

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 interview on Smallcaps Investment Research. Today we're speaking with Mr. Walter Johnsen, the Chairman and CEO of Acme United Corporation. A few days ago the Company announced record sales and earnings for its fiscal year 2014, and it even surpassed the \$100 million sales mark for the first time in its history. So we're really excited to have the opportunity to discuss the Company's results, its future and its brands. Acme United is listed on the NYSE MKT with ticker symbol ACU. Walter, thank you very much for joining us again, welcome.

Walter C. Johnsen: Thank you so much.

Walter, although you just announced record sales and earnings for 2014, I'm sure that our listeners are already curious to find out if that momentum can be sustained. How does the first quarter look like so far?

We're pleased with the first quarter. We have a new iPoint pencil sharpener out called Orbit, which has an attractive design and is selling particularly well. The first aid business is benefiting by overall growth in that channel and by the acquisition of First Aid Only, which didn't exist last year. Also, we've introduced the Cuda line, a fishing tackle and we're satisfied with how it's performing.

That's excellent. A solid contributor to your record results last year was First Aid Only, a company which you acquired in June 2014. Before the acquisition, Acme already owned two first aid brands: Pac-Kit and PhysiciansCare. Are you starting to see the benefits of combining those three entities?

Yes, we are. The first thing we addressed was the sourcing of the components for our three

brands. Before, we bought them from many different suppliers. So we combined the quantities and consolidated the suppliers, and of course asked for price reductions.

It took a while for that to work its way through, as we first used up our old inventory. But right now I will tell you that we are looking at about one million dollars annually on improved cost savings and that's beginning to work its way through on the income statement.

In 2013, First Aid Only reached revenues of \$17.3 million. Do you think that number will be exceeded in the first 12 months after the acquisition?

I do think it will be exceeded. One of the things that we are doing is combining our PhysiciansCare brand into First Aid Only. We are quite happy with the customer experience and we are seeing an increasing number of customers working with us to continue to grow both the First Aid Only business and the refills.

Your three first aid brands contributed about 35% of Acme's total revenues in 2014. Can you explain that strong achievement?

It happened over time. If you go back five years, we had a first aid business called PhysiciansCare, which was about a \$3 to \$4 million business. So it was a small percentage of our total sales at the time. Then the brand started to grow as we placed it in many of the office channels and the industrial market.

Next, we bought Pac-Kit, which did only about \$5 million in sales when we bought it, but that was sizeable relative to what we had. The past three years, we tripled Pac-Kit's sales by moving it more and more into the industrial channel. Right before we acquired First Aid Only, our first aid business represented about \$23 million of our revenues. And so as we now

add First Aid Only into it, it has moved our first aid revenues up to about 35% of total sales.

That's good to hear. Another brand that has been a significant contributor to Acme's results is Westcott, which produces school and office products. The first Westcott product that comes to mind is the iPoint electric pencil sharpener. Can you elaborate somewhat on that product's phenomenal success?

We have truly innovated the pencil sharpener category. The iPoint is a vertical sharpener. The pencil goes in the top and the shavings fall down. And it has titanium nitride coated blades so they stay sharper longer.

The latest iPoint family member, called Orbit, has an exceptional design, it is very quiet and it has a powerful motor. Those three things have increased the user experience. We've found it is a very receptive market and we're even gaining market share. So the iPoint family is a growing and very successful product line.

And are there any other Westcott products that were recently launched or that we can expect in the coming months?

Yes, one of them is our high end, high performance carbonitride titanium scissor. It stays sharper longer by 5 to 20 times over a traditional stainless scissor. In addition it has special angling on the blades and very sturdy grips. So that's now being placed into the school and office channel, and in some of the industrial accounts.

In addition to that, the C-Thru Ruler business that we bought a number of years ago, and which is now integrated into the Westcott family, is expanding as we're placing it into the office channel, the school and the craft market. So we are seeing growth from that segment.

The next brand I'd like to discuss is Camillus Knives. Camillus was re-launched by Acme only a little over six years ago. How do you look back on the

road so far and where do you think Camillus can go?

