

Mace Security International, Inc. ([OTCQX:MACE](#)) 2Q 2022 Earnings Conference Call August 2, 2022 11:00 AM EDT

Company Participants

Sanjay Singh – Executive Chairman

Mark O’Conner – Corporate Controller

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Mace Security International Second Quarter 2022 Earnings Call. Currently, 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 first speaker for today, Mark O’Conner. Thank you. Please go ahead, Mr. O’Conner.

Mark O’Conner

Thank you, [Operator name], and good morning, everyone. Joining me on the call today is Sanjay Singh, the Chairman and Chief Executive Officer of Mace. Please visit [corp.mace.com](#), under Newsroom, where you can find additional materials, including the financial statements and OTCQX report for the Second quarter ended June 30, 2022, as well as our Q2 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 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, limit 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

The second quarter continued to be very challenging as expected. Our top line revenues continue to trend lower than prior year although the orders started to trend upwards when compared to the prior months. 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 price-sensitive customers have been slower to date, but we are beginning to see an uptick in current orders from our other retailers compared to the last two quarters.

We initiated a restructuring in Q2. This involved cost reductions and a targeted working capital reduction. Plans have been completed and actions implemented as of June 30th. This resulted in a breakeven adjusted EBITDA in June 2022. While this by itself is not an accomplishment, we are now moving in the right direction. We landed two new retailers that represent potential incremental annual revenues of \$1.8-2.3MM. We will begin to see orders from these retailers in the back half of 2022. Our international sales continue to be higher than last year mitigating some of the decreases from the retail segment. Our Q2 order performance on mace.com is encouraging as we were up 27% vs last year and 23% when compared to Q1, 22.

We launched an inside sales effort last quarter. This enabled the company to identify significant opportunities within our base business segment and increase conversions into orders. New B2B opportunities were also identified and are being pursued by our sales teams. Last quarter, we mentioned a new line of business that we were targeting to launch at the end of Q2. That launch is slightly delayed because of transitions in our leadership team but we are targeting a launch in the third quarter. We are also working on several co-branding opportunities and expect to formalize agreements in Q3 and Q4.

The company's focus continues to be on the following: operating to a positive adjusted EBITDA, conversion of new business including retailers; promoting both our new products to the base business while delivering on our operating efficiencies.

I will now turn the call over to Mark to comment on the second quarter 2022 financial results.

Mark O'Conner

Thank you, Sanjay.

Our Second quarter net sales were \$2.0 million, a (42%) decrease from \$3.4 million for our second quarter sales of 2021. Retail sales were off (60%). They were down across all sectors of our retail customers as POS (or point of sale) traffic remained slow. Our e-commerce sales were down (33%) in the second quarter.

We knew that the first half of this year was going to be challenging with the inflationary headwinds. Last year, we came into the second quarter still with a significant order backlog coming out of 2020 resulting in similar sales in Q2 2021 as in Q2 2020. We did not have the same level of backlog heading into the second quarter of 2022.

Gross profit for the second quarter decreased (\$539,000), or (41%), from our second quarter 2021 results. Our margin rate, however, was 40%, up 1 point from the 39% rate we achieved in the same quarter of 2021. We achieved this margin rate increase despite a 42% lower sales volume. We have strongly curtailed our costs and driven up margins through pricing and cost controls. We continue to deal with increases in transportation costs which negatively impacted us 1.4% in margin. We are seeing component cost increases as well.

SG&A expenses for the second quarter decreased by \$23,000 to \$1.2 million, or 59% of net sales. We have increased our online advertising spend and have been generating over 3x ROAS

(or return on advertising spend). Additionally, our legal fees were up nearly 4-fold quarter over quarter, as we have been addressing the unsolicited interest of a potential buyer and commenced a process to explore and evaluate potential strategic alternatives for the Company. We continued to invest in new product development and our second new product, the Pocket Hero, was launched by the end of the second quarter. We had a reduction in outside sales commissions, but that was directly correlated to the reduction in sales. Salaries and related benefits costs were down in the second quarter of 2022, compared with the same period in 2021 due to the company optimizing its headcount.

Our lower sales volume and higher legal costs resulted in a net loss for the quarter of (\$452,000) which was down from our net income of \$702,000 in the second quarter of 2021. Last year's second quarter net income benefited by a \$625,000 gain on forgiveness of our PPP Loan. Second quarter adjusted EBITDA was a loss of (\$116,000) down (\$350,000) from the \$234,000 we generated in the second quarter of 2021. Obviously, the low sales volume dropped right to the EBITDA line along with the incremental legal expenses. But likewise, as sales climb, it will translate into a quick rise in EBITDA.

We experienced an increase in our borrowings position during the second quarter. With the supply chain delays, we had inventory orders that were in progress and could not be halted without a 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. 48% of our inventory is finished goods. We have manufactured and assembled product for our typically high-volume movers and have been utilizing targeted promotions for our slower moving and higher inventoried positions.

In an unusual manner, the supply chain challenges leading to our higher inventory level has better positioned us for timely order fulfillment as the 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 to Sanjay, for some additional comments before we take questions.

Sanjay Singh

Thank you, Mark. Again, none of us at Mace are happy with the financial results. We are encouraged by the fact that the business has been restructured and are operating to an adjusted positive EBITDA.

We launched the Pocket Hero at the end of Q2 and have received strong orders from a retailer and mace.com

We are excited to bring our former Chairman, Richard Barone back to Mace's board. His advice on our strategic alternatives project will be very useful. A quick reminder, we will not address or respond to any questions pertaining to this matter. The company has retained financial and legal advisors to assist with this process.

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'll try to get you back into the queue. (Operator), please open the line for questions.

Question-and-Answer Session