

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



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



**Acme United Corporation**

**NYSE Market: ACU**

**August 29, 2015**

**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.

**Welcome everyone to another interview on Smallcaps Investment Research. We're excited to have Mr. Walter Johnsen, the Chairman and CEO of Acme United Corporation, as our guest today. The Company announced record sales and earnings for its second quarter, a couple of weeks ago, and it has plenty of growth opportunities in the coming quarters. So we have lots to talk about. 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 look forward to sharing and updating our story.

**Terrific. Despite being impacted by store closures at large office supply retail chains - such as Target, Staples, and Office Depot - Acme United set a new all-time quarterly sales and earnings record in its second quarter, which ended June 30, 2015. How exactly did those store closures influence Acme's financials?**

Well, they impacted our financials because sales were delayed. In other words, the orders that we would normally get if there were no store closures were delayed, because the inventory that was in the closed stores was shifted to ones that were open. As a result, we did not receive the orders, although the demand for our products was there.

As that inventory, from the closed stores, works its way through, we come back to the normalized demand for our products. And back to school items are consistently in demand.

**Okay that makes sense. In February of this year Staples launched a buyout offer for Office Depot. If those two companies were to merge, there would only be one giant office supply chain left. For that**

**reason, the merger is subject to antitrust regulatory approval from the U.S. Federal Trade Commission, or FTC. What do you feel are the chances of that merger being given the OK by the FTC?**

Well, I believe that there will be a high concentration of business-to-business customers when Office Depot and Staples were to merge. At this moment, Staples and Office Depot are the only two chains where large corporations, that need to be serviced in many locations globally, can get products with a lot of variety and depth and excellent service.

Of course, there are many regional dealers all over the world, but none of them are able to handle the global companies like Staples and Office Depot. People also talk about Amazon and while it's true that Amazon has a broad depth of product, it does not have a direct sales organization and is not able to provide an education to the buyers. So, it's somewhat different.

I think that from Staples' perspective the merger would be a very good deal, because they'd get rid of redundancies both in their headquarters and in their sourcing, as well as the overlap of stores. They'd probably be able to get better prices for the materials and products that they buy as well. And we would hope to participate in that as we do right now with both Staples and Office Depot.

However, if they would stay separate, I think that would also be a good scenario for us because we'd have two customers instead of one. So we would be in favor of that.

**Chains, such as Staples and Office Depot are of course well known for their physical stores. But how are Acme United's online sales evolving?**

Our online sales are growing about a 100% annually. But we also continue to find

considerable growth with chains that have physical stores. So, I think they actually add to more customer convenience and combined there is a better chance to sell.

**Acme's Canadian and European business segments continued to be impacted in the second quarter by the significant depreciation of their respective currencies versus the U.S. dollar. How are both segments trying to offset this depreciation?**

Our major problem is that we buy in U.S. dollars. So if the currency in Europe or Canada declines, the cost of those products goes up, and therefore our margins decline.

In Canada, we're also facing a soft market in general, because the economy is mostly resource based. And with gold, copper, oil and so many other commodities in decline, it's impacting the whole economy.

In Europe it's little a bit different because the European economy appears to be more solid and much bigger than Canada. And so we're finding that our demand is actually growing substantially in Europe.

**On the other side, there's the recent devaluation of the Chinese Yuan. Is it correct to assume that this will have a positive effect on the Company's financials as most of your products are sourced from China?**

About 60% of our products are sourced in Asia. When the dollar strengthens against the Chinese currency that means we can buy more for each dollar and therefore we're getting better value. However, our Chinese suppliers also see that their currency buys less raw materials. So it's not as if it's a direct pass-through, but we would expect to somewhat benefit from the devaluation.

**With two thirds of the third quarter now complete, how do you feel about it so far?**

I think it's going to be a solid quarter. There is of course some sluggishness, for example, in the oil and gas industry where we sell our

first aid items. And although that's not a big part of our business, it's a piece. There will also be some impact in the third quarter from more store closures, which is an ongoing issue.

