

Mace Security International, Inc. (MACE) CEO Gary Medved on Q4 2020 Results - Earnings Call Transcript

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Mace Security International, Inc. ([OTCQX:MACE](#)) Q4 2020 Results Conference Call April 6, 2021 11:00 AM ET

Company Participants

Mike Weisbarth - CFO

Sanjay Singh - Executive Chairman

Gary Medved - President and CEO

Conference Call Participants

Vijay Marolia - Regal Point Capital

Ken Fell - Fell Capital Management

Andrew Shapiro - Lawndale Capital Management

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Mace Security International Fourth Quarter 2020 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. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today to Mr. Mike Weisbarth. Mr. Mike Weisbarth, you may begin.

Mike Weisbarth

Thank you, Rein, and good morning, everyone. 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 mace.com/investor-relations, where you can find additional materials, including the financial statements in the OTCQX report for the fourth quarter and full year December 31, 2020, as well as our LD Micro conference presentation from last week.

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 Gary to comment on our fourth quarter 2020 operational results.

Gary Medved

Thank you, Mike. Good morning, everyone. Thank you for joining us. Considering all of the uncertainties that occurred last year, I am very pleased with our response and the results we produced for the fourth quarter of 2020. It's a direct reflection of all the hard work of all of our dedicated Mace associates. As we continue to work through some remaining supply chain disruptions due to COVID-19, our primary focus remains on the health and safety of all of our employees.

Our press release and OTCQX filing reflect continued growth in our business as we had record fourth quarter results. We remain keenly focused on promoting our brand and increasing our top line sales through organic retail growth, along with extending our reach to our direct-to-consumer efforts and product line extensions.

We're focused on expanding within the retailers where we already have a presence and adding new major retailers to our brick and mortar portfolio. We benefited from the continued recovery of foot traffic into the retailers where our products are sold and our e-commerce platforms are firmly established and well positioned for continued growth.

Our digital sales achieved triple-digit growth for the fourth consecutive quarter. Our e-commerce sites are expanding our reach. And for 2020, represented 19% of total sales, an increase of 5% of our sales distribution in just one year. We see that expansion continuing into the current year. Last year was marked by several events in United States that heightened overall awareness and concern for personal safety. We are focused on providing community and family safety through individual empowerment, and offering the products the consumers seek to attain the comfort and safety.

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

Mike Weisbarth

Thank you, Gary. Fourth quarter net sales were \$4.41 million, an 86% increase from the \$2.03 million that we had in the same period last year. This increase in net sales was driven by organic retail growth, new direct-to-consumer sales, as well as our new product line extensions.

Gross profit increased \$861,000 or 96% to 40% of net sales during the three months ended December 31, 2020, compared with 38% of net sales during the same period in 2019. Gross profit improved in the fourth quarter of 2020 due to our increased sales volume and improved labor efficiencies. These were partially offset by a physical inventory adjustment. SG&A expenses for the fourth quarter increased by \$346,000 to \$1.20 million or 27% of net sales.

The selling, general and administrative expense increase was primarily attributable to higher variable sales commissions, along with performance-related incentives. As a result of the above, net income improved by \$523,000 in the three months ended December 31, 2020, over the like period in 2019.

Net income was \$466,000 and 10% of net sales. EBITDA for the fourth quarter of 2020 was \$592,000 or 13% of net sales compared to \$45,000 in EBITDA for the same quarter of 2019, \$547,000 improvement year-over-year. Fourth quarter adjusted EBITDA was \$657,000 versus \$53,000 for the fourth quarter of 2019.

Now on to the year. So, for the full year 2020, net sales increased \$4.9 million or 47% over 2019 full year sales. Net income for the year ended December 2020 was \$1.7 million, or 11% of sales compared to a net loss of \$1.7 million for 2019 for a \$3.4 million improvement in net income year-over-year.

Earnings per share were \$0.03 per share for 2020 compared to a \$0.03 per share of loss in 2019. We strengthened our balance sheet and improved our liquidity, as cash increased to \$767,000, an increase of \$460,000 from the year-end December 31, 2019. The Company also paid off its line of credit in the amount of \$600,000 during the third quarter of 2020.

As we previously disclosed, due to the uncertainty in the economic environment during 2020, the Company applied for and was granted a Paycheck Protection Program loan from our bank. This \$618,000 loan was obtained during the first half of the year to the U.S. small business administration. We anticipate applying for and being granted forgiveness for this loan in the second quarter of 2021.

With that said, 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 Mike. We are focused on driving top line growth to expand our product lines and existing retailers, landing new retailers, introducing new products and expanding our reach through our DTC strategy across all platforms. We're concentrating on various needs to expand gross profit margins and leveraging our existing cost structure.

