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Moderator: Remigijus Belzinskas
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Operator: Ladies and gentlemen, thank you for standing by. And welcome to the Mace Security International first quarter 2023 earnings call. Currently, all participants are in a listen-only mode. After the speaker's presentation, there will be a question and answer session and you can ask a question by pressing star one on your telephone keypad. Please be advised that today's conference is being recorded. I would now like to turn the conference over to Mr. Remigijus Belzinskas. Please go ahead, sir.

Remigijus Belzinskas: Thank you, Nicole, 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 Q1 2023 financial statements and the quarterly report for the first quarter ended March 31st, 2023, as well as our Q1 2023 financial overview presentation.

Before proceeding, I would like to point out that certain statements and information during this conference call may 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 results, are expected to, will continue, it 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 change. 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, Rem. Good morning everyone. The first quarter, while usually, a slower quarter revenue-wise was very challenging. As the quarter progressed, orders declined further by 22% when compared with Q4 of 2022. Half of the decreases came from customer. Overall, the company's revenues and Q1 23 were lower by 23% when compared to the same quarter last year. Again, almost half of the decrease was from one customer that has been slow for the last 15 months, adding to the organic revenue slowdown with other customers due to lower food traffic. A meaningful amount of our backlog did not ship because of delays from our vendors in Asia.

Orders from a larger price-sensitive customers have also continued to be slower for the entire quarter due to higher levels of inventory. This decline was partially alleviated in Q1 2023 with a 63% growth in our e-commerce platform sales, and 105% increase in sales to private labor customers compared with Q1 of 2022. The inventory levels of this one customer that has caused a 50% drop in our revenues were between 1.2 to 1.5 million most of the last 15 months that has now dropped to half that amount or roughly 675,000 now. We have begun to see a slight upward trend in orders from them, but we do not know if we have hit bottom yet.

In October 2022, we announced the completion of our restructuring that was initiated in Q1 2022. This involves cost reductions, revenue expansion, and specific segments that are relatively less impacted by inflation. Increase in operating efficiencies to notify cost increases and a targeted working capital reduction. Those actions resulted in a positive adjusted EBITDA in Q3 2023. However, revenues in the retail sector declined further resulting in a loss in Q1 2023. Overall, the adjusted EBITDA loss was 550,000 for the quarter ended March 31st, 2023. We lowered SGNA costs in Q1 2023 by 24% when compared to the same period in the prior year.

From a proceeding quarter perspective, Mace achieved a 64% growth in e-commerce, 42% in sales to tactical channel customers, and 130% in sales to private labour customers versus the fourth quarter of 2022. We shipped our opening order to Dollar General in Q1 of 2023. We expect incremental revenues from the addition of Dollar General, shipments of back to school programme to Dollar General in June-July. New product expansions that two other existing retailers that were approved in Q4 of 2022. Separately, we expect additional revenues in late Q2 2023 and onwards from a fee-based training new line of business across the USA. From a cost perspective, monthly cost reduction opportunities of \$150,000 have been identified and actions are being taken to increase our EBITDA. From a financing perspective, we are in due diligence with two commercial finance companies to arrange a 2.5 million line of credit facility and we expect to close our extension from Fifth Third Bank, which is a current lender this week. The company's focus continues to be to get us to a positive EBITDA and continue to land new business. I will now turn the call over to Rem to comment on the first quarter 2023 financial results.

Remigijus Belzinskas: Thank you, Sanjay. Our first quarter 2023 net sales were 1.7 million, a 23% decrease from 2.2 million for our first quarter sales of 2022. Retail sales decreased 27%, private label sales increase 105%, and our e-commerce platform sales increased 64% compared with the same period in 2022. Gross profit for the first quarter 2023 decreased 489,000 or 54% from our first quarter 2022 results.

