

### Acme United Corp. (ACU)

Company Report – May 06, 2017

Acme United Corporation is a worldwide supplier of cutting devices, measuring instruments and first-aid products for school, home, office, industrial and hardware use.

Acme United is executing its growth plans in an excellent manner. First quarter sales grew by 10 percent and earnings even by 17 percent, thanks to both organic and external growth. The outlook for 2017 is bright and the Company seems to be well on its way for another record year.

Walter C. Johnsen, the Chairman and CEO of Acme United, reiterated the guidance for 2017 of approximately \$137 million in sales (+10% vs 2016), net income of \$6.7 million (+14.5% vs 2016), and \$1.76 earnings per share (+7.3% vs 2016). In addition, Mr. Johnsen recently said at the Disruptive Growth & Healthcare Conference in New York that \$160 million in sales could be achievable in 2018 with a small acquisition.

Part of that growth will be derived from the recently acquired Spill Magic Inc. The cutting edge manufacturer of absorbents, had revenues in 2016 of \$6.3 million and EBITDA of approximately \$1.4 million, making it accretive from day one. In the first quarter it already contributed \$1.1 million in sales.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$36.20, which is 33% above today's stock price.



- Acme United is one of those companies that you don't come across often. Although it operates in mature industries that don't grow much, it's able to gain market share through relentless innovation.

Consequently, loyal shareholders have been rewarded plentifully. Since 2012, Acme's stock price has gone up a whopping 173%, excluding all dividends. This is a compounded growth rate of more than 20%!

To put that in perspective, since 2012, the Dow Jones has gone up 66%, NASDAQ has risen 133% and the Russell 2000 Index - the so-called small cap index, although it contains some companies with a market cap of more than \$1 billion - is up 75%. All in all, nowhere near Acme's return.



Market Data	
Price	\$27.21
Sector	Office Supplies
52-Week Price Range	\$17.23 - \$29.49
Shares Issued (m)	3.33
Market Cap (m)	\$90.53
Listings	ACU (NYSE Mkt)
Website	<a href="http://www.acmeunited.com">http://www.acmeunited.com</a>

## THE COMPANY

Acme United Corporation is a supplier of cutting, measuring and safety products for the school, home, office, outdoors, fishing, hardware, and industrial markets. Its principal products are scissors, shears, rulers, pencil sharpeners, knives and first aid kits.

The Company's products are organized under nine brands: Westcott, Clauss, Camillus, PhysiciansCare, Pac-Kit, First Aid Only, Cuda, DMT, and the recently acquired Spill Magic. Both the number of products offered under these brands, as well as the number of physical and online stores where these products are available, continue to grow.

Acme United started off the year very strong. During the first quarter, ended March 31, 2017, the Company achieved sales of \$27.7 million, compared to \$25.3 million in the first quarter of 2016, an increase of 10%. Net income was \$659,000 or \$0.18 per diluted share, for the quarter ended March 31, 2017, compared to \$565,000 or \$0.16 per diluted share for the comparable period last year, an increase of 17% in net income and 13% in earnings per share. Both sales and earnings set a new first quarter record.

**Walter Johnsen, the Chairman and CEO of Acme United, reiterated the guidance for 2017 of approximately \$137 million in revenues, up from \$125 million last year and \$6.7 million in net income, or \$1.76 earnings per share, up from a \$1.64 in 2016. If the Company can achieve those results, it would set its ninth record year in a row.**

*Note that the current EPS forecast is \$0.02 lower than the guidance previously provided because share count is currently a bit higher.*

**In addition, Mr. Johnsen recently said at the Disruptive Growth & Healthcare Conference in New York that \$160 million in sales could be achievable in 2018 with a small acquisition.**

Part of that growth will be derived from the recently acquired Spill Magic Inc. The Santa Ana, California based company manufactures

cutting edge absorbents, with proprietary formulation, that can handle anything from liquid spills, hazardous material spills and even biohazard spills.

Spill Magic had revenues in 2016 of \$6.3 million and EBITDA of approximately \$1.4 million. The new brand is already being integrated into Acme's existing first aid business. It is expected to be accretive in 2017.



**The Spill Magic Response Station has everything to quickly respond to a spill. It includes Spill Magic spill absorbing powder, broom, dustpan, trash bags and personal protective equipment.**

Acme United succeeds in re-inventing everyday products such as scissors, knives and school and office items by applying new and improved materials to them. For example, the blades on many of the Company's products have a titanium carbonitride coating, making them more than three times harder than stainless steel. Or blades get a non-stick coating, making them useful in difficult environments like the floral area for cutting and trimming flowers and bushes, or in the arts and crafts area, where lots of glue and paste is used. Also, some school and office products have Microban antimicrobial protection added during the manufacturing process to prevent the growth of bacteria on the surface.

Acme's quest for innovation is reflected by its on-going goal of generating at least 30% of its sales from products developed in the last 3 years. Therefore, the Company works with new, often proprietary, materials and adds

new user-friendly features to existing tools (also read Culture of Innovation on page 9).