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

Rein, please open the line for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from Vijay Marolia. Your line is open.

Vijay Marolia

Guys, congratulations. You guys hit the ball out of the park. Is there any kind of share buyback program, share repurchase program in place?

Gary Medved

Not at this time, Vijay. We're just focusing on continued producing the results, and that's not on our docket for the immediate future.

Vijay Marolia

No complaints there. Keep doing what you're doing, guys.

Operator

Your next question comes from Ken Fell. Your line is open.

Ken Fell

Congratulations on a great quarter and a great year. Question about the new stun gun looks to be a really nice product. And was interested in how it's being accepted in the marketplace? How your unit sales have been on there?

Gary Medved

It's doing quite well. As you probably know, we mentioned last week at the LD Micro Conference that we launched. Going forward, we're going to use our mace.com website as our platform for launching new products. Simply because we can get them out there

as soon as we're ready and not have to wait for category reviews or category managers or placement resets.

So at this time, it's available exclusively on mace.com. What I can tell you without getting into peer numbers is it became -- right now since we launched it, it's one of our top-selling products on our website, okay. So, it's been received very well at this point. And you may have noticed that on our website over the last few days, we launched a product line extension. We've introduced our Neon triple-action pepper sprays in both the pocket and the personal sizes.

So once again, utilizing mace.com to launch something new and different, and as we mentioned last week at the conference, the data that we collect from doing this is pure gold. So when we sit down with a buyer or a category manager or retailer, we can share with them the sales action the demographics because we now have that data that we normally wouldn't have from a brick-and-mortar retailer. So, we're just looking -- we're excited about what we have on the drawing board and looking to do more on it. But right now, but the stun gun is doing very well for us.

Ken Fell

Great. That's very exciting. One maybe a follow-up to that. Is there any restrictions on the sale of Stun guns in the various cities or states?

Gary Medved

Yes. There's -- like pepper spray, which is allowed to be sold in every state, all 50. Stun devices do have regulations. There are a couple of states where they're not allowed to be sold. Recently, New York passed a lot that it could be so -- that you could sell some devices in New York, whereas before you couldn't. So we take the breadth of all the restrictions, regulations out there. There's only a small handful of states that don't allow Stun devices that we work within the guidelines of the lot. So we do what we can.

Operator

Your next question comes from Steven Charlie. Your line is open.

Unidentified Analyst

Do you have any plans on working towards an uplisting to the NASDAQ?

Gary Medved

We touched on this last week at the LD conference, Steven. I think that I'll put it like this. I think it's on our radar, okay? And we've shared that already publicly that it's something when the time is right. We want to take a look at it. Our thought in-house has been to stream together a number of back-to-back quarters with solid results, prove that there's

an actual trend, okay? Prove that personal -- nonlethal personal safety devices as a category out there that we can do a lot of good and continue to get our message out.

And I think that everything that we -- Mike touched on the results. I've touched on our focus going forward in 2021. So that is our -- those are our main focus areas. Our four pillars of growth, I should say, three strong pillars to growth and then one financial pillar in-house in terms of operational efficiencies and so forth. So, we're neck-deep in staying focused on those items. And when the timing is right, I think that is when we'll entertain a possible change or an uplisting on NASDAQ. But for this time right now, it's on the radar that there's no time associated with it.

Unidentified Analyst

Okay. And I know there's a number of requirements, but I would think one of the first steps is to file quarterly with the SEC. Do you plan on doing that soon?

Gary Medved

Again, that is on our radar, probably obviously closer than the NASDAQ uplisting since we probably want to do that for a number of quarters before trying up that it's out there. We don't anticipate doing that in the immediate future, but it is something that we've talked about. So when that happens, we'll certainly let everybody know. But right now, for the immediate future, we're going to stay with the SEC postings or filings.

Operator

[Operator Instructions] Your next question comes from Andrew Shapiro. Your line is open.

Andrew Shapiro

Have a few -- I have a few, and well, of course, back out, come back to us are on time. Which of your sales channels do you view as providing the best opportunities for growth? And where is the greatest untapped potential for the Mace brand?

Gary Medved

In terms of the category for growth, I think if you ask anybody that's providing a product these days, we've seen a seismic shift over the last 12 months. Since code really took a strong foothold here early last year in this country, of all things digital, ordering online, more information online than ever before, more ordering online. And we started to embrace this back in 2019, making some changes and really starting to do a much better job of content development for the digital channels. And we made additional changes since then in 2020 and so forth. So I think it goes without saying that, digitally speaking, has where a huge opportunity exists.

