

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



Chairman and CEO of Acme United Corp.



Acme United Corporation

NYSE Market: ACU

December 9, 2017

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. We're very pleased to have Mr. Walter Johnson, the Chairman and CEO of Acme United Corporation, with us today to give us an update on his Company. Acme United is a worldwide supplier of cutting devices, measuring instruments and first-aid products for school, home, office, industrial and hardware use. Acme United is listed on the NYSE market with ticker symbol ACU. Walter, it's a pleasure to have you with us, welcome.

Walter C. Johnson: Thank you.

While Acme United's sales were on track for another record year, earnings were somewhat soft in the second and third quarter of 2017. This was mainly due to the transition from sales to brick and mortar stores to online. Would you first of all remind us when you started noticing this trend and how this has impacted the Company?

We started to notice a delay in sales in the second quarter. Part of the shortfall was due to online sales. Typically, brick and mortar chains order products much earlier in the year, so they can get them into their stores before the back-to-school season starts. Consumers however, order their school items online in June, July, and mostly August. Because online sales are now a much bigger piece of our overall business, there was a shift in timing from the second quarter to the third.

In addition, while we had record online back-to-school sales, it was less than anticipated. Therefore, the second and third quarter earnings were softer than we originally expected.

What were the main issues that resulted in higher costs in the previous quarters and how did you tackle them?

The primary problem with higher costs was connected to our warehousing. This was again due to the increase in online sales. The past three years our online sales have grown by over 100%. This year however, volumes, especially in July and August, were so high that our warehouse had to run overtime. We had to work during weekends, and we needed extra temporary workers to handle all the 'back-to-school' sales.

We also had a lot more smaller packages which had to be shipped within a two-day window. We accomplished all that, but at a higher cost.

We are now addressing these issues. For example, we are relocating fast-moving items closer to the pick lines so that the workers do not have to walk as far to get them. We are improving the dimensions of the boxes so that when we take the items, they are closely matched with the box size. We now have 13 standardized box sizes. This helps us to also reduce freight cost.

Lastly, we started to utilize software, which allows warehouse operators to pick up multiple items in one single trip to maximize efficiency. All these efforts are already paying benefits and we continue to address the cost issues.

What are some of Acme United's best selling products online?

In first aid, it is a personal first aid kit. We have sold hundreds of thousands of these in 2017 at places such as Amazon. In the Westcott product line, it is titanium scissors. Although this is a higher-end product, it is attractively priced for consumers, while it has very good margins for us.

We still have a long runway to grow though. Currently, we are expanding our online product families from a narrow grouping to a much broader representation.

Obviously, it's hard to forecast, but do you think that the trend of significantly rising online sales will continue in the next year?

That is a good question. Currently, our online sales are growing at over 100% a year. In fact, in 2017, we could generate over \$14 million in online sales with just one customer, which would represent about 10% of our annual sales.

Do we see it growing another \$10 million next year? That is hard to forecast. I think what I prefer to do is be surprised and not forecast it, but obviously we've got a plan for our internal operations.

We conducted our previous interview some time after the acquisition of Spill Magic. Has the brand since performed the way you anticipated that it would?

Spill Magic has been a very successful acquisition for us, so we are very delighted with our purchase. Since we acquired the brand, we won new customers, and we added more distributors.

We are now starting to sell the products online, and our European division is offering the Spill Magic line under the 'Easy Absorb' brand.

We are also placing newly developed Spill Magic blood and vomit kits into stores as we speak. Thus, in the event somebody is sick at a store the employees can clean it up safely.

Another notable acquisition this year was the purchase of the First Aid Only manufacturing and distribution center in Vancouver, Washington. What were the terms, and do you expect to generate savings from this purchase?

The purchase was an unusual one for us. We acquired First Aid Only in 2014, and one of

the things we negotiated was an option to buy the building, which First Aid Only was using, for \$4 million.

