



Magal Security Systems Ltd.

First Quarter 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Brett Maas, *Hayden IR*

Dror Sharon, *Chief Executive Officer*

Kobi Vinokur, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Todd Schefflin, *Private Investor*

Thurman Willis, *Private Investor*

Sam Rebotsky, *SER Asset Management*

Ken Liddy, *Oppenheimer*

Mike, *MNS Holdings*

PRESENTATION

Operator

Greetings, ladies and gentlemen and welcome to the Magal Security's First Quarter 2020 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during this conference, you may press star, zero on your telephone keypad.

It is now my pleasure to introduce your host, Mr. Brett Maas of Hayden IR. Thank you, sir. You may begin.

Brett Maas

Thank you, Operator. I would like to welcome all of you to the conference call and thank Magal's Management team for hosting this call.

With us, on the call, today is Mr. Dror Sharon, CEO of Magal, and Mr. Kobi Vinokur, CFO. Dror will summarize key financial and business highlights, followed by Kobi, who will review Magal's financial results for the first quarter. We'll then open the call to questions and answers.

Before we start, I'd like to point out that this conference call may contain projections or other forward-looking statements regarding future events or future performance of the Company. These statements are only predictions as Magal cannot guarantee that they will, in fact, occur. Magal does not assume any obligation to update that information.

Actual events or results may differ materially from those projected, including as a result of changing market trends, reduced demand and the competitive nature of the security systems industry, the unanticipated unknown effect of the coronavirus, including on our operations and on our clients, as well as other risks identified in the documents filed by the Company with the Securities and Exchange Commission.

In addition, during the course of the conference call, we will describe certain non-GAAP financial measures, which should be considered in addition to, and not in lieu of, comparable GAAP financial measures. Please note that in our press release, we have reconciled our non-GAAP financial measures to the most directly comparable GAAP measures in accordance with Reg G requirement. You can also refer to our website at magalsecurity.com for the most directly comparable financial measures and related reconciliation.

With that, I'd like to now turn the call over Dror. Dror, please go ahead.

Dror Sharon

Thank you, Brett.

I'd like to welcome you all to our call, and thank you for joining us today. I hope that everyone's families and friends are safe and healthy.

For the First Quarter of 2020, we reported revenue of \$17.4 million by reducing operating expenses by 9% to deliver operating income of \$237,000.

Year-over-year, we improved net income by almost \$1 million to \$439,000, primarily due to cost evaluation changes in the quarter and reduced EBITDA of \$743,000 for an EBITDA margin of 4.1%. We delivered another quarter of positive cash flow with \$4.7 million in cash from operations.

I'm pleased with my team's efforts to support our customers, close new business, and manage our cost structure. The first quarter is typically seasonally weaker quarter due to limited outdoor access in Europe and North America in winter.

This year's first quarter compare also—it was also impacted by several million dollars of revenue from the Latin America projects completed in the first quarter of 2019. During the quarter, we implemented several key initiatives focusing on the safety of our stakeholders while also providing our businesses continuity and opportunity. These measures allow us to remain profitable for the quarter.

In recent years, we've improved the operational performance of the Business, increased cash generation, and increased EBITDA margin, key indicators of our business dealing with performance that drive shareholders value. We have made several Organization changes, including creating two business divisions to improve the business structure and facilitate growth from new verticals and geographies. Our strategy has improved margin and profitability.

Higher gross margin is primarily related to the increase in Senstar's gross profit, driven among other factors by Symphony, our Video Management Solution Software, and our enhancement to this robust flexible platform that has increased its appeal to customers. Lastly, we made new additions to the sales

team and other investments for our future goals. One of our midterm goals is maintaining operating expenses growth below revenue growth, which will improve profitability as we grow.

Our goal for the remainder of 2020 is to manage our costs and to maintain annual profitability while positioning the Company for recovery and growth. Magal is in a solid financial standing and our Leadership team has great confidence in our ability to deliver on our long-term strategy to grow revenue and improve profitability.

