

Mace Security International Inc.

Moderator: Singh, Sanja

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OPERATOR: This is Conference # 3433019

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Mace Security International First Quarter 2022 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 this session please press star one on your telephone keypad. Please be advised that today's conference is being recorded. If you need any further assistance, please press star zero. I would like to hand the conference over to your first speaker today, Mr. Mike Weisbarth. Thank you. Please go ahead.

Michael Weisbarth: Thank you, Ray, and good morning, everyone. Joining me on the call today is Sanjay Singh, the Chairman and Chief Executive Officer of Mace. Sanjay is joining us remotely from abroad, so hopefully his connection remains clear for all of us. Please visit Corp.mace.com under Newsroom where you can find additional materials including the financial statements and OTCQX report for the first quarter ended March 31, 2022 as well as our Q1 financial overview presentation. Before proceeding, I would like to point out that certain statements and information during this conference call will constitute forward looking statements that 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 the economic conditions, limited of capital resources and disruptions in domestic and international supply chains. Such factors could materially adversely affect Mace's financial performance, it could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during this call.

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

Sanjay Singh:

Thank you, Mike. Good morning, everyone. The first quarter continued to be very challenging as expected. We indicated previously that the turnaround in sales was going to be over several quarters and we see that holding true. An inflationary environment along with a slowing economy has a direct impact on the spending habits of our customer base. When more discretionary income is needed to pay for basic necessities, it reduces the spend available for impulse purchases such as Mace products at retail locations.

The orders from our larger customers have been slower to date, but we are beginning to see an uptick in current orders. Hence, we concentrated on the areas of the business that we have control over. To combat the inflationary pressures, we increased pricing during the first quarter across all our customer channels and product lines. To mitigate the slowdown in orders and shipments, we remained focused on cost control measures resulting in a 38% reduction in our based manufacturing costs on a quarter-over-quarter basis. We were at a 34% reduction run rate at the end of 2021.

All discretionary variable cost increases were directed in areas to improve customer touch points, brand awareness, and laser focused online advertising to drive topline growth. While our efforts did not resonate in the first quarter financial results, we are gaining traction with these initiatives at increasing orders in our base business and online. Our reorganized inside sales effort is better aligned to make multiple customer contacts, provide our customers with the support and product knowledge they desire, and enhance the overall customer service experience. We have historically been missing on this front with our base business customers.

We have become more granular in our B2B sales outreach programs that have been targeting very specific customer groups. We test certain products and sales packages for a particular type of customer and then roll it out to other like customers in the same industry. We are also evaluating a new line of business and hope to complete the evaluation process by the end of Q2.

We have extended our sales efforts on the international front also. To date, we have already exceeded our full year 2021 international sales and we're still bringing in more orders. We previously communicated that we modified our cost structure to be in line with the current economic and business conditions. Our manufacturing variances improved month-to-month throughout the first quarter which was a result of our improved labor efficiency which also advanced every month during the quarter with an overall 40% increase in efficiency over the first quarter of 2021.

Each incremental sales dollar over our 1-million-dollar monthly sales breakeven point contributes nearly 34% to the EBITDA line. We remain confident that the growth of this company will come through all three pillars of our sales model: the retail outlets, base business customers, and direct to consumer with the largest opportunity of growth going through ecommerce segments. I will now turn the call over to Mike to comment on the first quarter of 2022 financial results.

Michael
Weisbarth:

Thank you, Sanjay, and hello again everyone. Our first quarter net sales were \$2.2 million dollars, a 35% decrease from \$3.3 million for our record first quarter sales of 2021. Private label sales were down 87%. This was the last difficult comparison quarter regarding the loss of a major private label customer of ours that insourced its filling operations beginning in 2021. Retail sales were up 42%. They were down across all sectors of our retail customers as POS, or Point of Sale, traffic remain slow. We have seen an increase in POS traffic at some of our retail customers in April which bodes well for future orders. Our ecommerce sales were down 32% in the first quarter, here again, we're seeing an improvement in the recent weeks.

