

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



Chairman and CEO of Acme United Corp.



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. We're excited to have Mr. Walter Johnsen, the Chairman and CEO of Acme United Corporation, with us today. Acme United is a worldwide supplier of cutting devices, measuring instruments and first-aid products for school, home, office, industrial and hardware use. The Company is listed on the New York Stock Exchange market with ticker symbol ACU. Walter, it's a pleasure to have you with us, welcome.

Walter Johnsen: Thank you so much.

The past few years, we've seen Westcott back-to-school sales shift more and more from the second quarter to the third. This is obviously due to the ever-bigger impact of online sales. Where do you see this trend going?

The reason for the shift is due to the convenience of going online and having something delivered in a day or two.

The previous model of filling stores and dealing with a longer supply chain can simply be shortened. The deliveries connected to online sales with Amazon or Wal-Mart can be moved much closer to the time when the customer actually buys the product.

What that means is that you have more back-to-school sales shift from the second into the third quarter. We continue experiencing it this year.

Having said that, stores still have an important place in the back-to-school. Many parents like to take their kids shopping for back-to-school due to the bonding and fun experience. We do not see the shift continuing up to a point where you would not have any stores.

Although I do think that next year we will again see more sales in the third quarter than the second. However, perhaps at a lesser growth rate than we are experiencing now.

Acme United very rapidly transitioned its sales from brick and mortar to online. What impact did this have on the organization and what were the most significant changes that needed to be made?

During the past 12 months, we have made major improvements in our warehouses to more accurately and more quickly pick smaller items for shipment for online sales. We have also upgraded the software to do that. Furthermore, we have done a lot of analytics to try to anticipate how we should adjust staffing as back-to-school shifts into the third quarter.

We are much stronger in relation to the order flow this year than we were a year ago.

While sales in Canada were relatively flat in the first half of 2018, they reached record levels in Europe. What's the outlook for both segments this year?

Europe has a bigger potential just because of the larger number of potential customers.

Our European business is growing rapidly in the cutting area, particularly scissors and kid scissors. Furthermore, we are gaining in Europe with our DMT diamond-based sharpeners. The Cuda and Camillus fishing lines are also growing. Finally, our online business connected to Amazon and others is growing very rapidly.

In Canada, we see a much more mature market. The online sales are more modest. We believe it is appropriate to maintain

growth at an incremental rate. However, the cash flow generated in Canada is very strong because of our established position.

That's very good to know. Since April, the Chinese yuan has declined almost ten percent versus the US dollar. Is it safe to assume that this will have a positive effect on Acme's margins?

One has to remember that we are in a highly competitive marketplace and we try to give our customers the best value we can. To that extent, if we can adjust our pricing to be more attractive to our customers we do exactly that.

However, there are some areas where our pricing was perhaps too aggressive in the market. This gives us a chance to rebuild some margins in those areas.

In general, we work very carefully with our suppliers to be in sync with the markets. If there are cross savings, we share them in part with our customers.

Speaking about China, is Acme United currently affected by the tariffs on imported goods from China?

Mostly not. In the first couple of rounds of tariffs, there was no impact. In the round announced effective last Monday (24th of September 2018), the bulk of our products are not affected. However, there are going to be minor impacts on some folding knives, rulers, and math sets. Also, some minor items in first aid will be impacted.

But again, relative to the whole business, these are small impacts. Frankly, with the appreciation of U.S. dollar against the Chinese currency, there should not be any major impacts to our Company.

Acme United already manufactures quite a lot of products in the United States. Will that number increase over the coming years?

We hope one of the growth areas will be DMT which produces diamond-based sharpeners.

So far, our pricing has been much higher because of the quality that we are making in our U.S. plants. In this segment however there are tariffs being placed competitors that import from China. We are not exposed to these tariffs as we are a domestic manufacturer. This helps us to be more competitive relative to the imported items.

However, other than maybe some high-quality knives, I do not see us bringing back production to the US any time soon.

Let's discuss some of Acme's brands in more detail. While Westcott sales in the second quarter were somewhat softer, due to the shift to online, Cuda, Camillus, and DMT sales all reached record levels. Do you see these brands continuing their strong performance?

