]

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Well, we're definitely seeing an uptick in the bear spray across private label and our brands. Okay. There's no hiding that. There's been an uptick. And I -- as far as we can surmise, people were sheltered down -- sheltered in place locked down in their homes. And I think a large portion of the wildlife just got very comfortable roaming around where they normally didn't roam when a lot of people are out and about. Now people are coming out and these bears are thinking, hey, what the hell? We had this place to ourselves in the last couple of months and now there's humans here. So we follow the bear videos and the bear stories online, and there's quite a few of them out there where there's altercation between man and beast. And that's driving a very nice uptick in bear spray. But like I said, across private label as well as our own brands, we're seeing that increase.

And whether that's subsided, I don't know. Well, bear season kind of -- usually a good bear season is when these things start waking up that we're into August now, we're not seeing any let up on it yet. So I don't know where season actually comes to rest, but we're still experiencing strong numbers in that category.

Yes. Operator, we have about 3 minutes left on our call. So if anybody else is in queue, we can answer 1 last question.

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Operator [63]

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There are no further questions at this time.

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Gary Medved, Mace Security International, Inc. - President & CEO [64]

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Okay. Okay. Then I think Andrew just popped one last one in there. Is that -- Deborah, do you have a question in there?

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Operator [65]

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One moment. And Andrew your line is open.

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Gary Medved, Mace Security International, Inc. - President & CEO [66]

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(inaudible)

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [67]

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Okay. So you talked about in -- again, the footnotes of your quarterly report was -- in license intangible asset associated, that was being discontinued at the end of Q1 2021, which was earlier than planned and thus amortized more quickly. Can you just say what that license intangible asset was associated with?

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [68]

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Yes. Washington Labs bear spray.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [69]

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Okay. Is that the brand? Or is there a different brand?

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Gary Medved, Mace Security International, Inc. - President & CEO [70]

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Let me check if we've gone through this.

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Andrew Evan Shapiro, Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member [71]

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Or we can take that up offline. I guess it's miniature. I don't mean to do that, but thank you for a great investor slide deck that is much improved. It took me a while to find it, but we did and a great quarter.

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Gary Medved, Mace Security International, Inc. - President & CEO [72]

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Yes. Thank you. And for everyone on the line, the deck that Andrew is just referring to, if you go to mace.com on Investor Relations and then click on press releases, it will show you on the left side Q2 2020 Financial Overview. You just click on that. And Andrew, it was Washington Labs bear spray was a license that we bought from them, that footnote I was referring to. Okay. And we used to make some spray, so if that answers your question.

Operator, it's been 1 hour, so we'll wrap it up, okay? And thank you, everybody, for joining. And we'll see you at the end of Q3 for some more results.

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Sanjay Singh, Mace Security International, Inc. - Executive Vice-Chairman [73]

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Thank you, everyone. Appreciate your time.

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Operator [74]

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Thank you all for joining today's conference call. You may now disconnect.