As I mentioned earlier, the COVID-19 crisis began impacting our operations in late January in APAC and early March in other regions. As a result, the impact on our first quarter was limited. Nevertheless, the Company's Leadership put considerable focus on rapidly responding to navigate the crisis effectively. We anticipated large impact in the second quarter and potentially in the second half of 2020. The action taken has given us enough flexibility to manage operating expenses and preserve profitability for the remainder of the year.

Our strategy of revenue stream diversification from vertical and territories has been effective in reducing the risk related to COVID-19 and its impact on our global business. Due to the impact of the pandemic, we're experiencing some delays in closing new large deals and in the execution of some projects due to restrictions related to health and safety measures.

While diversification has reduced overall risks associated with the crisis, each geography that we're present in has had a different crisis response from its government. The variation from country to country has a wide-ranging impact on the economy in general and on our relevant verticals. While verticals in some countries have suffered a significant slowdown or work stoppage, in other geographies where the business environment is less impacted, we've been able to continue operating.

That said, we are watching these areas carefully as we have relatively low visibility for the next few quarters. Previously, we announced that we would focus on four verticals; the Oil and Gas, Corrections, Logistics, and Critical Infrastructure.

During the first quarter, the Oil and Gas sector, a focused vertical that we have successfully developed, was affected by the dramatic decline in oil prices and a reduced demand related to COVID-19 causing delays in large projects. We remain engaged with those customers and continue to see some purchase orders.

Corrections and other market segments where we have experienced substantial growth recently was impacted mainly in Canada by facility closure.

Logistics, particular in EMEA, in Europe, has grown nicely, but currently, our project is on hold. The customer is focused on meeting the demand on their business with a significant increase in package delivery.

Critical Infrastructure continues to operate in many territories and our activities in this sector vary from region to region.

Looking at our territories, starting in North America, we saw a nice growth in our product operation in this region during the quarter. Product deliveries in the U.S. has mostly continued. Security or critical side is considered as an essential service. The verticals also impacted in the Canadian territory are Correction facilities and Oil and Gas. We have a backlog of orders which we will fulfill as the restrictions in the country are lifted.

EMEA has seen diverse impact. With many areas establishing strict public health restrictions in March, in Israel, the impact of the crisis is minimal since the Ministry of Defense is a major customer and has continued the essential operation. Africa is pretty much in lockdown with many places unable to receive and process project equipment.

That said, we had some recent wins in this region. The Magal Integrated Solution division rendered a new seaport security system design and installation in Djibouti, a new territory that we are excited to open. Since seaport is essential service, Spain is among the countries where we have not seen impact yet. APAC went into lockdown in late January. However, a nice level of backlog that we generated in the previous quarter helped us to support these sales in the region during Q1.

Latin America is another region where COVID-19 restrictions have impacted our project business. One example is our project with a Mexican bank, which is on hold since we are not allowed access to the site. This project is expected to come back online once access restrictions are lifted.

On the product front, we're continuously improving the Symphony platform with new access control features. Our R&D spend is delivering competitive advantages to help us win new businesses. Using electronic access control software code that we acquired in late 2019, our R&D team is integrating access control capabilities as a module for our video management solution platform and planning to release the consolidated version in Q4 this year.

A great example of our continuous innovation is in technology development in Safe Spaces, our newest product. This new video analytics solution can utilize our Symphony VMS platform or any other VMS platform with minor adjustment to enable businesses to reopen while maintaining public safety requirements. The solution features mask detection and monitoring of social distancing, occupancy, and hand sanitation scan. This platform will allow businesses and people to resume work, consumer and social activities, with increased confidence and reduced risk of exposure to COVID-19.

The M&A target in our line of sight would bring technology that can leverage our existing platform's capabilities and bring new technology innovation and expertise. We hope to close at least two in 2020 to support our key verticals and capabilities expansion goal. Earlier this year, we were in advanced stages with several acquisition targets. However, due to the ongoing crisis, we have experienced delay in the process. Targets are now on hold due to the flight ban.

The fallout from the oil and gas prices and overall uncertainty related to COVID-19. I'll highlighted now how the crisis is affecting our Business.