The Company's products are available at Staples, Office Depot, Office Max, United Stationers, SP Richards, W.B. Mason, Home Depot, Target, Wal-Mart, Walgreens, Grainger, McMaster Carr, Meijer, Fred Meyer, WH Smith, and many other major chains all over the world. Also online sales are growing rapidly. In fact, Amazon.com is quickly becoming one of Acme United's most important customers. The Seattle based e-commerce giant was Acme's fourth largest customer in 2016, but Mr. Johnsen recently mentioned that it might move up to become the number three, or even two, in 2017.

Acme United pays a quarterly dividend of 10 cents per share. Traditionally the Company increases the amount by 1 cent every 6 to 8 quarters.

### Increased Domestic Sourcing

Although 60 percent of Acme's products are still sourced from China, domestic manufacturing is gaining importance. Since 2011, the Company has purchased no less than four US based manufacturers.

In 2011, Acme acquired Pac-Kit Safety Equipment Company in Norwalk, Connecticut. In 2014, it purchased First Aid Only in Vancouver, Washington. Last year the Company bought Diamond Machining Technology (DMT), which is located in Marlboro, Massachusetts. And a few months ago Spill Magic was acquired, which has facilities in Santa Ana, California.

This way, the Company strategically diversifies its portfolio of sourcing, while reducing its reliance on China.

## BRANDS

**Westcott** began as a ruler company more than 140 years ago. It sells between 60 and 80 million scissors, and between 15 and 18 million rulers annually. It truly is the leading scissors brand in the United States and one of the leading ruler brands in North America.

The Company's infamous grey/yellow Titanium Bonded Non-Stick scissors are known all over the globe. The blades are lightweight, stay sharper longer, and are five times harder than steel. Also, they have a non-stick coating that resists adhesives.

The Westcott scissors business continues to become stronger. In fact, Mr. Johnsen mentioned during a recent conference call that a large retailer tried a different scissors supplier a few months ago, and quickly returned to Westcott because sales of the other brand were disappointing. A true validation of the brand.

Westcott is also known for its line of iPoint electric pencil sharpeners. Their award-winning design and ease of use make the iPoint one of Acme United's best selling products.

In addition, the brand constantly innovates and brings new products to the market. The new scissors for kids, for example, coined Ergo Jr, which are specifically designed for ages 4 to 6. These are the first and only scissors developed with the United States Ergonomics organization.



**The Westcott Ergo Jr. kids' scissors line are certified by a professional ergonomist & kid tested.**

More recently, it launched the ProjectMate DIY craft tool line, as crafting is very popular these days. ProjectMate, basically a sub brand of Westcott, exclusively focusses on the crafts market with products such as compound action pliers, floral snips, diagonal cutters, a multi-purpose staple gun, etc. The tools are made with high-grade steel - similar to a hardware item - giving them a sort of a masculine feel, while the green soft handles give them a feminine touch. An ideal combination for a crafting tool.

**Clauss** has its roots dating back to 1877 as a scissors, razors and kitchen knives manufacturer. Today, Clauss offers a substantial line of quality cutting tools for professionals in the hardware & industrial, lawn & garden, food processing, sewing, and housewares channels.

When the brand was re-introduced, shortly after it was acquired by Acme in 2004, it was a simple scissors business, available in only a handful of stores. A little over a decade later, Clauss has gone through a complete transformation and has become an established name in the industry. It has developed into a broad hardware line and is now available at Lowe's, Home Depot, Sears, Granger, McMaster-Carr and many others.

Similar to Acme's other brands, Clauss applies its proprietary coatings to everyday tools. The brand, for example, markets a family of putty knives that have a full tang construction with a hardened, tempered blade that has Titanium non-stick bonding for superior adhesive and rust resistance.

Another noteworthy product is the Clauss 8" Workbench Shear with Titanium bonded blades that are 3x harder than untreated stainless steel. The shear also features an integrated box cutter and bottle opener.

**Camillus** is one of the oldest and best known knife manufacturers in the United States. Since the company was founded in 1876, Camillus Knives has supplied the world with reliable, innovative and quality-made knives for the hunting, fishing, sporting and tactical markets. More recently, Camillus has strategically focused towards outdoor enthusiasts.

The company works with Les Stroud and plenty of other qualified "Pro Staffers", to gain insight into what campers, backpackers and survivalists are looking for. Camillus has grown exponentially in this segment as it receives unparalleled feedback from its Pro Staff and customers.

The Pro Staffers have quickly become an invaluable part of the Camillus team. With their help, the Camillus tools truly stand out in regards to design, performance and

durability. As many of them have been in extremely dangerous, and often life-threatening situations, they give information that Camillus' designers could never know about. In addition, these well-known stars have thousands of followers on social media, which is ideal to promote all the new tools.