Our margin rate in the first quarter 2023 was 25% down 17 points from margin rate of 42%, I'm sorry, 42% rate for the same quarter of 2022. Margins decreased in the first quarter, 2023 over the first quarter of 2022 due to decreased sales volume, unfavourable channel sales mix, higher freight and component cost due to inflation, and lower plant efficiencies, the effect of which was partially offset by lower manufacturing overhead. SGNA expenses for the first quarter of 2023, decreased by \$345,000 to 1.1 million or 64% of net sales. The decrease in SGNA expense is attributable to a 36,000 reduction in research and development expenses. A \$34,000 decrease in advertising expense and a decrease of 29,000 in legal and professional expenses. First quarter 2022 CGNA

expense included \$220,000 of severance expense, which did not repeat in 2023. Our lower sales volume and higher manufacturing costs resulted in a net loss for the quarter of 747,000, which was down from our net loss of 584,000 in the first quarter of 2022.

First quarter adjusted EBITDA was a loss of 550,000 down 359,000 from a loss of 191,000 in the first quarter of 2022. The decline in the bottom line is primarily attributable to lower revenues. Our borrowings increased during the first quarter of 2023 to 1.5 million from 515,000 drawn against the company's line of credit at December 31st, 2022. Cash increased to 431,000 at March 31st, 2023 compared with cash of 62,000 at December 31st, 2022. As mentioned previously with the supply chain delays experienced in 2021, early 2022, 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. We have manufactured and assembled products for our typically high-volume movers and continue utilizing targeted promotions for our slower-moving and higher inventory positions. The supply chain challenges leading to our higher inventory level have better positioned us for timely order fulfillment as our sales increase. We have successfully scaled back future purchase orders. During Q1 2022, our inventory increased 106,000 in relation to inventory at December 31st, 2022, primarily in support of Dollar General. I will now turn the call back to Sanjay for some additional comments before we take questions.

Sanjay Singh: Thank you, Rem. Clearly, our focus is to execute actions to reduce costs. We'll be focusing on landing new business and securing a new lender. These are the key areas of focus. A quick reminder, we will not address or respond to any questions pertaining to our ongoing strategic alternatives project. 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 on the queue. Please open the line for questions.

Operator: And again, if anyone would like to ask a question, press star one on your telephone keypad.
Andrew Shapiro, your line is open.

Andrew Shapiro: Hi. I have several questions. I'll ask two or follow up and back out. You gave a little bit of an update on the financing status. I want to flush that out a little bit from your recent call only 10 days ago, you said you had a term sheet from in due diligence with a commercial lender who'd replaced Fifth Third. Today on this call, you mentioned now you're in discussions with two commercial lenders, and 10 days ago you thought that first commercial lender would be able to close in about four weeks, five weeks then, four weeks now. With the second commercial lender here in the path and providing all these people their own individual due diligence, et cetera. Can you give us a little bit better handle on where you stand with each lender and the timing that you expect to have that resolved? So we get a feel for my follow-up question, which is going to get to the duration of the Fifth Third extension.

Sanjay Singh: So the first lender that I referenced on our last call 10 days ago, they are going through their due diligence, they also paid us a visit at our facilities here in Cleveland. We had a good discussion, there are a few more steps that they need to go through. the timing is in that same range, four to six weeks. Meanwhile, we started discussions with another lender and due diligence information is being provided to them as well and the timing for that is approximately the same.

Andrew Shapiro: Okay. Perhaps have a competitive process.

Sanjay Singh: In terms of the extension from Fifth Third, that is a 60-day extension.

Andrew Shapiro: Okay. And with this, when was it that you expect to have that extension signed and disclosed?

Sanjay Singh: All the board members and our new controller and I have signed and executed the documents from our side, we're waiting for Fifth Third to execute theirs.

Andrew Shapiro: Okay. Well, good to know that things are that close. I'll back out. I have additional questions, so please come back.

Operator: Our next question is coming for Howard Rosencrans with Value Advisory.

Howard Rosencrans: Hi guys. I was going to ask about the finances, so thank you in that regard. I was a little confused about your press release. I was just on a few minutes late in the call. Did you guys say there's been an improvement on the international front, that's in 2023?

Sanjay Singh: In the first quarter of 2023 versus 2022 we were down about \$330,000 or so. And the reason for that is when we reinvigorated a international play last quarter, last year in the first quarter. With the Covid restrictions having been lifted and the supply chain issues were not a limiting factor any anymore. We got a substantial opening order from two customers.

