



Acme United Corp. (ACU)

Update Report – September 2, 2013

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

Acme United had a very strong first half of the year with all-time record earnings in the second quarter. This is especially nice because it was achieved in a soft office market where retailers saw their sales decrease by 3 to 6 percent. Additionally, all of the Company's brands grew and contributed to these solid results.

Looking ahead, the second half of 2013 looks to be very promising as well because many new products are set to enter stores. The Westcott 'X-Ray' scissors, for example, will be available chain wide in a number of retailers very shortly, as well as in Europe. Also about 25 new Camillus knives will hit the shelves. Moreover, the first sales of two new lines of gardening tools branded 'Scotts' and 'Miracle-Gro' may be recorded in the fourth quarter.

Acme United seems to be on track to meet its sales and earnings estimates for 2013. Therefore, we'll use the average of the Company's sales and earnings projections in our valuation. As a result, our estimates for fiscal year 2013 are revenues of \$92.5 million and earnings of \$1.225 per share, or approximately \$3.89 million, both up about 9.6% compared with 2012.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$21.09, which is almost 50% above today's stock price.



✓ Although Acme United's sales traditionally peak in the second quarter due to the seasonal nature of the back-to-school market, the other quarters are showing additional growth opportunities outside the school and office markets. For example, the lawn and gardening tools in partnership with ScottsMiracle-Gro are typical fourth and first quarter products as they have to be on the shelves early spring. Similar with the Clauss non-stick putty knives, which are being tested at a major retailer. This is an all year round product, but it certainly has to be available in the spring when the renovation and remodeling season commences. Also the increased business in Europe in the mass market channel at Lidl, Aldi, Rewe and Norma are more evenly spread over the entire year.

✓ Acme United's growth story is also supported by an 8 cents quarterly dividend, which is an excellent way to show confidence in the business and the market. Additionally, it builds long term shareholder value.



Market Data	
Price	\$14.24
Sector	Office Supplies
52-Week Price Range	\$6.53 - \$14.73
Shares Issued (m)	3.18
Market Cap (m)	\$45.28
Listings	ACU (NYSE Amex)
Website	http://www.acmeunited.com

The Company

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

Acme United's products are organized under six global brands: Westcott, Clauss, Camillus, PhysiciansCare, Pac-Kit and C-Thru Ruler. Both the number of products offered under these brands, as well as the number of stores and chains where these products are available, continue to grow.

During the second quarter of 2013 Acme United achieved the best quarterly sales and earnings numbers in its entire history. Typical back-to-school products such as iPoint pencil sharpeners, non-stick scissors and titanium scissors contributed to the success. Also Camillus knives, Pac-Kit first aid kits and C-Thru Ruler saw increased sales.



The brand new Westcott x-ray scissors will soon be available chain wide in a number of retailers, as well as in Europe.

Acme United succeeds in re-inventing everyday products like scissors, knives and school and office items by applying new materials to them. For example, many of the Company's products have a titanium carbonitride coating, making the knives and scissors blades more than 3 times harder than stainless steel. Or scissors 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.

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, School Specialty, Grainger, McMaster Carr, Meijer, Fred Meyer, WH Smith, and many other major chains.

Acme United also has been paying a quarterly dividend for many years and has increased the amount by 1 cent every 6 to 8 quarters. The last increase was just two months ago when the quarterly dividend was increased from 7 to 8 cents per share. (Also see Recent Events)

Brands

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

Westcott is also known for the iPoint electric pencil sharpener. Its trendy design* and ease of use have made the iPoint a phenomenal success. In 2012, the sharpener's revenues reached about \$11 million, making it one of Acme United's best selling products.

* Both the original iPoint and its successor the iPoint Evolution won a GOOD DESIGN Award from the Chicago Athenaeum, Museum of Architecture and Design. This is one of the oldest and most prestigious design competitions worldwide. Each year, the Museum receives hundreds of submissions from the biggest and most famous brands like Apple, Hewlett Packard, BMW, Porsche, Microsoft, etc.

