

## Acme United Corp. (ACU)

Company Report – August 04, 2018

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's sales in the second quarter, ended June 30, 2018 reached \$39.8 million, an increase of 2% compared with sales of \$38.8 million in the second quarter of 2017. The Company showed record sales performances in many categories and areas, including first aid and safety, Camillus and Cuda cutting products, DMT sharpening tools, Spill Magic absorbents, and the European business.

Although Westcott back to school products were affected in the second quarter by an increasing shift from retail to online, they are expected to strongly rebound in the current quarter. This is a trend that is expected to become even stronger the following years.

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!

The Company reaffirmed its guidance for 2018 of approximately \$140 million in revenues, \$5.7 million in net income, and \$1.53 earnings per share. Consequently, we reiterate our buy recommendation for Acme United Corp. with a price target of \$32.05, which is 44% above today's stock price.



### Acme United Corporation

- The SmartCompliance business 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.

In the current quarter, Acme will roll out its first aid and safety products to the largest industrial distributor. Moreover, the Company initiated a major distribution arrangement with a food service company that has started to take SmartCompliance throughout its entire customer base.

Acme United is clearly gaining share in this \$600 million market segment.



## 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, 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 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 announced that sales for the three months ended June 30, 2018, reached \$39.8 million, an increase of 2% compared with sales of \$38.8 million in the second quarter of 2017.

Acme's first aid business, along with its Cuda, Camillus, and DMT brands all recorded record sales in the second quarter. On the other hand, Westcott back-to-school sales, which historically make up a big chunk of total sales in the second and third quarter, declined 5%.

Even more than in the second quarter of last year, Acme is registering less back to school sales in the second quarter to brick and mortar stores and way more online purchases in the third quarter. This is a trend that is expected to become even stronger the following years.

Acme United's second quarter has traditionally been the one in which a majority of the back-to-school products were shipped from the Asian factories to the distribution centers of major retailers. Those retailers would then receive the containers and distribute the products to their stores for sales in July and August.

With online sales though, Acme is receiving orders that closely match the timing of actual purchases by end users. Because in the U.S. and Europe most schools go back in session in August or early September, orders by online retailers, such as Amazon and Jet, are only

received in the third quarter. **Consequently, a significant part of Acme's back-to-school business is now booked in the third quarter instead of the second.**

Accordingly, Walter C. Johnsen, Chairman and CEO of Acme United reaffirmed the Company's guidance for 2018 of \$140 million in revenues, \$5.7 million in net income, and \$1.53 earnings per share. This compares to sales of \$130.6 million, non-GAAP net income of \$5.3 million and earnings per diluted share of \$1.42 for 2017. As previously reported, the Company's GAAP net income of \$4.1 million for 2017 reflected a \$1.2 million non-cash tax charge related to the U.S. Tax Cuts and Jobs Act.



**The Cuda fishing tools brand continues to perform exceptionally well.**

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.

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.

Acme United pays a quarterly dividend of 11 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. In 2016, the Company bought Diamond Machining Technology (DMT), which is located in Marlboro, Massachusetts. And early 2017, Spill Magic was acquired, which has facilities in Santa Ana, California and Smyrna, TN.

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 conference call that a large retailer tried a different scissors supplier, but 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. Last year, for example, it launched a set of revolutionary glue guns for the craft and DIY markets. 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. When the tip of the gun is hot enough to dispense the glue, it turns red. The red color is also an indication for users not to touch it. When the tip has cooled off, it's blue. The Company expects this to be a multi-million dollar item this year.



**The Westcott glue pen (left) and gun.**

**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. Since then, Clauss has completely transformed and become an established name in the industry with a broad hardware line that is 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 its founding in 1876, Camillus 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 plenty of qualified "Pro Staffers" to gain insight into what campers, backpackers and survivalists are looking for. 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 new tools.

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.

