

**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: A warm welcome everyone to a new interview on Smallcaps Investment Research. We're very pleased to have Mr. Walter Johnsen, the Chairman and CEO of Acme United Corporation, with us today to give us an update on his Company. Acme United is a leading consumer products company with a focus on first aid and safety products, as well as cutting solutions, for commercial and industrial markets worldwide. The Company is listed on the NYSE Mkt with ticker symbol ACU. Walter, it's a pleasure to have you with us, welcome.

Walter Johnsen: Thank you.

We can't escape the subject, how did COVID-19 so far impact Acme United?

Thank you for asking. First, we are keeping our employees safe. They are our number one priority and we will do everything we have to for their safety. Our manufacturing and distribution sites are open. We take temperature checks when our associates go into each of the buildings. They wear masks. We have hand sanitizers. We do deep cleaning. And we pay hazard pay, which is a premium.

Second, our offices are working remotely. It has been successful, however, it is difficult to bring in new people and onboard them and build a culture. We do not see this as a model that we would like to keep running longer than we must. This does not mean that we are not successfully running the business on the other hand.

Turning to our operating performance, there are many areas which are doing well. Be it scissors and shears areas, craft scissors, hunting and fishing, and our first aid products. We do have a weak portion of the business. Sales to offices are slow, as many

of them are closed or they are not being utilized much due to people working at home. However, overall sales are growing.

We are also able to cope with the increased costs such as the extra pay for our employees, more expensive shipping and more expensive raw material costs. Thus, we are able to maintain our margins. All in all, we are growing profitably, but not easily. This is a very difficult environment.

Did you notice a big shift in online sales versus brick and mortar sales the past months?

As you can imagine, online sales have been very strong. Even from my own personal experience, I find myself purchasing a lot of items online.

But it's not all about online. We also have seen strong sales in some brick and mortar chains. For example, retailers such as Walmart, Costco, and Home Depot have been open throughout the pandemic and they are thriving.

However, as aforementioned, the office channel is very weak.

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

It is running fairly well. We certainly have our production and distribution inefficiencies, but sales are progressing. I have already indicated that we should have a solid quarter and that is how it feels right now.

Looking a bit further ahead, is it fair to say that Acme United is well on track for its tenth consecutive year of record sales?

So far, we are on that growth path. You should remember our first two quarters were

each record quarters. The second quarter was the best quarter the company had ever recorded. From what I can see, I believe we are on track to have that tenth year.

Another number that quite impresses me is your net profit. After six months in 2020, it is almost as high as it was in the entire fiscal year 2018.

Yes, that is true. There were several reasons for that. First, the shift in customer mix, away from the office channel, and more into the online business, into craft stores, and into Walmart. It is a more profitable business than selling into the office. So even though we have recorded the same level of sales, they have been more profitable.

The second reason is tied to the product mix as this also has become more profitable. While the office product area is very competitive, the craft market and hunting and fishing area, are less. Thus, the products carry higher margins. The first aid market even more so. This way, we are getting the improvement in the margins.

We were also able to slash costs. Travel is one important area which helped us. We spend a lot of money on travel, both for international operations, as well as our salespeople. Well, that has all been done now online. I do not think it's the best mix in the long term. We do need to travel, but we are certainly benefiting from that right now. We were also able to slash debt and decrease our interest payments. Lastly, interest rates are down. We currently borrow at 2% interest. All these items have led to a very profitable first 6 months of 2020.

While we're on the subject of growth, a new contributor to Acme's financials since early 2020 has been First Aid Central. Has your latest acquisition so far performed the way you anticipated and how do you see its future?

Well, when we acquired First Aid Central, it was a small Canadian first aid supplier. But it gave us a platform in Canada to sell many of our first aid products and to make many of

them in Canada. This allowed us to take advantage of our Canadian customers who we were not able to supply first aid products to because we didn't have the ability to do so. Now, the acquisition opened up a whole product family into our Canadian market.

Then there were global companies that have a presence in Canada that we sell to in other locations. We are getting requests for a lot of bids for them. So the acquisition has truly given us the opportunity to expand our footprint in Canada.

Now as far as its performance, it has been accretive for the first quarter and the second quarter. We are excited that the operations are profitable, but we are even more excited about the future prospects of the business.

Not only in Canada, but in general Acme's first aid brands are doing very well. Would you give us some more details on which products are performing strong and also where you see additional opportunities?