Howard Rosencrans: Right. Got it. And so those didn't effectively repeat so there was a catch-up in the channel and now people got their pepper spray and they don't need anymore

Sanjay Singh: Yeah, you're right, Howard. But the international channel keeps on expanding. We are receiving tonnes and tonnes of inquiries from a lot of new countries where they're seeing riots and things like that. So we see that channel continuing to expand but in relationship to those, those two customers, you're absolutely right. They got their inventory.

Howard Rosencrans: Okay. It seems to me over the past few years, there was a vision that we were in a challenge sort of social violent environment. And even though the environment remains social and challenged it seems to me that all of those who felt like they needed pepper spray to protect

themselves against this environment, it seems to me domestically, they all bought it up in 2020 and the rest of the population has no interest in buying pepper spray. And the international, you had the pent-up demand, and all the people who were concerned about the social violence, et cetera, et cetera, bought it once. So that's my view of what's transpired. We can talk about the macro environment and the reduced retail and reduced impulse spending but all these retailers are not cutting back on everybody's.

Whatever sells through if they could sell more pepper spray at the counter, they would still have the pepper spray out there but they're not. So I think your view of the addressable market it is just misplaced and I think everything speaks to that. It'll be nice if you guys could be an add online to another player. And I think your commentary from the release but please correct me if I'm wrong because it feels like you, I don't feel like I got reassurance from the call but it sounds like—so you did the 1.6 in Q1 but it seems like you're now not in a position financially, even if there's greater interest you don't have the necessary lines in place to the cutback and advertising, et cetera, et cetera. So it doesn't seem to me that there may be an improvement in gross margins as you spoke to. But in terms of the top line, I don't feel like based on what you're saying, that there's much of an acceleration or any from the first quarter level.

Sanjay Singh: Well, okay, let me just take it point by point. There was sense of demand between 2020 and 2021 and, that is absolutely true. We are seeing that with one of our customers that is accounting for the majority of the big customers. But our view is that in terms of pepper spray and the channel, the pipeline of retailers that we are speaking to there's an interest there. Yes, there is a macroeconomic impact of inflation and lower foot traffic, that is also true. But in terms of demand for personal protection devices, yes it may not be a 94% year-over-year increase like we experienced in the fourth quarter of 2020. But there is a market out there, there's the environment of fear still remains. And just based on the people that we are talking to, hence the need for landing new business. That's how we onboarded Dollar General, that's how we onboarded another automotive distributor in the last quarter. In terms of not having the financing, that's what we are

seeking financing for. And the way we will do it is by getting us to a break-even positive EBITDA. We are looking at asset-based lending, we have a significant amount of saleable inventory \$4.4 million or so and those are the options we're looking at.

Howard Rosencrans: Well, it is just for my own clarity. Well, first of all, I'll point out that you talked about four, five, six retailers as recently as two years ago that were adding your line and the sales have only gone down, I don't know, 50%, 75% 80% or something from just a couple of years ago, even though you were talking about all of the other retailers that were about to come online, et cetera, et cetera. So you can address that or not address that, that seems to me to be a statement of fact. But in terms of Dollar General, what is the price point and the product? Because I know Dollar General or the dollar stores in general are now selling stuff that's not just a dollar but they sell stuff that's maybe five bucks or something. So what is the product you're selling and what is the price point?

Sanjay Singh: It's a smaller pepper spray, it's an \$9 item and that was the recommendation from Dollar General for us to come up with a \$9 item and that's what we are selling. It's just a smaller volume of pepper spray that comes out of these units.

Howard Rosencrans: Okay. I guess we'll see how it does there. As I said, it doesn't seem to me you've had much success with the four or five other retailers that you advertised so prominently to the investment community two or three years ago but we'll, hopefully, Dollar General will prove more lucrative. Thank you.

Sanjay Singh: Thank you, Howard.

Operator: Our next question is coming from Vijay Marolia with Regal Point Capital.

Vijay Marolia: Sanjay, can you discuss what do you think would be the best use of the proceeds or have you already allocated them to something that you could discuss over the call?