To maintain cash and preserve profitability, we have established cost-cutting measures and expenses management guidelines. That said, we feel employee retention is essential for the Company's recovery post crisis. Another essential expense is the continuous investment in R&D and holding it. We believe that keeping our experienced team on board to provide support for our customers and continue to improve our products, solutions and software, is a competitive advantage that enables us to preserve the mid-term and long-term strategic direction of Magal.

These resources are also crucial to the Company's ability to exit the crisis in a position of strength, recovering revenue that has shifted to the future, and closing deals that have stalled in the pipeline. Magal is well positioned with our net cash and related cash balance of \$54 million and no debt to respond to the challenges and the opportunities ahead.

We are fortunate to have active revenue stream and a strong balance sheet with no pressure to service of our debt. I want to thank the entire Magal team for their performance in the quarter and resiliency in the face of the unique circumstances they had to work under while still supporting customers and growing our

pipelines for business. I'm confident that with our strong balance sheet, our backlog of business and skilled team, we will emerge strong and positioned for growth.

And now, I would like to hand the call over to Kobi to summarize the financial results.

Kobi, please go ahead.

Kobi Vinokur

Thanks, Dror.

Revenue for the first quarter of 2020 was \$17.4 million, a decline of 17.7% compared with a revenue of \$21.2 million in the first quarter of 2019. The decline in the first quarter revenue was primarily due to the commencement of large projects in Mexico in the first quarter of the last year and partially due to the impact of COVID-19 on our Magal Integrated Solutions and Senstar product division sales.

I note that usually the first quarter is our seasonably weakest quarter, which I will break down as a percentage of revenue for the first quarter was as following; Israel, 21% versus 23%, North America, 25% versus 22%, Latin America, 5% versus 21%, Europe, (audio interference), Africa, 20% versus 6%, Asia and the rest of the world, 12% versus 11%.

The break out between Magal's Integrated Solutions and Senstar Product revenue was 58% for products and 42% for projects. Magal Integration Solutions division revenue declined 24% year-over-year, and Senstar Product Division revenue declined 6% year-over-year. First quarter blended gross margin was 45.8% of revenue versus 42.3% last year. The gross margin increase was primarily driven by high gross profit contribution related to the mix of Senstar's sensors and software product sold during the quarter.

Operating expenses were \$7.8 million, an 8.8% reduction from the prior year first quarter of operating expenses of \$8.5 million. The reduction in operating expenses is attributable primarily to payroll-related actions, such as delays in hiring and reduction in vacation liability, as well as reduction in other expenses, such as travel and marketing. Operating income was \$237,000 in the First Quarter of 2020 compared to \$471,000 in the year-ago period.

Financial income was \$470,000 compared to a financial expense of \$731,000 in the first quarter last year. This is an accounting effect we regularly experience due to adjustment of our monetary assets and liabilities denominated in currencies other than the functional currency of the operational entities in the group. At the end of each period, the change in currency valuation of monetary assets and liabilities is recorded as a non-cash financial expense or income.

Therefore, we use EBITDA, a non-GAAP metric, to even out the variable impact of foreign exchange fluctuations and other non-cash factors. And we believe that EBITDA is a better gauge of the Company's performance.

Net income attributable to Magal's shareholders in the quarter was \$439,000 or \$0.02 per share, versus a net loss of \$553,000 or \$0.02 per share in the first quarter of the last year.

EBITDA for the first quarter was \$723,000 versus EBITDA of \$999,000 in the first quarter of last year.

Cash and cash equivalents and short-term deposits and restricted cash and deposits as of March 31, 2020, were \$54.4 million or \$2.35 per share.

Our working capital decreased by \$3.8 million at March 31, 2020, in comparison to the end of the last year. The majority of the decrease is driven by the trade receivables collection related to high billing level in Q4 2019.

We also delivered positive cash flow from operations of \$4.7 million for this quarter, which is excellent. As Dror mentioned, in this fluid environment where we have less visibility than normal business, we have the operational flexibility to maintain our cash and preserve profitability for the remainder of the year.