We knew that the first half of this year was going to be challenging with the inflationary headwinds. What further amplified our first quarter decline in sales was that the first quarter is historically our slowest quarter of the year. So, any change in trends is magnified. Last year, we came into the first quarter with a significant order backlog coming out of 2020 leading to an 18% quarter-over-quarter increase. We did not have that same level of backlog heading into this year. Gross profit for the first quarter decreased \$367,000 dollars, or 30%, from our first quarter 2021 results.

Our margin rate however was 42%, up 3 points from the 39% rate we achieved in the same quarter of 2021. We achieved this increase in spite of 35% lower sales. To emphasize the points Sanjay made earlier, we strongly curtailed our costs and drove up margins through pricing and cost control. We're still battling increases in transportation costs which negatively impacted us nearly a full point in margin for the first quarter.

SG&A expenses for the first quarter increased by \$352,000 dollars to \$1.4 million dollars, or 66% of net sales. We incurred \$220,000 dollars in personnel related expenses that were related to the transition of our CEO role with the entire severance pay being accrued in the first quarter.

We have increased our online advertising spend and have been generating over three times ROAS, or return on advertising spend. Additionally, our legal fees were up nearly sixfold as we have been addressing the unsolicited interest of a potential buyer. We continued to invest in new product development and have our second new product being launched by the end of this quarter. We had a reduction in outside sales commissions but that was directly related to the reduction in sales. Our lower sales volume and full your severance costs resulted in a net loss for the quarter of \$584,000 dollars which was down from our net income of a \$109,000 in the first quarter of 2021,

Last year's first quarter net income was our second highest on record for first quarter results. EBITDA for the first quarter was a loss of \$471,000 dollars, or 22% of net sales, compared to our first quarter record \$251,000-dollar income, or 8% of net sales, for the same period in 2021. First quarter adjusted EBITDA was a loss of a \$191,000 down \$515,000 from the \$324,000 we generated in the first quarter of 2021.

Obviously, the lower sales volume dropped right to the EBITDA line along with the incremental – SG&A expenses. But likewise, as sales climb, it will translate into a quick rise in our EBITDA.

We experienced a decline in our cash position during the first quarter. With the supply chain delays, we had inventory orders that were in progress and cannot be altered without financial cost or implications on future inventory order fulfillment. As such, we currently have a lot of our cash tied up in convertible and saleable inventory. We have manufactured and assembled products for our typically high-volume

movers and have been utilizing targeted promotions for our slower moving and higher inventory positions.

In an unusual manner, the supply chain challenges leading to our higher inventory level has better positioned us for timely order fulfilment as our selling season ramps up. We have successfully scaled back future purchase orders and fully expect to begin monetizing our inventory position. I will now turn the call back over to Sanjay for some additional comments before we take your questions.

Sanjay Singh:

Thank you, Mike. Again, we're not making excuses for our poor financial results, but we'd like you to understand that we are actively pursuing topline expansion through other channels during this downturn in our business cycle while staying keenly focused on cost containment. We're moving forward on a path of new product development and expect new product launches to have a meaningful impact with our customers and sales as we continue through the year.

The chameleon, one of our new products that was launched a few weeks back, was launched online at the start of the month. The early results are encouraging. Based on customer input, we're enhancing some of the featured skins and the packaging of this product before it is offered to our retail and base customers. As a reminder, the replaceable skin provides a customized look and a cam twist lock that allows for interchanging the skins, and the pepper spray canister. It is the first personal pepper spray in our product line that allows for a changing of the pepper spray cartridge. We are receiving custom orders both domestic and international for this product highlighting company logos. We believe there's a lot of interest and opportunity for this unique pepper spray offering.

Also encouraging, we recently announced a new customer relationship with Cornwell Quality Tools, a manufacturer of quality tools with over 750 mobile franchises across the United States with access to hundreds and thousands of automotive technicians. We are also on the cusp of bringing another major national retailer online. We expect this new customer relationship to be finalized and announced before the end of this quarter.

Before we get into the Q&A portion off the call, I want to acknowledge that we sent out a press release on April 8th announcing that our board of directors, supported by management, has commenced a process to explore and evaluate potential strategic alternatives to drive shareholder value. This was done in response to unsolicited third-party inquiries and preliminary discussions. As a result, the company has retained financial and legal advisors to assist in this process. We will not address or respond to any questions pertaining to the progress of this matter. So, I ask that you refrain from asking for any updates.

