MACE SECURITY INTERNATIONAL INC.

Moderator: Mike Weisbarth
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OPERATOR: This is Conference # 4391253

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Mace Security International Second Quarter 2021 Earnings Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you'll need to press "star" "1" on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press "star" "0."

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

Mike Weisbarth: Thank you, (Katrina), and good morning, everyone. Joining me on the call today is Sanjay Singh, our Executive Chairman; along with Gary Medved, President and Chief Executive Officer of Mace. Please see corp.mace.com on the Newsroom where you can find additional materials, including the financial statements and the OTCQX report for the second quarter ended June 30, 2021, as well as our Q2 financial overview presentation.

Before proceeding, I would like to point out that certain statements and information during the conference call will constitute forward-looking statements and are based on management's expectations and information currently in the possession of management. When used during the conference

call, the words or phrases such as will likely result, are expected to, will continue, is anticipated, is 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 future periods to differ materially from any opinions or statements expressed during this call.

I will now turn the call over to Sanjay for some comments about the quarter.

Sanjay Singh: Good morning, everyone. We experienced a tough quarter for the first few weeks of the quarter, we experienced lower incoming orders. I will discuss the reasons why. Last quarter, we shared with you our plans to address the external supply chain delays by building finished goods inventory, and increasing our throughput on the plant floor by investing in automation. We accomplished that. However, current economic conditions are different, things are a bit slower than what we expected. We have inflation, transitory or not, cost increases due to strains on demand and supply chains, and the transition of many in the U.S. of getting off unemployment and back into the workforce.

Retail store traffic slowed down in May and April and early part of June, and it's showing a slight recovery. We remain focused on addressing operational efficiencies, developing and introducing new products to the market, adding new retailers, and investing in programmatic advertising to increase our DTC impact for the rest of the year. We will remain on course with our growth strategy and continue to invest in areas of our business that we believe will garner the best return on invested dollars.

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

Gary Medved: Thank you, Sanjay. Good morning, everyone, and thank you for joining us. In our second quarter 2021, we made progress on a lot of fronts within our

business and expect the investments we are making will support the growth we anticipate achieving.

We've added several pieces of automation to our production and packaging areas, and have identified other processes that can be enhanced. We are constantly assessing our operations for continuous improvement from order recognition and cash collection and all the operational activities throughout the cycle.

Our sales for the second quarter were essentially flat for the second quarter of 2020 as we were up against a difficult comparison in our private label business, which was down over 70 percent from last year in the second quarter. We are focused on building up a Mace brand and product assortment, and as a result, we ended our relationship with some private label customers by the end of 2020. This has, and will continue, to result in difficult comps throughout 2021 as it relates to private label sales. We are, however, continuing to gain significant traction with our online retail sales, which were up a combined 38 percent with our e-com business up 80 percent for the quarter, over an increasingly higher base from the prior year.

In the third quarter, we have more hooks going up and adding SKUs in our existing retail customer base, along with adding a nationwide brick-and-mortar chain to our portfolio. We're also getting introduced to customers of another nationwide retailer through its website. Our retail sales now represent 55 percent of our total sales when they were 46 percent just a year ago. We did see a softness in some retail traffic as the government unemployment support began to subside. However, that softness appears to be diminishing as we move through the third quarter.

Additionally, and to a lesser extent than private label, international sales were still down year-over-year in the second quarter as recovery from COVID is slower in the countries in which we serve, than in our domestic market. There's pricing pressure surfacing from some of our international suppliers based on availability of materials, shipping delays, and cost of shipping. We address much of our supply strains -- supply chain constraints coming out of

the first quarter, and we continue to evaluate domestic supplier sourcing opportunities.

We incurred R&D costs during the quarter, and we'll continue to invest in R&D as we remain focused on developing new products to be introduced in the back half of this year, in the first half of 2022, and beyond. We are staying the course to our strategic plan of developing the Mace brand and introducing a fresh-product look, purpose and functionality. We are still striving to have our product assortment as a product category within retail environment and not individual offerings, and believe we can accomplish this through the introduction of new innovative products.

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

Mike Weisbarth: Thank you, Gary. Second quarter net sales were $3.4 million, a 1 percent decrease from the $3.43 million for the second quarter of 2020. This decrease in net sales resulted from the decline in private label sales as certain customers in-sourced production when their volumes became large.

Gross profit decreased $74,000 or 5 percent from our second quarter 2020 results. Our gross margin rate was 39 percent, down 2 percent from the 41 percent rate we achieved in the second quarter of 2020, as we partnered with a couple of our customers to assist them in sell-through rates and some product returns for a limited number of specific products. This assistance impacted our margins by 2 percent. So excluding this customer assistance, we held our margin rate consistent with the second quarter of 2020.