Other main Westcott products include TrimAir paper trimmers with titanium coating and a proprietary blade change system for rotary and personal trimmers, Westcott Ultra Soft Handle scissors with anti-microbial product protection and True Professional sewing shears. In the measuring category Westcott offers rulers, drafting tools, lettering products and math tools.

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.

Recently, a family of Clauss non-stick putty knives was introduced. Its coating prevents the tools from rusting, which is a very common problem in wet environments, and it allows easier application of the putty. The tools were launched at a major hardware chain and are selling very well.

Moreover, two new lines of gardening tools will soon be launched in partnership with The ScottsMiracle-Gro Company (NYSE: SMG). The tools will be branded 'Scotts' and 'Miracle-Gro', but they will also carry the 'powered by Clauss technology' label. The goal is to have them in stores ahead of the 2014 gardening season.



The Acme United booth in the Lawn & Garden Hall, featuring the two new lines of gardening tools.

In just a few years, Clauss has gone through a complete transformation. When the brand was re-introduced at the Hardware Show, some time after it was acquired by Acme in 2004, it was a simple scissors business, available in only a handful of stores. Now it has developed into a broad hardware line and is available at Lowe's, Home Depot, Sears, Granger, McMaster-Carr, etc.

The Clauss brand has really become an established name in the industry. The many US and Canadian

hardware chains stopping by at the Hardware Show to see the new gardening tools is really evidence of this accomplishment. (See Recent Events)

Camillus is one of the oldest and best known knife manufacturers in the United States. Since its inception in 1894, it has been a synonym for the finest knives available. In 2007, Acme purchased the Camillus brand name and intellectual property rights and re-launched the brand at the 2009 National Hardware Show in Las Vegas. Since then, a host of new knives has been brought to the market.

Late 2011, Acme United signed an agreement with Les Stroud, the star of the six-time Gemini-nominated hit TV series *Survivorman*, to co-design and promote a new line of Camillus survival knives and tools. The initial four knives under the Les Stroud Signature name were the SK Arctic, a mid-sized fixed blade knife, the SK Mountain which has a somewhat larger and partially serrated fixed blade, the SK Desert is a mid-sized folding knife and finally the SK Jungle, a large machete knife. These knives were introduced early 2012 and continue to do great.

Because of the success of the initial knives, five new Les Stroud knives, along with some twenty other knives, have been released this year.

Camillus sales continue to rapidly increase. The knives are available at several mass market retailers like WalMart and many major sporting goods chains like Cabellas, Academy Sports and Bass Pro.

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. PhysiciansCare 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, Corporate Express 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.

Fairly soon after Acme United acquired Pac-Kit, in February of 2011, it landed one of the largest do-it-yourself chains in North America with a first aid kit, which was soon followed with a hurricane preparedness kit. As a result, in the first ten months after it was acquired by Acme United, Pac-Kit increased its revenues from \$4.5 million to \$5.2 million, up more than 15%. Additionally, thanks to the combined PhysiciansCare/Pac-Kit buying power, Pac-Kit's margins increased from around 27% to over 30% in the same period.

Since then, more first aid supplies continue to be shipped. In November 2012, for example, Pac-Kit started selling first aid kits and refills to a large industrial tool distributor. Sales have increased each quarter. About twelve different kits are currently offered under this retailer's house brand. They're targeted at different industries such as welding, construction, mining, etc. Additional orders and placement in the chain's physical stores could be a logical next step when sell through continues to be this good. In general,

C-Thru Ruler Company was formed in 1939 in Hartford, CT by Jennie Zachs, who saw the need for transparent measuring tools like rulers, triangles, curves, and protractors. The Company developed a strong reputation in the school and craft markets for high quality measuring devices, and for specialized products for drafting, designing and drawing.

In June of 2012, Acme United purchased the inventory, tooling, brands, and other intellectual property of C-Thru Ruler Company for approximately \$1.47 million.

After the acquisition, C-Thru was integrated into the Westcott family. So, the identity of C-Thru in many cases is has become Westcott. For example, the C-Thru lettering products are now being sold under the Westcott brand. Other products for drafting, measuring are still being sold under the C-Thru brand.