At this time, I will 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 will try to get you back into the queue. Ray, please open the line for questions.

Operator: Thank you, and a reminder to ask a question, please press star one on your telephone keypad. To withdraw your question, press the pound key. Please stand by while we compile the Q&A roster.

Your first question comes from Andrew Shapiro, your line is open.

Andrew Shapiro: Thank you. Some questions here about the revenues and the margins on those revenues, the bump in gross margin despite a large drop off in sales is quite impressive. What I'm trying to discern is how much more wind is to the company's backs on this. What was the timing of implementing your price increases or what portion of Q1 sales do you feel reflects the new pricing versus old prices?

Michael Weisbarth: Sanjay, I can start with this. Thank you, Andrew. The price increases were made throughout the first quarter, so we still have< I think to your comment, some wind at our backs with this. They were not made January first, and they were rolled out during the course of the quarter. What we refer to as product margins have still remained strong since the end of the quarter.

Andrew Shapiro: Is there anymore from Sanjay before I ask the next question and follow up?

Sanjay Singh: No, thank you.

Andrew Shapiro: Okay, yeah, you mentioned in your slide deck the expectation of announcing this quarter, the addition of a national retail over 6,000 thousand locations you mentioned it also in your script. Will this initially be for a small portion of your product line or several products and would there be deliveries in the second quarter or even orders placed in the second quarter for this new customer?

Sanjay Singh: With regards to Cornwell tools, we are shipping their orders, with regards to the one that we had mentioned which is sizeable retailer, orders have not materialized yet, but all the products have been loaded in their system, so we expect to see orders this quarter.

Andrew Shapiro: So, I guess when you say all the products, I don't know if that was answering my questions, is your initial expectations with this very large retailer for a small portion of your product line or several different products? and you mentioned you expect the orders this quarter, would there be deliveries and thus revenue recognition in this quarter partially from sales to this new large retailer?

Sanjay Singh: Yes, I'll take it question by question here. Yes, so this particular retailer will be caring our most popular lines including pepper guns, which as you know some of our other retailers have stopped caring. We expect to make deliveries in the quarter. Mike mentioned stock levels, so you know once we get orders, we are ready to go and ship.

Andrew Shapiro: Okay, I have more questions, so I'll go back in the queue, please come back to me.

Operator: Again, to ask a question, please press star one on your telephone keypad.

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

Ken Fell: Hey, good morning, guys. Question about SG&A expense, I believe it was Mike you talked about the expense incurred associated with the unsolicited interested that inquired, but there's no quantification of how much money was spent, could you maybe give us a little more info on

how much money was spent or arranged something that we can plug into our model?

Michael Weisbarth: I'm not going to go with that specific Ken, but I will say obviously it doesn't exceed what we had on the personnel side. It was significantly less than that, but it was still significant for our size of an organization. For legal costs that we typically incur, it was meaningful to our bottom line.

Ken Fell: Okay, so when you say the personnel related expense, are you talking about the \$220,000?

Michael Weisbarth: Yes, so it was nowhere near the \$220,000 that's why we talked to that first.

Ken Fell: So, it's something greater than zero but less than \$220,000?

Michael Weisbarth: Yes.

Ken Fell: Okay. One question for Sanjay. During his scripted remarks he talked about, I think I heard this right, a new line of business to be evaluated sometime before the end of Q2, can you give us a little more info on that, is it something more than just like a new product launch or is it actually a new line?

Sanjay Singh: It is a new offering. It's a new line of business.

Ken Fell: It's interesting. Okay, anything else you can kind of give us info about that?

Sanjay Singh: Yes, it's been in the works for a while and it's in the line of completing our end consumers sort of buying journey. So, I'll just leave it at that.

Ken Fell: Okay, well, I will look forward to hearing more about that and I will jump back into the queue and let somebody else get a chance, thanks guys.