But I have to counter that with brick-and-mortar retail because we're in some strong retailers out there, but there are a lot more retailers to be to be landed in our book. And we have a strong hit list of retail heat map to gets a lot of focus and attention. As we mentioned last week in the LD conference, we continue to do category reviews, meet with buyers mostly over Zoom. Meet the category managers. We've got two new retailers that we're going to be starting to ship to, as announced last week at the LD Micro in either late second or early Q3 of this year.

We got another detail you just learned yesterday, they have agreed to bring us online at derek.com site to see how the product does for the first three to six months with a possible addition to the storefront next -- in 2022. So when you look at our pillars of growth, Andrew, there's retail brick-and-mortar, and then there's the digital channels. And both, again a ton of energy, a lot of resources, a lot of dedication, we're not leaving any stone unturned. There's a lot of work to do in both. I'm not going to lie to you, but that's where our strong focus is and then behind that is going to be new products to supporting everything.

Sanjay Singh

Okay. And so just to add to that, what I would add is in addition to what Gary just mentioned, what we have discovered in the last 12 months, especially in the global pandemic and the change in buying patterns. The focus is omni-channel. It's not one channel, it's across the board and we are seeing that momentum. And that's what our plan will be for the next couple of years.

Andrew Shapiro

And with this, I think, smart integrated strategy, and the introduction of your products that you're rolling out maybe first on the site. So you roll out the stun, you've just rolled up the Neon triple action or expanded triple action to be in the Neon colors, the packaging, what is the timing for the then rollout of those introduced products into the other channels? Is it the digital of your bricks and mortars first and then bricks and mortars placement? And about how long in time? Is it a matter of months quarters that stun and like -- in the Triple Action Neon would be seeing at your various retailers? How does that work? And what's the seasonality of it?

Gary Medved

Yes, Andrew, the brick-and-mortar retail itself has our own category review calendar, okay? And that started already this year, and it will go deep into the summer like August or September. Their rollouts, their planogram resets are also on a different calendar from each other. So what I can tell you is when we launch these products on our website and we have this data, we can correlate that to like number of visitors that would come to our website, conversion rate, ranking in terms of unit volume, sales dollar volume and present that to the category manager of the buyer, whoever we're meeting with.

Their decision, any time you show them a new product, okay, is all retailers are, something's got to come out for something to go in. It just means they got to vacate a hook with somebody else's in to get ours in there. So as much as we'd like to say, spring of next year, every retailer that we're selling to is going to have it. There's a process that we go through. They see it. We continue to give them updates. I think then on the data. Our sales Director here, Dan Perella does a phenomenal job keeping in contact with us, all the buyers and category managers. So he's constantly feeding information to them, okay, and keeping them abreast of whatever the sales and unit volume is it now. This is what we're seeing.

So by time we have our review meeting with them, they've got a wealth of information already and then hopefully, it's an easier decision for them to make rather than just shown it to them for the first time. So it is a process. It's always going to be a process of brick-and-mortar retail that we're at it, and we stay on it and constantly drip information to them on an ongoing basis. And further to the point, like prototypes could be in made now for a couple of new items, and I'll be reaching out to retailers and doing a zoom call with them just to show them and get them opportunity to see it first.

Here's where our thinking is. Here's the innovations we're bringing and just keep them up to date. They heard about it six months ago. They saw rendering three months ago. They'll see prototypes here in the next few weeks. So that's our process. And I'm strongly convinced it's going to pay out going forward. We just got to keep that pipeline filled and keep producing new products.

Andrew Shapiro

Well, it certainly makes a lot of sense. Do you feel when your product goes in and something comes out, that you're gaining share or the product in the market is being expanded when you get these looks. Is it Mace hook that comes out? Is it a competitor suit comes out? Or is the aisle getting bigger?

Gary Medved

Well, if anybody who's been listening to me for two years on these calls knows that I want the presentation to get larger, and I'm not really interested in the slopping our product I want to -- I want to hit all the points of non intra-State commercial. Whether it's our alarms, our pepper spray, our spend devices, we grow that as a category.

Now to that point, it will serve us better if we can -- if we can retail it a competitor or somebody that has an item in there that has nothing to do with non need for personal safety, but they're hanging right next to us. So the goal -- the overall goal is to expand on the Mace footprint that brick-and-mortar retail number one. And then on the back side of that, I would add, if anybody is going to cannibalize our product, to replace our products, I want it to be us replacing our product, not a competitor.

So that being said, that's where the product line extensions come in. It's new, it's different. It adds this or that value to the end user. And retail wants to see is that we're thinking we're keeping the consumer mind because we are strongly customer-centric here. And just keeping them in mind, going forward, it's not the same. We're doing things different. Some of the stuff we're looking at is different than what's out there today, and we're excited about it. So it all sits again.