**Part of the Camillus Pro Staff team with Les Stroud in the middle.**

The annual Shooting, Hunting and Outdoor Trade (SHOT) Show is Acme United's biggest marketing event of the year, and as such a good indicator of how well the new Camillus tools are received by distributors and consumers. Camillus launched more products at this year's show than at any other time in its history.

For example, Camillus introduced a brand new collection of five hunting knives. They are constructed with Carbonitride Titanium bonded AUS-8 steel, which offers increased corrosion and adhesion resistance while holding a 10 times stronger, sharper edge. Moreover, a new Tactical Knife Collection was revealed, which was created in collaboration with Camillus Pro Staff members, Jared Ogden, a former Navy SEAL, and Grady Powell, a former Green Beret.

The 39th SHOT Show signaled a positive year ahead for the industry with strong attendance and upbeat buyers. Based on the feedback from the Camillus team, and the fact that the cohesive new product lines were very well received by customers, the brand is expected to have a very positive 2017.

**PhysiciansCare** offers a wide assortment of first aid kits, emergency and disaster kits, kit refills, hearing, eye and head protection, and ergonomic supports and braces. It also carries

a successful branded line of over-the-counter medications, including the active ingredients aspirin, acetaminophen and Ibuprofen, etc. PhysiciansCare's products are sold at Staples, Office Depot, United Stationers, Office Max and many more.

**Pac-Kit** sells first aid kits, industrial stations and refills, emergency medical travel and recreational kits for the industrial, safety, transportation and marine markets. The brand has a long and vivid history dating back to the 19th century. Its early first aid kits were chosen by global explorers like Captain Robert Scott, Admiral Peary and Theodore Roosevelt on their expeditions.

Although Pac-Kit's products are somewhat similar to PhysiciansCare's, Pac-Kit is especially known for tailoring its products to meet user requirements and for rapid turnaround.

**First Aid Only (FAO)** is a supplier of SmartCompliance first aid kits, refills, and safety products that meet regulatory requirements for a broad range of industries.

The business was founded in 1988 and pioneered consultative selling and support of first aid items to large corporate customers. It has since become a recognized industry leader. It was acquired by Acme United in June 2014.

FAO operates out of a modern 54,000 square-foot facility in Vancouver, Washington where well over 100 people are employed. All of FAO's first aid kits are produced in the United States.

First Aid Only is especially known for its SmartCompliance kits. Most businesses are federally mandated to have first aid solutions that are compliant with OSHA as well as ANSI standards. These SmartCompliance first aid supply cabinets ensure that a business is covered.

The innovative design of the SmartCompliance first aid cabinet eliminates disorganized and missing supplies often seen within traditional first aid cabinets. As first aid products are used, the SmartTab ezRefill reminders notify a user when it's time to

reorder so that supplies never run out when it matters most.

The SmartCompliance cabinets are very successful. In 2016, FAO received an order for 40,000 kits from Wal-Mart. They were installed in the chain's stores, trucks and warehouses. More recently, Saudi Airlines was landed as a new customer. In addition, tests with SmartCompliance kits are ongoing at other corporations, such as food chains, large manufacturers and banks. One such order is potentially worth several hundreds of thousands of dollars.



**The SmartCompliance kits have now been placed in thousands of restaurants in the US. Last year, Wal-Mart equipped each store, warehouse, office, and truck with a first aid kit from Acme United.**

Also, the first aid division recently introduced an app, which allows customers to reorder first aid supplies in a quick, convenient and user-friendly matter. It received lots of positive responses at the National Safety Council Show, where it was first shown to the public.

**Cuda** markets a broad line of tools dedicated to fresh and saltwater fishing. The brand was launched in July 2014 at the International Convention of Allied Sportfishing Trades (ICAST), the largest sportfishing trade show in the world.

A major advantage of Acme United entering the fishing tools market is that the sport is popular in many parts of the world. The United States counts more than 40 million licensed anglers. To put this number in perspective, more Americans fish than play golf (21 million) and tennis (13 million) combined. Europe counts 25 million recreational anglers, while Canada has over 3

million. These are impressive statistics that immediately give an indication of Cuda's potential.



**The Cuda fishing tools are gaining popularity in the fishing world and on store shelves.**

The Cuda tools are created with a breakthrough design that allows the angler to actually see that the knife has a full tang construction. Moreover, the tools are manufactured with Acme's patented Titanium Bonded technology making them three times harder than untreated options, and they're equipped with Aluminum Alloy and Tungsten Carbide, guaranteeing the ultimate in performance.

Similar to what Camillus did with Les Stroud, Cuda attracted several well-known fishermen to design, test and represent the brand. The stars of the National Geographic hit show "Wicked Tuna", star of the "Real Fishing Show" Bob Izumi, Mariko Izumi from "Hooking Up", and David Dudley two-time FLW Bass Champion all tested the initial tools extensively.

Often the Pros will suggest small improvements, but when the products finally go into production, they are the best on the market.