SG&A expenses for the second quarter this year increased by $360,000 to $1.2 million or 35 percent of net sales. The increase was in line with our plan to expand additional costs for advertising to further penetrate the DTC market, personnel to support our growth plans, R&D to drive product innovation and new product launches, and third-party sales commission as we continue to steer our business model towards the retail and online channels and away from private label.

With the forgiveness of our Paycheck Protection Program loan by the SBA, we recognized a onetime gain on forgiveness of debt of $625,000. This was a nontaxable, nonrecurring benefit in the second quarter of this year. As a result of the above, our net income of $702,000 for the quarter was up $249,000 from the same 3 months in 2020. However, that was enhanced by the PPP gain.

Net income was 21 percent of net sales. Excluding the benefit from the PPP gain, net income was 2 percent of net sales compared to 13 percent achieved in second quarter 2020.

EBITDA for the second quarter of 2021 was $815,000 or 24 percent of net sales. However, excluding the PPP gain, EBITDA was $190,000 or 6 percent of net sales compared to $596,000 in the same quarter of 2020, which was 17 percent of net sales. Second quarter adjusted EBITDA was $234,000 versus $655,000 for the same quarter of 2020.

For the 6 months ended June 30, net sales of $6.7 million increased $477,000, or 8 percent, over the first half of 2020. Net income for the first half of 2021 was $811,000, or 13 percent of net sales, compared to net income of $573,000 for the 6 months of 2020, or a $238,000 improvement. The 6 months results, again, were bolstered by the gain from the PPP loan forgiveness. Earnings per share were $0.01 per share for both, 6-month periods.

We also strengthened our balance sheet and were debt-free at June 30, inclusive of the payoff of a long-term note associated with a prior acquisition. We maintained our liquidity as our cash balance of $770,000 was up slightly from December 31, 2020 cash balance. Our working capital increased over $900,000 in the first half of the year with a build in finished goods inventory to stem some of the supply chain issues we were confronted with, along with manufacturing inventory to support our anticipated sales growth.

With that, I will turn the call back over to Gary for some closing comments before we take up questions.

Gary Medved: Thanks, Mike. Mace is committed to improving our top line growth through furthering our online consumer reach, expanding into new retail locations,

along with expanding within our current locations, and developing and launching new products. With our target of 50 percent gross profit, we will continue to streamline our manufacturing processes through new investments in automation. We have the infrastructure and capacity to support our growth initiatives, so we do not anticipate any significant additions to our cost structure. We're excited about the opportunity in front of us.

At this time, I'll stop and open the lines for questions. I would ask each caller 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.

Katrina, please open the line for questions.

Operator: Thank you, sir. As a reminder, to ask a question, you will need to press "star" "1" on your telephone. To withdraw your question, press the "pound" key. Please stand by while we compile the Q&A roster. Once again, to ask a question, please press "star" "1" on your telephone.

For our first question, we have Andrew Shapiro. Your line is now open.

Andrew Shapiro: Hi. Thank you, guys. If you could, I'd like it if you can, please clarify and discuss what it means by product returns as well as customer support of specific product sell-through rates? And in particular, what was the amount for this type of activity in the prior year and that you called out this quarter's number, is this a recurring item but it was of smaller size in prior quarters or is this is a onetime type of item that occurred in this quarter?

Gary Medved: Morning, Andrew. Thank you for joining us. The -- there are 3 components to that number. One was for a large national sports retailer that bought a lot of product for promotion, and they weren't quite getting the sell-through that they wanted, so they asked us for some assistance in helping them reduce the price. So, it was about a 50-50 split between the 2 companies. Obviously, we did that for the sake of a long-term partnership. Another item or the second item was the result of a new -- our new packaging going out last year to a large retailer and national retailer. And they agreed at the time to whatever was going to be left at the end of Q1, they would...

Andrew Shapiro: You got cut out.

Gary Medved: Well, what was the last thing you heard me say?

Andrew Shapiro: You had -- there were 3 items. The first one was a sports retailer that you promoted, and you gave -- you shared the cost of cutting the price, and the second item you were just beginning. And...

Gary Medved: OK. So the second item was a large national automotive retail. We put them into our new packaging program last year. And we agreed at the end of Q1 of this year whatever product they had in the old packaging, we would -- they will be allowed to return in Q2 this year. If the product is good, we're going to repackage and resell it, but we did mark it as a return. And then the last one, the third item, was a stop-and-go customer who stopped the program but now they're back on the burner.