Andrew Shapiro

Yes, your strategy makes sense, your goals make sense. I guess I just want to lean on that question just one slight twist on it. You've had great growth already this year, and it's continuing. What I'm curious to know is, what have you experienced so far in this growth that you have been reporting? In other words, and/or you want to go with it, but has it been swapping your own with new products that have been selling better? Have you been gaining share on competitors? Or has the aisle expanded that has -- that has been in the present growth you've reported?

Gary Medved

I think if I look at it and point to the number one indicator for that, it will be new items being added, okay? Product line extensions, a couple of major retailers that are doing extremely well with them, and I mentioned at LD Micro conference last week. We had one of our clip strip go in and they're expanding its almost 3,000 more stores. So that is the game. They keep in mind that did not come at the price of our existing products in that story in the planogram set, okay? Those are continually doing well. And the click strip with its product is doing very well. Then in an auto is marked for you.

Andrew Shapiro

So the aisle is expanded for you at least for now?

Gary Medved

Yes. And in automotive is a national retailer, we've got a nice presence in there, and they're adding a couple of items. They're not taking anything out. They're adding two more items later this summer. So like I said, Andrew, the goal is here to build out the category to where, at some point, it makes sense for us to go and say, hey, you got X number of items.

You have everything that represents nonlethal personal safety, let's build this into a destination or a category. That's the ultimate focus. And anybody that's been on these calls for two years has probably heard me say that note. It is something I strongly believe in, and the environment last year told us how critical personal safety is the people today. So I think the Mace brand with its brand recognition and history of innovation is going to play a key role in that going forward.

Andrew Shapiro

Yes, Andrew, in addition for the other folks as well. I think, overall, the awareness of personal safety has certainly increased in the last 12 months. And we don't -- we don't believe it's going to change and so I think the wallet also got bigger. And again, our -- one of our goals is to raise the standards in the personal safety industry with innovation and other initiatives. So yes, we're seeing some new penetration, but we are also seeing the wallets getting bigger.

Operator

Your next question comes from Ray Reyes. Your line is open.

Unidentified Analyst

Congratulations on that great quarter. I just wanted to follow on to the last question on the new product. Let's just take the stun gun, for example. So you discussed the time line for potential time line for going from your website to brick-and-mortar retail. What about the other online channels such as Amazon?

Gary Medved

Well, other -- let's cheer Amazon for a second. Our other.com partners, which is typically brick-and-mortar partners with a dotcom presence, they will have the opportunity to add that product as well and we're adding products to new retailers. Dot-com present got a couple of strong ones and we're going to be adding products here in the coming months. It's kind of like a hate these words test period that is a test period. They just want to see how well they sell, and they're giving us the opportunity. So they're going to get our best content and everything.

Coming back down on your question, they got a vendor central and a seller central component. Then essentially sell them the products and they post them, they can do if they want the pricing and sell or central, we control everything. So our new product strategy is to keep the products at mace.com. And Seller Central, where we control the pricing, margin and so forth, and that's going to be our strategy going forward.

We want to keep those price point food especially in the introduction phase, the first year or to the product and not get into a bidding war with ourselves. The two different channels, so what you're going to see going forward is going to be a much more disciplined, deliberate approach to new product launch to mace.com, Seller Central, gathering all the statistics we can, all the data that we can and continually feed performance over to the brick and mortar.com and brick-and-mortar buyers for their retail stores.

So as I said, there's a process here, and we can take advantage of the dot-com a lot quicker than the brick-and-mortar simply because the planogram resets only one-time a

year and things of that nature. But in the meantime, we can get some valuable data and increase revenue.

Unidentified Analyst

Right. Right. Now in terms of your page presence on Amazon, going forward, how do you expect that would change, particularly with the seller controlled situation that you want to be in. Because right now, I know when you go into Amazon, it's primarily the category is dominated by your competitor, and you only have one or two items at the bottom of the page, right?

Gary Medved

Well, that's changed quite a bit. I'm not sure how often you go into Amazon, but we monitor that quite a bit. And just from our just from our performance at Amazon and the POS at Amazon, we're doing much, much, much better today than we have in the past. That being said, in terms of the page performance, okay, you go on Amazon, you look up at our topic or whatever category of product, and you can't tell us it's a vendor central or seller, essentially just a hears to be to the consumer.

So as a new item that will give us the opportunity to get reviews and feedback and everything under a seller central promoted heavy and we put it out there. We have a different strategy for that as well. So I think overall, it's going to help us. I think overall, we're going to get the new products launch quicker. The makes brand continues to carry a lot of weight in the marketplace. And again, get back to that all powerful branding recognition that others don't have, and we're leveraging that in a much greater way than we have in the past.

