



Transcript of update interview with Mr. Walter C. Johnsen



Chairman and CEO of Acme United Corp.



Acme United Corporation

NYSE Market: ACU

December 10, 2013

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.us: Welcome everyone to another Smallcaps.us interview. We're excited to have Mr. Walter Johnsen with us today, the Chairman and CEO of Acme United Corporation. We've interviewed Mr. Johnsen on several occasions in the past, but because there are many exciting developments at Acme United, it's time for an update. Acme United is listed on the NYSE MKT with ticker symbol ACU. Walter, it's a pleasure to have you with us again, welcome.

Walter C. Johnsen: Thank you very much, I am delighted to be here.

Walter, during the third quarter conference call you provided guidance of \$90 million in sales for the full year. That means that for the fourth quarter you expect sales to be around \$21.8 million, which is an increase of almost 12 percent compared with the fourth quarter last year. Now that the fourth quarter is almost over, are you still comfortable with that number?

We gave guidance at the beginning of 2013 of about 90 million in sales, and we've reiterated it a number of times during the course of the year. I most recently stated in our mid-October conference call that we were expecting to converge on the 90 million. So we have made consistent progress towards it and I don't see any changes at this point.

In our previous interview, back in July, we briefly touched upon the subject of Acme United's revenues becoming less seasonal. With these expectations for the fourth quarter, that trend is becoming more obvious. Can you explain why that's the case and what the advantages are for the Company?

Well we used to be more seasonal because we had a heavy reliance on the office products and back-to-school markets. As a result, we had a lot of back-to-school shipments during the second and third quarter, starting in around May and running through August. These are products such as kid scissors, pencil sharpeners and rulers.

That changed as we brought in other products. For example, our Camillus knives are often used for hunting in the fall, and they are also Christmas and holiday gifts. Also, our Clauss industrial tools are used all year long. So these products build bigger shoulders on each of the quarters. Next year we hope to start shipping our Scotts Miracle-Gro garden tools in the first quarter.

Let's discuss some of the international markets Acme is active in. First, Canada. In the first nine months of 2013, sales were down 8 percent in the Canadian segment. What's the reason for this and have actions been taken to try to reverse the decline?

Canada doesn't have the same level of diversification as we have in the US market. For example, we don't sell as much to the school and office markets. As a result, the softness in the office area has a real impact. Several of the large customers had weakish kind of sales during the year and that directly relates to Acme Canada.

We are now beginning to sell Camillus knives and some of the Scotts garden products in Canada. The Camillus knives we began in earnest last year, but we are building real momentum. And the Scotts products would be for early 2014. In addition we are working on expanding some of the industrial tools and we think that will help round out the quarters and also increase the overall performance.

Over to Europe, where sales only declined 7 percent during the first nine months of the year. A strong achievement knowing that Acme lost its biggest European customer last year as a result of this customer's bankruptcy and liquidation. How was the fast rebound possible and how do you feel about the European segment for the current and following quarters?

Well, it was real frustrating to lose our largest customer, Schlecker, which represented about \$1.7 million dollars in sales annually in Europe. But we rebuilt some of the lost manicure sales to competitors of Schlecker, actually faster than we expected. We are gaining in the mass market particularly with knives for the kitchen and these are being sold at companies such as Lidl, Aldi and Rewe. These tend to be promotional products, so we can't count on the sales each month, but they have a meaningful impact on the company.

We also started selling Camillus knives in Europe. In the first quarter we signed a very good Scandinavian distributor and in the third quarter we signed a large German distributor. We are going to be expanding the distribution of Camillus in 2014, which will help grow the business. We are also working on more internet sales and it's been very successful with companies like Amazon in the US. Europe is somewhat behind in that area, but is making progress as well.

So we are overcoming the loss of Schlecker and making very good progress. In the fourth quarter of this year we've had a very solid performance and we are expecting it to be much better than last year. The mass market sales continue to be somewhat lumpy because they are mostly promotional, but as we rebuild our core business, these promotions are icing on the cake. We are making real progress in Europe and I am very happy.

