

**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 to a new interview on Smallcaps Investment Research. We're very pleased to have Mr. Walter Johnsen with us today, the Chairman and CEO of Acme United Corporation, 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. The Company is listed on the NYSE Market with ticker symbol ACU. Walter, thanks so much for taking the time to join us today. Welcome.

Walter Johnsen: Thank you so much.

With the third quarter almost coming to an end, how do you feel about it?

We gave strong guidance for the third and fourth quarter and we are really trying hard to make that occur. We're seeing progress at Amazon. We're seeing progress with our First Aid division, and we're making progress with our back-to-school programs. Overall, I am feeling good about it. The quarter is not done yet, but we are executing the best we can.

Of course, Walter, everybody has heard of the trade war between the United States and China. How are the imposed tariffs on items being imported from China affecting Acme United?

Tariffs have created a lot of work for all companies that import products in the U.S. from China.

Moreover, the new tariffs not only raised the levels on products that were previously covered, but there is a broad range of additional ones, plus there is another increase expected on December 15th. As a result, we have been actively meeting with our Chinese suppliers to negotiate price

savings, as the Chinese currency has weakened.

In addition, we are trying to pass through price increases to our customers. Furthermore, we are working with current inventory and substitutions in product design to try to lower the impact of the tariffs.

Overall, I have to say that coping with tariffs has been a collaborative effort. As much as retailers would like to suggest that they are not taking price increases and suppliers saying they will pass through the increases, there is a middle ground. We are all in business so we are working collaboratively. Although, sometimes, it might not seem that way.

On another front, not all of our products are imported from China. In fact, about a third are manufactured in the United States and then there are other suppliers as well that are broadening our supply base. We started to substitute products by importing from countries outside the tariffs and it helps quite a bit.

Are you looking to manufacture your products in other countries than China, or more domestically?

We already source items in Italy, Spain, Colombia, Pakistan, Egypt, and India. However, there are further opportunities to increase sourcing outside of China, as many of the factories that we work with can take on a broader range of products. For example, if we are making some knives in Colombia and we increase what we import from Colombia, then we are doing a substitution away from China.

That being said our Chinese suppliers are terrific. I work carefully and closely with them and respect the hard work and quality

that they provide us. Thus I am not anxious to make changes unless it's really needed.

Domestically, we produce first aid kits and Spill Magic clean up material. We also have just completed a capacity increase at our DMT sharpener business in Massachusetts. Demand in these areas has been strong, perhaps partially because of the tariffs.

Let's discuss some of Acme's brands in more detail. Cuda, for example, keeps expanding its line of fresh and saltwater fishing tools with lots of success. Do you see this brand continuing its strong performance?

Cuda is doing very well and the key is innovation. We are bringing high quality and excellent value to the fishermen, the people who we actually serve. Furthermore, the brand is being recognized as a place to get an excellent product at a good price.

Overall, we believe our tools are the best available at our price points and the new introductions such as our Cuda Bait Dehooker is receiving excellent customer interest.

Due to all this, we are very optimistic about the brand and sales that are following through. We are also increasing our distribution with new manufacturer's reps in various parts of the U.S. The same is happening in Europe and in Canada. Thus we believe we will be gaining additional sales.

The Camillus, hunting and camping items, also continue to be solid contributors to Acme's results. What are the expectations for Camillus in the coming quarters?

We are gaining market share with the Camillus hunting knives. We are expanding more and more into the camping area. We are gaining distribution in Europe, the U.S. and Canada. We are also gaining in our distribution through online sales both from the U.S. and Europe.

In aggregate, the brand is doing very well and is one of the best performers for us in the Company year to date.

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?

The SmartCompliance system puts all the essential first aid components for industrial sites in a single kit. As long as that kit continues to be filled with unexpired products, it meets many regulatory and safety regulations. More importantly, it gives a resource for company employees, should they be injured. With our kit they got fresh supplies in adequate quantities and in adequate quality to treat most first aid issues.

The software app that goes hand in hand with our SmartCompliance system is called Safety Hub. The app makes sure that when products in the first aid cabinets are used or when they expire they are automatically read and recorded. Subsequently, we can replenish those cabinets to keep them current.

This is in contrast to our competitors who use people driving vans, going into individual sites and locations and filling manually each first aid kit before they get back in their car or truck into another location.