At this year's show, Camillus surprised everyone with another substantial expansion

of its product offering. It introduced no less than 16 new folding knives, including three versions of the Centerfire Knives. These popular folding knives were originally from the 1980s with its typical bullet shield in the handle, has been upgraded with Carbonitride Titanium AUS-8 Stainless Steel and a quick launch bearing system. Also the popular Cuda knife is back. The revamped Cuda Mini has a 3" Carbonitride Titanium AUS-8 stainless steel blade, G10 ergonomic handle (in three colors) and a quick launch bearing system for fast, easy opening.

In addition, Camillus introduced a new collection of hunting knives and accessories designed in partnership with Prym1 camo. The Prym1 Hunting Line includes seven new tools featuring the popular Prym1 camo pattern. The pattern utilizes the colors and tones of nature, combined with the organic shapes and motion of wildlife.

Moreover, Camillus is rolling out a complete new line of heavy-duty line of sight pruning tools, including a lopper, tree saw, branch saw and bypass shears. The new Line of Sight tools are designed and built specifically for hunters to ensure clear shooting lanes.

Representatives from the Company were quoted saying that this was the best SHOT show in several years from a business perspective. New sporting goods retailers were attracted, as well as new domestic and international distributors for both Camillus and DMT.

**Cuda** markets a broad line of tools dedicated to fresh and saltwater fishing. Only three years ago, Cuda was brand new and practically unknown. Since then, there has been a tremendous increase in brand recognition, thanks to the flow of exciting new tools that Cuda has brought to the market. It has truly grown into a lifestyle brand.

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.

A factor that has helped gain the brand a solid name in the fishing community is the Cuda Pros. Right from the start, 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.

Since then, the Cuda Pro Staff has continued to grow to more than 40 ambassadors today. They continue to suggest improvements to prototype tools, so that when they go into production, the products are the best on the market.

Also the promotion that the Pro Staff provides is priceless. One pro has close to 300,000 Twitter followers. So when he tweets information about Cuda, all his followers get to see it.



**The new Professional 8" plier and 8" snip with matching sheaths.**

At the 2018 ICAST fishing show, Cuda introduced plenty of new tools, such as the new Professional 8" plier and 8" snip with matching sheaths. With all the additional tools, Cuda now has well over 100 different products in its range. An amazing achievement in just five years since the brand was launched!

**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 First Aid Only SafetyHub app, which is available for both Apple and Android, was released in July 2017. It provides a platform to manage and refill First Aid Only SmartCompliance cabinets. Users can search and scan barcodes on individual first aid products, as well as place requisitions for ANSI & OSHA compliant first aid kits. This application allows requisitions to be saved, placed, or tracked from a mobile device or tablet. Features such as the "Physical Inventory Count" keeps users aware of which products to reorder and when to do so through inventory reminders.

New first aid cabinets can be registered through the app, and can be assigned to, and managed by, multiple users. This application makes the reorder process faster and more efficient so that users remain ANSI & OSHA compliant. Initial users are very satisfied with the app.

**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 others.

**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.

Pac-Kit is especially known for tailoring its products to meet user requirements and for rapid turnaround.

**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 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, new equipment and machinery was installed to double its production capacity. The business continues to grow both in the U.S. and abroad, and has high margins.



**The Disc-Sharp, DMT's first battery operated sharpener has a silver matt finish with black textured TPR around the sides to ensure a firm grip when sharpening.**

**Spill Magic** manufactures a wide variety of spill pickup products that can handle anything from liquid spills, hazardous material spills and even biohazard spills. It was founded in 1995, and has two facilities, one in Santa Ana, CA and the other one in Smyrna, TN. Acme United acquired Spill Magic in February 2017.

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

are not only a problem for employees though. 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.

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.

Next to its regular absorbent, Spill Magic recently started offering a wider variety of spill removers. For example, it offers the Biohazard Cleanup Kit, which is an OSHA compliant solution to safely remove blood and bodily fluid spills. The Company recently landed a contract worth \$1 million to supply these kits to a major retailer.