Sanjay Singh: Can you repeat the question, Vijay?

Vijay Marolia: Sure. I'm sorry. What do you want to do with the money that you're borrowing?

Sanjay Singh: Well, part of it is for just working capital needs and another part of it is for growing the business and including marketing.

Vijay Marolia: So regarding marketing, I guess I'm going to use the inverse Charlie Munger approach. Why would it be a bad idea to use some of the funds to do product placement which has consistently shown to boost sales, whether it's in a film, whether it's in music, commercial, celebrity endorsement. Why would that be a bad idea or do you think that it would not be a bad idea?

Sanjay Singh: That's not a bad idea, it's the dollar spend required for that without having an assurance of a return that's the issue but that is under evaluation. Once we get the financing in place then we can proceed with that initiative.

Vijay Marolia: Okay. Cool. Now my next question, this will be my last question and I'll back out. Now this may not be of immediate relevance today and it might not be a high-priority item today. At the same time, there's a long-term future hopefully for Mace in that viewpoint. Why is Cleveland the best place for Mace to headquarter and why not a more, let's call it tax-friendly, demographically, attractive state like Florida not a better option for Mace to relocate?

Sanjay Singh: Well, I think a lot of people would love the idea of Florida, weather in Cleveland. But at the moment we have a plant in Cleveland, we've got our plant layout, its laid out in a way that is efficient

for us. So those are the plans right now. We've got to host of other priorities that we got to get behind and improve quickly but that's something can think about.

Andrew Shapiro: Next.

Operator: We have a question coming from Andrew Shapiro with Lawndale Capital Management.

Andrew Shapiro: Okay, thank you. A few follow-ups. Sanjay, pepper spray is a perishable item and one that you want to make sure works at the time you use it. What is the shelf life on the pepper in terms of if we've saturated the market when those who are cognizant of its shelf life would seek replacement? What is that? How many years is that?

Sanjay Singh: Well, people who are cognizant of the shelf life it's three years but people lose their sprays, they forget where they've placed it in their home, that we hear about that quite a lot.

Andrew Shapiro: Okay. So I just wanted to get that clarified. As I follow up here on Dollar General. You announced you shipped your first order at the end of March. You just discussed on the prior call how Q1 inventory would not drop as you reloaded inventory for another programme, this back-to-school programme and inventory in fact did not drop. And that you were expecting to ship this at the end of this present Q2 and early next quarter. Have you already or when do you expect to be making these incremental shipments? And are you seeing POS data yet from your initial end of March shipment and what are you seeing?

Sanjay Singh: So I'll answer it in reverse. So we have not seen the POS data yet but our reps are aware that we are awaiting that information. The back-to-school will shift in the June-July timeframe. So certainly the majority of it will probably go out at the end of second quarter, because they need to be in the stores.

Andrew Shapiro: Right. And if that is the case, if you had built up or maybe your inventory levels didn't come down here at the end of March with your first shipment to them. And this is another shipment and you say the bulk of it's going to go out before the end of the quarter. Here we are at the end of May, do you expect the inventory levels at the end of June, a month from now to have been brought down a bit and converted into receivables?

Sanjay Singh: The inventory levels will probably stay neutral it's hard to predict when our shipments from China will show up at our doors. There have been several delays and that's the part that we are not absolutely certain about until it actually arrives. But in terms of do supporting Dollar General, which is mostly newer units of products, there is not only the back-to-school program but there are replenishment that we were provided by Dollar General and we were we need to be on time and all that to avoid fines and penalties. So there's some inventory replenishment that is taking place every month with regards to replenishment orders from Dollar General for four Q2 and beyond.

Andrew Shapiro: Okay. And what's the payment terms? When do you start expecting the receivables to be converted to cash?

Sanjay Singh: 60 days.

Andrew Shapiro: Okay. Also with respect to Dollar General, I note from your slides show that part of the decline in gross margin was to account for sales allowances. Is that a one-time occurrence or recurs going forward and for how long?

Sanjay Singh: It'll be accrued throughout the end of the year? Can you confirm that?