Unidentified Analyst

Okay. Now how does your stun gun compared to TASER'S product?

Gary Medved

Well, TASER, which is a brand, it's a completely different type of product. Those are the wires with the electrodes.

Unidentified Analyst

No, but did they have a stun gun product now as well. It's like a flashlight stun gun combo.

Gary Medved

Yes. I'm not too familiar with that. Not enough to compare the two. As you know, Mace carries a whole line of Stun guns, okay, when we put out even the only one. There are multiple stun guns that we have. So I'd have to see it comparison.

Unidentified Analyst

Because it seems like I was on TASER's website, not that long ago, well doing due diligence and all this stuff and it was sold out. And so clearly, it's a popular item. It's I think there is -- there's a high-power -- higher power than the average stun gun in the markets.

I'm assuming your new one is comparable. And then finally, I have a question on the bear spray because given the distance that the further distance you could get with that, is that a good self defense product against humans as well?

Gary Medved

We don't recommend that for humans. The contents are different, number one. Number two, it's under much higher pressure to go that distance and in close range, you can do some retina damage to a human being. So, we do not promote that as an item to be used on human beings nor should it ever be used on human beings. I think our pepper sprays and the gels have plenty to incapacitate an attacker for 30 minutes or 45 minutes that you don't need to use bear spray, right?

Operator

Your next question comes from Vijay Marolia. Your line is open.

Vijay Marolia

Page 24 of the notes and the statements talking about NOL, can you give me a quick update, especially the last couple of sentences about the total valuation allowance?

Mike Weisbarth

Yes. Yes, I'll take this. Thanks. Vijay, yes, --this is obviously, these are NOLs that were generated in bygone years. And what we have layered out there is the timing of our utilization of those NOLs and that we don't foresee I guess any of them expiring in the near future that we'll be able to utilize these as we continue to grow our business and our pretax income.

Vijay Marolia

Okay. Perfect. What's the -- so the current total value of the NOL is what?

Mike Weisbarth

A little over \$10 million.

Operator

Your next question comes from Steven Charlie. Your line is open.

Unidentified Analyst

So, speaking of things sold out, I don't check your website every day, but I've noticed that the pepper gun with Strobe LED has been sold out a number of times. Is that a supply issue or a demand issue?

Gary Medved

Well, first of all, on our website, okay, because of the way we position inventory here at the plant, we will allocate a certain number of units for mace.com purchases, okay? And when that inventory, that doesn't mean we don't have any of the building, just means that alignment. So, we're constantly refreshing that. And we just have a block of these products going through right now. But clearly, there's a two-pronged thing here. One is demand. Demand has been huge on that product for probably the last nine months now, and it's been tough keeping it in stock.

The bag on valve technology we use in the cans that between the gun itself and the components for the cans, there have been some supply chain disruptions that impacted supply, but we're looking at now by the end of this month to get cleared up on those units. Unfortunately, it didn't happen in Q1, get our pedal-to-the-metal on it. But the units just came in. The components came in too late, so they'll be rolling out in Q2.

And the bigger question, the overall demand of the products, because we -- as Sanjay mentioned a few minutes ago, we believe that personal safety, now the top of mind awareness has been created, that it's not going to go away anytime soon. We think there's going to be a seismic shift in the thinking of the consumer. So that's driving all demand forward and increasing demand across the board. And then when you look at some of the supply chain disruptions, whether it's COVID related, the weather going back to Texas a few weeks back.

And that -- that caused and even retailers because a lot of retailers were shut down and then they came in with huge orders. And so, there are myriad events that have contributed to that. But make no mistake about there's a big demand out there. For the products and any hiccup in the supply chain is why you see, what you would see on our website. But we are getting that remedied out as we speak and looking forward to the Ponzi and alleviated all together here in the next week or so.

Unidentified Analyst

It sounds good. Have you thought about putting a cheap laser on it that can look very intimidating?

Gary Medved

No comment.

Operator

Our next question comes from Brad Chao. Your line is open.

Unidentified Analyst

Gary and team, congratulations, you guys have an amazing fourth quarter. I'm just curious now that we have Michael, do you guys plan -- can you give any -- some color on expanding like the volume on, like the investment community for Mace? Because right now, I feel like the things like the best kept secret in the market.

Gary Medved

Expanding the volume?

Unidentified Analyst

Yes, maybe doing more conferences or more talking funds or whatnot?