So that will result in the future sales revenue. So those are the 3 components. Altogether, there was 4x over -- 4x over Q2 of 2020. Without getting into specific numbers. So that's the range that we're talking about right there. We treat -- all of these have been treated as one-offs. We don't anticipate anything further going forward to the extent that we want to address it in Q2, which again, wasn't the appropriate time to address it. And so it's done and as Mike pointed out in his script, and I think in our release, that it cost us 2 points on gross profit that we would have otherwise had.

Andrew Shapiro: OK. And carrying over from this because, again, you took back product which you're going to repackage and then resell. There is a -- I guess, there's a sell-buy date. There is some time period on the pepper. What happens to like the pepper that's in those cans? How does that all work when it gets repackaged?

Gary Medved: Well, first of all, there's a -- I believe it's a 4-year time period on the product. So obviously, anything that comes back has already expired, which we don't anticipate there is. But if there is any that expired, that product will be destroyed. But we're anticipating the bulk that came back -- and Andrew, we're not talking like 90 percent of this amount is this return product. I think it's the smaller, the 3 components. So the product will be sorted. If there is

anything that has 3-plus years of inventory, I'm sorry, shelf life, it will be repackaged.

Andrew Shapiro: Got it. OK. And related to this is also, can you talk about -- or can Michael talk about the breakdown -- inventory levels were brought up substantially during this quarter, understandably why to address what you're doing, but what's the breakdown of raw material, WIP and finished goods of your now increased inventory? And as your build in days, cost of goods sold days sales at the end of June 30, are they for orders in hand or mostly they have cushion to avoid delivery delays? And is this quarter end level sufficient or is there more build in days of COGS still needed?

Gary Medved: We're sitting right now, Andrew, at around 50-50 split between raw and finished goods. Some of the spike is attributed to international. We're getting one of our supply chain straightened out because the one product we'll be bringing, we do sell quite a few of them. So that is being diminished going forward. We don't anticipate a similar pattern moving through Q3, Q4. We're taking a much stronger look at our numbers right now.

We're adjusting it with effect of this morning based on just the first couple of days of August what we're seeing, and I sent an e-mail down to operations, adjust for this number going forward for the month and then we'll revisit it in another week. So it's being looked at very closely. Domestic sourcing is less of an issue in terms of causing inventory peaks and valleys as far as the international side. So, the supply chain -- just a year ago, we were talking about international, the 6 to 8-week supply chain has now stretched out to 6 months. And that carries co -- additional costs with it that we weren't experiencing last year. So...

Andrew Shapiro: No. I understand. I'm not sure if you understand the nature of my question, maybe Michael understands better. But I'm trying to -- you built up the days. I understand exactly why you're doing it and why you needed to do it. But is it as of 6/30, was the buildup for orders in hand? And if not, have you built up a sufficient cushion now that you avoid your need for airfreight versus containerization, which is higher cost using airfreight? Have you built your

level sufficient that you don't need to build up more days in the current quarter that we're in?

Mike Weisbarth: Again, as Gary mentioned, Andrew, we were trying to, and I said it in my comments as well, to mitigate the supply chain issues that we were strapped with during the first quarter -- almost the whole first half of the year. So we did that to mitigate the supply chain strain that's been going on and just make sure we're well positioned for the second half.

Andrew Shapiro: OK. Again, I mean, I didn't ask why, I'm asking, is it level -- do you feel the level is not sufficient or you're building more in the current quarter?

Gary Medved: No, we both understood your question exactly how you worded it. We're just answering what we want to answer. And I think we'll leave it at the supply chain issue is why we did what we did and move on from there.

Andrew Shapiro: Fine. Well, I'll back out. I definitely have more questions. Hopefully, you'll get back to me.

Operator: Our next question is from (Greg Fischer). Your line is now open.

(Greg Fischer): Thanks for taking my questions.

Gary Medved: Morning, Greg.

(Greg Fischer): My question is about your financial goals, specifically the 15 percent EBITDA margin and the 50 percent gross margin. So the key data points that we investors rely on are actuals and the goals that you've shared with us. There's a lot of information that you all see that we aren't privy to. And I'm hoping that you can expand upon why you believe those goals are achievable and how?

So for me, as an outsider, I look at the past 2 quarters' adjusted EBITDA margin, your communication around continued inflation headwinds, consumer discretionary spending weakness, Q2 SG&A is 30 percent higher than a year ago while revenue and gross profits are both lower, and you're planning for increased marketing and advertising spend. So how do you achieve those 15 --

how do you achieve those financial goals? What level of quarterly revenue's required, and what do you need to happen on inflation expenses?

