

**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 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, thanks so much for taking the time to join us today. Welcome.

Walter Johnsen: Thank you.

Acme United reported record sales and earnings for its second quarter ended June 30, 2021. Now that the third quarter is coming to an end, how do feel about it?

It is a challenging year in a challenging environment. For example, it is hard to hire people, it is hard to get products from China and to get shipping containers. Globally, it is difficult to get people to pick up what is ready to be shipped. Furthermore, there is inflation in every corner that we face. We are doing a lot of price increases.

Having said that, we win a lot of orders. Whether it is in first aid where people are replenishing supplies or whether it is schools supplies where we see a lot of back to school buying activity. In these areas, the business is strong. To sum up we are kind of having fun.

I can imagine. Now, despite achieving record financials in the second quarter, your results could have been even stronger. Especially the installation of a new warehouse management system in

your largest distribution center in the United States impacted results somewhat negatively. Has shipping meanwhile improved at the warehouse?

Yes, the people in the warehouse is working full time, and even overtime as we are working hard to catch up. More importantly, we are getting better productivity as the weeks go by. I believe at this point, we are more productive than we were prior to the installation. However, there are a lot of products yet to be shipped because we are behind.

Having said that, the warehouse management installation is a long-term project. It is one that will hopefully allow us to be able to operate more efficiently. To be able to address increasing amounts of online shipments in a better and more cost-effective manner and to give us the analytics to be able to better service our customers.

From this perspective the process in the past months was crucial. Yes, we had four tough months, but now we are looking at an improved productivity and exciting position going forward. Thus, I would describe our problems as growing pains. At this stage, we are past that and are looking for that next level of growth.

Is it still difficult to attract additional personnel in North Carolina, where the Rocky Mount warehouse is situated?

It is very difficult, and it is not just Rocky Mount, North Carolina. The problem is that in the United States there is a huge demand for workers. In part, that is because of an imbalance where workers are located versus where the jobs are. In part, the government incentives are working against people working. Therefore, we are fighting a number of difficult situations. As a result, wages are increasing at a very high rate. We are giving

incentives to get people to work without taking time off.

Despite all this, we believe we are in a better position than many of our other competitive businesses which have also been struggling.

While we're on the subject of shipping, in August, the Chinese Ningbo port, the third-busiest port worldwide, was partially shut down after a single worker tested positive for COVID. Has that shut down affected Acme?

It sure has. We have an office in in Ningbo and many of our products are coming from around Shanghai, around Ningbo and further up in Suzhou. Thus, the area is of importance for us.

And as you can imagine, when you are down for three weeks, the way the port was, you cannot just start up again without a hitch. It is no surprise, that this was a very serious, destabilizing and expensive problem in worldwide shipping, and it has not gone away. It will take time for that to work its way through to normalcy.

Fortunately, we built inventory during the past year. Thus, despite the difficulties in shipping out of that port, we had a buffer safety stock.

Okay, very interesting. Also due to COVID there was a big shift from brick and mortar stores sales to online sales. Do you see sales returning to brick and mortar stores nowadays?

I spend a fair amount of time going into shopping areas and into stores to see how our products are selling, but also to look at traffic. It is important for us to be able to anticipate what the trends are and if a trend is sustained.

From my observations I can tell you, people in the US are shopping. They are shopping in physical stores and they are shopping online. Stores are really busy. We are selling our products more than last year across our product range.

As a final COVID-related question, almost all physical trade shows where Acme presents its latest products were cancelled the past year-and-a-half. How are the sales teams handling this?

You are right about the trade shows being cancelled. In fact, there was one we were planning to go, the National Safety Council in the US, but we pulled out of that just this week. The reason is because customers are not comfortable going to the shows. And if the customers don't go, why should the manufacturers?

Our sales team has not travelled the way they had been, but they are, in some ways more productive. They are doing multiple online calls with customers, many of them much more than you would be able to do by physical meetings. But we are also seeing that the major changes, the major planogram changes or big shifts in business are very difficult to affect remotely. While it is easy to gain some pieces of new business with an existing account, major programs are much harder to close.

In the second quarter, both Acme's Canadian and European divisions performed extremely well with sales growth of 68% and 26% respectively. What was the reason behind this strong growth, and do you see that trend continuing?

There was a lot of online shopping and demand, both in Canada and in Europe. And we are continuing to see strong orderflows. Due to this, we are seeing good growth for the year for both areas.

Although in the second quarter, it was extraordinary growth and I would not annualize those kinds of numbers, because they are not consistent with the growth in the market. That being said, I believe we will have a good third and fourth quarter in both Europe and Canada.

Okay, good to know. Every major barometer of inflation has soared this year. Are you seeing that in Acme's products as well?

We are seeing inflation across the board. Whether it is the raw materials that go into our products or packaging materials, the labor in our factories in the US or the labor in China. We are seeing a shortage of containers to put the finished products in and shipping rates continue to increase. Recently, Walmart and Home Depot even chartered major containerships to handle their own logistics.

We are passing through price increases regularly. At the same time, we are trying to keep value with our customers. However, it is difficult, because every time we do a price increase, there are other additional costs.

It is a cycle that I do not see as a short-term issue. I see it as a systemic issue that is going to be very difficult to break as long as we have continued demand.

Mid-December last year, you acquired Med-Nap, a Brooksville, Florida based manufacturer of medical products. Has your latest acquisition already contributed positively to Acme?

We bought Med-Nap, in part to vertically integrate our first aid and safety business, because not every first aid kit, alcohol wipes, alcohol prep pads, BZK wipes and items like that are used in the kits. So by vertically integrating, we are able to then start to expand into different lotions and creams and antibiotic wipes, all of which we can use. In that sense, the acquisition is very powerful.

It also allows us to control both quality as well as cost as well as delivery. Remember, if you are sourcing the same items in Asia, you are subject to all the supply chain issues that we have been discussing. We are finding that many of the potential customers are currently sourcing alcohol wipes or alcohol prep pads from China. These have long deliveries. Thus, the opportunity to get something done in the US with a much closer

supply chain distance is invaluable.

Due to this, we are seeing a lot of demand and a lot of quoting for outside production. We increased the production capacity at Med-Nap. Strategically, the Med-Nap is a very powerful purchase. I look forward to reporting on Med-Nap in the coming quarters as we begin to utilize that additional capacity.

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

I think it is reasonable to assume that this management team is working as hard as we can and we are laser focused on results.

Undoubtedly there are lot of uncertainties, such as inflation and logistics. But there are also opportunities to go against our competitors. I think there is an opportunity here to gain market share because we are hopefully playing as smartly and as competitively as we can.

If you look specifically at each segment, we are seeing gains in many places. In first aid, for example, we are gaining market share. In the Westcott area we are gaining with the scissors and cutting tools. Also the Westcott box openers are growing and gaining placements. We have added additional capacity at DMT, our diamond sharpeners manufacturer.

Therefore, if you add all that up, we are seeing strong growth and strong cost pressures and our job is to deliver strong performance. We are working very hard to do just that.

Fantastic. Walter, It's 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, it is my pleasure.

Interview Feedback

We welcome your questions and feedback regarding this interview at:

<https://www.smallcaps.us/acme-united-ceo-walter-johnsen-says-inflation-is-everywhere>

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