



Acme United Corp. (ACU)

Update Report – November 6, 2013

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

After achieving the best quarterly sales and earnings numbers in its entire history in the previous quarter, Acme United also set a new third quarter sales record for the period ending September 30, 2013. Strong sales of back-to-school products such as titanium kids scissors and stainless scissors contributed to the success. Sales of first aid kits to both the office and industrial markets were at record levels as well. Moreover, Clauss industrial tools and Camillus knives had an excellent quarter.

The fourth quarter of 2013 looks very strong as well. Camillus knives sales for hunting and Christmas time gifts should be solid, along with new hazard protection kits, and mass market promotions in Europe.

Acme United is on track to meet its sales and earnings estimates for 2013. To remain on the conservative side though, we will use the low end of the Company's own guidance, which is \$1.20 earnings per share for fiscal year 2013, or approximately \$3.99 million, an increase of about 12.4% in earnings per share and 6.7% in sales compared with 2012.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$21.55, which is almost 50% above today's stock price.



Acme United Corporation

✓ Acme is working hard to upgrade its new Rocky Mount warehouse facility it bought late August. While there will be duplicate operating costs and moving expenses, the Company will begin to realize savings as of next year. Even more importantly, Acme has put its U.S. distribution facilities in one location where it has plenty of room for growth.

✓ The trend of Acme United's results becoming less seasonal is starting to show more and more. Traditionally sales peaked in the second quarter due to the seasonal nature of the back-to-school market. And although the second quarter remains Acme's strongest, the other quarters are showing more growth.

✓ 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.



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, C-Thru Ruler, Clauss, Camillus, PhysiciansCare and Pac-Kit. 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.

The Company is optimistic for the current and following quarters. It foresees additional growth with Camillus, especially during the upcoming Christmas and hunting season. It will ship a large order of first aid hazard protection kits in this quarter. And in Europe more mass market sales are lined up. All of this should give fourth quarter sales a boost. Acme expects it to be about equal to the third quarter, which would be the first time in the Company's history.



Acme United's products are organized under six global brands: Westcott, C-Thru Ruler, Clauss, Camillus, PhysiciansCare and Pac-Kit.

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 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 in June of this year when the quarterly dividend was increased from 7 to 8 cents per share.

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 protection and True Professional sewing shears. In the measuring category Westcott offers rulers, drafting tools, lettering products and math tools.

C-Thru Ruler Company was formed in 1939 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 has become Westcott. For example, the C-Thru lettering products are now being sold under the Westcott brand. Other products for drafting and measuring are still being sold under the C-Thru brand.



A sample of the Westcott BetterLetter Plastic Letter Stencils, which used to be sold under the C-Thru brand name.

The acquisition 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.

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.

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 tools are currently only available at a major retailer in a limited number of stores as a test. They're selling well, which is encouraging as the retailer may start to offer the tools chain wide.

Also, 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. (Also see Growth Drivers)

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



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

Camillus is one of the oldest and best known knife manufacturers in the United States. It has roots dating back to 1876 and has always 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 in 2009. Since then, many new knives have 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 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. And a couple of weeks ago, Camillus was re-introduced in Europe, immediately attracting two distributors. (Also see Recent Events)

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. About twelve different kits are currently offered under this retailer's house brand, which are 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.

Financials

Third Quarter And Nine Months 2013 Results

After achieving the best quarterly sales and earnings numbers in its entire history in the previous quarter, Acme United also set a new third quarter sales record for the period ending September 30, 2013. Strong sales of back-to-school products such as titanium kids scissors and stainless scissors contributed to the success. Sales of first aid kits to both the office and industrial markets were at record levels as well. Moreover, Clauss industrial tools and Camillus knives had an excellent quarter.

Amounts in \$000's	09/30/13	09/30/12
Net Sales	22,135	20,363
Cost of Goods Sold	14,195	12,937
S, G & A Expenses	6,531	6,067
Income From Operations	1,409	1,359
Pre-Tax Income	1,323	1,269
Income Tax Expense	364	471
Net Income	959	798
Diluted Shares Outstanding	3,325	3,133
Diluted Earnings Per Share	0.29	0.26
Most important income statement data for the quarters ending September 30, 2013 and September 30, 2012. Source: Company Filings		

Acme's net sales for the third quarter were \$22.1 million compared to \$20.4 million in the same period

in 2012, an increase of 9%. Net income for the third quarter was \$959,000, or \$.29 per diluted share, compared to \$798,000 or \$.26 per diluted share for the comparable period in 2012, an increase of 20% in net income and 12% in diluted earnings per share.

