



Transcript of update interview with Mr. Walter C. Johnsen



Chairman and CEO of Acme United Corp.



**Acme United Corporation**

NYSE Amex: ACU

April 16, 2012

**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.us:** A warm welcome everyone to another Smallcaps.us interview. We've spoken with today's guest a few times over the years, and we're pleased to have Mr. Walter Johnsen, the Chairman and CEO of Acme United Corporation, back again. Acme is listed on the New York Stock Exchange AMEX market with ticker symbol ACU. We last spoke with Mr. Johnsen in October of last year and there are some exciting developments to explore today. Walter, thanks so much for joining us again.

**Walter C. Johnsen:** Thank you very much.

**Sus:** The first quarter ended March 31<sup>st</sup> and we know results won't be available until April 20<sup>th</sup>, but would you characterize your feelings about the past quarter at this point?

**WCJ:** Well, I will tell you that we gave guidance at the end of our last earnings that suggested we'd had growth in the quarter with solid earnings. And I can tell you that we appear to be right on track with that. I'm feeling confident. I was particularly happy with the quarter's performance with our pencil sharpeners and back-to-school products which are doing very well. I was happy with the first aid business and our European business as well.

**Sus:** Your revenue goal for 2012 is between 80 and 85 million, which is an increase of between 9 and 16 percent compared with last year. Are you currently on track to meet this goal?

**WCJ:** Well, during the first quarter we appear to be on track, but the bulk of the earnings are on the second and third quarters. So, it's a little bit early to judge that. However, looking at what we have booked for the second and third quarters, they appear to be strong both with Camillus knives, our back-to-school business and some other new products. So I'm feeling quite good about that.

**Sus:** Late last year, we heard that Acme signed an agreement with Les Stroud, who stars in the TV series Survivorman, to co-design and promote a new line of Camillus survival knives and tools. Can you tell us what happened at the SHOT Show where these knives and tools were introduced?

**WCJ:** Well, yes. Les Stroud is very well recognized among people that are outdoorsmen. Those that attended the SHOT Show, which is the largest hunting show in the United States, were very interested in seeing Les. He was at our booth signing autographs and demonstrating some of the new products that we were introducing under his brand. And I can tell you that the lines were wrapping around our booth and going well down the corridor.

**Sus:** And when can we expect to see these knives available in stores?

**WCJ:** We're currently in introduction with the survival knives and tools and we'll be shipping them during this second quarter. Some will appear at the stores at the end of May and June. And then of course, much more in the third and fourth quarters.

**Sus:** Great. Another highlight is Pac-Kit. You acquired this company only a little over a year ago and it seems that it already played quite a big role in Acme's growth throughout 2011. Why do you think that Pac-Kit was so successful so quickly?

**WCJ:** Well, Pac-Kit provides very fast turnaround in custom kits for the first aid business, and we're able to assemble items specifically for large customers and do it very quickly and with quite precise pricing. We've been able to get the products into a number of new distributors. Retailers that had asked for specialized kits that we formerly weren't able to accommodate, we now are and they begun to

take the products. And I'm very happy to say that it has well exceeded our expectations both in sales as well as in margins.

**Sus:** Some might say one good acquisition deserves another. So are there any new acquisitions in the pipeline?

**WCJ:** Well, we're always looking. And while we have done a number of good acquisitions, including Camillus, as an example, and Pac-Kit, we're quite picky and I'd rather pass and focus on ones that we're excited about and that we can execute well. So while we've got a pipeline of potential acquisitions pretty much rotating regularly, we'll be quite careful when we make these investments. And they really have to fit.

**Sus:** A major theme for Acme over the years has been innovation. In fact, an ongoing goal for the Company has been to generate 30% of its sales from products developed within the last three years. In this spirit, could you tell us about what's new at Acme?

**WCJ:** Well, we're working on some new non-stick coatings that are even higher performance than what we have now with some really specialized applications as well as some that are used in the craft area and in the industrial area.