The C-Thru product line has been substantially improved as it benefited from Acme's existing manufacturing and sourcing capabilities in China. The acquisition also had a positive impact on both C-Thru's and Westcott's margins thanks to cost savings from the combined purchasing power for raw materials. In the first six months after acquiring C-Thru, it contributed \$1.7 million in sales.

In addition, C-Thru gave Acme United access to customers that it didn't have any volume with, particularly in the craft and hobby markets. As a result, the Company has been able to sell other Acme products, such as Westcott scissors, to those customers.

Basically, the C-Thru acquisition has been a success, both in its growth and the ability to cross sell Westcott products.

Financials

Fourth Quarter And Full Year 2012 Results

Acme United achieved record quarterly net income of \$2,210,000, or \$.68 per diluted share, for the quarter ended June 30, 2013, compared to \$2,061,000 or \$.66 per diluted share for the comparable period in 2012, an increase of 7% in net income and 3% in diluted earnings per share. Net sales for the second quarter ended June 30, 2013 were \$28.4 million, compared to \$27.6 million in the comparable period of 2012, an increase of 3%.

Amounts in \$000's	06/30/13	06/30/12
Net Sales	28,412	27,594
Cost of Goods Sold	18,331	17,773
S, G & A Expenses	6,889	6,743
Income From Operations	3,192	3,078
Pre-Tax Income	3,093	2,973
Income Tax Expense	883	912
Net Income	2,210	2,061
Diluted Shares Outstanding	3,265	3,144
Diluted Earnings Per Share	0.68	0.66

Most important income statement data for the quarters ending June 30, 2013 and June 30, 2012. Source: Company Filings

Net sales for the first six months of 2013 were \$46.1 million, compared to \$44.5 million in the same period in 2012, an increase of 4%. Net income for the six months ended June 30, 2013 was \$2,520,000, or \$.78 per diluted share, compared to \$2,320,000, or \$.74 per diluted share, in the comparable period last year, a 9% increase in net income and 5% increase in diluted earnings per share.

The Company's gross margins were 35.5% in the second quarter of 2013 compared to 35.6% in the second quarter of 2012.

Strong U.S. Segment

Acme United reports financial information on three separate business segments: the United States (including Asia), Canada and Europe. During the second quarter of 2013, net sales increased 5% in the U.S. segment compared to the same period in 2012. This was mainly thanks to increased back to school sales and additional sales resulting from the acquisition of the C-Thru Ruler Company in June 2012.

Net sales in Canada for the three months ended June 30, 2013 decreased 3% in local currency compared to the second quarter in 2012. And in Europe, net sales increased 2% in the second quarter of 2013 compared with the same period last year, despite the bankruptcy and liquidation of Schlecker, the Company's largest European customer, in the second quarter of 2012.

After the loss of the German retailer, Acme's European team immediately pursued new business. In part, that was in the mass market channel where it's been able to get promotions at Lidl, Aldi, Rewe and Norma, all in Western Europe. And it's been in volumes that closely approximate the lost business at Schlecker. However, these are not day-to-day products the way Schlecker was. They're rather large quantity promotions which come and go. As a result, earnings from them tend to be lumpy.

The Company's strategy in Europe is to continue the promotions at major retailers and at the same time build the office business, which are more day-to-day sales. Acme's management is optimistic that it will do at least as well as it did last year in Europe, thanks to the promotional business and some new opportunities.

Balance Sheet As Of June 30, 2013

Noteworthy in Acme's balance sheet is the increase in inventory by approximately \$2.77 million at June 30, 2013 compared to June 30, 2012. This is mainly related to an expansion of the product range, for example Camillus knives. Inventory turnover, calculated using a twelve month average inventory balance, was 1.8 for the twelve months ended June 30, 2013 compared to 2.2 for the year ended June 30, 2012.

Receivables increased by approximately \$1.5 million at June 30, 2013 compared to June 30, 2012. The increase in accounts receivables occurred primarily due to the higher sales in the second quarter of 2013

compared to the same period last year. The average number of days sales outstanding in accounts receivable was 63 days at June 30, 2013 compared to 62 days at June 30, 2012.