Gary Medved: OK. Well, here, look, first part, with the gross margin of 50 percent. So we have a margin that starts with our cost of goods sold as our structured in our system, and we know where that number sits. And to achieve 50 percent it's all going to come down to the manufacturing overhead element variances, labor variances, purchase price variances and then, of course, freight. And so, these last number of quarters, probably 4 quarters, we've been hit with overtime and freight issues when we have to air freight from around the world to bring components in, and that chews into the margin quite handsomely. As we get more and more straight out like resetting our lead times from 8 weeks to 6 months, that allows us to put stuff on road and not on an airplane because we have it factored in, and that freight cost goes away.

Also, with overtime being diminished drastically, that comes into play. We put a number of operational improvements in place. A key one just went in last week. So that was in July. We didn't witness any of those savings in the month third -- in quarter number 2, but we know what those projected savings are going forward. And a couple of other items we put in place in the second quarter were also in mid-to-late quarter, so we didn't realize their full benefit. So there are items that are impacting the gross margin and we deal with the national retailer who's taking our Clip Strips in. That's expanding quite nicely. I'd like to say that we're making 80 point margin off of that, but we're not. But we are getting a lot of revenue and a lot of sell-through, they're turning the product quite nicely. So from a contribution margin standpoint, we're doing great. From a fully loaded cost standpoint, it's not as handsome as we want. But further to our point about the efficiencies are in the plants and so forth.

Now moving down to get us to the EBITDA number, Greg. That's obviously SG&A in a big way, and we are investing there. We're putting money into digital. We're putting money into our personnel. We're putting money into new product development, engineering. Collectively, that's going to be a sizable nut as a bet on the future. And in-house, we're all in lockstep so that's what we need to invest. I think the pepper spray market needs a face lift in terms of product design and product development. We put a couple of items

out there in Q1. We have a couple coming out at the tail end of Q3. A couple more we're looking for Q4 and Q1 of 2022. And all these things combined linked up with the increase in our advertising spend digitally have led to incremental growth. We've seen that already at retail. We've seen it already on the digital sites. But it is witnessed by the financers, are we proud of a flat quarter? Absolutely not.

But when we look at the amount of business private label that we'll replace a Mace branded product and how well consumer -- I should say, how well retail and digital is doing, that kind of confirms that we're on the right path from a Mace brand standpoint, that we're nowhere near where we want to go with this thing. So the programs are working, the strategy is working. But this is a long-term marathon here. This isn't a sprint. And it's not going to be handled in one quarter which brought us results. But I think incrementally, when it comes down to Mace brand, retail and digital and new products, I think that's where you're going to see continued increments going forward and the margins are going to follow. So hopefully that answers your question.

Our internal goals have been and continue to be of 50 percent gross margin. And our internal goals have been and continue to be at least a minimum 15 percent EBITDA. And most of the costs we're having now, even though they're variable in terms of that spend, they're becoming fixed cost for us. And we don't see any large cost sitting out there for CapEx other than new product development. And that will go through the balance sheet before it goes through the income statement. So we got a lot of things going on to get us to that 50 percent and 15 percent number. And then gross, of course, with most of these costs becoming fixed, if the top line improves, that will be dropping down to the bottom line to improve that EBITDA number.

(Greg Fischer): OK. Yes. I think one of the things that -- because, obviously, there is a lot that goes into this, and thank you for the answer. I think part of this is, you have access to a lot of information that investors don't have and it requires, I think more imagination on our end. So I think one of the things that might be helpful in maybe your next investor presentation as a follow-up is to maybe to bridge that gap. Like, for example, in your answer, you referenced this being a marathon and not a sprint.

I'm looking at the slide deck that accompanies the presentations and the 15 percent EBITDA margin and 50 percent gross profit margin are included in the short term. And so I think there -- I think that was part of the source of my question, some of the disconnect, where I'm looking at Q2 results and trying to figure out how in the next couple of quarters you get to those goals. And clearly, there's data and information that you're seeing that I think investors clearly just don't have access to and it requires more imagination on our part.

Gary Medved: Very good point. And the short term, when we first started setting these goals out there, 50 percent and 15 percent, I think that wraps back to last year at some point. I can't recall exactly the date. But I think that goes back to last year, and we were looking at it as going through this year into the next, I'm sorry, into the final quarter, that was our target for the end of this year. And honestly, we -- half of these supply chain issues won't be impacting us to the extent that they are where we'll put in extra labor and freight, but as those diminished -- and those are sizable numbers, let me tell you.