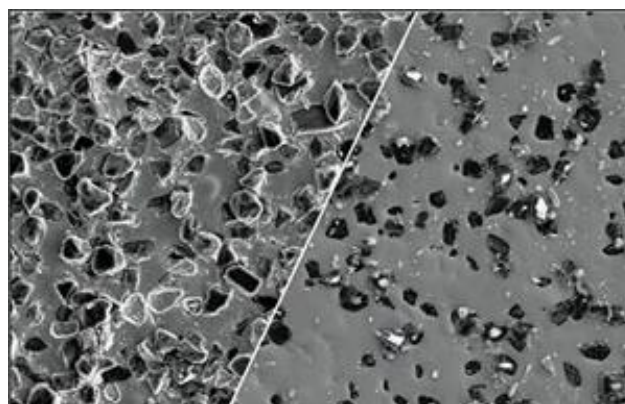
When Cuda was launched in 2014, it had 24 different tools. Now, only three years later, the brand plans to have 100.

Recently, plenty of new tools specifically designed for freshwater fishing, were launched in the US, Canada and Europe. Knowing that the freshwater fishing market is much bigger than the saltwater market, the new tools could give Cuda sales an additional boost.

**Diamond Machining Technology (DMT)** is the world's leading innovator of manual diamond sharpening technology. It has around 30 employees and sells its products at chains such as Home Depot, Bass Pro Shops, Grainger, Fastenal, and Amazon. DMT manufactures all its products in the United States and exports worldwide to nearly 50 countries.

DMT was acquired by Acme United in February 2016, and is renowned for its polka dot pattern diamond surface products. It offers sharpening solutions for virtually every user, from do-it-yourselfers to professionals and large commercial operations.

DMT's products differ significantly from those of its competitors. For example, DMT makes certain that each sharpening surface carries the most diamonds per square inch in the industry to guarantee long-lasting performance.



**The DMT sharpening surface (left) exhibits full coverage and the diamonds show striking consistency in size to ensure peak performance and durability. The copycat surface (right) carries a sparse, patchy coating made from a jumble of different sized diamonds.**

The uniformity of the diamond is also key to a sharpener's performance. DMT uses a proprietary process that ensures near-perfect consistency in grit size. The result is a micronized monocrystalline diamond that covers evenly across the sharpening surface to prove effective with every use, year after year.

Because DMT sales are rising fast, its production capacity will be doubled by late summer 2017. In order to do so, new

equipment will be purchased and additional personnel will be hired.

## FINANCIALS

Net sales for the first quarter ended March 31, 2017 were \$27.7 million, compared to \$25.3 million in the first quarter of 2016, an increase of 10%. Net income was \$659,000 or \$0.18 per diluted share for the quarter ended March 31, 2017, compared to \$565,000 or \$0.16 per diluted share for the comparable period last year, an increase of 17% in net income and 13% in earnings per share.

The Westcott brand was again a solid contributor to these results. During the past quarter, Acme began shipping a very innovative line of Westcott glue guns and glue sticks to retailers in the US. These guns have non-stick internal mechanisms so that the glue sticks don't clog up the machines. Also, the tips of the guns have non-stick color changing coatings. That way, when the tip of the gun is hot, it turns red and users know not to touch it. When it's red, it's also ready to dispense the glue. And when the tip is cool, it's blue.

The quality of the glue sticks are at, or above, competitive levels. And also the ergonomics of the guns are excellent. Consequently, These products have the potential to impact sales significantly later in the year as additional retailers begin to carry them. The Company expects this to be a multi-million dollar item this year. Even higher sales are expected for 2018.

Also the first aid and safety business saw strong growth through market share gains with Smart Compliance kits and robust first aid resales to online customers. Good to know is that the first aid refill app - which allows customers to reorder first aid supplies in a quick, convenient and user-friendly matter - was recently installed at 40 franchised restaurants. Initial results are very satisfying. The app will soon be installed at other customers as well.

In addition, distribution of Cuda fishing tools was expanded during the first quarter of 2017. Many new tools specifically designed for

freshwater fishing, were recently launched in the US, Canada and Europe.

Moreover, the well-known sharpener brand DMT broadened its distribution channels into retail chains such as Walmart and Home Depot, and expanded its Amazon sales.

Finally, the Spill Magic brand, which was acquired early February of this year, already contributed \$1.1 million in sales in the first quarter.

Amounts in \$000's	03/31/17	03/31/16
Net Sales	27,745	25,288
Cost of Goods Sold	17,181	16,103
S, G & A Expenses	9,372	8,230
<b>Income From Operations</b>	<b>1,192</b>	<b>955</b>
Pre-Tax Income	938	809
Income Tax Expense (benefit)	279	244
<b>Net Income</b>	<b>659</b>	<b>565</b>
Diluted Shares Outs.	3,730	3,572
Diluted EPS	0.18	0.16
<b>Most important income statement data for the quarters ending March 31, 2017 and March 31, 2016. Source: Company Press Release</b>		

Gross margin was 38% in the first quarter of 2017 versus 36% in the comparable period last year. The higher gross margin was primarily due to efficiency improvements in the Company's first aid operations and a better product mix.

