

## Transcript of update interview with Mr. Walter C. Johnsen



**Chairman and CEO of Acme United Corp.**



**Acme United Corporation**

**NYSE Market: ACU**

**April 8, 2017**

**Walter C. Johnsen - Chairman and Chief Executive Officer.** Mr. Johnsen has served as director since 1995 and as Chairman and Chief Executive Officer since November 30, 1995. Before joining the Company he was Vice Chairman and a principal of Marshall Products, Inc., a medical supply distributor.

**Smallcaps Investment Research: Welcome everyone to a new interview on Smallcaps Investment Research. We're very pleased to have Mr. Walter Johnsen with us today, the Chairman and CEO of Acme United Corporation, to give us an update on his Company. The progress at Acme United continues to be impressive with another record breaking year in 2016. Acme United is listed on the NYSE Mkt with ticker symbol ACU. Walter, thanks so much for taking the time to join us today. Welcome.**

Walter C. Johnson: Thank you very much.

**2016 was the eighth consecutive year of record performance for Acme United. What can we expect from 2017?**

Well we have given guidance that we'll have another record year. Our sales guidance for 2017 is \$137 million, which would be up from \$125 million last year, and our earnings per share guidance is \$1.78 for 2017, up from a \$1.64 in 2016. So if we can achieve, what we hope to achieve, then we'll have our ninth record year in a row.

**Okay wonderful. While sales in Canada were relatively flat in 2016, they excelled in Europe. What's the outlook for both segments this year?**

The Canadian economy continues to be soft and we're expecting our Canadian business to come in about where it did in 2016. There might be a little bit of growth, but not significantly.

In Europe, however, we're growing substantially. We're gaining market share in the office channel, we're growing our Cuda line of fishing tools and our Camillus knives. We're also benefiting from the DMT acquisition, and our online sales at Amazon are growing as well. All of these are

incremental sales. So we're expecting an excellent and profitable year in Europe.

**Okay, that's good to know. The first quarter of 2017 ended a few days ago. How do you feel about it?**

Every quarter, we work hard and we have goals, which we try to achieve. The first quarter of 2017 was exactly the same. Noteworthy in the first quarter of 2017, was our acquisition of Spill Magic in February. Spill Magic will generate incremental growth. So with the acquisition and our continual sales efforts, I feel pretty satisfied with the quarter.

**You just mentioned it, one of the growth drivers for 2017 should be Spill Magic, Acme United's latest acquisition. Would you tell us some more about this company?**

Sure, Spill Magic manufactures a powder that reacts with liquids and allows them to be swept up. For example, if there's a spill on a supermarket floor, you can put the Spill Magic material around it and mix it in. The Spill Magic will immediately absorb the spilled product, leaving the underlying floor dry.

This product is being used at several major retailers. They use it for their safety programs to prevent slips when the floor gets wet from a spill. We think that we can expand this business substantially through our distribution channels. But even if we aren't able to do so, we still will have acquired a successful and profitable business.

**How is the integration of Spill Magic going and where do you see growth potential for the brand?**

The integration is on plan. Our first focus is to keep our existing customers happy, and to retain the people that work at Spill Magic.

Second, we're training our sales force to sell the new Spill Magic products. Third, we're installing our own IT systems. And finally, we're looking for ways to expand the production. These initiatives are all well underway.

Our aim to grow the business includes expanding its distribution into the office channel, in chains such as Staples, Office Depot, United Stationers, or SP Richards. In Europe, it could be Aldi or Lidl, and in Canada, it could be any number of major retailers.

We're also looking to expand in the industrial market. That would be with distributors in the US, such as Granger, McMaster-Carr, Fastenal, as well as online markets such as Amazon.

Within the safety area, we sell bloodborne pathogen kits and spill cleanup kits. In those areas, we're also introducing Spill Magic products, which we believe are more effective than anything else on the market today.

Basically, there are a lot of ways how we can grow Spill Magic. It's too early to tell if we will succeed, but we're certainly aggressively addressing the issue.

**With the acquisition of Spill Magic, Acme United gained another domestic manufacturer. Is it a strategy of the Company to bring more manufacturing back home?**

Well, the strategy was first articulated a number of years ago in our planning session, as we felt that we had too much reliance on Asia, particularly on China. Although we were, and still are, very satisfied with our production, quality control, new product development, and logistics in China, we wanted to diversify our portfolio of sourcing.

Consequently, since 2011, we've purchased Pac-Kit Safety Equipment Company in Norwalk, Connecticut, First Aid Only in Vancouver, Washington, then DMT which is located in Marlboro, Massachusetts, and now Spill Magic in Santa Ana, California. These

are all US based companies, but if we were to find an attractive acquisition in Europe or Canada, that would also be part of our strategy to diversify our sourcing.