And as those diminish, those dollars go right for the margin. What we need to do is just keep our foot on the gas operationally here and sneak out all of the efficiencies that we can down on the manufacturing floor. And as I said before, the new product development is just going to spur retail. We've got some exciting things going on, on the retail front, exciting things we're developing here on the digital front. We'll get into those down the road. We can't share anything today. But internally, we're -- there's major emphasis on those key areas, and we're sticking to them, and we know they're going to pay benefits down the road. So -- but we certainly appreciate you investing in Mace and hanging with us.

(Greg Fischer): Thanks.

Gary Medved: (Katrina)?

Operator: Yes, sir. Once again, if anyone would like to ask a question, please press "star" "1" on your telephone.

Our next question is from (Vijay Marolia). Your line is open.

(Vijay Marolia): Good morning, guys. I believe part of my question was answered earlier, it was about the breakdown of the inflation. And I think that you said that you're seeing it in transportation and labor, but not so much raw materials, or did I hear you incorrectly?

Gary Medved: We've had a couple of spotty ones in raw materials, Vijay. Freight has been a big contributor because of the -- again, it's not a lot different products, but just a couple that we're bringing in. There's a lot of trade involved. So freight is a big one. The overtime as we go forward and we're certainly putting CapEx down on the plant floor to help automate as much as we can. But the overtime has become less and less of an issue. And raw materials, we're doing things with purchasing like long-term orders, open POs in July next year, to lock-in in sight of current pricing right now, that if any of that inflation is transitory, then we'll miss that rise. So those are the 3 key components that are contributing to the margin where it is today. We didn't take all 3.

(Vijay Marolia): OK. Thank you. And just a side question. If the current quarter were to continue at its -- I guess you described it as lower than expected. What type of inventory spend we -- should we expect?

Gary Medved: When you say inventory spend, are you asking about the increase from where we are?

(Vijay Marolia): Yes, or would it just be waiting to eat into the current build up in inventory?

Gary Medved: Well, yes, there's that. What I can share with you, Vijay, is we know what level of inventory we want to hold in finished goods and what level of safety stock behind that. And we're paying very close attention, almost on a daily basis, to those numbers to manage that inventory level to that. Now will we have these peaks coming intermittently? Yes. But as time goes forward, as I mentioned I think with Andrew, as time goes on, when we know the supply chain is 6 months, yes, we're taking inventory now, but we know next shipments aren't coming in for 5 months from now. We planned it like that.

So we have our supply chain meeting twice weekly. We're going down through those numbers. And it's less about managing to a sales level, although

that's critical, obviously, but we're looking at bottling sales level where we want to hold and finish it in terms of safety stock and give quick lead time to our customers. And if the business increases X percent going forward, then that's going to be taken a look at as just those inventory levels. But we do want to use the inventory we have on hand to fulfill orders within 24 hours, if at all possible.

(Vijay Marolia): OK.

Gary Medved: Thank you.

Operator: Thank you. Our next question is from (Ken Fell). Your line is open.

(Ken Fell): Hey. Good morning, guys. Thanks for taking my call and my questions. Just a follow-up, I guess, to one of Vijay's questions talking about the increases in put expenses for pepper spray and all your products. Are you guys responding to those increasing expenses with maybe some sales price increases? Or if you're not, at what point would you do that?

Gary Medved: We're in a tough environment, being in retail and we always know that there's competition out there. Our position has been more getting our operations to the maximum efficiency to the extent that if we do have any price increases then those are hopefully negated to the fullest extent possible by improved efficiencies down on the plant floor. So we -- there have been a couple of items. We've increased prices to certain customers.

We do pass that along. But the grand scheme of things, it's not like a blanket X percent across all products for everybody. So very specific, it could be customer-specific, it could be product specific. We take a look at it and we adjust it if we need to, but recognizing the -- there's more for us to do operationally to offset any increases in raw materials before we just start increasing prices as a result. And I'd like to get our housing to cut shape first and eat out everything we can first.

(Ken Fell): OK. Fair enough. I appreciate that answer. One other question I had was on your financial overview presentation on one of the slides talking about new product intros. You're guiding to 2 in the third quarter and 2 in the fourth

quarter. Now it seems to me in the past we've only been talking about 2 intros for the second half. Is the increase of 2, is that coming from maybe in-house? Or are they from somewhere else?

Gary Medved: When you say coming from in-house, are you asking if we're designing them or if they're faster items?

(Ken Fell): Yes. I mean, you can have some outside entity come to you with a great product and they're selling it with the Mace brand name on it and marketing it that way.