Late April of this year, Acme announced that it had amended its loan agreement with HSBC Bank. The agreement, which was closed last year, provided for borrowings up to \$30 million at an interest rate of LIBOR plus 1.75%. The amended agreement now provides for borrowings up to \$40 million at the same interest rate. At today's LIBOR rate, Acme pays less than 2 percent interest.

Acme's current long term debt is around \$26 million. So the additional \$10 million borrowing capacity, along with about \$8.5 million in cash, gives the Company plenty of opportunities to fund its growth, pay dividends, buy back shares and finance potential acquisitions.

Amounts in \$000's	06/30/13	06/30/12
Cash and Cash Equivalents	8,458	7,141
Accounts Receivable	25,420	23,857
Inventories	29,450	26,681
Total Current Assets	65,443	59,538
Other Assets	9,293	9,616
Total Assets	74,736	69,154
Accounts Payable	9,092	9,968
Total Current Liabilities	14,493	15,580
Long Term Debt	26,012	23,005
Total Liabilities	41,526	39,715
Total Stockholder Equity	33,210	29,439
Most important balance sheet data for the periods ending June 30, 2013 and June 30, 2012. Source: Company Filings		

As of June 30, 2013 the Company had a current ratio of 4.52 and a return on equity of 11.29.

Growth Drivers

Intellectual Property – Heart & Soul of Acme

Late September 2012, Acme was awarded a new patent that covers a broad range of titanium coating compositions and thicknesses, which enhance the wear resistance and hardness of cutting edges. Also international patent applications were filed. Acme will

utilize this next generation titanium technology on its high volume scissors, pencil sharpeners, paper trimmers, and knives.

The Company's success depends in part on its ability to maintain patent protection for its products, to preserve its proprietary technology and to operate without infringing upon the patents or proprietary rights of others. The Company generally files patent applications in the United States and foreign countries where patent protection for its technology is appropriate and available.

The Company incurred research and development costs of \$572,985 in 2012 and \$535,500 in 2011. This budget gives Acme the opportunity to stay on top of the latest and best materials so they can be applied on products like scissors, knives and school and office items. The Company has many patents and trademarks that form a platform from which a whole number of products are manufactured for many different applications.

Acme United's patents for non-stick coatings, for example. A non-stick coating already existed on pots and pans, but Acme applied it on scissors and it became a big success. The Company expanded its non-stick application to its Westcott iPoint pencil sharpener. The impact was even bigger with the sharpener becoming Acme's best selling product, available at numerous chains.

More recently, a family of Clauss non-stick putty knives has been introduced with a coating that prevents the tools from rusting. And in a couple of months a line of Clauss lawn & garden products equipped with non-stick coated blades will be launched in partnership with The ScottsMiracle-Gro.

These are only a few examples of how innovation has led to the improvement of many everyday products. Acme has an on-going goal of generating 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.

New Clauss Putty Knives

A couple of months ago, Clauss launched a family of titanium bonded non-stick putty knives that are quite unique in their category. First of all, thanks to the non-stick blades, the putty comes off very smoothly when it's being applied to walls. Second, it cleans up quickly, meaning if the putty dries, it's very easy to

remove it from the blades. And third, the coating prevents rusting of the putty knives.

Moreover, the blades are made out of stainless steel which is coated with titanium nitride, making them 5 times harder than regular steel to scrape any surface.



The new Clauss non-stick putty knives with a coating that prevents rusting and which allows easier application of the putty.

The Clauss putty knives family contains thirteen different tools, and are currently only available at a major retailer in a limited number of stores as a test. The initial feedback is that they're selling well and that users are delighted that the life of the tools is much longer than competitive products because they don't rust.

The Company is encouraged, because based on the test results the retailer may start to offer the tools chain wide.

Camillus Knives

Late 2011, Acme United signed an agreement with Les Stroud, the star of the six-time Gemini-nominated hit TV series *Survivorman*, to co-design and promote a new line of Camillus survival knives and tools.

The initial four Les Stroud knives, the so-called Signature Series, were introduced in January of 2012 at the SHOT Show in Las Vegas. It was a successful event as several new and existing

customers visited the Camillus booth and immediately placed orders. As a result, they were broadly distributed throughout the United States and Canada mid last year, which was an ideal timing as the fourth season of *Survivorman*, in which Les Stroud used the new Camillus knives, was aired around that time.