- Michael Weisbarth: Thanks, Ken.
- Operator: We have a follow up question from Andrew Shapiro, your line is open.
- Andrew Shapiro: Thank you, just for a little more clarification on Ken's last question there for you, the new line of business you're evaluating is this separate from the next new product which you also expect to be released here near the end of this quarter?
- Sanjay Singh: It is.
- Andrew Shapiro: Okay, and what can you say about this upcoming new product that you know how this new product is compelling and meets the need providing customer value and what are the milestones and visibility for introducing this new product by the end of this quarter, which is in just only 60 days?
- Sanjay Singh: This product was designed to address one of the needs that was raised in the Nottingham Spirks survey that we conducted a couple of years ago. And with the idea that pepper spray should have a different kind of grip and the way you can aim the spray at your assailant, and not discharge it accidentally. So, this product design accommodates all of that. It's been shown to retailers, and we have received very good feedback. As far as the timeline is concerned the new product team meets on a weekly basis and we have weekly updates on our various projects, milestones, and it's on target to be released this quarter.
- Andrew Shapiro: So, the prototyping and molds and all that stuff, that's done. We're beyond that kind of stage which was a delay on the most recent product?
- Sanjay Singh: Well, we had to redesign. Andrew, we had to redesign the product, so it went through a couple of different iterations this year especially in the last, I would say, two months. All that is behind us.
- Andrew Shapiro: Okay, and your international sales growth obviously was great this quarter, your earnings release also said, and your script also talked about future international orders remaining strong. In the past, often such sales have been bulk sales to distributors covering a multi-quarter period. To

what extent do you feel these are recurring sales on a quarterly basis and what do you see as your international sales and delivery prospects for Q2 and beyond?

Sanjay Singh: So, we are actively chasing our international customers that we have done business with going back for several years. And that's what resulted in us farming those accounts, so these are not one-time. There are several new accounts and there is a renewed focus on these international accounts. Is it linear every quarter or not, no, but I think certainly for 2022, the momentum is there. The kind of prospects, a lot of quotes, so we expect to see a fairly strong 2022.

Andrew Shapiro: Okay, and you've got the results of a full month of chameleon, you commented about the feedbacks has been favorable, but what is the feedback on the new products value added features and very low price point? Has the interchangeable skin that you seem to focus your marketing been the driver or is it the new actuator or replaceable cartridge? I see the new product on your Mace website and at Amazon.com, but you also previously said that some base business customers have placed orders. Have you gotten this product shipped into retail yet or when will you and where?

Sanjay Singh: We have not shipped the products to retail yet. The attractive feature of this product tends to be the interchangeable skins. We sold quite a few units to a real estate company that they wanted their logo on it. They wanted Mace's logo as well, so I think that seems to be the attraction. The price point, as I have explained to you a few times Andrew, was established a while back based on the size of the unit. It is a half-ounce unit. The feedback has been good that we received from the limited market research that we did.

Andrew Shapiro: I have several more questions, I'll back out into the queue.

Operator: Again, to ask a question, please press star one on your telephone keypad.

We have a follow up question from Andrew Shapiro, your line is open.

Andrew Shapiro: Okay, maybe I will do three this time, and let others fill in the queue. This recent quarter as the company is seasonally weakest as you

mentioned, and I've known from my long-term investment here. And you've drawn a portion of the company's credit line to fund the loss and another large over \$300,000-dollar increase in inventory. The majority of which was as you've cited in finished goods growth, is this inventory build against known an existing orders and do you expect to reduce the amount drawn on the credit line by the end of this quarter?

Michael
Weisbarth:

I'll take this Sanjay. Andrew, the finished goods are built for products that we have existing orders, but I'm going to say more for those products that we know pick up as the season picks up. The raw material components portion is the piece that in my comments I had stated that we would not shut down some of the POs without having a financial implication, but that's all for active parts of ours. So, what we have been able to do is reduce forward purchase orders because we've already got the product on hand and are ready to be converted.

As far as your question regarding the borrowings, I'm going to say, no, the way what we're projecting right now by the end of the second quarter, I would expect us to be at, or slightly higher than, where we were at the end of the first quarter. Because of the payment terms of some of our customers and as the sales ramp up during the second quarter, that won't generate cash until probably after June 30.