Because of our software, we are able to provide the refills at substantial savings relative to the van-based system. In other words, we are using the internet instead of a truck. Furthermore, those savings go directly to the customers.

Last but not least, we are also able to gather information based on safety history, types of accidents, and comparative safety records in different plants using our software. This is a very effective tool for safety managers in terms of making the workplaces safer.

As you mentioned earlier in the interview, due to high demand, the production capacity at DMT, the diamond sharpener brand, recently had to be expanded. Has that process been completed and have the significant back orders been filled yet?

We increased our DMT capacity by about a third and the physical completion was done in June. Then we trained additional workers and increased the efficiency. Thus, we have come up to speed and we are addressing the back orders.

We have also started to accept new customers that we previously pushed aside so as not to create unrealistic expectations due to the lack of capacity.

Thus sales are increasing and we are very happy that the quality is being maintained and that our output has increased. We are excited about DMT for the remainder of this year and the next one.

Speaking about growth, in Europe, sales in the second quarter grew by 28% compared with the same period in 2018. What caused this boost and do you see this trend continuing?

The growth was first of all due strong sales in the office products area, such as scissors, rulers, binder clips and other items that we sell in Europe. They have been growing because we have been gaining market share. We are very effective in our production offshore and we are able to pass on savings that some of our competitors cannot because of the volumes we are dealing with.

The second factor is that Westcott is a strong consumer brand that offers differentiated products at higher margins. For example, we are offering titanium nitride scissors which are almost diamond like on their edges, or non-stick scissors which are ceramic based and which we believe are the best in the market. As we migrate some of our customers to some of these high value-added products, there is also a margin increase.

In addition to that, DMT is been very well received in Europe. In fact, the area has been part of the problem with our backorders. We had unforecasted demand in Europe which we are now satisfying. Lastly, our online business in Europe has been growing very quickly.

To conclude, between the online business, market shares with Westcott and the DMT production, as well as the Cuda and Camillus lines, Europe is ahead of plan and doing well.

It is no secret, innovation is in the heart and soul of Acme United. Which new Acme products can we expect to see on the shelves in the coming months?

One of the products that will not be on the shelves but will be in industrial warehouses and the stores for internal use are ceramic safety cutters.

These blades are produced by Slice Inc. and they have a patented design to be safer than traditional stainless-steel razor cutting-edges. As a result, it is unlikely that you would slash deeply into your hand, lose a finger or get a serious accident. We are growing at over 100% a year with these products. The customer base is the who's who of major retailers and online distributors.

Another area of innovation is the cutting edge. Some of our high-performance hunting knives are going to be carbide-based which is the next generation of our coating for very high-performance tools. We think these are breakthrough coatings. The products will be launched in the next six months. We have shown them to potential customers already, and perception is strong.

Finally, in the first aid area, we have updated the Safety Hub software so that we can capture more data quickly and make it easier to scan the products. As we speak, the safety hub is being demonstrated live to customers at the U.S. National Safety Conference in San Diego.

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?

I can tell you that we have an active pipeline right now where we are working very hard

for our next acquisition. We have paid down a substantial amount of debt in the past four months and we feel we are ready to take on another project.

We are looking at companies that can provide either of the following:

They can complement to our existing product families, in other words, they provide a product line extension. Or they will give us a distribution channel in different geography than we currently have. For example, a first aid acquisition in Canada would be logical to expand our geographic presence in the country.

Other sensible targets might be a competitor. We would acquire them, consolidate their customer base, rationalize our combined inventories and perhaps provide better customer service and pricing to that company's customers.

Finally, there is a room for deals we really are not expecting, but are sensible.

Before we go, what can we expect from Acme United in the next 12 months?

We are working very hard to deliver shareholder value. This may seem somewhat obvious but really this is the primary reason we are in business and we are very focused on it.

There are growth opportunities in our segments. I have outlined some of the new products that we are introducing. I hope we can share some of the successes with these in the coming quarters and deliver strong results.

Fantastic. Walter, it has been a pleasure speaking with you today. Thank you for sharing your thoughts with us and we'd be more than happy to have you back for an update in the future.

Thank you so much.

Interview Feedback

We welcome your questions and feedback regarding this interview at:

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