At this year's SHOT Show the 'Les Stroud Elite Series', a family of five new Les Stroud knives, was introduced and received with enthusiasm. Next to the five Les Stroud knives, about twenty other Camillus knives were introduced at the SHOT Show. According to the Company's representatives, they received a lot of attention from US and international distributors and buyers. These contacts are bearing fruit as Camillus is currently being re-introduced in several European countries.

Camillus' contribution to Acme United's overall sales continues to increase. With a bunch of new knives and increased distribution, that trend will most likely continue in 2013.

Recent Events

Partnership with ScottsMiracle-Gro

Early in the second quarter, Acme formed a partnership with The ScottsMiracle-Gro Company (NYSE: SMG) to market and sell two lines of lawn and gardening tools branded 'Scotts' and 'Miracle-Gro'. These tools are manufactured by Acme's Clauss brand and also carry the 'powered by Clauss technology' label.

These will be the first lawn and garden tools in ScottsMiracle-Gro's extensive line of products. Scotts will advertise the tools in their catalogues and at trade shows.

The tools were officially launched in May at the National Hardware Show, which is an annual housing after-market show that brings together manufacturers and resellers of all products used to remodel, repair, maintain and decorate the home and garden. This year, the show hosted about 2,700 exhibitors and welcomed tens of thousands of industry professionals.

Acme's marketing team received lots of positive feedback at the event from hardware chains stopping by. Depending on the type of customer the chains target, some were interested in the Miracle-Gro lawn

and garden products, while others were more drawn to the higher end Scotts line.

THE SCOTSMIRACLE-GRO COMPANY

The ScottsMiracle-Gro Company has its roots dating back to 1868 and has since grown into the world's largest marketer of branded consumer lawn and garden products with nearly \$3 billion in worldwide sales and more than 8,000 associates.

The Company owns some of the most recognized brands in the industry. In the U.S., the Company's Scotts, Miracle-Gro, and Ortho brands are market-leading in their categories, as is the consumer Roundup brand, which is marketed in North America and most of Europe exclusively by Scotts and owned by Monsanto. In the U.S. the Company operates Scotts LawnService, the second largest residential lawn care service business. In Europe, the Company's brands include Weedol, Pathclear, Evergreen, Levington, Miracle-Gro, KB, Fertiligene and Substral.

The Miracle-Gro is a line of lawn and garden products such as pruners, snips, floral knives and spring assisted scissors suited for home gardeners. The blades are titanium bonded, making them 3 times harder than untreated stainless steel and corrosion resistant. In addition, the packaging and handles of the tools are made from recycled materials.

The Scotts line, on the other hand, aims at lawn care professionals and serious DIY'ers. It includes loppers, hedge shears, branch saws and grass and garden shears. The titanium-bonded non-stick blades prevent saps and adhesives from sticking to the blades. The tools also feature Microban antibacterial treated blades and grips to protect the user as well as the plants themselves. The grips are engineered to reduce the impact and fatigue of cutting through branches, etc.

Rick Constantine, the Vice President of Marketing with Acme United, said: "This partnership leverages both of our strengths, combining ScottsMiracle-Gro's knowledge and presence in lawn and garden with our expertise in cutting tool designs, bonding technologies and manufacturing. [As such]...we're providing consumers with differentiated, long-lasting products backed by a well-known, trusted name."

It's still too early to determine the interest of retail chains for the new products, but the Scotts name is bound to open up distribution channels as the company is known worldwide for its fertilizers and pesticides for professional and at-home use. The first tools will most likely be in stores by the end of this year, ahead of the 2014 gardening season.

\$1.74 Million Mortgage Repayment

In December of 2008, Acme sold the site of its original scissors factory in Bridgeport, Connecticut to B&E Juices, Inc. for \$2.5 million. The property consisted of approximately four acres of land and 48,000 sq. feet of warehouse space.