## Exceptional Performance by European Segment

Acme United reports financial information on three separate business segments: the United States (including Asia), Canada and Europe.

Exact revenues per segment for the first quarter of 2017 will be available in the Company's 10-Q, which will be filed mid-May. However, Acme announced for each segment the percentage by which revenues increased or decreased compared with the first quarter last year. Based on those numbers, we can give a fair estimation.

Net sales in the U.S. segment increased 9% in the first quarter of 2017 compared to the

same period in 2016. Growth was especially driven by strong Westcott school and office products sales, the first aid business, DMT sharpeners and the initial contribution by the recently acquired Spill Magic.

Amounts in \$000's	Q1 2017	Q1 2016
<b>U.S.</b>	24,453	22,526
<b>Canada</b>	1,393	1,389
<b>Europe</b>	1,899	1,373
<b>Estimated sales per segment for the quarter ending March 31, 2017 (Source: Smallcaps Investment Research) and actual sales per segment for the quarter ended March 31, 2016 (Source: Company Filing)</b>		

In Canada, net sales were constant in U.S. dollars and decreased 3% in local currency compared to the same period in 2016. The Canadian economy continues to be soft and Acme expects its Canadian business to come in about where it did in 2016. There might be a little bit of growth, but not significantly.

Net sales in Europe, on the other hand, increased 38% in both U.S. dollars and local currency compared to the first quarter of 2016 thanks to increased sales and market share gains of Westcott, Camillus, Cuda and DMT products.

Online sales are growing faster than expected in Europe. Although current sales are obviously still much smaller than in the US, there are an equal number of people living in Europe. So the potential is certainly there. Also margins are growing in this segment.

### Balance Sheet as of March 31, 2017

Three items stand out on Acme's balance sheet. First, despite its achieved growth during the past 12 months and the acquisition of Spill Magic, the Company's inventory slightly declined from \$37.6 million, at the end of the first quarter last year, to \$37.3 million this year.

Although it's difficult to accomplish - given the uncertainties of unforecast customer requirements - the Company has been actively working to reduce the inventory by narrowing the number of product families, lowering the order quantities, and trying to more carefully align stocks to forecasts.

The goal is to reduce the inventory even further the following quarters. This is important as it also lowers Acme's debt and increases its cash position.

Amounts in \$000's	03/31/17	03/31/16
Cash and Cash Eq.	6,175	1,474
Accounts Receivable	21,251	19,118
Inventories	37,285	37,551
Total Current Assets	67,589	60,876
Property & equipment	8,381	7,745
Intangible Assets, net	19,525	14,682
<b>Total Assets</b>	<b>100,204</b>	<b>88,290</b>
Accounts Payable	5,731	6,279
Total Current Liabilities	8,935	9,133
Bank Debt	44,382	35,696
<b>Total Liabilities</b>	<b>53,601</b>	<b>45,145</b>
Total Stockholder Equity	46,603	43,145
<b>Most important balance sheet data for the periods ended March 31, 2017 and March 31, 2016. Source: Company Press Release</b>		

Second, the Company's long-term debt increased from \$35.7 million a year ago to \$44.4 million on March 31, 2017. As a result, Acme's bank debt less cash on March 31, 2017 was \$38 million compared to \$34 million on March 31, 2016.

It's important to take into account though that during the twelve month period ended March 31, 2017, the Company paid approximately \$7.2 million for the acquisition of the assets of Spill Magic and distributed \$1.3 million in dividends on its common stock.

And finally, Acme's cash position increased to 6.2 million, up over \$4.7 million compared with a year ago.

It's also nice to note that the Company's assets for the first time exceeded the \$100 million mark.

## GROWTH DRIVERS

### Acme United Acquires Highly Profitable Spill Magic, Inc

Spill Magic Inc. manufactures a wide variety of spill pickup products that help companies



dramatically reduce slip and fall accidents with customers and employees.

One of Spill Magic's best selling products is its Spill Response System, which is being used thousands of times every day in national and regional grocery, retail, big box, and countless other retail stores in the United States.

The average cost from slip and fall is \$22,800 per accident, while the average workers compensation claim is \$19,000.

Slips are not only a problem for workers. Customers, and even the general public, can also be at risk. If a building occupant or visitor has an accident, there is no limit to what fees (medical, legal, etc.) companies will be responsible for. Those costs add up quickly. Preventing spill falls saves retailers tons of money.

Knowing that over 540,000 slip and fall injuries, requiring hospital care, occur in North America each year, it's clear that Spill Magic's products are highly needed. After all, preventing spill falls saves employers and retailers tons of money.