We've got a new scissor mouse which is just now being introduced in the U.S. with some major chains. This is a product that looks like a mouse for a computer but it's able to cut paper very, very quickly and smoothly.

We've introduced new high-performance, iPoint pencil sharpeners. Some of the ones that are currently on the market have received excellent placement. And the new high performance ones are what we call "whisper quiet". They're very, very quiet sharpeners.

There's also quite a number of new Camillus knives that we've introduced and which will be out on the shelves by July. That means we'll be shipping them in the second quarter as well as in the third. And finally, there's the Les Stroud survival tools.

We just keep pushing new products and, honestly, that's one area that we're good at and we continue to innovate.

**Sus:** And will your factories be able to handle all of this expected growth?

**WCJ:** Well, we're adding capacity both within our own coating areas as well as new factories to produce both cutting implements and safety items. This is exciting, but it also has challenges. We're particularly careful about production quality as well as the cost and on-time delivery. So, while that growth is pushing capacity and we're adding it, we are also working very hard to do a seamless execution of that growth.

**Sus:** While we're on the topic of factories, could you throw some color on the margins in China where your factories are located?

**WCJ:** Well, our factories in China are experiencing inflation. There's also increases in labor as well sometimes shortages of labor. So obviously, that's raising product costs. However, we're working on productivity programs to be able to either get greater production out of our existing capacity or more production with the same number of people. We're also working on delivering greater value for the same price and improving performance. So, there's a lot that we're doing behind the scenes to keep our costs very competitive despite the increases in some of those expenses.

**Sus:** I see. It's also important, of course, that your growth is met with adequate financing. A few days ago you announced that you entered into a new loan agreement with HSBC Bank. Can you give some more details about that?

**WCJ:** Well, our previous bank had been Wells Fargo, which is one of the largest banks in the U.S., and an excellent bank and they were very, very supportive. However, HSBC is far more global in its reach. It's has many, many branches in Asia as well as in Europe and in the U.S. Its bankers, in my view, are quite sophisticated particularly in international banking. And that gives us perhaps, and we

hope, greater access to talent which we're always looking for.

On the actual deal, it's a five-year term which replaces one that had been expiring. It's a 30-million facility. Our previous facility was 20 million. Our current debt is about 17 million, and we've have 7 million in cash. So that means we have excess capacity on the line and we intend to use that to finance both growth and dividends, stock repurchases and acquisitions.

In addition, the interest rate is 25 basis points lower, so we're paying now through HSBC, LIBOR plus 1.75 percent, which brings the interest cost at today's level at a little bit more than 2 percent interest. So, I'm very, very happy with the move to HSBC and I'm very excited with their capabilities.

About our balance sheet, it's strong. I've mentioned that we got about \$7 million of cash internationally, we also have plenty of inventory and payables are very small. Our balance sheet is the foundation for us to grow and with this new facility, I look forward to be able to do that.

**Sus:** Great, and before we close out, would you share your two or three most compelling reasons for investing in Acme United at this moment?

**WCJ:** Well, first, we're a leader in our field. We have some of the leading market shares in cutting and measuring. We have many patents for coatings that are meant for high-performance titanium nitrite and titanium carbonitride coatings or whether it's for various micro ceramic non-stick coatings.

We're growing at a pace of between 10 and 20 percent. We're selling near book value. We have a yield of about 2.8 percent and during this year, we should be able to grow nicely if we can execute.

**Sus:** Wonderful. Thanks again Walter for taking time out of your busy schedule to speak with us. We wish Acme United all the best and look forward to chatting again in a follow-up interview

**WCJ:** Thank you very much.

## **Interview Feedback**

We welcome your questions and feedback regarding this interview at: <http://www.smallcaps.us/acme-united-ceo-walter-johnsen-discusses-first-quarter-and-2012-growth-plans-with-smallcaps-us>

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