On the other hand, we have a lot of new products, such as new iPoint pencil sharpeners, new Cuda fishing tools, new first aid items, etc. I think when we net everything out we'll have a pretty solid third quarter.

**That's great to hear. Let's discuss some of the growth opportunities for the current and following quarters. First, as you mentioned in the conference call, following the release of the second quarter results, you won a major new scissors account. Can you elaborate somewhat on that?**

Absolutely. We won the Office Depot/Office Max scissors business in North America. We have fantastic products for the office and school channels, and I think that Office Depot made an excellent choice in consolidating all that business with Acme United.

In addition, this contract gives us a platform to begin to sell far more items into Office Depot, because we've become a more substantial supplier than we were before. So we're very happy with that.

**What are some of the other new products and promotions that are set to launch?**

Well, we have a whole new line of Cuda fishing tools that are currently being placed throughout the world. Cuda's initial tools were mostly for the salt water fishing area with heavy duty crimpers, pliers and knives.

And now we're moving into the fresh water arena as well. The market for fresh water tools is about three times larger compared with the salt water market. So we're excited as we're rolling out the Cuda line into chains worldwide, starting in the fourth quarter of this year, but mostly in the first quarter of 2016.

**Of course, when talking about growth opportunities, it's important to recognize**

**the success that the Cuda fishing brand has achieved in the short time that the tools have been on the market. Did you expect the brand would be so successful when it was first launched, and how do you see Cuda going forward in the U.S., Canada and Europe?**

Well, we always have a lot of enthusiasm for our product launches. And we always dreams how good they can perform and how big they can become. But usually, reality is a little bit different than our expectations.

In the case of Cuda, we came out with a product family that absolutely met the needs of fishermen and exceeded their expectations. The tools are equipped with handles that have the ability to drain water so that users maintain a strong grip, they have full tang, are made with high quality German steel, and our proprietary rust treatments make the products very durable with anti-rust levels that are different than any of the ones that we're aware of on the market.

We've had a meeting last week to assess the demand, and we concluded that we need to increase production more than we had previously planned. So we're getting ready for a very solid year for Cuda.

**That's excellent news. Acme has attracted several celebrities to co-design and co-promote its products. Camillus has Les Stroud and a couple of stars from the TV series Ultimate Survival Alaska. And Cuda has the so-called Cuda Pros, who use the fishing tools during tournaments and on their popular TV shows. Are there plans to cooperate with personalities for other Acme brands as well?**

Let me first address what the cooperation involves. These pros help us to design better products for our customers. They use these tools all the time and their feedback helps us immensely to upgrade the quality of both the Cuda and Camillus line.

We've also done this in other areas. For example, some chefs have helped us think

through items for the commercial knife market. In the craft area, we've had experts in quilting and school projects helping us to develop tools that are better. Some of them are not as well-known as the people in Camillus and Cuda, but all of them are helpful and they provide the same benefit to us, which is an expertise to make our products better.

**Finally, let's talk a bit about the integration of your three first aid brands, of which we should see the full effects in the coming quarters. First, I know you've been working hard to bring down sourcing prices since you acquired First Aid Only last year. How is that going?**

It's going as we planned, and that's excellently. When we acquired First Aid Only, we went from two to three brands, and we also doubled the volume of components that we sourced. That gave us the ability to consolidate suppliers and negotiate better prices. Of course, it takes time for those savings to work their way through our inventory. Our gross margin improvement that's occurring now, relates to initiatives we took six and nine months.

We're also consolidating our manufacturing facilities. The products that are currently being manufactured at our Pac-Kit first aid plant in Norwalk, Connecticut, will soon be produced in our Rocky Mount, North Carolina plant as well as our First Aid Only plant in the state of Washington. We expect that to be completed in the next six to eight weeks.

Because of this consolidation, there will be some extra cost in shipping and severance in the coming weeks and months. But by year end, we'll have one less facility. And so we'll save on rent, utilities and personnel. And that's very exciting.

**Fantastic. Walter, we really appreciate the time you've taken to speak with us today to give us an update on the Company. All the best to you and Acme United, 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:

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