Founded in 1995, Spill Magic has a 30,000 square foot facility in Santa Ana, CA (about 30 miles south of Los Angeles). This is where the company's headquarters and its shipping and receiving facilities for the Western U.S. and Pacific Rim are located. It also has an additional facility in Smyrna, TN (about 20 miles south of Nashville) that provides manufacturing and fulfillment for the Central and Eastern U.S.

Spill Magic currently focusses on B2B customers, such as retail, grocery, restaurant, hotel chains and governmental agencies with the goal of reducing slip and fall accidents in their locations. Some of its customers include Target, McDonalds, and Wal-Mart. The latter, for example, uses Spill Magic products in each of its stores.

However, similar to last year's acquisition of Diamond Machining Technology (DMT), Acme aims to grow the new brand rapidly. Acme's sales people have already started offering the Spill Magic products in chains where they aren't available yet and with whom the

Company already has a good standing relationship.

The goal is also to broaden the distribution to sectors where Spill Magic isn't available. For example, the products are ideally suited to be used in auto repair shops, where oil, gasoline, transmission fluid, brake fluid, coolants, and solvents present a challenge when spilled.

The products will also be launched online at Amazon.com. Remember that Amazon is quickly becoming one of Acme United's most important customers. In addition, Spill Magic will be introduced at Staples and Office Depot to include in their catalogues.

Moreover, Acme will shortly introduce a consumer version of the products in small user-friendly containers. This way, spills like syrup, liquid soap, eggs, or paint can easily be swept away.

Finally, Acme aims to geographically expand the availability of the products, as it will introduce them in Europe and Canada.

Next to increasing sales, another key initiative will be to grow Spill Magic's already attractive margins, by looking at shipping costs, or sourcing costs of raw materials.

### Culture of Innovation Leads to Blockbuster Products

New product development is truly in the DNA of Acme United. The Company's quest for innovation is reflected by its ongoing goal of generating at least 30% of its sales from products developed in the last 3 years.

In order to achieve this goal, well thought-out products are brought to the market almost on a constant basis. The school and office products brand Westcott, for example, this year alone has already launched over 100 new scissors, trimmers, cutters, pencil sharpeners, etc.

The entire process of innovation at Acme United starts with hiring the right people. Many employees have a product development background or gained expertise at the product marketing department of previous employers.

The next step is to “feel” the market by speaking with end-users. In the case of Westcott products, these end-user are teachers, crafters, office people, etc. It’s important to speak with them. To find out what they’re struggling with, how they feel certain products can be improved upon.

To get a hold of this knowledge, these people are visited where they are using the products. Chris Alagno, Vice President at Acme United, was recently quoted saying, “Great innovative products don’t come from the four walls in our office, instead they come from the field”.

### VITALITY INDEX

The Vitality Index measures new product revenues as a percent of total revenues. It was 3M that first recognized the need for an overall measure of innovativeness. They created the metric named “Vitality Index” in 1988. The actual value differs greatly by company and the market it’s in. At Acme United the goal is to reach a products vitality rate of 30%.

It’s relatively easy to calculate. The only management decision is how long a launched product remains “new”. Most companies, such as Acme United, consider a product as being new when it’s less than three years on the market. But, anything is possible. Some software companies only use 9 months.

The third step is trying to solve the issues that were raised by the users. A solution is sought in cooperation with engineers, product developers, and designers. As soon as a product idea is received from Acme's marketing and brand managers, the New Product Development team starts working on the technical and industrial aspects of the design. It converts sketches into a physical products, and evaluates if the tool will actually function as it's supposed to.

The final step in the process is testing. Before mass production of the new product is initiated, a team of testers evaluates the pre-production samples to ensure the product's quality and functionality. Only when they are

satisfied with all aspects of the samples, the go-ahead is given for mass production.



**The new Westcott carbo-titanium scissors can cut through almost 40 layers of denim.**

Amongst the tools that Acme launched the past few months, there are several ones with blockbuster potential. The new scissors for kids, coined Ergo Jr, for example are specifically designed for ages 4 to 6. These are the first and only scissors developed with the United States Ergonomics organization.

During many months of testing, the specific muscles, which children use while cutting, were researched. As a result, the surprisingly innovative design of the Ergo Jr. reduces stress on a child’s arm and wrist by as much as 50% compared with a regular scissor. We expect this to be a good product for next year’s back-to-school season.

Also the new Westcott Carbo line of scissors and trimmers looks and performs exceptionally well. The carbo-titanium coating, makes the blades 8 times stronger than untreated steel. In addition, the handle and scissors are reinforced to withstand the pressure when cutting through thick materials. The carbo-titanium scissors can cut through almost 40 layers of denim fabric!

## RECENT EVENTS

### Westcott Launches Innovative Glue Gun Family

A few weeks ago, the long-awaited Westcott family of glue guns was launched. Three new hot glue gun solutions are offered: The

Westcott Mini Hot Glue Gun – with both a high temperature and low temperature model - and the Westcott Hot Glue Pen.