Sales for the nine months ending September 30, 2013 were \$68.2 million compared to \$64.8 million in the same period in 2012, an increase of 5%. Net income for the nine months ended September 30, 2013 was \$3,479,000, or \$1.07 per diluted share, compared to \$3,118,000, or \$1.00 per diluted share in the comparable period last year, a 12% increase in net income and 7% in diluted earnings per share.

The Company's gross margins were 36% for the three and nine months ended September 30, 2013 and 2012, respectively.

Solid US and European Segments

Acme United reports financial information on three separate business segments: the United States (including Asia), Canada and Europe. During the third quarter of 2013, net sales increased 11% in the US segment compared with the same period in 2012. This was mainly due to increased Camillus knives, back-to-school and first aid kits sales.

In Canada, net sales decreased 15% in local currency for the three months ended September 30, 2013 compared to the same period in 2012. This is the second quarter in a row in which Canadian sales decline due to a slow office channel market resulting from continued weakness in the Canadian economy. However, Acme is seeing a reversal as orders are picking up in the current quarter. Additionally, orders were received from several Canadian chains for the Scotts Miracle-Gro lawn and gardening tools. Also Camillus and Clauss are making inroads with some major distributors, which makes the Company hopeful for 2014.

European net sales for the three months ended September 30, 2013 were up 19% in local currency, compared to the same period last year mainly thanks to higher sales to mass market retailers. Acme expects to realize more mass market sales in the current quarter.

Balance Sheet As Of September 30, 2013

As for the Company's balance sheet, Acme's bank debt less cash and cash equivalents on September 30, 2013 was \$13.2 million compared to \$14.2 million on September 30, 2012. The decrease of \$1

million can be attributed to the fact that during the 12 month period ended September 30, 2013, Acme purchased the new distribution facility in North Carolina for \$2.8 million and paid \$900,000 in dividends on its common stock.

Additionally, on August 21, 2013 the Company received \$1.7 million from early repayment of a mortgage receivable and during the 12 month period the Company also generated \$3 million in cash flow from operations.

Amounts in \$000's	09/30/13	09/30/12
Cash and Cash Equivalents	11,809	10,105
Accounts Receivable	17,488	16,058
Inventories	29,280	29,992
Total Current Assets	60,461	58,066
Other Assets	10,276	9,594
Total Assets	70,737	67,660
Accounts Payable	5,016	6,513
Total Current Liabilities	10,260	11,809
Long Term Debt	25,031	24,321
Total Liabilities	36,285	37,282
Total Stockholder Equity	34,452	30,378
Most important balance sheet data for the periods ending September 30, 2013 and September 30, 2012. Source: Company Filings		

Also noteworthy is that despite the fact that Acme's sales have grown compared with a year ago and that the number of products has expanded, its inventory declined by about \$700,000. This is mainly because the Company lowering the safety stock it holds in its warehouses by one week. So instead of having x number of weeks of inventory for each product, it now has x minus one week of inventory. Additionally, the minimum order quantity for many products was reduced, which increases the cycle time but also reduces inventory some more.

A final item that the Company worked on to reduce inventory was to remove duplicated products. For example, in some cases the same product had two types of packaging. So they standardized the packaging. Managing inventory well continues to be a true balancing act. Acme did a great job by reducing it with \$700,000, which can be spent on other projects to grow the Company.

As a direct result of reduced inventories, accounts payable is down as well by about \$1.5 million.

As of September 30, 2013 the Company had a current ratio of 5.89 and a return on equity of 11.35.

Growth Drivers

Intellectual Property, Acme United's Heart & Soul

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.

For example, Acme United's patents for non-stick coatings. 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 was 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 in stores.

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.