Gary Medved: No. The -- what I can tell you is we have 2 that are going through the final stages of design before we start cutting, tooling. Those are slated for late Q3. We want to see if we can get them out this quarter. And then there are a couple -- we actually have 3. One is more of a product line extension and 2 are new products. And we've got customers interested in the product line extension already. So that will be a much shorter-term launch than the other 2. And then we have 2 more that we're going to be kicking off here for, hopefully, introduction in Q4, and we're going to push for that. And all of these products are designed in-house. None of them are pass-through or somebody else bringing us with our label on. So they're going to have our own mark, so to speak.

(Ken Fell): Great. Great, Gary. Care to give us a flavor of maybe what they're going to look like or what line it's going to be in?

Gary Medved: I think they're going to look awesome. We're working with some talented people in terms of the look. The function we already know how to make pepper spray. So I can tell you that the first couple are pepper spray products but they're different, they're unique. After that, I can't go into detail because that will be giving away too much. The first are pepper spray products.

(Ken Fell): Very good, Gary. Appreciate all you're doing. Thanks so much.

Operator: Our next question, we have Andrew Shapiro. Your line is open.

Andrew Shapiro: Hi. Thanks for the follow-up opportunity. Talking a little bit more about the new products and inflation. Is it with new products that you can price real-time or more currently priced and thus building your margin when you introduce a new product versus your historical product, which it's harder to raise price on to your bricks-and-mortar chain? Is that a correct assumption and understanding? And so, if you did more new product introductions, you can basically maintain and build your margin and offset any inflationary issues because of your new products. Is that a correct understanding?

Gary Medved: Yes. But my issue with product development, Andrew, has been more about designing for manufacturing and assembly. So basically that means take the cost out of it from the first lines on paper. So it has everything to do with suppliers, assembly in-house, the whole production cycle. Just taking out all the costs we possibly can from the beginning. And these products are doing that. So we have an internal goal of a minimum number of units that we want to produce per hour of any product that we make. And that's going to get us where we want to be in terms of margin, and it's 3.0 to 4.0x of what it was just a year ago. And we're encroaching on that number pretty rapidly.

So I think when we look at new product development, I know when I talk it over with engineers and the designers, I kind of get the framework of here's how this thing has to go together, how it has to be assembled. And that's got to be taken into account from the board to go. Now to your point about the pricing which is the other driver of margin, any time you come out with something new that's relevant to the end user and it has value wrapped around it, you can demand a higher price. Now don't be wrong, everything has a maximum price and the market is going to set that before we do. So I look at the new products and there are price points where these things belong, where they'll do well.

We have others on our docket that will command a much higher price point, but they do something completely different. And so, just from a pure marketing standpoint, making sure that we know what game we're getting into, who we're competing with, what the value proposition is of our design versus what's currently on the market. And then, of course, again, designing for manufacturing assembly, I think those are all the drivers of margin. So our

goal is, when we introduce a new product and we're maximizing margin, anything higher than anything that we're getting on any product currently.

Andrew Shapiro: Now I saw in some of your slides, you talked about and you showed a slide that had 3 new products, I guess, 2 products and the new branding packaged Bear Spray, that these are all big top sellers on the Mace site. And I think some are now being put through the retail channel or what's the timing of that? And what portion of this quarter's sales, Q2 sales, in your combined retail and e-commerce sector were a function of sales of products that were not in existence last year?

Gary Medved: Well, we don't break those numbers out, Andrew. What I can tell you is, I have the slide that you're referring to. And this information on here is accurate. The Guard Alaska Bear Spray. I can tell you the sales are up even higher than what that number is on that slide. For those of you that haven't seen the slide, it's up 1,200 percent year-to-date as of end of Q2, but just because of how Q3 has already started, I can tell you that number is going to be even higher than that.

So it's our product, it's our point of sale, it's our packaging or redesign packaging. The Triple -- the Neon Triple Actions are now starting to take off in a specific channel. For us, we won't break out sales volume, but the growth has been nice, and there's a lot of interest going forward in this quarter for that product. And then the Palm Stun Devices, those are a little bit more of a challenge at the retail level, but e-commerce wise, we're pretty happy with what they're doing. So now going forward, we're talking new products that are designed from the ground up. Something brand-new for us and less of product line extensions.

Andrew Shapiro: OK. And can we talk about how -- can you expand on what actions and/or time, it will take -- and obviously, after the anniversary, the loss of the large private label OEM customers, then the year-over-year declines will be gone and the sales growth of your main sectors will dominate and not be offset. So can you expand on what actions and/or time will stabilize and perhaps re-establish growth in each of the international and tactical areas? Or are you seeing the tactical area completely?