Andrew Shapiro: That is correct. Okay. Regarding the decrease from the one long-time customer, the sizable decrease. Are you experiencing or do you know if you have reduced hooks in their stores, and that is coincident with or a function of the reduced inventory levels that they desire?

Sanjay Singh: No, this is simply faring back of inventory we started seeing a pretty, drastic drop. We launched a new, initiative in March and that has caused the trend to reverse. So we are beginning to see an upward trend but it's ever so slight, it is not going backwards it's improving.

Andrew Shapiro: So our remarkable in sizeable year-over-year revenue decline should stabilize then, is that correct?

Sanjay Singh: From that particular customer, yes. But so we added Dollar General, we do the pluses and minuses. We had one customer that accounted for 15% of the decrease, there were several other retailers that were not as slow in Q3 say of last year but they started, we started seeing some slowdown there as well, and it was lower foot traffic accounting to lower POS sales. But looking at all those factors and then you add Dollar General to it, it still resulted in a double-digit decrease. So with regards to that one customer, that trend has reversed but when I look at the last 24 months, in terms of trending trends from that customer. A two-month trend is not sufficient for us to conclude that this is going to continue in the right direction. So far it looks better and we're happy about it because we see an increase in our higher margin and higher dollar value items, seeing an uptick meaning [Inaudible]. So we're happy about that but to answer your question, we're to summarise, we're seeing a slight uptick.

Andrew Shapiro: Okay. What's the status of resolving your stunt gun supply issues from Asia and also your new domestic supplier?

Sanjay Singh: So we have two sources as I indicated on the call 10 days ago, we are actively, evaluating other customers, but we have thousands of stunt guns on their way. They were just delayed we

are expecting shipments by the end of May for the first batch which have satisfied by a significant amount of our back orders about 75K or so.

Andrew Shapiro: Okay. And your slide presentation said Q1 eCommerce platform sales were up 64% from prior year. Can you define e-commerce platforms? What is that in addition to mace.com? Is that walmart.com? Is that autozone.com, dicks.com? Is it just Amazon, et cetera? And what do you attribute the sizable growth to?

Sanjay Singh: So it's primarily mace.com and Amazon, our store on Amazon. And, we made a change in our strategy to increase our presence on with our stores about a year ago. And as you know it requires advertising through dollars. And as we've been going through our process of updating our product descriptions and just the visuals, the images, the videos, that's what's driving it. Also, our ability to replenish, Amazon FBA orders on a timely basis that is also driving it. So this just general advertising and our on-time performance from the plant.

Andrew Shapiro: So when you scale back digital marketing expenditures, then where are you scaling that back, and how do you keep the momentum going?

Sanjay Singh: So it's a combination of when you look at year over year, it's a combination of factors. So we had two different agencies last year. One that was responsible for helping us with our Amazon initiative. The other one was for mace.com, both from an SEO perspective and from an asset perspective, creating digital assets and promotions. We were spending quite a lot more, we decided to scale it back because that wasn't resulting in the type of increase that we were projecting. So if you may recall, Andrew, we've tried to target a four x ROAS return on advertising sales. And if we're going to spend 100 grand in advertising, we need to expect about a 400 grand in revenues. We weren't seeing that so we scaled those assets back. We are still spending money on those assets but it's just a lower amount.

Andrew Shapiro: Okay. I have more questions. I'll back out into the queue but please come back to me.

Operator: And next question again, coming from Andrew Shapiro.

Andrew Shapiro: Okay. I just wanted to make sure I let anyone else in here want to ask questions. Your slideshow says Q1, private label channel sales were more than double than prior year. In prior years Mace explicitly let yet purposefully deemphasize private label sales. Is this sizable growth indicative of any meaningful recovery or shift of focus or opportunity for Mace and what do you attribute this sizable growth to?

Sanjay Singh: It's the sizable growth was from an existing customer. They were just placing a replenishment order. Their order patterns changed in the last 12 to 18 months and they were buying less and less because their overall sales were less. And so we just got a replenishment order from them and that's what caused the increase. There is a focus though on private label customers. We are getting a lot of requests to fill and we are evaluating each and every opportunity. So it's not less of a focus, it is still a focus when people come to us and they want us to fill for them.