Cuda is having a record year and that should continue based on the promotions that we have in place for the rest of this year. For example, for Christmas time promotions.

Camillus knives are facing similar tailwinds. I know we have terrific products in the pipeline for the fall and winter seasons, which will be visible both in retail stores and online. The hunting season, as well as Christmas, are important times for selling those items.

Also, your first aid brands are doing very well. Would you give us an update on the SmartCompliance business, and why it's having such a big impact with your customers?

SmartCompliance allows a safety manager to open let's say an industrial first aid kit and quickly detect all the items that need to be refilled. This is done by looking at a yellow printed tab tethered to each of the boxes of components.

Now we have automated that process, which makes the first aid kit more of a system. We use our SafetyHub software that automatically scans the consumed items, brings the attention of the manager to it and replenishes the kit.

Our customers are responding favorably to the system, particularly the wholesalers of our products as the system provides a closed loop for them. They sell the system, the products are consumed, and then the orders for replenishment automatically go back to the wholesaler. This way, we can capture the refill and automatic replenishment business.

We are working on next-generation features right now for the SafetyHub including analytics. This will allow the safety managers to drill down and see what accidents occurred in which locations and during what activities. They will be able to use this information to create safer environments for the employees. This new feature is being introduced at the NSC safety show in October in Houston, Texas.

It's no secret, innovation is in the heart and soul of Acme United. Could you give us an update on which new Acme products we can expect to see on the shelves in the coming months?

Safety cutters are a good example of some of the innovation we are working on. This is a completely new category for us.

While we have been selling these ceramic blade cutters into the retail market, recently we have created a new line for safety managers. We are going to be using the finest blades that are available in ceramic. These are called slice blades which are made by Slice Inc. We are incorporating this product into our offering and will be bringing it through our distribution channels.

We are quite optimistic that we will be able to penetrate major retailers with these cutters. The retailers will be using them for opening boxes and displays for internal consumption. This product should not only save them money but should also reduce the number of accidents as the product is both inexpensive and safe.

Investors who follow Acme United know that you're constantly looking to acquire an attractive company that fits within Acme's existing structure. Are you

looking at a particular sector, and is there anything in the pipeline at the moment?

We are actively looking for acquisitions. In every case, they are either complementary to one of our existing product lines or half-step away. Our focus right now is on the hunting and fishing area, safety products and the craft area.

We always have a stream of potential targets that we generate or that we are visiting. We have contacted many companies in the past and we are also getting leads from investment bankers.

Understandably, I cannot provide any specifics until we know we are going to close a deal. However, you can be sure that we are keen to get something accomplished.

And before we go, what would you say are the most important growth drivers that investors should look out for at Acme United in the next 12 months?

Let's start with the first aid area. There are a couple of new customers as well as an expansion of market share in existing customer base that will drive growth. We have announced that we have a new business at Grainger, which is the largest industrial wholesaler in the world. This expansion is being rolled out as we speak. Due to this we now have a material percentage of their first aid business.

We are also working with a very large food service company to provide first aid kits to their customer base. We also are rolling out the safety cutters and spill magic products.

Turning to Westcott, the scissors business continues to be a steady performer. There is a little bit of softness in pencil sharpeners as there is a decline in the use of pencils. Although, the trend is not very rapid.

In the craft area of Westcott, there is a lot of opportunity for our product family. We are expanding our glue gun business and we are putting in new glue sticks. We are also

developing new scissors for crafts. Finally, we are working on some new coatings that enhance the performance of the blades. This is an exciting segment for the whole offering.

For Cuda, our fishing products brand, the growth is tied to new products, new customers and new fishing accounts.

Finally, the Camillus knife business is thriving. Particularly with the brand new high-performance knives that are sold to the Boy Scouts of America. These are new to us, but not new to the Boy Scouts as Camillus

was a supplier of high-quality knives to the Eagle Scouts a long time ago. This is an area of growth for the fourth quarter.

Fantastic. Walter, we really appreciate the time you've taken to speak with us today. All the best to you and Acme United, and I look forward to speaking with you again soon.

Thank you very much.

Interview Feedback

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/ceo-walter-johnsen-provides-thorough-update-and-outlook-for-acme-united>

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