Acme aims to broaden its distribution to sectors where the products aren't available yet. For example, the spill pickup 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.

Furthermore, the Spill Magic absorbents have been rebranded to Easy Absorb for the European market. The regular absorbents in both coarse and fine varieties were launched first, and are already available at Amazon.de.

Initially, distributors of office products are targeted with these new safety items. A few years ago, lots of office customers added facility management products to their assortment to compensate declining sales in the office channel. The Easy Absorb products obviously fall right into the facility management category.

## FINANCIALS

Net income in the second quarter of 2018 was \$2.4 million, or \$0.67 per diluted share, compared to \$2.8 million, or \$0.75 per diluted share, for the same period in 2017, decreases of 14% and 11%, respectively.

For the six months, ended June 30, 2018, net sales were \$71.5 million, compared to \$66.6 million in the same period in 2017, an increase of 7%. Net income for the six months ended June 30, 2018 was \$3.2 million or \$0.88 per diluted share, compared to \$3.5 million or \$0.94 per diluted share in the comparable period last year, decreases of 9% and 6%, respectively.

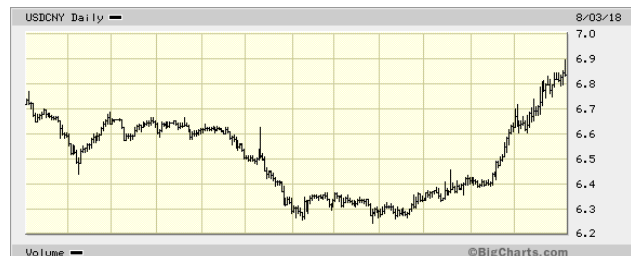
The declines in net income for the three and six month periods resulted primarily from additions in sales and marketing personnel to accommodate the Company's growth as well as higher interest rates on the variable rate credit facility.

Amounts in \$000's	06/30/18	06/30/17
Net Sales	39,751	38,849
Cost of Goods Sold	25,039	24,366
S, G & A Expenses	11,087	10,572
<b>Income From Operations</b>	<b>3,625</b>	<b>3,911</b>
Pre-Tax Income	3,106	3,619
Income Tax Expense (Benefit)	670	773
<b>Net Income (Loss)</b>	<b>2,436</b>	<b>2,846</b>
Diluted Shares Outs.	3,625	3,780
Diluted EPS	0.67	0.75
<b>Selected income statement data for the quarters ending June 30, 2018 and June 30, 2017. Source: Company Press Release</b>		

Gross margin was 37% in the three months ended June 30, 2018, compared to 37% in the same period in 2017. Gross margin was 38% in the six months ended June 30, 2018, compared to 38% in the same period in 2017.

Important to note is that gross margin may improve in the second half of the year as the U.S. dollar has appreciated about 8% against the Chinese renminbi (RMB) since February of this year (see chart on next page). As a majority of Acme's goods are manufactured in China and paid for in U.S. dollars, the

Company may be able to negotiate some price declines with the Chinese factories.



**The rising Chinese renminbi may have a positive influence on Acme's margins.**

## European Segment Excels

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

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

Amounts in \$000's	Q2 2018	Q2 2017
<b>U.S.</b>	34,779	34,140
<b>Canada</b>	2,466	2,503
<b>Europe</b>	2,506	2,206
<b>Estimated sales per segment for the quarter ending June 30, 2018 (Source: Smallcaps Investment Research) and actual sales per segment for the quarter ended June 30, 2017 (Source: Company Filing)</b>		

In the U.S. segment, net sales for the three months ended June 30, 2018 increased 2% compared to the same period in 2017. Sales of first aid and safety products were \$15.0 million, an increase 7%. As noted above, the sales of Westcott school products were lower than the second quarter sales last year due to the timing of shipments. Net sales for the first six months of 2018 in the U.S. segment increased 7% compared to the same period in 2017. Sales of first aid and safety products increased 17% due to market share gains.