**With an easy glue trigger and ergonomic design, the new Westcott Hot Glue Pen delivers accuracy to every project.**

The Westcott Mini Hot Glue Guns are unlike any other product in the crafting market, as they combine an innovative ergonomic design, with several proprietary features such as:

- Non-Stick tip for easy glue clean-up;
- Nozzle changes from blue to red, indicating when the glue gun is hot and ready for use;
- Flip-out stand or built-in side resting feature;
- Forward positioned ergonomic handle with extra-large trigger allows for better control during use; and
- Integrated glue stick holder, so the next glue stick is within reach.

They can be used on glass, stone, marble, ceramic, floral arrangements, denim, and all sorts of heavy fabrics.

The tools are now available at Michael's and will soon be distributed to several other chains.

### Acme United Wins Multiple Awards for Westcott School & Office Line

Early 2017, Acme United won the prestigious 2017 Teachers' Choice Award for its Westcott heavy duty electric pencil sharpener. Learning magazine – the organizer of the Teachers' Choice Award – selected the Westcott sharpener for exceptional quality and

outstanding performance in an educational setting.

For over 20 years, the Teachers' Choice Awards have heralded the very best in classroom-tested, teacher-recommended products. Each year, a nationwide panel of teacher-judges names the standouts in books, classroom supplies, educational games, software, websites, and more. After receiving top ratings in two rounds of rigorous judging, the winners are chosen.

Chris Alagno, Vice President of the Westcott brand said, "We are honored to accept this award from the Learning magazine. Our Westcott sharpeners have revolutionized the category through design, performance and innovation. They sharpen from the top, utilize patented titanium bonded technology, and stay sharp three times longer than competitive products."

The winners of the award are on display at [www.teacherschoiceawards.com](http://www.teacherschoiceawards.com), and they will appear in two issues of Learning magazine, which has a readership of hundreds of thousands of teachers and parents. Needless to say that getting free press in such an influential publication is priceless.



**The Westcott Heavy Duty Electric Pencil Sharpener is designed for high volume use at school, home and office. It sharpens all popular pencil sizes at super-fast speed thanks to its helical 12-blade technology. Moreover, the sharpener has an auto-stop safety feature when the shavings reservoir is removed.**

The heavy duty pencil sharpener joins the Westcott Scissor Caddy and the iPoint

Evolution Axis pencil sharpener, which won a Teacher's Choice Award in 2015 and 2014 respectively.

In the same week, Acme United won no less than four GOOD DESIGN awards from the Chicago Athenaeum: Museum of Architecture for its Westcott family. The Ergo Jr. kids scissor, carbo-titanium scissors, iPoint Orbit, and the ceramic box cutters all received the exclusive award.

Chris Alagno commented, "We are honored to accept this award. Our Westcott line of school, office and craft items are amongst the most innovative and visually stunning products on the market. The Westcott brand sets itself apart from the rest of the market by delivering products superior in both form and function."

**These days, it isn't sufficient that products work perfectly and are competitively priced, they also have to be attractive looking. Consequently, companies need to go that extra mile to manufacture outstanding items that have additional features and a fabulous design. Tesla would only sell half as many cars as it does today, if they had an everyday design.**

**Acme United knows this very well and constantly raises the bar. It makes sure that its products stand out on the shelves, setting them apart from their competitors.**

## OUTLOOK & VALUATION

Acme United already showed significant strength in its first quarter, and more growth is expected in 2017.

At Westcott, for example, the new glue guns are available at the largest craft chain in the US. The Company is hopeful that by the end of the year, this will have become a multimillion dollar product, on which to build into 2018.

As for Spill Magic, Acme aims to expand its distribution into the office channel, in chains such as Staples, Office Depot, United

Stationers, or SP Richards. In Europe, it could be Aldi or Lidl, and in Canada, it could be any number of major retailers. The Spill Magic absorbents could also do well in the industrial market with distributors such as Granger, McMaster-Carr, Fastenal, as well as online markets such as Amazon.

Also first aid continues to be one of Acme United's growth drivers. The SmartCompliance business, for example, is becoming a big success. This is a typical razor/razorblade sales model, as Acme United initially benefits from the placement of the first aid kits, and then as people use the components, there's a strong resale business. In fact, revenues from refills about equal sales of the kits.

Acme's strategy to refill the kits through the internet is contrary to service people in delivery vans who will typically go into different locations to fill the first aid kits and then come back on a regular basis. The latter is obviously a time consuming and very expensive model, as the cost of the individual sales staff, the truck, the employee, and benefits have to be taken into account. Consequently, Acme United is clearly gaining share in this \$600 million market segment.

In addition, the Company is expanding the productive capacity at DMT. The goal is to double the capacity by the end of 2017. Part of Acme's capital spending this year is earmarked to make that happen.