You already mentioned some of your product categories, so let's go over a few of them in more detail. Camillus for example, what's happening for that brand in the US,

Canada and Europe and what do you foresee for it in 2014?

We have an exciting new array of hunting knives, both fixed blades and folding blades. We have new Les Stroud survival tools, some with hatchets, some with fire starters and one with a survival kit using Pac-Kit components. And we are expanding distribution for Camillus in Canada, Europe, the US, but also in places like Australia, South Africa and the Philippines. So Camillus has a lot of legs, lot of products in the market place and it's performing.

OK terrific. And can you update us on the latest developments for the two Clauss lines of lawn and gardening tools, which are marketed and sold in partnership with The Scotts Miracle-Gro Company?

We have had good success with the garden tools. In the first quarter of 2014, we expect to begin selling these tools into two major US chains, into one large retail chain in Canada as well as some internet sales. And as we begin to get more of these products into the market, we will of course broaden the product family and hopefully continue its growth. So we are making good progress and it's exciting.

In our previous interview we also spoke about the innovative Clauss putty knives, which were only available at a major retailer in a limited number of stores as a test. What has happened since?

The putty knives that you're referring to are non-stick and non-rusting. So they have some big advantages over traditional putty knives which do get sticky, are hard to clean and they also rust. So this product is a major innovation we believe in its category and it's selling well. We are looking for growth in 2013 and I hope that, as we make progress during 2014, I can say with confidence that we've really got a winner.

Acme didn't acquire a company this year as it did in both 2011 and 2012, but you did purchase a 347,000 square feet distribution and manufacturing facility late August. What has happened with the facility since and

what does that mean in terms of costs and savings down the road?

We bought a facility in a bankruptcy at an outstanding price. It was a \$2.8 million purchase, priced at \$5.9 million for taxes, but frankly in order to replace it, it would probably be \$13.5 to \$14 million. So there was a substantial discount and benefit to our shareholders on closing.

We are in the midst of refurbishing offices and we finished cleaning the warehouse portion of the facilities. In fact a week and a half ago I witnessed the first delivery of freight into the new site. We are in the midst now of consolidating our existing Goldsboro warehouse into it. We are about 40% done and by December 18, we expect to finish with it. That will save us about \$200,000 a year starting in January.

We also have put our second warehouse, in Fremont, up for sale for \$850,000. When we begin moving that into the new facility, we expect to immediately realize some savings. However, the big savings occur when we sell the building, because then we don't have property taxes, maintenance, insurance and utility costs anymore. When the Fremont warehouse is sold, that would be about \$250,000 a year savings and I hope that happens in the first half of 2014.

Finally, the Pac-Kit first aid facility in Norwalk, Connecticut. We are scheduling to begin

moving that in October 2014. The annual savings goal there is over \$300,000. So when you look at the entire picture, we save \$200,000 from the first warehouse, \$250,000 from the Fremont facility and \$300,000 from Pac-Kit. That's \$750,000 savings annually without taking into account the expected operating and freight efficiencies.

So it's an excellent purchase. It makes us more efficient, it puts things under one roof and they are tangible savings.

As a final question, in the press release, in which you announced the purchase of the warehouse, you mentioned the possibility of financial incentives for growth. Can you give us some more details about that?

Well, I have met with the officials in the state of North Carolina where the new facility is located and we have had very, very good discussions about an incentive package to create jobs in North Carolina in that facility when we move the Pac-Kit operation from Norwalk, Connecticut. I don't have details to announce yet but we are certainly hoping that we can put something together that is very much in our favour.

Fantastic. Walter, it's been a pleasure speaking with you. Thank you for your time. And I wish all the best to you and Acme United.

Thanks so much.

Interview Feedback

We welcome your questions and feedback regarding this interview at: <http://smallcaps.us/acme-united-ceo-walter-johnsen-provides-insight-fourth-quarter-reveals-2014-growth-opportunities>

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