First aid has performed mostly because of market share gains. What is important to stress here is that these gains would have occurred with or without COVID. We are talking about new products at retailers such as Costco, Home Depot, Sam's Club. These are all major chains. All major growth initiatives. All being sold to the first time in 2020.

Due to the size of the customers, there is an opportunity to continue to sell additional products to these chains. We can also look at their competitors as other opportunities to convert to the first aid only product family.

We were really thrilled that the reason first aid has grown is mostly because we are really good at what we do, and people recognize it.

Some might say that much of that growth in first aid is due to COVID-19, and once the pandemic is behind us, sales of first aid products may decline again. How do you feel about that?

I think there is some accuracy to that. We believe we have between \$1.5 million and \$2 million of business that we can trace back to the pandemic. These would be things like personal protection kit, masks, gloves, sanitizer. I think it would be fair to say those sales may not be long term sustained to the same levels. Although who knows? Maybe, this will be a new paradigm. In any case, let us assume we have a \$1.5 million to \$2 million that came that way.

I would point out though that we also have quite a number of customers that have not been buying much at all due to the pandemic. These would be customers like Staples, Office Depot, WB Mason, and other office supply chains. All of these, we think will be coming back to us as people go back into the office.

And when that happens, we believe we can make up for any revenue that might be lost as the pandemic is over. This argument is based on our experience in Canada and Europe where people are back in the office. There, the declines due to the pandemic were sometimes even 50%, however now most of that is back.

To conclude there was an impact, but when you look at the whole situation, I think we actually come out ahead.

Let's discuss some of Acme's brands in more detail. Westcott, for example. Despite what people may think, as many schools and offices are still closed, sales of Westcott are not only holding up, but are in fact increasing. What is the reason for this success?

One of the major reasons is market share gains. In the US, we gained a great deal of craft scissors retail business at one of the largest mass merchants in the world. That was a multimillion-dollar piece of new business that started in the second quarter and is continuing.

It is also continuing at a pace we had not expected because so many people are buying craft items now.

The online business also grew a great deal at Westcott. Some was for schoolchildren and kid scissors being purchased online and I am sure there was a spur of sales of scissors due to people opening a box after box and package after package from all the online shipments to their homes.

In addition, Westcott grew because we have a line of ceramic box openers that are reasonably safe. They are not as sharp as a razor box opener. On the other hand, they are very effective and they are safer. Those are doing very well again because distribution centers where they are sold are active and growing.

Also Camillus and Cuda continue to be solid contributors to Acme's results. What are the expectations for both brands the coming quarters?

They are very busy right now. I just heard a quote that there have been about 10 million additional fishing licenses issued since March in the US. There is probably some number of those that will continue to pick up fishing as a sport because they like it.

Similar trends are seen in hunting. We know that a lot of people are hunting and have been hunting all summer in the US and Canada. Thus, we are shipping more there.

After COVID, some of this may fall off, but we have also gotten major chains buying more of our products today than they did a year ago. Therefore we are gaining market share and there is momentum behind the brands.

How is demand for DMT developing, and where do you see growth opportunities for the sharpener brand?

We believe DMT is the finest diamond-based sharpener product line in the world. It is made in Marlborough, Massachusetts. We are proud that we are able to make products like this.

We have run into extra demand for DMT products in Europe, the United States, and

Canada. Some time ago we put in more equipment to increase our output, but it's still not sufficient.

As a result, we just approved about \$800,000 of additional equipment to go into the DMT lines to break out of some of the bottlenecks in the production process. These should be all in place by January of 2021. The intent is to build up more capacity so we can hit the volumes and then we can put our sales team together throughout and sell a lot more we hope.

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?

Well, we expect to see continued sales of first aid products, refills of our first aid kits, and craft scissors. In the DMT market, as mentioned, we can't make enough of them.

We are seeing market share gains in the Camillus line, we are seeing a recovery of some of the school and office markets as we speak, not so much in the US but certainly in Europe, and certainly in Canada.

Those are all growth drivers. Thus, the way I look at it is that we see continued growth across our entire business and in all three major regions. I am confident and excited about how the future will look like in the next year or two.

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, we look forward to reporting our third quarter earnings in mid-October and sharing more details with you then. Bye.

Interview Feedback

We welcome your questions and feedback regarding this interview at:

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