Since then, the real estate market has heated up substantially. Consequently, the appraised value of the building today is somewhere between \$6.25 million to \$6.50 million. So we decided to purchase the building, at a steep discount to its actual value.

From an operating perspective, we used to pay rent of over \$400,000 per year for the facility. Now that we acquired it, we only pay mortgage of about \$150,000 per year. Mind you, these are cash savings, thus they are accretive to our earnings.

To conclude, I am delighted. From a shareholder perspective we have picked up \$2 million to \$2.5 million of additional unrealized equity in the building, we have cut our expenses in half, and it is an accretive deal.

Talking about First Aid Only, the brand recently launched an app for both Apple and Android. Can you describe this app for us and explain the benefits for its users?

It is a replenishment app. When somebody is using our SmartCompliance first aid kit and the items are consumed, they are scanned by either an iPhone or Android. The data about consumption of each item goes to the central supply where all the data is aggregated. Just as an example, we can use McDonalds. When they hit a certain minimum order size, the orders are automatically placed and the first aid items are then sent to the locations which need them in their first aid kit.

As long as that cycle continues, the first aid kits are in compliance with all the regulatory programs, be it OSHA and ANSI in the U.S. or Health Canada in Canada. More importantly, should an accident happen the employees are ensured that they have a properly equipped first aid kit.

Regarding the refills, we do not direct where these are ordered from. If a distributor is the

normal source for supplying a specific company then they would place the orders there. They could also do it with ourselves, or they could connect it with Amazon or whomever else. In the end what we care about, is supplying those refills, however they are ordered.

Let us take a look at what's ahead. In the third quarter conference call you mentioned that you already had secured quite a lot of new orders for 2018. Can you give some color on that?

Sure. We are putting new paper trimmers into one of the large U.S. superstores. We are bringing pencil sharpeners back to a mass market retailer that we lost last year. Knives are going into one of the major chains in the U.S., which should generate multimillion dollars in sales. We are also gaining first aid business at two very large industrial distributors. Lastly, we are seeing growth in both Spill Magic and DMT. In addition, I should point out that this is not an exhaustive list.

To quantify this, we are looking at \$6 to \$8 million of new business. The timing of things can certainly change during the year as customers are dynamic, but that is what we are currently envisioning for 2018.

That is obviously a great outlook for the business in the United States. How do you feel about Canada and Europe in 2018?

Europe is doing very well. It is winning sales in the office products channel, but also online sales are growing fast. In fact, Amazon.de – the German sister website of Amazon.com – is now our biggest European customer.

Moreover, Europe is increasing DMT sharpener sales; Spill Magic products have been launched under the Easy Absorb name; and distributors are added for the Camillus

and Cuda family. Combining all that, it's clear that our European business has a lot of momentum and we see that continuing.

We expect Canada to thrive as well, although it is a much smaller market. Due to our dominant position in the office channel, we can't grow as much. Cuda and Camillus are gaining market share and contribute to growth, but it is unlikely to meaningfully impact Acme's top line.

Rounding it all up Walter, 2017 was Acme United 150th year in existence. What can we expect from year 151?

It is a very exciting time for Acme. First, we have an incredible array of new products. We are gaining market share. We have acquired DMT and Spill Magic in the past two years.

Also, our online business is recording over 100% growth per annum and it is changing how we operate. We are putting in new software. We are training our people. We are doing a lot of work with content and search. All these things would be inconceivable even 15 years ago.

Therefore, we are looking at 2018, our 151st anniversary, with excitement. It is almost the beginning of a new company and thus I am thrilled.

We will be giving formal guidance around February of 2018 for the year, but we're looking confidently into the future.

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 United, and I look forward to speaking with you again soon.

Thank you.

Interview Feedback

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/acme-united-ceo-walter-johnsen-discusses-online-business-opportunities-and-outlook-for-2018>

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Contact Smallcaps.us

Twin Squares
Culliganlaan 1
1831 Brussels
Belgium
Tel. +32 (0)2 808 58 41
E-mail: [contact page](#)

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