Andrew Shapiro: Okay. Now, you recently announced a distribution agreement with public company SurgePays to focus on a sector of the market that Mace had not previously had much penetration in. Can you discuss this new agreement and the timing of getting all the EDI done and its network onboarded, et cetera, et cetera, all the different delays that happened with other new distribution arrangements? And when do you think initial orders might get received from SurgePays? Huge network of corner stores, bodegas, and gas stations?

Sanjay Singh: So the way it works with SurgePays is all the actions that Mace needed to take have been taken. The products have been uploaded to their portals, by SurgePay and we expect to see orders this quarter.

Andrew Shapiro: Excellent. Okay. And you noted that the facility encountered an outbreak of Covid that impacted both production and inventory. Can you expand a little bit about that impact and how much of that impact might have contributed to the margin decline? And has anything changed in your company practises to mitigate such risks to the business and margins going forward?

Sanjay Singh: So Andrew I'll start with this, we had our operations manager, Paul. He had a health ailment and it turned out that he was out for the entire quarter. And very soon after that we started seeing lot of absenteeism. There were days when the plant had one-third of their workforce that was out six, with the flu or Covid and it not only affected the plant employees, it affected the salary employees. We had a tonne of people out on top of that. We conducted a physical inventory towards the end of the quarter, that tied us up for a bit of time as well. The way we offset some of the absenteeism was to increase the production the best we could. We offered weekends bit of overtime, hours to make sure that we could get that products out. But on the other hand, what also affected us was the product shortages from our suppliers. So it's not like just the absenteeism held back products going out the door, the product shortages caused a much bigger issue for the quarter.

Andrew Shapiro: Okay. On your SGNA, Mace's former CEO, your predecessor has been paid sizable severance through much of 2022 and most of this past Q1. When did the payments end and how much was included in Q1 SGNA?

Sanjay Singh: It ended in Q1 2023 and Rem, can you answer the question about the specific amount in Q1?

Remigijus Belzinskas: Yeah. Nothing hit Q1, everything was accrued when the severance- agreement was signed back in 2022.

Sanjay Singh: Yeah, so he was.

Andrew Shapiro: So it was all accrued in a lump—it was all accrued in a lump sum so it was just cash out the door?

Remigijus Belzinskas: That's correct.

Sanjay Singh: Wait, no. It was accrued in Q1 of last year but it was paid through early 2023, is that correct, Rem?

Remigijus Belzinskas: That's correct. It's just a cash, I shouldn't say just it's a cash impact in Q1 of 2023.

Andrew Shapiro: Okay. And what was that cash impact outflow in Q1 of 2023.

Sanjay Singh: Rem.

Remigijus Belzinskas: Well, the total expense was 220,000, so it'd be roughly a quarter of that.

Andrew Shapiro: Okay. I do want to do a follow-up on any progress further on legal heat and F three co-branding here. On the last call, you said you thought legal heat cobranding initiative would result in initial revenues as early as late this quarter, which was later than you initially hoped from March 31st, but we're about to enter the last month of Q2. Where do the prospects stand now and have the delay issues all been addressed?

Sanjay Singh: Well, we were actually going to be addressing it this week. The person who's leading the charge has been out of the country for the last couple of weeks. We had requested a call to move it forward because we are anxious to market it so that we can get this going. All the delays at their end were being worked on but for the last two weeks that we were going to touch base this week to get a status update. Okay. If the revenues due result this quarter, for this quarter it'll not be a significant amount in terms of the overall picture, correct?

Andrew Shapiro: No. But at least it's rolled out versus last quarter when you thought it would roll out. As this new product offerings closer to rollout, can you provide an update and an elaboration on how you see this new co-branded product being marketed and do you feel this is still a \$10 million incremental revenue opportunity for Mace and Why.

Sanjay Singh: We feel that the size of the revenue opportunity is based on the discussions we've had with our partners about how large of a platform this can be. I mean, those are our initial estimates that's why we decided to get into a co-branding agreement with them. The product rollout will be in retail stores, they currently provide training in two large retailers in terms of firearms training they're already within stores. And the idea is to provide training with some of our other retailers that carry pepper spray. And the idea is to provide non-lethal and personal safety and situational awareness training. So that is one platform other than training civilians who want to become certified, personal safety non-lethal experts as well as providing training to just ordinary civilians through webinars and the podcast those kinds of forms.