Andrew Shapiro: Because it'll migrate into receivables.

Michael
Weisbarth:

Correct.

Andrew Shapiro: So, okay hear you on that, do you expect the inventory level to be down by the end of the quarter?

Michael
Weisbarth:

Yes.

Andrew Shapiro: Okay. And then your general receivable terms are what by the end of the third quarter a good chunk of those receivables will have been brought in and that will bring the credit line down.

Michael Weisbarth: That's correct.

Andrew Shapiro: Okay. So, the end of the third quarter is September. Last year, you guys took the renewal of the credit line down to the deadline which I believe is November. Have you already started the process of securing an extension or a new lender?

Michael Weisbarth: We have been in contact with our current lender, and yes we've already discussed renewal. Now, I won't go into details of those discussions but want to let you know yes we've discussed that.

Andrew Shapiro: I don't know what your time frame was last year when you started discussions, are we ahead of last year's calendar, and can we expect that things will not be going down to the deadline?

Michael Weisbarth: Yes.

Andrew Shapiro: Okay, thank you, I'll back out, I got more questions.

Operator: Again, to ask a question please, press star one on your telephone keypad.

You have a follow up question from Andrew Shapiro, your line is open.

Andrew Shapiro: Okay. Last year Mace's Guard Alaska Bear Spray enjoyed substantial growth replacing some of the large amount of your private label bear spray business that the company lost to that customers in sourcing against tougher comps this Q1 2022, how did your bear spray revenues come?

Michael Weisbarth: Sanjay, I can take that. Andrew, we saw that with the cooler weather and where we are with some of our retail sales to date, bear spray is not as high as it was a year ago. However, what I want to point out is that in the first quarter, our bear spray generates less than 10% of our full-year bear spray sales, so it is ramping up and we are not concerned right now. We see the orders are coming. So, again the shipments haven't happened yet,

but the season is just off to, I'm just going to say, a later start than it was a year ago.

Andrew Shapiro: Okay, fair enough. On last quarter's call, you mentioned that your shipments were a million bucks in December despite having orders because you lacked one of your products due to a vendor delay and you've also said you receive that product in the middle of Q1. What happened to those deferred sales, when did or will they show up?

Sanjay Singh: Some of those products got delayed even further and we are expecting deliveries this month. And that goes back to that backlog from the end of the year.

Andrew Shapiro: Okay. Seasonally or with that customer the opportunity is not lost and picked up by some of the competitors, and these products will still get sold in place?

Sanjay Singh: Well, I mean I think some of our online customers you know we've missed out on those opportunities for the day it's out of stock. For some of the other customers, we have open orders with them so they have not canceled those orders. They are still in our backlog.

Andrew Shapiro: So, with respect to the amount you ordered for online sales, does this mean this is going to be a bump in our inventory, are we talking about a large amount of product here/

Sanjay Singh: No.

Andrew Shapiro: Okay. This might be for Michael, what amount of Q1's SG&A included the combined redundant cash costs of paying the former CEO, this is the cash portion of paying the former CEO and of course our current CEO.

Michael Weisbarth: There is not a significant cash impact during the quarter.

Andrew Shapiro: Well, wasn't the separation at least after the first month, when did that take place?

Michael Weisbarth: It took place during the first quarter, there is an arrangement and agreements and timing of the agreement. Andrew, that was finalized within the first quarter but the cash is not starting to get paid on that until late in the quarter.

Andrew Shapiro: No, I'm not talking about the concept that Gary's is getting paid, I mean he's getting paid cash severance costs on a monthly basis for a year, I understand that. What I am trying to understand is that you know there was before there was a separation this company was incurring redundant costs, it is paying Sanjay a bunch of money and it was paying Gary a bunch of money. So, I'm trying to get a feel for what amount of this SG&A was really you know and frankly there's a cash amount that he got paid maybe February-March that's part of the severance, I'm trying to understand what is redundant cash burn during Q1 that perhaps I should be backing out because it's really not a recurring basis for next year's Q1 or eventually when the severance is gone.

Michael Weisbarth: I would say two-thirds of a quarter's worth of the salary.

Andrew Shapiro: Okay, and what salary was \$240, \$300, I can't remember.