Net sales in Canada for the three months ended June 30, 2018 decreased 1% in U.S. dollars and 5% in local currency compared to

the same prior-year period. Net sales for the six months ended June 30, 2018 increased 3% in U.S. dollars and were constant in local currency compared to the same period in 2017.

Net sales in Europe for the three months ended June 30, 2018 increased 14% in U.S. dollars and 5% in local currency compared to the same 2017 period. Net sales for the six months ended June 30, 2018 increased 19% in U.S. dollars and 7% in local currency compared to the first half of 2017. Net sales for both periods increased mainly due to new customers in the office products channel, growth in sales of DMT products, and strong e-commerce demand for these products.

## Balance Sheet as of June 30, 2018

The Company's bank debt less cash on June 30, 2018 was \$46.0 million compared to \$41.3 million on June 30, 2017. During the twelve-month period ended June 30, 2018, the Company purchased its manufacturing and distribution facility in Vancouver, WA for \$4.0 million and distributed \$1.5 million in dividends on its common stock.

Amounts in \$000's	06/30/18	06/30/17
Cash and Cash Eq.	1,894	5,674
Accounts Receivable	34,511	32,616
Inventories	42,510	35,638
Total Current Assets	81,439	76,345
Property & equipment	14,576	9,077
Intangible Assets, net	17,268	19,227
<b>Total Assets</b>	<b>118,578</b>	<b>109,362</b>
Accounts Payable	12,972	7,498
Total Current Liabilities	17,612	12,713
Bank Debt	44,318	46,956
<b>Total Liabilities</b>	<b>66,354</b>	<b>60,014</b>
Total Stockholder Equity	52,224	49,348
<b>Selected balance sheet data for June 30, 2018 and June 30, 2017. Source: Company Press Release</b>		

Also noteworthy on the Company's balance sheet is the increase in inventory from \$35.6 million at the end of the second quarter last year to \$42.5 million at the end of Q2 2018. This is mainly in anticipation of new business opportunities in the second half of the year.



At the end of 2018, the Company expects to have about \$37 million in net debt and to generate approximately \$4 million in free cash flow.

## GROWTH DRIVERS

### New Tools Ready for Launch

It's no secret, innovation is difficult for most established companies. They succeed by optimizing their existing businesses rather than through game-changing creativity. Yet, 150-year old Acme United has been on the forefront of innovation for tools in the school, home, office, industrial and hardware sectors for a couple of decades now. In more recent years, it also worked its magic for fishing, gardening, and outdoor enthusiasts.

The Company's Westcott brand, for example, which is one of the leading scissors and ruler brands worldwide, launches new products almost on a continuous basis. Sometimes, it is an upgrade of an existing product, or an expansion of a product family, but every now and then a revolutionary new tool will be brought to the market, such as the revolutionary glue guns that were launched last year.

Other Westcott items that are scheduled to be launched in the coming weeks are a new storage bag line, a new set of hobby knives, and an extension of the professional scissors line.

In addition, the popular fishing tools brand Cuda launched plenty of new items at this year's ICAST Show in Orlando, Florida. ICAST, the world's largest sportfishing trade show, is the premier showcase for the latest innovations in fishing gear, accessories and apparel, making it the biggest marketing event of the year for Cuda.

This year, the brand presented an expansion of its product assortment with a large tip ring-slitter, aimed at fishermen on the west coast and Europe. In addition, several tools in the Professional line, such as Professional snips and pliers, were added to the family as they continue to grow in popularity and sales. They come with German 4116 stainless steel and a

carbonitride non-stick Titanium bonding. Moreover, they have cold-molded micarta handles and a hard ratcheting sheath.

Finally, given the success of Prym1 Camillus knives and tools, which were launched in January 2018, the Company aims to duplicate that success with Cuda sheaths and bags that come with a Prym1 blue pattern. Prym1 is especially known for utilizing colors and tones of nature, combined with the organic shapes and motion of wildlife.



