

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: Welcome everyone and thanks for tuning in to another interview on Smallcaps Investment Research. We're thrilled to have Mr. Walter C. Johnsen, the Chairman and CEO of Acme United Corp, with us today. 2015 was the seventh consecutive year of record performance for Acme United, and that trend has continued in the first quarter of 2016. Acme United is listed on the NYSE Mkt with ticker symbol ACU. Walter, thanks so much for joining us again, welcome.

Walter C. Johnsen: Thank you very much.

Walter, as I mentioned in the introduction, Acme United achieved record sales and earnings in the first quarter of 2016. Can you give us some more information on those results and your guidance for the year?

Sure. Our net revenues were up 11% and 12% in local currency. The net income was up 30%, and our earnings per share were up about 33%. We had good operating leverage, and a little bit of a currency gain. So, we got off to a very strong start for the first quarter.

For the year, I gave guidance of \$120 million in revenues, \$5.6 million in net income and \$1.47 earnings per share. At the end of the second quarter, I intend to take a look at how we have achieved half way through the year and I may adjust the guidance upwards if the results are where I think they may be.

Maybe you can't say too much about it, but as we're already well into the second quarter of 2016, how do you feel about it?

I'm feeling good about 2016. We had a number of new product introductions that are being rolled out during the year. For

example, the Westcott ceramic box cutters, which are used to open packages. These are designed for home use, are lightweight, and quiet inexpensive. They're not as sharp as anything with a knife blade, making them safer than what traditionally is used to open boxes. We have them in place at many, many retailers in North America and in Europe.

We also have new Cuda fishing tools. We have a successful salt water line and also fresh water items that are going chain-wide at a number of major global retailers. We have new Camillus hunting tools that we'll start shipping in the third and fourth quarters. In addition, the first aid business is gaining sales. So, I'm feeling good and I'm very confident at this point in the guidance that I've provided.

Before we move over to the growth opportunities of some of Acme's existing brands, let's first discuss your most recent acquisition, Diamond Machining Technology, or DMT, which is a leader in sharpening tools for knives, scissors, chisels, and other cutting tools. Would you tell us some more about DMT and the acquisition?

DMT only generated \$5.3 million in sales last year, but it earned approximately \$1 million in EBITDA, fully taxed. So, it's a very profitable company, which has about 50 patents and trademarks.

What we're hoping to do is pair it with many of our cutting items that, for example, have carbon nitrite coatings. These coatings are harder than most traditional sharpening tools on the market. However, because DMT's sharpeners are diamond based, they are suited to sharpen those blades.

We're also expanding its distribution. A few days after we acquired the company, we got

its products placed at one of the largest retailers in the world. That will add incremental sales. We also placed it at a number of industrial distributors with whom we had a good standing relationship.

We're staffing up to support DMT better in Europe. We will soon warehouse all DMT products for the European market in Germany. And we will offer the products in euro instead of US dollar.

So, the goal is to grow the business, leverage the technology and because there are so many propriety aspects to the business, we think it will be able to maintain high margins.

The net of all that is that if we can grow DMT, it becomes a very important part of our portfolio of companies as opposed to what it is today, which is a smaller part.

And how is the integration of DMT going and where do you see growth potential for the sharpener brand?

The integration is going ahead of plan. The people at DMT are very talented and enthusiastic. They're working side by side with us to build the business. So, it's quite invigorating to have eager, new employees working to build a common goal and they're clearly doing that.

Due to the additional placements that I have mentioned, we're in the process of increasing the production capacity at DMT as we speak. We're even contemplating a second shift. So, the integration is far more successful and quicker than what we anticipated.

We still have some things to do though. For example, placing them in a common IT system with the rest of Acme, but that's scheduled for the fall of this year and frankly, it's not critical to building this entity, which is our primary focus.

Let's discuss the prospects of some of the other brands. First, the school and office products brand Westcott. Although Westcott already is one of the largest scissors manufacturers in the

world, its success apparently continues to grow?

Yes, it does. Within the scissors world, we continue to be innovating. For example, we just came out with new ExtremEdge scissors that have gotten good retail placement in the US, Canada and Europe. The boxes that keep coming into our offices and homes need to be opened and it's driving sales of higher performance scissors to open these items.

We've got a strong back-to-school book of business, which includes our Westcott rulers and measuring tools, our protractors, the iPoint pencil sharpener, and Westcott paper trimmers. So, the Westcott family is performing ahead of plan and doing well above last year.

Excellent. Another very popular Westcott item is the iPoint electric pencil sharpener. In fact, it's been one of Acme's best selling products in the past few years. What should we expect in 2016?

We introduced an iPoint electric pencil sharpener with one of our proprietary non-stick coatings on the blades. What those non-stick coatings do is they allow the sharpener to cut waxy colored pencils and crayons. There is a strong resurgence of activity in coloring. Adults in many parts of the world are taking colored pencils to color very intricate designs. And of course all those pencils need to be sharpened. So, although we didn't plan for this a year ago, we're finding that we're solving a very real need in the marketplace with the iPoint non-stick pencil sharpener. And they're doing very well.