That concludes my remarks and we are happy to answer questions now. Operator?

Operator

Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Todd Shefflin, Private Investor. Please proceed with your question.

Todd Shefflin

Good day, everybody, good day. Shalom Aleichem (phon). I wanted to ask you two questions. One is, what can we expect from Senstar in the coming months as far as PR to educate the public and the different end users out there about the products that Senstar has for non-governmental, mainly in the multifamily real estate and other real estate arenas. And two, can you also shed light on any activity with the United States Government regarding the electronics portion of the border wall? Thank you.

Dror Sharon

Okay. So thank you for the question. About the first one, after we started today, we did a very big webinar, hundreds of people participated in it, to reveal our new Symphony feature that we just talked about in the call. And later this year, we'll do more and more sessions like this and include PRs to reveal our new technology and new offerings to the different verticals and to open it to the market.

So probably today, all of you can see a new PR that we just launched describing this new product that we added to our portfolio. So this is one.

Can you repeat your second question, please?

Todd Shefflin

Yes. I just wanted to know—

Dror Sharon

Yes, you talked about the Southern border and the U.S. Government wall. Okay. So we talked about it in our previous call. It's not in our focus. It wasn't in our pipeline for 2020. We understood that the amount of investment is too high and there was nothing firm on the U.S. Government side, adding technology to the wall.

There are some agencies that adopt our technology and some who failed to pass in the past. So we decided, frankly, not to pursue it and wait to see if there's a tender and we'll participate in it if we can. If not, we will not. But currently, as far as we know, there's not too much investment and technology on the Southern border.

Hello?

Operator

Thank you. Our next question comes from the line of Thurman Willis, Private Investor. Please proceed with your question.

Thurman Willis

Thank you for taking my questions. Excellent quarter under the circumstances. I have two questions. The first question is, where are you seeing opportunities for growth in this environment, in other words, closing business pipeline growth? And, can you specifically state with your announcement on the safe spaces video analytics solution, what that might provide in the way of revenue. And then I have a follow-up question.

Dror Sharon

Okay. About your first question. We see the opportunities for growth in two verticals. In the short term, I assume that Logistics is a very important one. The amount of packages that are running around the world are huge. People are buying more and more online. And we already closed a few deals with logistics providers worldwide. Just the end of last year, we closed protecting almost 20 sites of one of the major logistics providers. We cannot reveal its name, and we have many others. And this market is growing. With or without the COVID-19, it's growing and we are focusing over there and training our sales team and technical support guys to pursue this market.

What we are doing on the Senstar side, from the video management tool that we have is what we just described as Safe Spaces, meaning that we see dozen opportunities to support different industries, different verticals, adding them this unique capability to the VMS. Either it's our VMS or one of our competitor's VMS, it can be an add-on to those VMS's.

And by that, support those organizations to get back to business in a more safer way. So those are the things that we are focusing currently in the near and short term.

Thurman Willis

And you didn't speak to the new announcement that you had today, relative as to what revenue that might be able to provide. Can you give us a little color?

Dror Sharon

It's pretty—we just launched it today with a very big webinar we did, as I mentioned. It's VMS plus the unique analytics, developed especially for the COVID-19, by the Senstar R&D team. They did this in a very amazing short time, and it's very nice and a well-built platform. How much money it will generate? It's, I think, too early to say.

Probably after a week or so, when the people will start to download this feature from our website and we'll see some traction, then we'll be able to measure better what is the future business that can come out of it.

But it was a huge effort on the R&D team in Canada and we pretty much appreciate the way they did it in such a short time.

Thurman Willis

Thank you. My second question is, your stock is trading at \$2.90 and I want your thoughts on the company's repurchase program. And while cash is important, but as the stock fell to \$2.40, basically cash in the company, to me, the best use of cash would be buying stock.

With less than \$6 million of your \$55 million, you could repurchase 10% of the outstanding shares. And I think this would show investors faith in the company and be the best use of cash. Where do you stand on a repurchase program with the stock trading at such low levels?