Under the terms of the sale agreement, and as required by the Connecticut Transfer Act, the Company was required to remediate any environmental contamination on the property. During 2008, the Company hired an independent environmental consulting firm to conduct environmental studies in order to identify the extent of the environmental contamination on the property and to develop a remediation plan. The remediation work, which began in the third quarter of 2009, was completed during the third quarter of 2012.



The former Acme Shear Company property along the Pequonnock River in Bridgeport, CT.

As part of the sale, the Company provided B&E Juices with a mortgage of \$2.0 million at six percent interest per year. The mortgage was payable in monthly instalments of principal and interest with the outstanding balance due in full, one year after remediation and monitoring on the property had been completed. A couple of weeks ago, Acme received \$1.74 million from the buyer, which was the balance of that financing.

Mr. Johnsen, Acme's Chairman and CEO, said: "We have completed the remediation, filed a land use restriction, and now have received full payment from

the sale. We plan to continue monitoring for two years, and then file the appropriate paperwork for completion of the project." The proceeds of the sale will be used to reduce the Company's debt.

Acme Buys 340,000 Square Feet Warehouse and Distribution Center

A few days ago Acme United purchased a 340,000 square feet manufacturing and distribution center in Rocky Mount, North Carolina. The facility was acquired from the Chapter 7 bankruptcy liquidation of RoomStore, Inc. and has 40 foot ceilings with 27 bay doors. Acme paid \$2.8 million for it, but building it from scratch would cost up to five times as much. The purchase price will be paid out of the Company's line of credit.



Acme United's new 340,000 square feet manufacturing and distribution center in Rocky Mount, North Carolina.

The building will be used to consolidate the Company's two current distribution centers in North Carolina, which are only half the size of the new warehouse. As a result, it provides a lot of space for additional growth at almost zero extra cost. The goal is to take the facility in operation by January 1, 2014.

At this moment Acme United leases a 116,000 square feet warehouse in North Carolina. Exact numbers aren't available, but even if it only costs \$2 per foot to lease, which is an absolute minimum, then it amounts to a cost of \$240,000 annually. The lease on this property expires at the end of this year, just in time to move all the goods to the Rocky Mount warehouse, thus saving lease costs.

The Company also owns a 58,000 square feet warehouse in the same state. As soon as this building is empty, it can be sold or leased to another party, thus generating extra cash.

The purchase will have a short term impact on earnings in the coming quarters as Acme will need to spend about \$500,000 to upgrade the buildings and

buy equipment, and about \$300,000 in one-time, double running costs and moving expenses through year end. After that, it will start generating cost savings very quickly, which will be beneficial to Acme's profitability.

14% Dividend Increase

Early June of this year, Acme's Board of Directors approved a 14% increase to its quarterly dividend from 7 to 8 cents per share.

In a recent audio interview with Smallcaps.us Walter Johnsen commented: "The last time we increased the dividend was about two years ago. As we've grown over that period, the ability to generate excess cash has continued to be stronger and stronger. Additionally, we feel very comfortable with the company's future. Therefore with the growth in the business and the confidence that we have going forward, it seemed appropriate to raise the dividend."

Outlook & Valuation

Acme United had a very strong first half of the year with all-time record earnings in the second quarter. This is especially nice because it was achieved in a soft office market where retailers saw their sales decrease by 3 to 6 percent. Additionally, all of the Company's brands grew and contributed to these nice results.

Looking ahead, the second half of 2013 looks to be very promising as well because many new products are set to enter stores. The Westcott 'X-Ray' scissors, for example, will be available chain wide in a number of retailers very shortly, as well as in Europe. They have an acrylic handle that's clear and are accented with comfortable TPR rubber. Also about 25 new Camillus knives will hit the shelves.

Moreover, the first sales of two new lines of gardening tools branded 'Scotts' and 'Miracle-Gro' may be recorded in the fourth quarter. Judging by the number of questions that Mr. Johnsen received about this topic during the second quarter conference call, it's clear that the Scotts deal is getting a lot of attention from investors.

For fiscal year 2013, Acme's sales guidance remains between \$90 and \$95 million. Also its earnings per share guidance is unchanged between \$1.20 and \$1.25. Mr. Johnsen did indicate in a recent audio interview with Smallcaps.us that achieving the higher

end of the guidance will depend in part on achieving additional sales with mass market customers.