Operator: Our next question is coming from Mark Greenberg with private investor.

Mark Greenberg: Hi Sanjay, I understand you don't want to comment when the strategic initiatives but in Q3 call in 2022, you indicated that you anticipated the process would be concluded by the end of Q4 of 2022. I'm just confused and concerned about how much additional legal and professional fees you expect to expend on this strategic initiatives.

Sanjay Singh: So we were expecting us to close, once we were profitable, our revenues dipped again so there are other options being looked at by the Strategic Alternatives Group. We are very wary of the cost that are involved and we're trying to keep it to a minimum. So at the moment, there's a group at the board level that we only involve legal counsel if it's absolutely needed and is appropriate but a lot of those discussions are happening at the board level.

Mark Greenberg: Thank you.

Operator: And question again from Andrew Shapiro with Lawndale Capital Management?

Andrew Shapiro: Yeah. Hi one last follow-up on Legal Heat and then I want to ask about F3. On Legal Heat. Do they already have access into or are you planning to market to, we'll call it the educational market vertical on this certified non-lethal training? I would think that that would be a very interesting or desirable demand sector where someone wants to be certified in non-lethal defence.

Sanjay Singh: So they're not in that sector but we have a partner who is also a customer of ours and a big cheerleader of the brand who is very experienced in the education sector and we plan on rolling that out with her assistance. And she's going to be one of the instructors that will be on our platform once we roll out this program. But we've had those discussions and that's a great idea, Andrew.

Andrew Shapiro: Yeah, I would think also Safe Defend would be another one you should talk to about that. On F3, on the last call you said you had Q1 orders for the vehicle the perimeter defence system, but they had a component on backlog and nothing was shipped or booked in Q1 revenue. When was this delay resolved and are you now shipping in booking revenues in the current quarter on the products? And does this type of delay mean that current Q2 orders don't get fulfilled until next quarter or can you catch up and fulfil the backlog demand all in this quarter?

Sanjay Singh: So all the outstanding F3 orders are being worked on and being produced, and we are shipping orders. So since our last call, shipments have been going out and we intend on catching up on all of the back orders in this quarter. We have sufficient inventory now to satisfy those demands. There was a part shortage and one of the parts we found an alternative and that's what solved the problem.

Andrew Shapiro: Okay. And do you have any feedback and indications of success on those systems that you have now delivered?

Sanjay Singh: Not yet. So all this transpired in the last 7-8 days but we'll start hearing about it pretty soon.

Andrew Shapiro: Okay. Have you fulfilled the initial order from your large automotive parts distributor partner for the F3 product or is that something that's next quarter?

Sanjay Singh: No, that has been fulfilled and just to be completely transparent, and so that don't draw the wrong conclusions. It's a very large, potential annual revenue-wise. The first order was a small one and once it starts moving in their system and starts selling the orders will start ramping up.

Andrew Shapiro: Okay. Now, your products still being offered in both Walmart and walmart.com and are they still providing orders? And do you feel you've maintained market share or you've been losing some market share there?

Sanjay Singh: Well, we are getting orders from Walmart, we get it every week and we are on walmart.com and we are just about ready to roll out some new product videos to expand our presence on Walmart.com. Our volumes declined going back to 2020 and 2021. We were in two different areas of the store and in 2021, we were kicked out of one of the areas. And so we were just down to one area of the store now but that happened in 2021.

Andrew Shapiro: Okay. And any reason for that departure and any shot at getting back in there?

Sanjay Singh: When I visited the Walmart headquarters, last year the first quarter of last year, the feedback I got was they were getting down to two brands and they felt that our pricing was higher than the other brands and they were looking at a much lower cost solution just given what was

happening at the time with inflation. They felt that they would consider us, we came up with a different offering and we plan on going back to them with a different offering.

Andrew Shapiro: Okay. I'll back out. I have a few more questions, so come back to me.