Gary Medved

Well, our IR conference schedule on our website that's pointing to five events this year. We did more -- the next one is in mid-May, the final day and time haven't been determined yet, but we have five conferences, and in between the five conferences and before earnings calls this year, we felt that nine touches with the investment community out there. It's almost like one every six weeks, if you will. More than it's been done in the past, and we want to keep the news fresh and the results coming in to make it more exciting for everybody, us as well as the investment community.

So, I think the bigger hit is going to be -- is going to be when the veil is listed and people can move around and these conferences are held in-person because right now, the virtual just isn't the same thing. And we're doing what we can. We felt that five conferences this year was a good number, that's the same number we did last year.

And as you can imagine, each one of these takes a fair amount of time to prep for and then the earnings call, in addition, if we can answer any questions also. Any questions we can answer, we will answer. So that's kind of like our road map right now.

Unidentified Analyst

Well, sure. And you know what, that schedule coming out last month was huge. I think that, that's going to really provide some visibility for people. I think that was a huge step forward, guys. I really do.

Operator

Your next question comes from Andrew Shapiro.

Andrew Shapiro

A few follow-ups, first off, Mike, I think you gave an answer to Vijay on the tax NOL. And I just want to be clear because you had over \$55 million tax NOL last quarter when you use the \$10 million number, your tax affecting it. The gross NOL, the amount of pretax income that is tax shield-able right now is 50 million?

Mike Weisbarth

Absolutely, Andrew, and that's where I thought Vijay was going with it because we did disclose the \$51 million of NOL, but just what that would translate to into potential tax savings and cash savings.

Andrew Shapiro

Yes, but the tax rate -- if and when the corporate tax rate rises, the valuation amount rises. So I was wondering what the pretax income shield it. So it's over \$50 million. So that's -- I just wanted that clarification, if you advantage from underneath my watchful eye.

Mike Weisbarth

No.

Andrew Shapiro

Next question for Gary is, if you could, on your slide for this call, and you had it also in the LD Micro, which I was -- had the opportunity to watch and it was your best presentation yet a good slide.

But on Slide 7 of today's call is an ongoing slide you had in the past. It's called your 2020 incoming order pattern, JAS 12 DMA. I'm not sure the 12 DMA or would like you to define that. But more importantly, if I look at the far right, and it says traditional Q4 slowdown, what I don't know because there's no calendar on the bottom.

I'm just trying to understand this spike of orders at the end, which seems like, is it 100% year-over-year orders, inbound orders? And what is that time horizon? Where that is? This is on the far right part?

Gary Medved

Oh, I got it. I got it in front of me. Let me give some clarification on this. First of all, the 12 DMA is a 12-day moving average, okay? So that's what the DMA is. Number two, that yellow box at the right, this is labeled apply traditional Q4 slowdown.

That slowdown is in reference to Q2 and Q3, okay? So taking social protests and lock down number two out of Q2 and Q3, Q2 and Q3 are typically higher and then as we go into Q4, it's out back-to-school season back with retailers bringing in product typically in third quarter or fourth quarter.

So we see a slowdown but mostly brick-and-mortar retailers in the fourth quarter because, obviously, nobody wants to be holding inventory at the end of the year. And then as we roll past the holidays, we start to see -- and now remember, these are orders -- incoming orders. This is not shipments.

So you see the pickup at the end, which typically happen the second half of December for us, maybe three weeks of December. It starts picking up again because those deliveries are scheduled for the first of the year. So that kind of is what I mentioned.

Andrew Shapiro

Not 100% that we're seeing right at the end of the fourth quarter that up 100% is what versus prior year?

Gary Medved

So the zero is what our normal -- and our numbers, this chart is for one year, 12 months, so it goes from January 1 to 12/31. And the zero line is where now I started this in Q1 of last year, okay? So that zero line is what we were averaging, incoming orders on a 12-day moving average that zero line represents will be typically average in the quarter one start, okay? So I set that at zero, and then you said, okay, this is our typical incoming order pattern here. So I'm just going to judge everything on that. So when you see like a plus 100%, what you have to do, Andrew, is look at that full yellow box.

Andrew Shapiro

Sure. That full yellow Box is primarily substantially higher. We're looking at 20%, 30%, maybe 40% on average for that quarter, higher than what is it prior year prior to higher.

Gary Medved

And that's pretty -- and that's how you often look at it is, look, if you think of yellow box on average what that yellow Box is, that gives you a truer number, okay? So you're always going to have peak dollars, right? So as much as we'd like this thing to look like lock-down one going into first week of social protest, that's not reality, okay, in the absence of lockdowns and social protest. Now to that point, okay. Our goal is to, down the road Q4 this year, Q4 of next year, because those yellow blocks, they may be slower than Q2 and Q3, but they'll be higher in absolute numbers than Q4 last year, so forth.