There's also interesting news from the First Aid Only brand, as it started selling its SmartCompliance kits to large corporate accounts. Could you elaborate somewhat on that?

We announced in the first quarter conference call that we landed one of the largest retailers in the world. We are supplying the first aid kits for its stores, warehouses, and

trucks, to be used for both injuries to their employees as well as the shoppers that go into the stores.

So we benefit from the placement of the first aid products initially, and then as people use the components, there's a strong resale business.

In addition, we have pilot runs being done right now at a number of banks, food service companies, and a large airline. We've recently also landed Saudi Airlines as a new customer.

As we keep driving the first aid area, we're opening up new accounts and then of course, you've got a continual resale business which is, if we do the job properly for our customers, an annuity.

Do you foresee other possibilities for growth in the first aid business?

One area is in the industrial segment, which is currently serviced by delivery vans. These vans will typically go into different locations and fill the first aid kits and then come back on a regular basis.

This is a very expensive model however, because of the cost of the individual sales staff, the truck, the employee, and the benefits. What we're trying to do, and we're getting success with it, is do these refills through the internet and that is disruptive to the \$600 million market at our selling price. So, we are gaining share in this segment and we are trying to accelerate it.

Another brand that I'd like to discuss is Cuda, which launched fresh water fishing tools a few months ago. Has Cuda since its launch in 2014, performed as you anticipated and what do you expect from it this year?

Cuda is performing very well, in part because the products have rust resistant steel that's far superior to anything that's on the market, in our judgment. And because of that, the tools handle well in rivers and streams, as well as in salt water environments.

They're well designed and have very high quality components. Whether you're looking at a filet knife, crimpers, pliers, or carbon fiber gaffs and nets, they're all innovative and top of the line.

In addition, we have a following of over 30 fishing pros who regularly test and work with us to develop new products.

Cuda is gaining real success in Europe and Canada and especially in the US with major retailers. So, although, we entered the market not that long ago, we feel as if we've got real momentum. And we've got a new launch this year in the fresh water area that we think will really broaden the potential market size for us.

A final brand that I want to highlight today is Camillus knives. It had an outstanding SHOT Show back in January where it launched many new knives and outdoor tools. Will the success at the show mature into more sales this year?

We know it will. We know that the third and fourth quarters of this year will be strong shipment quarters because we've got the orders. The tools will be going into major retailers all over the world.

Part of the orders is for hunting in the fall, for Christmas and holiday gifts, and another part is for people who just really like the products and are purchasing. So, we're looking forward to Camillus having a record year.

That's terrific. Is it correct to assume that Acme should benefit in 2016 from the devaluation of the Chinese yuan last year?

We've benefitted to some extent, because we buy in US dollars. Consequently, our buying power increases when the Chinese currency weakens. Some of those cost savings we passed onto our customers, some of it went into new product development, we use it for market share growth and part of it we hope to keep. So it should also increase our grow profit.

One item that I noticed on the balance sheet, is that the Company's long term debt has increased from about \$27 million last year at the end of the first quarter, to about \$35 million this year. What happened there and how do you see Acme's long term debt evolving?

We purchased DMT for \$7 million. That was primarily the use of cash that led to the additional debt. However, we borrow at a little over 2% interest and we used that money to acquire a very accretive company. So yes, the debt went up, but the accretion coming from DMT, plus the synergies that we've been able to realize since, is resulting in additional profits.

Other than that, we also bought back shares of our company because we internally believe that we're undervalued. On top of that, we increased our dividend.

Acme United reports financial information on three business segments: the United States (including Asia), Canada and Europe. What's your outlook for each of those segments in 2016?

Well, the US segment will benefit from growth in the Camillus and Cuda lines, the Westcott family and the first aid business. As a result, the US business, plus the DMT acquisition will set levels the company has never seen before.

As for Canada and Europe, last year the dollar had appreciated against the Canadian dollar and the euro. Consequently, the

financial results from both segments were reduced when translated into our US dollar-based corporate revenues and earnings.

Since that time, the Canadian dollar and euro have strengthened. As a result, we no longer have the negative impact of those currency changes. In other words, that's good for us.

And if the currencies stay about where they are now, we expect both Canada and Europe to have very strong performance compared to last year. So when you net all that up, it's looking to be a record for the eighth year in a row.

Before we go, what would you say are the two or three most compelling reasons for a long term investor to consider Acme United today?

The past seven years demonstrated record sales and earnings for the Company. Our EBITDA over the past five years going from \$3.8 million to over \$9 million. Our dividend compounding over 11% over that five-year period. A very reasonable valuation. And finally, as I've indicated, we have an expectation of a strong 2016 performance. Those are the reasons that I'd invest in Acme United.

Wonderful. Walter thank you very much. It's been a pleasure speaking with you today and we appreciate your time and insight. We wish you and the Company all the best.

Thank you very much.

Interview Feedback

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/acme-united-ceo-walter-johnsen-discussed-growth-prospects-for-2016>

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