Gary Medved: First of all, on the international front. Ever since COVID became a major issue, spring of last year, our International Sales Director has done a great job of staying in touch with everybody on practically a biweekly basis. We are seeing -- some of that is starting to fan out right now. And first, on the international side, you have to understand not every country will allow the sale of pepper spray. So we're talking about a limited number of countries outside the United States. So you think that is the number and those were countries that were severely impacted by COVID, whether it's in Europe or South America or Asia. And like I said, that is starting to fan out the distributors, the master distributors, we have out there. So our foot has been on the gas. It's been on their time line more than ours. We haven't given up on international at all. So we're continuing forward.

But like I said, we're just starting to see the fever break, so to speak, recently. In terms of tactical, this is taking on a different -- we're viewing this from a different perspective, a different business model rather than just getting to compete for rates for the bottom and best price and the lowest price for that market. So we have some ideas in-house that we're going with. We're talking to law enforcement about these concepts. And it's just going to be a different -- an approach, it's going to be different type of product, if you will. And I think it will have value for law enforcement, and it will do very well for us.

So we're rethinking law enforcement in terms of doing something different before we just get in and bid on contracts. The last thing I want to do is tie up our resources, whether it's our equipment or our people for the lowest margin items out there. And I'd say that, before there are -- over 200 million consumers that can own our product, there's 800,000 law enforcement professionals. So we've got a lot of consumers for cuts yet (phonetic). Law enforcement is important but I just want to do something different as opposed to just being a recent product at the lowest price. But we have not given up on law enforcement.

Andrew Shapiro: OK. And what initiatives and milestones and/or progress can you discuss towards, I guess, re-establishing retail and e-commerce sector sales growth in the face of basically last year's surge sales that took place in this quarter a year

ago? In other words, that's a pretty big year-over-year hurdle you are facing and what steps or what milestones do you have to face this challenge?

Gary Medved: Well, to be sure, we're coming into a period of the year where we're going to be lapping pretty heavy numbers from last year. I think everybody understands that. Social unrest is to us, with the pandemic was to big tech. And to the extent that you follow big tech, they've already put out warning signs that they're going to see a deceleration in growth substantially going forward in Q3 and Q4. And so, we're not without those types of issues but for a different reason. Now to that point, we've already addressed the private label side. But from a Mace brand standpoint in retail and e-commerce, we're up. I can't speak to Q3, but obviously for Q2 and year-to-date, we're up in both of those channels substantially. And we're going to keep doing what we're doing. We can't force more foot traffic into a national retailer. We can't do that.

The social unrest landscape last year did that for us. It provided some unforeseen traffic way more average pricing than we could have ever afforded to pay for. And all ships got a lift out of that rising tide. Anybody in this space, whether it's guns, ammunition, pepper spray, or home safety systems, whatever it was, saw an increase that just isn't there this year due to social unrest. But we haven't lost any retailers. Our business on e-commerce is higher than it was last year. And so, the initiative that we have in place or the initiative that we've been sticking to all along, we have a strategy of increasing retail, increasing digital, and rolling out new products. And if something comes around once in a lifetime event to drive sales in the short periods, then, OK. We're going to ride that tide. But strategically, we're not changing anything as a result of it. We just got to continue doing what we're doing. And I think you'll see the results come.

Andrew Shapiro: So in terms of the SG&A, you guys broke out in your quarterly report filed on OTC markets, a variety of the different incremental year-over-year components of the increase. Can you articulate ways in which your sizable marketing investments are paying back already? And how and when they will continue to pay back?

Gary Medved: Well, I think you're seeing those in the scopes that we've always talked about, whether it's retail or new products or digital. And obviously, digital is going to be the quicker pay back, if you will, because that's almost immediate, but we're not doing it -- anything we do digitally is not for immediate gain. We appreciate the immediate gain, but we're doing it for long term. And some of the strategies that we're going to be introducing in the next couple of quarters are even more geared towards the long-term benefit of the Mace brand.

So when I look at what's our time line, yes, we're getting some spank already in digital because we can go to mace.com with a new product, we can increase advertising like right now, we can do the same thing across our dotcom partners. But I think the bigger play here is long term, sticking to what we're doing, and it's going to build over the years. What we don't see us, one is drastically increasing from the spend level where we are right now. We have dollars we're budgeting going forward, but I think we're settling into a range that we're going to stay at that level of spend for the foreseeable future anyhow, through this year and possibly next year and drive growth. But again, like I mentioned earlier, a lot of this is going to be the long-term play, not the short of media hit. And that...

Andrew Shapiro: Now another on those components was compensation rose at a rapid pace in addition to some sizable amount of options that were granted. So I wanted to get a handle here -- is the headcount rising or is the average executive comp rising?