Andrew Shapiro

So the orders that are -- I'm sorry to interrupt you, I'm trying to just get to the -- to resolution year or something. So these orders, if we look at this visually, call it, 20% to 50% for the quarter, these are orders. They're not booked as revenues until when? When they're ships, so in other words, this is some indication of Q1 that just closed?

Gary Medved

I can't say that, as you can decipher what you want.

Andrew Shapiro

But you can tell me kind of like the timing. So these orders have come in, especially right at the end there, you don't book revenue until you ship, correct? And how long is your shipping cycle to match these orders?

Gary Medved

We could have orders coming in that are laid out over a three-month period. We can have orders coming in that they've been shipped until April 15. We have orders coming in. It's shipping three to five days. So some folks will put in late, they'll lay in orders. Here's our advice for the next quarter, next two quarters. Those all get in. That's why I want to point out that these are incoming orders and not shipments, okay? Shipments are kind of different than what you're looking at here. Okay?

Andrew Shapiro

All right. And the other thing -- yes, go on.

Gary Medved

I was just going to say, critical to us is to keep this machine going to the incoming orders. Okay that's the critical point that I shared this with the executive team every week. They all see it, okay, a lot more data than this that I just have to dispel this down for presentation of the conference.

Sanjay Singh

Andrew, just for your clarity and for others on the call, Gary talked about a shift in e-commerce being a bigger piece of the pie. When e-commerce orders come in, they ship out the same-day over in 24 hours, typically, right? These are online orders. These are smaller orders, but they are online owners. So that will cause a -- as that pie grows, that would cause a significant shift in the way the 12-day moving average looks also. It will also cause a shift in the value of the backlog that is shippable.

Just so that you know, so there has been a dramatic shift in that. One year ago, you had a sizable backlog. And we just didn't have the capacity to ship it because it grows so fast. Well, all that got taken care of as the months went on, so just for your clarification.

Andrew Shapiro

No, that's quite helpful. And then the following slide, one of your priorities, if this is, I think, a Michael definition. If you could help -- when you say increased EBITDA to cash conversion by a minimum of 30%, what do you mean by EBITDA to cash conversion, please?

Mike Weisbarth

Basically, it's converting that strong EBITDA number to cash, okay? And we're not doing that at the rate that we want to do that. And so what we're saying is we're converting X amount of EBITDA over the cash, and we want to increase that number by 30% minimum. So in a nutshell, that's what it means. If you look at our financials and you see the cash is doing, you see the EBITDA, the first thing, especially someone like you would surmise, we're not converting EBITDA to cash, okay? And our goal is to increase that conversion by a minimum of 30% from where we are right now.

Andrew Shapiro

Yes. Well, that would be some substantial cash for this company that would be great.

Mike Weisbarth

Well, well, yes, I know why we got one. Okay. And remember, going back to one year or so ago, our goal is to finance growth from operating cash flows and not take on debt, and this is how it gets done right here. So we feel that it's prudent to have that there and keep that out there for all to see. Especially in-house here and the parties that are involved in making that happen.

Andrew Shapiro

Right. So in terms of the steps of doing that, one of the things I noticed in this last fourth quarter was there was a higher buildup of working capital turns. Now in light of the supply constraints and stuff, some just makes some sense. But I just wanted to know if the current level is when we finish fourth quarter, are the working capital terms that you think will be the norm going forward? Where do you expect to see you making further improvement, Michael?

Mike Weisbarth

I think the biggest thing is the improvement in terms of bringing more cash in that we have sitting out there on the balance sheet as they are, okay? So we're not extremely excited about the cash conversion. And I think from a working capital standpoint, Andy, that's probably the biggest thing right there. We have a new director of operations. We have a lot more tighter control on inventory, the right product, the right component, the

right quantity, coming in at the right time. And we don't we don't see inventory getting out of control.

As you know, in 2019, we were writing off and liquidating a lot of unused inventories that have been purchased in prior years. That just I was -- it could be sold. And we do not ever want to repeat that. So I think the type purchasing side operational improvements. We have a -- we have a number of initiatives underway, we now to help drive GT and then converting EBITDA to cash. I think all three of those things working together are going to give us much greater cash position going forward to finance growth.

Sanjay Singh

And I would add -- I was just going to say, what I would add to that is it's difficult when you're just looking at points in time on balance sheet, I can give you some skewed calculations favorable or unfavorable, both directions, right? When you look at where you're lined up any particular quarter end. So that's why we're focused, obviously, down on the weeds here about driving the turn and collections of the receivables, as Gary mentioned. And sometimes even just customer mix comes into play because not all customers are equal. I mean that's just the realities, right? Not everybody has the exact same payment terms, et cetera. So it depends on the sales are going to and specifically what period of time that those sales are made. You can inflate or deflate the month in quarter end balances.