Kobi Vinokur

Thurman, this is Kobi. I couldn't agree more with you. Our stock deserves a bit higher valuation than it is right now, very close to cash. We prove year after year that it's a stable business. We carry a very nice level of backlog. We're improving our margins, the growth profitability margins, and operationally, and we continue to invest in our future. You just saw a taste of what we do right now in this turbulent period and our technological offerings.

The Company is not just in business, it's executing a mid-term, long-term strategy. So the valuation is indeed problematic. The cash for the stock repurchase program is something that we discussed internally. We also had this subject raised and we understand why during the recent investors calls, it's one of the things that we are looking at. It's definitely one of the things that could be done.

However, at our current stage, we do everything to stick to our mid-term and long-term goals, which includes execution of M&A transactions in relatively significant volumes and magnitude to boost the Business inorganically. We invest in technology and in organic growth as well, and added this to the high uncertainty that we currently see in the industry and the market, I mean, economic environment. At the moment, this is not the leading option, but this is something that is on the table and we review it.

Thurman Willis

Thank you for that. And if you would get—I'd like for you to come back to me in the... I'll get back in the queue, but I'd like for you to come back to me because I have a couple of follow-up questions. But your answer to that, I thank you very much, but all the more reason to repurchase your stock in my opinion. Thank you.

Kobi Vinokur

Thank you, Thurman.

Operator

Thank you. And as a reminder, if you'd like to ask a question, please press star, one on your telephone keypad. Our next question comes from the line of Sam Rebotsky with SER Asset Management. Please proceed with your question.

Sam Rebotsky

Good morning, Dror. Good morning, Kobi. Although, it's the afternoon in Israel. I hope everybody's doing well. Magal seems to be holding its own. Now, as far as the backlog, has the backlog decreased from the previous quarter? And what do we see as far as improving the backlog?

Kobi Vinokur

Specifically this quarter, we saw some decrease in backlog, a decrease of \$2 million. And overall, even after the decrease, the profit continues to be strong, and it's high levels comparing to previous years. We did start seeing by the end of the quarter, some delays in things, in order bookings, as a result of COVID-19 crisis, and this is something that's basically caused lower-than-planned order booking in comparison to the revenue level.

Sam Rebotsky

Okay, well, good luck in improving backlog. As you mentioned, you're talking about closing on two acquisitions during the current year. Could you sort of give a range in the sales of these acquisitions? And are you getting a better deal based on the economy, etc.? Fortunately, you have substantial cash. So could you talk about the acquisitions and when do you expect to make them in this size?

Kobi Vinokur

Yes. Size-wise... Dror?

Dror Sharon

Okay, Kobi. A few words about this first. The size-wise, we are talking about between the \$10 million to \$20 million in revenue. We have a few of those in front of us, but the current situation is a little bit holding back. People are rethinking and we want to re-evaluate the valuation of those companies.

It will take—I think first, we need to be able to fly and meet and discuss face-to-face with those companies again. And second, we'll have to reevaluate the valuation of the companies because things are changing. Some of them were in verticals that heated a little bit. So we want to see what is the focus they can provide us and what assurance they can give us on this focus, and, of course, what is the risk on our side.

This was the plan. This is still the plan, to acquire at least two—to do at least two acquisitions in this range, but we'll have to wait and see how things are evolving in the world and in the different verticals that we are exploring.

Sam Rebotsky

That makes sense, Dror. So each one is \$10 million to \$20 million. Have they indicated on their finances? Have their finances slipped or—I mean, that they could submit to you without seeing them?

Dror Sharon

No. We know the finances of those companies. Go ahead, Kobi.

Kobi Vinokur

We're talking to these specific entities that are private companies. So, of course, there is some delay in availability of financial information. We are in constant contact with them as well as with other targets, and

there are always new targets in the pipeline. I have just to add to what Dror says that so far, we are two, three months within the crisis. In the M&A dynamics so far, we still didn't see a huge impact in terms of the expected valuation on the service side, meaning that it looks like they are nicer.