**The brand new Westcott storage bag.**

There's also good news for DMT, as the latest sharpeners will soon become available in Europe. Remember that a few months ago, DMT introduced three new table-top sharpeners specifically designed for on-the-go-use. These new models included the Disc-Sharp, Simple-Sharp, and the first battery powered DMT sharpener coined the Sonic-Sharp.

Also in Europe, the first sales of Easy Absorb were noted. Initially listed on Amazon.de, the product line will soon be available at several of Europe's leading office suppliers. Noteworthy, is that next to the absorbing materials, the distributors are also very much interested in other Easy Absorb items, such as the safety cones.

Finally, First Aid Only recently broadened the capabilities of its SafetyHub app for SmartCompliance first aid cabinets. It is now

able to track anything in a facility that needs to be either serviced, replenished, or calibrated at certain intervals. For example, the expiration dates of all fire extinguishers in a facility can be uploaded into the app. Subsequently, 30 or 60 days before the due date, the user would get a push notification on the app alerting him to order new extinguishers. This also works for Automated External Defibrillators (AED's), in which batteries need to be replaced every so many years.

A new update to the app, scheduled to go live in the fourth quarter of this year, will provide predictive analytics for its users.

### Astonishing Online Growth

Acme United's online sales have grown by 100% annually over the past three years. The Company's management is optimistic that this momentum will continue in 2018.

This growth is achieved thanks to an outstanding product mix, a strong knowledge of how to end up on the first page of search queries, a large majority of positive online reviews, and promotional strategies that help the Company gain market share.

Amazon is quickly becoming Acme United's biggest customer. The first aid area in particular is showing exceptional strength online. Also Westcott, Camillus, Clauss, and DMT sell more products at online retailers such as Amazon and Jet, which is part of Walmart, almost on a month by month basis. The order and fulfilment patterns for online sales however are profoundly different compared with brick and mortar store sales. With online sales, Acme is receiving orders that closely match the timing of actual purchases by end users, which puts pressure on securing enough inventory without having to air freight it.

Furthermore, the Company incurred additional warehousing and logistics expenses due to the higher number of small packages and frequent shipping.

The measures taken in 2017 are now paying off. The speed, accuracy, and cost of deliveries in the warehouse have improved.

New software modules were installed to increase the efficiencies of the pick line and the Company built a mezzanine level to store the high volume products closer to the point of shipping.

## RECENT EVENTS

### Innovation in Acme United DNA Recognized by Multiple Awards

Innovation and eye for design are truly in the heart and soul of Acme United. This feat is recognized by millions of consumers worldwide, who prefer to buy well-designed office products, knives and fishing tools from Acme United rather than regular-looking product offerings from competitors. At the same time, this is also recognized by the industry, which regularly awards Acme's design. In the past, the Company won multiple GOOD DESIGN Awards, the IDEA Design Award, and the Teachers' Choice Award.

In May 2018, it was First Aid Only, Acme's supplier of SmartCompliance first aid kits, refills, and safety products, that received the spotlight as it won a Bronze Stevie Award. First Aid Only was nominated in the Business/Government category for the FAO SafetyHub App.



**First Aid Only won a Bronze Stevie Award in the Business/Government category in The 16th Annual American Business Awards.**

The Stevie Awards, organized by the American Business Awards, are the U.S.A.'s premier business awards program. All organizations operating in the U.S.A. are eligible to submit nominations – public and private, for-profit and non-profit, large and small.

More than 3,700 nominations from organizations of all sizes and in virtually every industry were submitted this year for consideration in a wide range of categories, including Startup of the Year, Executive of the Year, Best New Product or Service of the Year, Marketing Campaign of the Year, Live Event of the Year, and App of the Year, among others.

A Stevie Awards judge noted, "The mobile app offers a clean and easy way to navigate user experience which is coupled by a very robust web based back end management solution. The app is a good solve for an important topic."