Andrew Shapiro

Exactly. For example, you said that you're adding -- you've added two new national retailers for Q2 and Q3, somewhere around there, you'll be going in there. When would you be building up your inventory, et cetera, for something like that? Or is that already begun?

Sanjay Singh

Well, anything like that goes into our maps are scheduled, okay, which evolves into materials plan as well, so some of that may be getting purchased. Now I can't speak for the details of it. But soon as we know something, it goes into the master scheduler, and I put in are the material plan is produced out with that to see what we need -- what we may need, what we don't need and so it's not -- it doesn't all come at one time. It doesn't necessarily get ordered all at one time. It gets laid in and when messaging is accurate, you need to order this, it gets ordered. So they're puts and takes across the board.

Andrew Shapiro

Can you discuss the scale of these two new national retailers? And like how many doors initially you're getting and how many potentially could follow?

Sanjay Singh

Combined their -- combined, it's over -- it's thousands and thousands, I can tell you that.

Andrew Shapiro

Okay. That's very good to hear. And are you -- are you getting all their doors initially? Or you're getting thousands initially and then it could be a lot more?

Sanjay Singh

Well, I can't speak in that level of detail right now, but I know the number I just gave you is the initial, not what it could wind up being. So, we're -- we got a lot going on and I would rather work with going into retailers that have doors everywhere and because sometimes they think as much of attention as a chain with 100 doors. So -- but again, they're recognizing the power that they stand or not recognizing the cultural shift taking place in the public and I think we have an outstanding sales director here that's tying those two together nicely and new products is winning everybody's appetite and shown that we are going to be the leader and the innovator going forward.

Andrew Shapiro

And so as you're doing this and building out this brand and again, tying this all together and you're building up this cash are you already starting? Or when do you feel you'd be starting to look at the acquisition of no-name innovative products to slap the Mace brand name on them and put through your growing and substantial distribution channels.

Sanjay Singh

I think there's a lot of new product developments that have to take place first. If you go back not too many years ago, there was a lot of that was going on in this company, okay, bringing in products, but the Mace main line and they got the Company off the rails, off track, and I think they're -- they lost some of their focus. And you've heard me say a number of times, we're committed to non-legal personal safety items in terms of -- from our alarms, the sprays, the Gels, the stun devices.

And we feel there is a substantial amount of opportunity in those few categories and multiple touch points in a person's life. In multiple retailers and again, spinning back to our efforts on digital and direct-to-consumer that I -- unless it's a product, Andrew, that just completely wow as worth, my God, why didn't I think of that type thing we got to have that. Unless it's one of those products, I think we got enough on the drawing Board right now. And enough poker in the fire to keep us busy to really build this out going forward.

Andrew Shapiro

Well, so are you intimating that it's better to invent internally than an existing product that is out there, but again, it's lost because it doesn't have the Mace brand. And with the Mace brand on it, I'm trying to lead into whether there's licensing, which is someone else taking on the SG&A and other funding risk and we get 100% royalty but also the idea of Joe Inventor in Montana has got this interesting product that you buy the product, you shelve it into Cleveland, our existing fixed costs and you sell the hell out of it with the Mace name on it into our distribution channels.

Gary Medved

Always an option, Andrew, it's always an option. And I think if we get something comes across our desk that is that powerful of taking a look. We'll look at it. But again, we have a lot right now that I think everybody in this plant and in this company is focused on and I hear what you're saying, and I'm not saying we're not going to do that, okay? We always have new product ideas coming across.

I get a number of them every month coming across. You got to pick your air, take your battle and where you want to put your resources. We have a fixed amount of resources and locking on we got a lot of attention and focus and commitment right now, and I don't want to derail that unless it's really, really going to move the needle, right?

Sanjay Singh

Okay. Andrew, just to add to that, what Gary just said, our ultimate goal, when we did our survey in the first quarter of 2020 was to get an idea of what our consumers truly want in terms of the PP personal product safety, right? So our ultimate goal is to give them what they want. And whether that comes from inside the Company or outside, we're open to it. At the moment, what Gary is saying is, we've got a pipeline of inside projects, which we have determined crucial from a resource allocation perspective. But if we come across things that we feel that will solve our consumers well, it's going to get done.

Gary Medved

No, I think that wraps it up. Rein, if you're still there, operator?

Operator

Yes, I'm here. And there's no further question this time. You may continue.

Gary Medved

Okay. So thank you, everyone, for joining us. Greatly appreciate your interest in Mace, and we look forward to speaking with you going forward.

Operator

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