Cuda continues to exceed expectations in both brand acceptance and placement at retail stores. This is largely thanks to the innovative design and quality of the tools. The knowledge and experience of all Cuda Pros, combined with the use of the best materials on the market, and Acme's patented coating technologies, have created a family of tools that provide consistent, high-end performance.

Finally, Acme's online sales are growing very rapidly, particularly at Amazon, and also at Jet, which is part of Walmart. The Company has a full team of people working on online content, reviews, and search optimization. This is paying off. In particular, the first aid area is doing very well online, because people are buying refills for their first aid kits at a

substantial discount. Also the Westcott business is performing strong online.

### Peer Comparison & Valuation

Acme United competes with many companies in each market and geographic area. The major competitors in the cutting category are 3M and Fiskars Corporation, while Maped and Staedtler are the major competitors in the measuring category. In addition, the major competitor in the pencil sharpener category is Bostitch, and in the safety category Acme faces most competition from Johnson and Johnson.

Although there are many competitors, it's hard to identify a peer group of companies, because there's no other Company in exactly the same line of business as Acme United. Moreover, some of these other companies that engage in the Company's line-of-business do so through divisions or subsidiaries that are not publicly-traded.

For reason of comparison, we have placed the Company in the Housewares & Accessories industry. The average P/E ratio for a Company in that industry is 22.86x, down from an average of 24.14x in our previous report. Because we continue to feel that the markets are somewhat overvalued at these multiples, and because we want to remain conservative in our estimates, we are going to apply a 10% discount to the industry's average P/E ratio.

Taking the discount into account, we end up with an average P/E ratio of 20.57x for the Housewares & Accessories industry.

Amounts in \$000's	2015	2016	2017E
<b>Total Revenue</b>	109,812	124,574	137,000
<b>Net Income</b>	4,794	5,851	6,700

Annual sales and earnings FY 2015 - 2017E.  
Source: Company Filings and Company estimates

**Applying the 20.57x P/E multiple from the peer group to the estimated EPS for 2017, we reach the following calculation: \$1.76 estimated EPS multiplied by 20.57 = \$36.20.**

**Based on these calculations, we reiterate our buy recommendation for Acme**

**United Corp. with a price target of \$36.20, which is 33% above today's stock price.**

### SHARE DATA & OWNERSHIP

On April 20, 2017 Acme United had approximately 3,730,000 fully diluted common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (16.9%), Walter Johnsen (14.1%), Bard Associates Inc. (4.0), Teton Advisors (3.4%), and Capital Management Corp (3.2%).

### MANAGEMENT

#### ❑ WALTER C. JOHNSEN - CHAIRMAN AND CEO

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.

#### ❑ PAUL DRISCOLL - VICE PRESIDENT AND CFO, SECRETARY AND TREASURER

Mr. Driscoll has served as Vice President and Chief Financial Officer, Secretary and Treasurer since October 2, 2002. Mr. Driscoll joined Acme as Director International Finance on March 19, 2001. From 1997 to 2001 he was employed by Ernest and Julio Gallo Winery including two years in Japan as Director of Finance and Operations. Prior to Gallo he served in several increasingly responsible positions in Sterling Winthrop Inc. in New York City and Sanofi S.A. in France.

#### ❑ BRIAN OLSCHAN - PRESIDENT AND COO

Mr. Olschan served as Senior Vice President of Sales and Marketing from September 10, 1996 until January 22, 1999. Effective January 23, 1999, he was promoted to President and Chief Operating Officer. From 1984 to 1996, he was employed by General Cable Corporation in various executive positions.

## ANNUAL INCOME STATEMENT FY 2014 – Q1 2017

All numbers in thousands

PERIOD ENDING	FY 2014	FY 2015	FY 2016	Q1 2017
<b>Total Revenue</b>	<b>107,222</b>	<b>109,812</b>	<b>124,574</b>	<b>27,745</b>
Cost of Revenue	69,037	70,251	79,019	17,181
<b>Gross Profit</b>	<b>38,186</b>	<b>39,561</b>	<b>45,555</b>	<b>10,564</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	30,791	32,214	37,113	9,372
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	30,791	32,214	37,113	9,372
<b>Operating Income or Loss</b>	<b>7,394</b>	<b>7,347</b>	<b>8,442</b>	<b>1,192</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	(118)	(168)	(76)	9
Earnings Before Interest And Taxes	7,276	7,179	8,366	1,201
Net Interest Expense	473	565	869	263
Income Before Tax	6,803	6,614	7,497	938
Income Tax Expense	2,014	1,820	1,646	279
Net Income From Continuing Ops	4,789	4,794	5,851	659
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
<b>Net Income</b>	<b>4,789</b>	<b>4,794</b>	<b>5,851</b>	<b>659</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$4,789</b>	<b>\$4,794</b>	<b>\$5,851</b>	<b>\$659</b>

Annual Income Statement FY 2014 – Q1 2017. Source: Company Filings



# Acme United Corporation

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