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Investment Research

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



Chairman and CEO of Acme United Corp.



Acme United Corporation

NYSE Market: ACU

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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: A warm welcome everyone to a new Smallcaps.us interview. We're pleased to have Walter Johnsen, the Chairman and CEO of Acme United Corporation, with us. The timing of this interview couldn't have been better as Acme United announced its biggest acquisition in many years just a few days ago. Acme United is listed on the NYSE Mkt with ticker symbol ACU. Thank you for joining us Walter, welcome.

Walter C. Johnsen: Thank you very much.

Before we talk about any other topic, let's first discuss your acquisition of First Aid Only, which you announced last week. Can you give us an overview of that company, its products and its customers?

Sure. First Aid Only is a leading manufacturer of first aid kits and it's been in business for over 25 years. Its products are centered around smart compliance systems, which means that when a customer buys a first aid kit from First Aid Only it's been pre-set to meet regulations and to provide optimal treatment for injuries.

After a first aid kit has been installed, it needs refills and some products will need to be replaced because they expire. This is all part of a system to help keep the cost of an injury to a minimum after an accident, as well as to provide real comprehensive care. So it's a terrific system for customers who are increasingly interested in the safety of their employees.

First Aid Only reached revenues of more than \$17 million in 2013. Can you also shed some light on its earnings?

Well, we haven't announced the earnings yet, although we will be when we put together proforma releases. And that will be in the next

8 weeks or so. However, what I can say is that the acquisition will be accretive and that there are many opportunities for savings.

Some of these savings relate to the components that go into the first aid kits. We'll buy much higher volumes now with our combined entities and so we expect to be able to negotiate savings. Commissions will also generate savings because we will give the extra volume from all our first aid entities to sales people who are in the field. That way the commission rate will drop. There will be freight savings due to the volume. In addition, as we continue to add new business, we expect to get operating leverage at the First Aid Only facility, which of course will generate extra savings. So we bought a business that is growing, that's profitable, will be accretive immediately and there are a number of activities which we are engaged in as we speak to increase its contribution to Acme.

That's terrific. Before the acquisition, Acme United already owned two first aid brands, Pac-Kit and PhysiciansCare. How do you plan to integrate First Aid Only into these two existing brands?

Well First Aid only sells more first aid kits than the other two brands. So we are going to make that the leading brand for the category. Pac-Kit will become a supporting brand to First Aid Only and gradually it will be converted to First Aid Only in name as well. PhysiciansCare's first aid kits will also go to First Aid Only. However, our medications will remain under the PhysiciansCare brand.

Where do you see growth opportunities from the combination of your first aid brands?

First of all, the market that we are operating in continues to grow. That's happening because there's an increasing emphasis on safety for employees and there are increasing

regulations to ensure safety. When an injury is properly treated after an accident, the cost to the employer is reduced. The segment is growing in the United States, Canada and Europe.

Moreover, within the office supply area, companies such as Staples, Office Depot and OfficeMax are looking for additional products to carry outside the traditional office supplies. They have sales forces that call on business to business customers. So it just makes sense to increase the product family that they are offering to these large customers. And the first aid area is one that is particularly appealing, because in addition to selling just the first aid kits they also have a recurring stream of refill revenues.

What can you tell us about First Aid Only's management team and will they stay with the company?

Well, the management team of First Aid Only is very experienced. One of the key challenges for us is to make this transition rewarding and satisfying for them, not only financially, but also career wise.

The CEO, Mark Miller, started First Aid Only over 25 years ago out of his garage. He built the company with continual innovation, high quality products, and with loyal customers as well as employees. The CFO is also very experienced. He will help us a great deal to work on product costing as we combine Pac-Kit with First Aid Only in Washington State. In addition, he has an excellent operations background, which will be helpful.

We have a strong and experienced sales force at First Aid Only. In some cases they have done a better job selling and training large corporate accounts than we have. So we expect to use some of their systems and people and integrate them into our operation. And finally the manufacturing of the products is also in place with lots of experience. So as we hopefully add new business, we have a well-oiled machine to produce these products on time and with excellent quality.

Okay, very interesting. Now, the past few quarters, Acme's first aid business has seen significant growth. Can you explain why that is the case?

Well there is of course the goal to meet regulations and the realisation that cost savings can be generated by treating someone properly after an accident.

However, within North America we have industrial growth reviving. The housing and construction market is improving. We see an increase in oil and gas exploration, drilling and refining. These are all sectors that require attention at the site for safety. So our distributors, who are selling into this base, are growing with our products. The superstores are growing because they have business to business accounts and they are looking to carry even more. So when you net all that out, we have been showing very solid growth in our existing first aid business and we see nothing that indicates that this is slowing.

Now that we're talking about the sector in general, are first aid products highly regulated in the United States and abroad?

Well they are regulated. The products we make for the US market are made in an FDA facility that we own. Pac-Kit also has an FDA facility. So we are meeting those standards.

When we ship first aid products to the EU, there are regulations which often vary country by country. For example what customs and names of the products are concerned. In Canada, regulations differ by province. For example, in order for a product to be called a first aid kit the legislation varies depending on whether you want to sell it in Manitoba or Saskatchewan. We have the expertise to customize the kits to meet local markets, but we also have a lot of work yet to do on it.

I would say that the regulations in the US, EU and Canada are intended to provide a consistent quality and to provide products that meet safety standards. I think both of those are very good regulations.

Okay, so far about first aid. We know that the second quarter is Acme United's most important one thanks to back-to-school products that are being shipped. With more than two thirds of the second quarter behind us, how do you feel about it?

Well I feel good. I think the back-to-school this year has been solid. I think that our product placement at least is good and probably better than last year. We have had good scissors growth so far. Our C-Thru Ruler acquisition is performing ahead of last year and pencil sharpeners are showing growth.

Even our Clauss and Camillus items are doing well. Although these items are not sold to schools, they are just selling well in the quarter. So back-to-school in general and the second quarter in general seems to be very solid to us.

With the year almost halfway through, this is also an excellent time to look at the three geographical segments Acme is active in. Would it be possible to give us an update on the situation in the United States, Canada and Europe?

Well first in the US, the growth has been better than last year in each of the categories, whether that is Clauss, Westcott, Camillus or PhysiciansCare. In Canada we had a slow start, but it has picked up. I don't really know why we had the slow start, but the picking up part gives us a lot of confidence for the year. In Europe we've had less mass market sales than we did last year and that's an important aspect of the business. However, it appears a strong second half in the mass market and good growth in the office and the medical

area, so we are expecting a solid performance in Europe for the year as well.

And looking at the rest of the year, which new Acme products will be available in stores?

Well first we have some very exciting new pencil sharpeners that are now in the back-to-school line-ups and in the stores. We are expecting them to continue the early momentum that they have and we are excited about that.

In the garden area, the Scotts MiracleGro line has had good placement. The weather in parts of the county has been cold and rainy and not particularly good for garden items. However, it's all incremental growth and we are seeing the impact of good placement.

We are introducing a whole new line of fishing tools. The first introduction will be at a major shark fishing tournament called Star Island in Montauk, New York on June 14th. We have some major sponsors and we have three or four segments that will be on television following the tournament. We'll also be going to other tournaments during the year. So these new Cuda fishing lines are placed in some mass market retailers as we speak and we expect to see year-end sales.

Finally, Les Stroud survival tools are being placed in new locations and we are expecting a good fourth quarter with those.

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, and I look forward to talking with you again soon.

Thank you very much.

Interview Feedback

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/initial-interview-with-acme-united-ceo-after-first-aid-only-acquisition>

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