**While more and more of Acme's products are manufactured in the United States, a majority is still sourced in China. Is it correct to assume that Acme should benefit in 2017 from the devaluation of the Chinese yuan last year?**

Approximately 60 percent of our products are sourced from China. So for Acme United it is still the most important country of origin. If the dollar appreciates against the Chinese RMB, then we have an effective decline in our cost. We've actually seen that for the past 2 1/2 years. Much of the savings that we've realized that way, have gone to our customers. With the continued decline in the Chinese currency against the dollar, we think there's still some opportunity to pick up margin this year.

**Let's discuss some of the other growth opportunities for the following quarters. First, Acme's first aid business, which is doing very well. What is the secret behind the strong performance in this sector and where do you see continued growth?**

Our first aid business is based on delivery of components and kits through online orders. In other words, we don't have a model where somebody drives around in a truck and physically loads first aid kits at customer locations. With our online model we're saving around 30% over the traditional truck based delivery. It's exactly these savings that are driving our growth.

For our customers it's a logical choice, as they meet OSHA and other regulatory requirements, while saving 30%. It is a simple model, but it's hard to execute and we're doing it well.

**Last year, you acquired Diamond Machining Technology, or DMT, which is a leader in sharpening tools for knives,**

**scissors, chisels, and other cutting tools. What has happened with DMT since the acquisition and what are your plans for it?**

DMT has been very successful. First, we kept the people that work there. I believe they're very enthusiastic about the acquisition, and they're helping us think through new markets and develop new products. Second, we broadened DMT's distribution channels into retail chains such as Walmart and Home Depot, and we've expanded the Amazon sales. And finally, in Europe, all DMT products are warehoused and shipped through our operations in Germany. That has been successful as well.

Given DMT's sales growth, we're expanding our productive capacity. Our goal is to double the capacity by the end of 2017. Part of Acme's capital spending this year is earmarked to make that happen.

**Another brand that I'd like to discuss is Cuda, which recently started shipping freshwater fishing tools. What are your expectations for these new tools and for Cuda in general this year?**

Cuda had a very successful introduction into the saltwater market because the products resist rusting, and they're very rugged. The freshwater fishing market however, is much bigger, and so is Cuda's potential.

We're introducing plenty of new tools specifically designed for freshwater fishing. We're launching them throughout our channels in the US, Canada and Europe. We're very hopeful that this expansion into freshwater will become successful.

**Finally, I'd like to touch upon Westcott, the successful school and office products brand. Westcott is especially known for launching highly innovative products. Can you give a few examples of products that were recently brought to the market and also of items that will soon be launched?**

Westcott is our biggest platform. As you know, our Westcott tools have very high

market shares in the consumer, school, home, and office areas. So when we introduce a new Westcott tool, it has lots of growth potential.

For example, we recently introduced a line of glue guns. These guns have non-stick internal mechanisms so that the glue sticks don't clog up the machines. Also, the tips of the guns have non-stick, color changing coatings. That way, when the tip of the gun is hot, it turns red and you know not to touch it. When it's red, it's also ready to dispense the glue. And when the tip is cool, it's gray.

The quality of the glue sticks are at, or above, competitive levels. And also the ergonomics of the guns are excellent. In addition, we're adding a number of different glue sticks so that we have the ability to do market segmentation.

These products are shipping, as we speak. We're going into one of the largest craft change in the US, and we're hopeful that by the end of the year, this will be a multimillion dollar product, on which to build into 2018.

**As a final question, I'd like to cover online sales, which are becoming more important at Acme United. What can you tell us about that and what are currently some of the best selling products online?**

Our online sales are growing very rapidly, particularly at Amazon, and also at Jet, which is part of Walmart. We have a full team of people working on content, reviews, and search optimization. This is paying off, as we're delivering excellent results.

In particular, the first aid area is doing very well online, because people are buying refills for their first aid kits at a substantial discount. Also the Westcott business is doing well online.

In Europe, online sales are growing faster than we had ever expected. Although current sales are much smaller than in the US, there are an equal number of people living in Europe. So the potential is certainly there. As the Amazon business hopefully continues to

grow, we think it will have a substantial impact on our European business.

In general, the online area is one that has evolved, in the last five years, from relatively insignificant to one that is very significant to our business.

**Well thank you Walter, it's been a pleasure speaking with you and we appreciate your time and insight. All the best to you and Acme United, and I look forward to speaking with you again soon.**

Thanks so much.

## **Interview Feedback**

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/acme-united-ceo-walter-johnsen-provides-details-about-company-progress-and-growth-potential>

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