Next to a Stevie Award, the Company was recently awarded a Platinum Pixie Award for Typographic Effects in its Westcott Hot Glue Pen Digital Marketing Video.

The mission of The Pixie Awards is to honor and promote outstanding individual work in Motion Graphics, Visual Effects, Animation, Games, and Typographic Effects. The Pixie Awards is sponsored by the American Pixel Academy, founded in 2008 by David E. Carter, also the founder of the Telly Awards and American Corporate Identity, and editor of the Creativity Annual.

By its constant drive to bring new products to the market, Acme United continues to gain market share in the school and office, outdoors, fishing, and first aid markets. Each year, the Company launches well over 100 new items. This is a vital part of what makes Acme United successful today.

## OUTLOOK & VALUATION

During the second quarter of 2018, Acme showed record sales performances in many categories and areas, including first aid and safety, Camillus and Cuda cutting products, DMT sharpening tools, Spill Magic absorbents, and the European business.

Although sales of Westcott back to school products were affected in the second quarter by an increasing shift from retail to online, they are expected to strongly rebound in the current quarter.

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!

Also in the third quarter, Acme will roll out its first aid and safety products to the largest industrial distributor. Moreover, Acme initiated a major distribution arrangement with a food service company that has started to take SmartCompliance throughout its entire customer base.

The SmartCompliance business 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.

Also the DMT, Camillus, and Cuda businesses continue to grow, and are expected to show a strong second half of the year. Furthermore, plenty of new tools will hit the market in the following months.

Mr. Johnsen concluded, "We had a very good first half of the year, and the second half is going to be even stronger".

## 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 20.95x, up from an average of 19.33x in our previous report.

Amounts in \$000's	2016	2017	2018E
<b>Total Revenue</b>	124,574	130,550	140,000
<b>Net Income</b>	5,851	5,297	5,700
<b>Annual sales and earnings FY 2016 – 2018E.</b>			
<b>Source: Company Filings and Company estimates</b>			

**Applying the 20.95x P/E multiple from the peer group to the estimated EPS for 2018, we reach the following calculation: \$1.53 estimated EPS multiplied by 20.95 = \$32.05.**

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$32.05, which is 44% above today's stock price.**

## SHARE DATA & OWNERSHIP

On June 30, 2018 Acme United had approximately 3,642,000 fully diluted common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management

Corporation (16.9%), Walter Johnsen (8.4%), Capital Management Corp (8.1%), Royce Capital Fund (3.9%), and Bard Associates Inc. (3.9%).

## 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 2015 – 6M 2018

All numbers in thousands

PERIOD ENDING	FY 2015	FY 2016	FY 2017	6M 2018
<b>Total Revenue</b>	<b>109,812</b>	<b>124,574</b>	<b>130,550</b>	<b>71,460</b>
Cost of Revenue	70,251	79,019	82,651	44,624
<b>Gross Profit</b>	<b>39,561</b>	<b>45,555</b>	<b>47,899</b>	<b>26,836</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	32,214	37,113	40,103	21,846
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	32,214	37,113	40,103	21,846
<b>Operating Income or Loss</b>	<b>7,347</b>	<b>8,442</b>	<b>7,796</b>	<b>4,990</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	(168)	(76)	25	61
Earnings Before Interest And Taxes	7,179	8,366	7,820	4,929
Net Interest Expense	565	869	1,327	850
Income Before Tax	6,614	7,497	6,493	4,079
Income Tax Expense	1,820	1,646	1,196	879
Net Income From Continuing Ops	4,794	5,851	5,297	3,200
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	1,245	-
<b>Net Income</b>	<b>4,794</b>	<b>5,851</b>	<b>4,052</b>	<b>3,200</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$4,794</b>	<b>\$5,851</b>	<b>\$4,052</b>	<b>\$3,200</b>

Annual Income Statement FY 2015 – 6M 2018. Source: Company Filings



# Acme United Corporation

## NYSE American: ACU

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