Operator: And question coming from Andrew Shapiro.

Andrew Shapiro: Okay. On the call earlier this month you discussed the status of three other co-branding opportunities. I just want to follow up on the one that had a little bit more tangible. And that was, that you had had an order with vendors but experienced a 13-week lead time on the product and we're working on a second variation of this product as well. When do you expect to have each variation in-house? And you previously described this is the product that was to protect or aid people who ride bikes, motorcycle riders, people go on walks, basically, I guess some out outside of the home activities. And since this is a more tangible product now with orders, are you able to provide some additional clarity on what these products are or is that still a competitive secret?

Sanjay Singh: Yeah, I would prefer not to describe the product on this call until we have a chance to actually market the items and spread the word and we need to have the items in our building also. So the items are not in our building yet, we expected this quarter. And again, we are seeing significant delays coming from China so with regards to the variation that will require some capital expenditures, so we will consider that once we get once we lock in the financing, it's not a significant amount but at the moment we are our focus like for this quarter is to get us to a breakeven level EBTIDA but that is on our list of things to accomplish.

Andrew Shapiro: Okay. Now I've heard in a variety of answers to my questions China, China, China, and supply difficulties. What are the supply difficulties going on here from China? As we're hearing stories that supply chain issues from other companies and other industries are alleviating. So either

what's going on there and why can't you onshore or shall we say at least local shore, some of this supply chain?

Sanjay Singh: We are looking at onshoring and the issue is the costs, some of the items that we've looked at the costs are prohibited. It's much more expensive to do it in the US in some instances. So for example, we have a project to look for alternative sources for stunt devices. We have four other items that we are looking at alternative sources because of these supply chain issues.

Andrew Shapiro: Okay.

Sanjay Singh: Some of it has to do with from the feedback that I've received is that some of these factories scaled back during Covid and they just weren't able to ramp up enough. And we are about specifically our vendors not every vendor in China is late. Our alarms vendor is not late, some of our other pepper spray vendors are not late. There are time, they have plenty of capacity. There are very specific vendors that are they're much longer lead times. They're tend to be the smaller ones so we have to look at much vendors with much larger capacities that have an ability to scale up.

Andrew Shapiro: Okay. And can you clear up my confusion from the prior conference call? Is the Pocket Hero now called the Pocket Personal or are they two different products?

Sanjay Singh: It's called the Pocket Personal.

Andrew Shapiro: Okay. And then do you have any retailer placement of-pardon me.

Sanjay Singh: Yes.

Andrew Shapiro: Do you have any-

Sanjay Singh: It's one product. Andrew, sorry, I just wanted to complete my thought there. It's one product and yes AutoZone carries our pocket personal at the moment.

Andrew Shapiro: Okay. They do carry it so you have retailer placement, and is it just on online@mace.com or is it also via Amazon or other online points of sale?

Sanjay Singh: It's on mace.com and Amazon's store on Amazon.

Andrew Shapiro: Okay. So it's sales and those two places contribute to your online e-commerce platform growth and its sales at Amazon. I'm sorry at AutoZone are considered in your retail channel. Is there an autozone.com and does autozone.com qualify as your e-commerce channel or is that just part of your retail channel?

Sanjay Singh: We don't sell on autozone.com and that's not a big play for AutoZone but we our sales on some of our other online platforms for Dick's Sporting Goods then and walmart.com are small compared to mace.com or Amazon Seller Central or store on Amazon.

Andrew Shapiro: Do you consider that sales on those dot coms, even though they're to your retailers. Do you consider those sales as part of your e-commerce, year over year sales, your e-commerce sales channel or you consider it part of the retail channel?

Sanjay Singh: Rem, can you answer that? I believe the numbers are they're part of retail.

Andrew Shapiro: Okay. You call that retail. Fine. All right. Thank you for those other filling questions here at the end. I'm done.

Sanjay Singh: Yeah. Thank you very much, Andrew. So we are at noon.

Operator: And there are no more questions in the queue, so I'll turn it back to you for your closing remarks.

Sanjay Singh: Well, thank you very much

Operator: And this concludes today's call. Thank you for your participation. You may now disconnect.