Michael Weisbarth: No, you see it in the severance portion. It was \$205 per our filings.

Andrew Shapiro: Okay, two-thirds of the \$205 and then January.

Michael Weisbarth: One quarter, no \$205 is a full year, Andrew then a quarter.

Andrew Shapiro: Yeah, two-thirds of one quarter.

Michael Weisbarth: Two-thirds of that, yeah.

Andrew Shapiro: Right, and then of course there was still the third that was paid both basically for CEOs that went out the door.

Michael Weisbarth: Okay.

Andrew Shapiro: You mentioned in March you assembled an inside sales team that's making an average of 30 calls a day of your base business, is that pace of calling continuing and what have the results and metrics been of this new investment so far?

Sanjay Singh: So, we have about - we have over 2,000 accounts that we targeted. We've completed about 65% or so. The results are mixed, there are some accounts that have expressed a significant amount of interest in receiving our catalogs and they have placed orders, there are others that are out of business. And there are some that are out of the pepper spray business. So, we're ending up cleaning up the database quite a bit as this is the same database that gets our promotions, so on and so forth. So, this has led to other one-off B2B opportunities as well. So, I would say the overall the results have been mixed, but it has resulted in other new opportunities.

Andrew Shapiro: Okay. Now, you assembled this team, they make in - you know they do this mad you know broad based mad rush, you now narrowed down the population of people who are going to get, will call it, call backs right and follow up. Is this inside sales team it seems to me that would be their fixed costs, are there other initiatives that have payback to re-direct to when eventually they will become some redundant resources?

Sanjay Singh: So, first they're not all fixed costs. Some are purely commission based. Number two, two of our inside sales out of four are more project base. Once we get to these accounts and they are cleaned up, they are ready for our sales director to go on to close because that's the whole idea as we are attacking these accounts and highlighting which ones have potential and that is sort of the new bull's eye. So, those costs will go away.

Andrew Shapiro: Okay. And you mentioned last quarter Mace doubled its online advertising spend and that's part of our SG&A increase. What's the metrics illustrating these expenditures are wise, and paying back, and are they delivering at a level that supports continuing the spend or potentially increasing the spend?

- Sanjay Singh: We have not increased our spend, I'm not sure that maybe for another quarter Andrew. Our spend has been the same if not less going back to Q4. We have recently seen an uptick in seller central Amazon activity and our ROAS is over four, so we are looking at increasing the spend efficiently to take advantage of that.
- Andrew Shapiro: When you talk about and this is probably my last question, raising the – bringing about the second product and the timing of it, is this coming out right at the end of the second quarter, is it something that could fall into the third quarter, what's your visibility on the likelihood and the timings, if you had to you know throw some probabilities out?
- Sanjay Singh: The target is by the end of the second quarter - before the end of the second quarter, that's the target.
- Andrew Shapiro: Okay. Last question, you guys have signed up for having your investor relations calendar few additional non-deal road show if you want to call it, you know participations and some conferences virtual or in person. In light of the strategic alternatives process going on, are you intending to continue to participate and attend those up to the point of course you know the company is required then the new owners of course would make that call, but it wouldn't even be necessary?
- Sanjay Singh: Yeah, so that's up for discussion. Actually, Mike and I have it on our calendars to figure that out in the next few days meaning what exactly we'll be doing for the June conference and other ones.
- Andrew Shapiro: I think is that the next conference is the June one in LA.
- Male Speaker: Yes.
- Andrew Shapiro: And that's an in person one. I don't how quickly our strategic alternatives process and negotiations with partners, prospective buyers etcetera, how the timing of that will work out.
- Sanjay Singh: We've talked to our organizers; we are in touch.
- Andrew Shapiro: Great thank you.

Operator: Again, that is star one to ask a question. And there are no further questions at this time you may continue.

Michael Weisbarth: Okay. Well, I would like to thank everybody for your participation today, and appreciate the questions that are out there, and you're interest in Mace. If there's no further questions at this time we will end today's conference, thank you again for participating.

Sanjay Singh: Thank you, everyone.

Operator: Thank you. This concludes today's conference call. You may now disconnect.