Definitely, it's going to be more and more buyer's market, and here's our strengths with cash on hand, but it's early. We don't see yet for the good assets we want to purchase and we want to have strategically, we still don't see immediate opportunities for COVID-19 deal to buy something for a very attractive valuation because of that. Maybe it will come in the future, but not, for now, two, three months within the crisis.

Sam Rebotsky

It sounds good. Cash is king. You're in the driver's seat. And I guess you have to wait to see what the numbers are and what the attractiveness of the potential acquisition could be and how it meshes. Hopefully, it fits. Good luck and keep doing what you're doing.

Dror Sharon

Okay. Thank you, Sam.

Operator

Thank you. Our next question comes from the line of Ken Liddy with Oppenheimer. Please proceed with your question.

Ken Liddy

Hi. I just wanted to clarify. So are you seeing any new potential for other acquisitions, or is it just really too early to tell? When I say other acquisitions, meaning companies that you had your eye on previously.

Dror Sharon

Currently, we didn't see any new opportunity that we didn't know about. We have a pipeline of targets that we defined and we approached most of them. With few of them, we're in much further steps, but again, everything is currently on hold. But there's nothing new that we saw due to the COVID-19. As Kobi said, we didn't see any, what we call the COVID-19 opportunity that companies that seek for cash and we can support them and acquire them in a low price. Not yet.

Ken Liddy

And one other question. One of your subsidiaries that you acquired recently has thermal cameras and military equipment that could be used at the U.S. border. Is it something that you've looked at potentially?

Dror Sharon

The company that we acquired two years ago?

Ken Liddy

Yes, two years ago.

Dror Sharon

Yes, we acquired the company in Israel, 55% of the company in Israel, the Esc Baz, but no, they're not part of what we can offer in the U.S. border. There are enough suppliers of those kinds of technology in the U.S.

What we can provide, if —I think there's going to be a tender over there, it would be more Senstar's product, which are unique and they're also a U.S.-based company. What we have here in Israel, the thermal imagers, and the other things that we have on this company, it's more related to military side of the business.

Ken Liddy

And is that something you're looking mostly just with those products with the MOD in Israel?

Dror Sharon

MOD is one of the customers of this company, yes.

Ken Liddy

Are you looking to increase the 55% at any time?

Dror Sharon

Yes. Once the time will come.

Ken Liddy

Okay. Thanks and good luck during COVID-19 and manage your business.

Dror Sharon

Thank you, Ken.

Operator

Thank you. Our next question comes from the line of Thurman Willis, Private Investor. Please proceed with your question.

Thurman Willis

Yes. Thank you for coming back to me. A couple of follow-ups here. At the present level, basically trading at cash, I would think, if I were in your shoes, your greatest fear is getting bought out by another company. And the way to prevent that is through education and moving forward in a much faster pace on your investor relations front, now that you've hired an excellent IR company.

And again, I think it's very important that you move forward on this front with biweekly telephonic conferences with wealth managers, and participating in various virtual conferences. So could you comment on the fear of getting bought out, if you're not able to get your stock up, and where you're headed relative to increasing your exposure to new investors?

Dror Sharon

Hi, Thurman, again. First of all, we are happy with Hayden IR and together we have a program to reach out to new investors and new wealth management teams. The original program was to participate physically in conferences. We planned to attend a few of them in New York, Los Angeles, and other places. COVID-19 caused cancellation of those.

We consider participating on some online virtual conferences and try to see how effective they are. And under the limitations of the current situation, what we have in plan, together with Brett and his team, is to start reaching out after this quarterly release to existing and new potential investors, and bring our story to them.

Thurman Willis

Are you saying that you're going to wait until after the COVID-19 is remitted, or are you going to move forward immediately with virtual conferences and telephonic conferences, and allow your investor relations to better educate others?

Kobi Vinokur

We are not waiting for the end of COVID-19. Nobody knows when it will end. So the idea is to start virtual meetings and client calls with new people, new investors, and tell the story.