Camillus was once a major knife producer with an international presence. It manufactured millions of knives for the US Military, it was the official Boys Scout knife, it produced fishing knives, etc. When we bought it though it was bankrupt and it had zero sales. We basically bought a heritage.

As we began to build the product family, we looked for three things: first, the knives had to be of impeccable quality; second, we wanted value; and finally, the knife blade itself had to be distinctive.

As we worked through these things we put in special steels from Germany, Sweden, and Japan. We wanted to make sure the blades were made out of excellent steel. In addition, we put our carbonitride coatings on those blades, so that they became much harder than what they would have normally been. We also assembled these high quality components primarily in China, so we could keep the cost down. So we had value points, we had performance points and the quality was excellent.

Not surprisingly the customers responded to that and we began to get placements at major retailers in the sporting goods area and in some of the outdoor and camping chains. So very quickly Camillus was launched and as we continued to work on new products, we are finding an excellent reception.

That's excellent to hear. Now, a few months ago Acme launched the Cuda fishing tools. Can you explain what they are and their potential?

The market challenge we had was that most saltwater tools rust. Even though they may be stainless steel, experienced fishermen know that salt is very corrosive and that unattended tools rust. And so, we saw an opportunity.

We brought in a very high molybdenum steel, we did a dual passivation with a very acetic acid followed by one that was far more gentle, and that gave us a very smooth surface. In

fact, the surface was so smooth that it didn't have places for rust to nucleate. In short, we wound up with a family of blades that out surpassed any knives on the market relevant to rusting in saltwater.

The second thing we did was take care of ergonomics. We made full tang blades, which means that they go right through the handle. In addition, we used steel that's flexible enough to fillet fish but at the same time doesn't have a memory so that when it's bent, it springs back to its original shape.

All those things, plus the design, caused a very quick acceptance. In fact when we introduced it last June it was the hit of the ICAST Show, the major fishing show in Orlando, Florida. We are finding that retailers and dealers, in the U.S., Canada, and Europe had the same needs as we identified and there is a lot of interest. We are producing it as fast as we can right now for initial pipeline fill, so we are encouraged.

Over the past few years, Acme has acquired several companies like Pac-Kit, C-Thru Ruler and First Aid Only, and you turned them into profitable parts of the business. Are there other acquisition opportunities in your opinion, and what size acquisition do you think Acme can handle at this moment?

There are many opportunities and we actively solicit leads, and we are constantly contacting companies directly to see if they might want to be part of our company.

We're looking for things that either reinforce our existing first aid, cutting or measuring business, or that extend our product family a little bit. The next thing that we're looking for is size. We're both interested in a small company with big potential as well as a large one with existing revenue. However, I'm not interested in transformative transactions, which totally change the face of the company.

I'm sure we will find a deal in the next 12 months because there are so many opportunities and we keep working at it.

As a final question, Acme United reports financial information on three separate business segments: the United States (including Asia), Canada and Europe. What's your outlook for 2015 for each of those segments?

In the U.S., so many things are working right as we speak. First, the Orbit pencil sharpener is doing terrifically. The new carbonitride scissors are working their way into the market. We are very happy with the C-Thru Ruler business getting greater placement, and that the Cuda line, the Camillus knives, and the Scotts MiracleGro garden products are shipping. So the U.S. is operating on every front and we are very excited about it.

Our Canadian and European subsidiaries face a challenge as they purchase many components and finished goods in Asia, for which they have to pay in U.S. dollars. Because the dollar has strengthened, it means the price of goods has gone up.

So they're working very carefully right now to reduce the cost the best they can, pass through price increases to customers, and expand with the new items that we have.

Having said that, both Canada and Europe have impressive growth plans for this year and they're certainly executing in the early part of this year on their plans. So we are hopeful that, although the dollar is a challenge, we'll have a very good year both in Europe and Canada.

Fantastic. Walter, it's been a pleasure talking with you and we certainly appreciate your time. We'll be keeping track of the Company's progress and look forward to having you back for an update.

Thank you so much.

Interview Feedback

We welcome your questions and feedback regarding this interview at:

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