Other Quarters Growing

Although Acme United's sales traditionally peak in the second quarter due to the seasonal nature of the back-to-school market, the other quarters are showing additional growth opportunities outside the school and office markets.

For example, the lawn and gardening tools in partnership with ScottsMiracle-Gro are typical fourth and first quarter products as they have to be on the shelves early spring. Similar with the Clauss non-stick putty knives, which are being tested at a major retailer. This is an all year round product, but it certainly has to be available in the spring when the renovation and remodeling season commences.

Also the increased business in Europe in the mass market channel at Lidl, Aldi, Rewe and Norma are more evenly spread over the entire year.

Peer Comparison

Acme United competes with many other companies in each market and geographic area. For example, the major competitor in the cutting and gardening category is Fiskars Corporation, the major competitor in the measuring category is Helix International Ltd and the major competitor in the safety and first aid category is Johnson and Johnson.

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 office supplies industry. The average P/E ratio for a Company in that industry is 19.13x, up more than 19% from 16.05x in our previous report. The rise is mostly attributable to the sharp increase in share prices of the companies active in that industry. Because we feel that the markets may be getting a bit ahead of themselves, and because we want to remain conservative in our estimates, we are going to apply a 10% discount to the average P/E ratio. Taking the discount into account, we end up with an average P/E ratio of 17.22x for the office supplies industry.

Valuation

Acme United looks to be on track to meet its sales and earnings estimates for 2013. Therefore, we'll use the average of the Company's sales and earnings projections in our valuation. As a result, our estimates for fiscal year 2013 are revenues of \$92.5 million and earnings of \$1.225 per share, or approximately \$3.89 million, both up about 9.6% compared with 2012. This increase is certainly achievable as many new products will enter the market the coming months.

Amounts in \$000's	2011	2012	2013E
Total Revenue	73,302	84,370	92,500
Net Income	2,811	3,549	3,890
Annual sales and earnings FY 2011 – 2013E. Source: Company Filings and Smallcaps.us estimates			

Using the \$1.225 EPS projection for FY 2013 and applying the 17.22x P/E multiple from the peer group, we reach the following calculation: \$1.225 estimated EPS multiplied by 17.22 = \$21.09.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$21.09, which is almost 50% above today's stock price.

Note that we don't take the one-time costs for the refurbishment of the new warehouse into account because this would give a distorted view of the Company's actual valuation.

Share Data & Ownership

As of August 7, 2013, there were 3,179,777 common shares of Acme United outstanding. The principal

owners of the Company's common stock are North Star Investment Management Corporation (12.2%), Walter Johnsen (11.0%), First Wilshire Securities Management (9.3%), Bard Associates Inc. (5.5%) and Dimensional Fund Advisors (3.3%).

Management

➤ Walter 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 2010 – 6M 2013

All numbers in thousands

PERIOD ENDING	FY 2009	FY 2010	FY 2011	6M 2013
Total Revenue	63,149	73,302	84,370	46,063
Cost of Revenue	39,784	46,977	54,623	29,554
Gross Profit	23,365	26,325	29,747	16,509
Operating Expenses				
Research & Development	-	-	-	-
Selling, General and Administrative	20,385	22,040	24,386	12,803
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	20,385	22,040	24,386	12,803
Operating Income or Loss	2,980	4,285	5,361	3,706
Income from Continuing Operations				
Total Other Income (Expenses) Net	232	145	80	78
Earnings Before Interest And Taxes	3,212	4,430	5,441	3,784
Interest Expense	301	404	444	249
Income Before Tax	2,911	4,026	4,997	3,536
Income Tax Expense	338	1,215	1,448	1,015
Minority Interest	-	-	-	-
Net Income From Continuing Ops	2,573	2,811	3,549	2,520
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	2,573	2,811	3,549	2,520
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$2,573	\$2,811	\$3,549	\$2,520

Annual Income Statement FY 2010 – 6M 2013. Source: Company Filings



Acme United Corporation

NYSE Amex: ACU

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