Thurman Willis

Good. And the only thing you didn't comment was your fear about getting bought out, trading at these levels. To me, that would be my greatest fear if I were in your shoes and you're not successful in getting the stock price up.

Kobi Vinokur

I can't comment now about in fear terms. We focus first of all to continue and improve the business, improve the gain which we can deliver, increase, improve profitability, grow the Company, even in such a year, maintain the Company's profitability, and stick to our longer-term strategic goals. And also in parallel and together with that, work on improving the Company's valuation via marketing of the stock and it's the best that we can do.

Thurman Willis

Good, thank you very much for taking my calls. As I continue to believe, you're the most undervalued stock I follow of about 150 stocks. And I think if you really move forward on the education front, your stock will trade much higher. Thank you again and good job.

Kobi Vinokur

Thanks.

Operator

Thank you. Our next question comes from the line of Mike (Inaudible) with MNS Holdings. Please proceed with your question.

Mike

Yes, good afternoon over there, gentlemen. I'll be brief. I hope you, your families, employees, everybody's great at Magal. As you guys probably know, and many of the listeners, Mr. Willis, Mr. Liddy, Mr. Rebotsky, et al, we are collectively long-term holders. I think that Mr. Willis expressed the frustration that we all share. Of course, with your 40% holder, I don't think the fear of a takeover is all that eminent.

However, one thing I do wish to point out, I did on the last call and for a few years, is that we want to get the valuation up, not merely just so that everybody feels better, which is true, but that the shares themselves can become a vehicle as a currency for you to use for future acquisitions. That's primarily how I see it.

Irrespective, I believe you guys are aware of this, and I don't mean to be patronizing in any manner, but realistically, putting in place a very small stock repurchase program sets a floor price, meaning what Mr. Willis was suggesting in terms of the dollar amount buying—putting in that floor price. You don't name a price, you put in the small percentage buyback, and you never really have to execute it. It just sets the floor. It's like having an imaginary put option for, not just your shareholders, but for confidence in the marketplace, that there is a price below which we will be unwilling to let this stock sink. And the reason—once again, this has nothing to do with my personal ambition. It has to do with the ability to utilize the stock down the road as a currency.

I just wanted to point that out, that by putting in a small buyback, you don't name a price, it's a percentage, and you choose when to execute it if indeed you ever do, and it shows confidence to the marketplace. And that is one of the things I think you should consider when you are considering it the next time it comes up, that these are not mandatory, but they do set floors and they do boost confidence. And that's what we're looking for in terms of using the stock as a currency down the road.

I have no objection to the store of capital that you have accumulated. The company, since the last secondary offering like four and a half years ago, the value, I think, was about \$3.80 and change, not the stock price, but the value of the price of those additional shares, plus or minus. I don't have the numbers in front of me.

At cash value, for example, say \$2.35, even notwithstanding that you'll probably draw down some of that in the next three months, plus due to the COVID response, and your R&D spending, etc., even at \$2.20, in other words, the floor should be something that you guys pick in your mind that you do not have to speak to the public or to us as shareholders, but by just putting in place the program, you are instilling confidence in the marketplace. And that I think would be something for you to consider. And that's it.

I didn't mean to hog the line here. I hope everyone is well, and I think you're doing a great job navigating, and good luck with the new product. I think you should push it. It sounds like a great way for companies to get back, reopen faster with some security. And I await any comments you have.

Kobi Vinokur

Thank you very much, Mike. It's well said and it's clear.

Mike

Okay. Well, thank you. I just wish you all well.

Dror Sharon

Thank you very much.

Operator

Thank you. Ladies and gentlemen, this concludes today's Q&A session. I would like to turn this call over to Management for closing comments.

Dror Sharon

Well, on behalf of the Management, again, I'm very pleased at least that we have a very strong leading team that can navigate together, very committed during this challenge in front of us. It's not simple.

On behalf of this Management and unique team of Magal, I would like to thank you for your continued interest and long-term support of our business. We look forward to update you in the next quarter, and hopefully, everyone will feel safe and sound and feel well.

Thank you. Have a good day.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.