Gary Medved: Well, it's not the average executive comp. In terms of the headcount, we've added a couple of positions, Andrew, but we haven't gone off the rails with spending. I think there's been some incentives in terms of auctions or stock expense or whatever. But where we are is -- there have been a couple of positions added, and those are geared towards growth. And I don't have the numbers in front of me in terms of stock or options or anything like that, but we want to keep in mind this is total cost. So 401(k) is in there and some other things in terms of total.

Andrew Shapiro: Correct. But again, if the headcount is not rising, then that's -- it really is imperative to know are these headcount increases as the compensation

increase going into, we'll call it, direct revenue-generating executives or non-direct revenue-generating executives. I mean, I'm trying to get a handle on the timing and methods for getting a pay back -- and these are necessary investments, I appreciate. But getting a pay back on it, for example, if you spend com -- extra money on someone who's responsible for the private label business, that would be a bad return on investment because private label is way down. So I'm just trying to get a feel for these investments having already a pay back or having to articulate how and where we'll see pay back from these things?

Gary Medved: Well, Andrew, there were some positions last year that we didn't have -- that we have this year. So like last year at this point, I don't believe we had a CFO. Last year at this point, we did not have a Director of Operations. Last year at this position, we didn't have a digital content writer. So there has been incremental add but not just for the sake of adding bodies, if you will. And so, whether it's revenue-generating or financial stewardship of the company, or directing operations to a higher efficiency level and shorter lead times. These are all moves that we view as...

Andrew Shapiro: No, no, that's fine. To articulate that, for example, a chunk of this was that this was a CFO expense this quarter that didn't exist last quarter, fine. That means in another quarter or 2, that won't be an incremental expense. And this SG&A growth will not exceed the revenue growth because presently, SG&A growth is exceeding revenue growth.

Gary Medved: Right. And when we were sitting here last year around this time, I think our friend Willis, Furman Willis made this comment, we can't save ourselves into growth or cut expenses into growth. So we've added positions, and we've been pretty transparent about that when we were doing it in shareholder meetings and earnings calls. And now that we're lapping around where these positions weren't in pocket last year, SG&A has increased on the comp side, but mostly for the reasons I just told you. Outside of those 3 positions, we -- I don't believe we've added anybody in terms of executives or salary or anything. So...

Andrew Shapiro: Have you added revenue people?

Gary Medved: No comment on the revenue-generating side. We're happy with the sales direct that we're working with and his team, whether internal or reps on the outside. But that's all I can say about that, but that in terms of the -- just the increase of those positions that I talked about.

Andrew Shapiro: Right. And lastly, and I'll back out. You have a slide, Slide 9, and I think I need clarification because I have to be confused based on what's been discussed here. And then maybe it's just a definition of what you call DTC, but your first half 2020 consumer sales were $6.3 million. That is bricks-and-mortar plus e-commerce. And your Slide 9 regarding the second half of '21, says that you are targeting DTC channel growth of 200 percent to 500 percent versus the first half of 2021. And I can't believe you're implying -- and if you are, that's wonderful, but I'd like to know, if you are implying a greater than $12 million sales target for just the next 2 quarters combined, that can't be the case. So are the numbers off or can you clarify the definition of what we're looking to see a 200 percent to 500 percent growth in the second half, of what was in the first half?

Gary Medved: Well, OK. So consumer sales include retail and e-commerce. And e-commerce is not only our e-commerce partners but also DTC, which is our mace.com website. So those are the components in consumer sales. So referencing Slide 9 in the financial overview, targeting DTC channel close to 200 percent to 500 percent. It is strictly that. It's the portion. So the consumer sales of $6.3 million in the first half of this year, had 3 components: retail, e-commerce and then our mace.com channel. The DTC channel growth of 200 percent to 500 percent is our mace.com channel. And that's...

Andrew Shapiro: OK. So that's a clarification I needed. DTC means mace.com.

Gary Medved: Direct-to-consumer. It's us selling right to the consumer with nothing in between. No e-commerce site.

Andrew Shapiro: E-commerce is different than that? E-commerce is basically selling to Amazon or to walmart.com or dicks.com. When you sell to dicks.com or walmart.com, is that considered retail or you consider that within e-commerce?

Gary Medved: E-commerce is where that gets bucketed here. So the DTC, just to wrap this up, the DTC, when we talk about SG&A expenses overall lined up. And we talk about increasing our advertising spend, that's what it geared towards. Right here.

Andrew Shapiro: OK. Thank you.

Gary Medved: All right. OK. That's our hour. I want to thank everybody for joining us this morning. Thank you for your continued interest in Mace. And (Katrina), we can wrap it up. Thank you for your time. We greatly appreciate it.

Operator: Thank you, presenters. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and have a wonderful day. You may all disconnect.

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