First Sales of Clauss/ScottsMiracle-Gro Gardening Tools

In April of this year, Acme formed a partnership with The ScottsMiracle-Gro Company to market and sell two lines of lawn and gardening tools branded 'Scotts' and 'Miracle-Gro'. The tools are manufactured by Acme's Clauss brand and carry the 'powered by Clauss technology' label.

Although The ScottsMiracle-Gro Company is known worldwide for its fertilizers and pesticides for professional and at-home use, these are the first lawn and garden tools in its extensive line of products. Scotts will advertise the tools in their catalogues and at trade shows.

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.

It's very encouraging to know that the first Scotts tools will be placed at some fairly large chains in Canada in the first quarter of 2014. Also in Europe the sales team is making presentations to retail chains. The gardening tools will have a positive impact on first quarter sales numbers, as they need to be in stores ahead of the gardening season.

Recent Events

Camillus Re-Launched in Europe

As distribution and sales of Camillus knives continues to increase throughout the United States and Canada, it was the right time to re-launch the brand in Europe as well. The fact that the Camillus name is still well recognized helped the European sales team to reintroduce the knives.

Acme first concentrated on the Scandinavian countries, where outdoor is still a part of people's daily life. It found a solid Swedish distributor for the Camillus range in Sweden and Norway. And only a couple of weeks ago it signed a contract with one of the leading knife manufacturers and distributors in German speaking countries. First shipments start this quarter.

The Company aims to regain part of the market share it had in the past. It looks like the Les Stroud knives and accessories are popular in Europe as well. The European sales team is currently taking initiatives to expand the number of distributors.

Acme Commences Refurbishment of New Warehouse and Distribution Center

Late August 2013, Acme United purchased a 340,000 square feet manufacturing and distribution center in Rocky Mount, North Carolina. The facility was formally owned by Room Store which went bankrupt and was liquidated. Acme paid \$2.8 million for it, or \$8.30 per foot, which is less than many rental rates per year for warehouse space.



Acme's new manufacturing and distribution center in Rocky Mount, North Carolina has 40 foot ceilings and 27 bay doors.

The building will be used to consolidate the Company's two current distribution centers in North Carolina, which, combined, 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 Goldsboro, 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 Fremont, North Carolina. The inventory from this building will be moved to Rocky Mount by March 1, 2014. The Fremont warehouse is already on the market for \$900,000.

At this moment Acme is working hard to upgrade its Rocky Mount warehouse. The Company will spend approximately \$1.2 million on the refurbishment of the building and additional equipment.

Because it had been vacant for a year there was no certificate of occupancy. So the air conditioning, water, septic, electrical systems and sprinklers all had to be tested. The offices are being refurbished, oil tanks are being removed from the property, new floors are coming in and the loading docks are being adjusted so that they have the proper height for the trucks. Also, a new conveyor system is being installed, the facility is being rewired and it's being equipped with a new phone system.

Until Acme moves out of its current warehouses, there will be duplicate operating costs. Together with the moving expenses, these costs will amount to

approximately \$160,000 in the fourth quarter of this year, and about \$80,000 in the first quarter of 2014. After that, Rocky Mount will start generating cost savings very quickly, which will be beneficial to Acme's profitability.

John Ward New Head of Acme United Canada

A few weeks ago, Acme United hired John Ward as General Manager of Acme United Canada. He replaces Harry Wanless, who retired.

Mr. Ward was formerly Director of Sales at Esselte Corporation, where he was a key contributor to the successful launch and growth of the Dymo identification product line. After Esselte's acquisition by Newell Rubbermaid in 2005, Mr. Ward was promoted to Director of Sales and Channel Marketing at Newell Rubbermaid Canada.

Mr. Ward will head Acme United Canada, consisting of about 20 people. The initial goal is to increase the office channel business in which Acme's Canadian division already has a strong market position.

Another focus is on the introduction of the new Clauss lawn and garden tools. This is a new and lucrative market which Clauss is tapping in to, so it certainly has the potential to grow into a meaningful business. Finally, since Mr. Ward has a special interest in hunting and fishing, also expanding the Camillus knives distribution in Canada will be high on his priority list.

Outlook & Valuation

Acme continues to break sales records. The Company is optimistic for the current and following quarters. It foresees additional growth with Camillus, especially during the upcoming Christmas and hunting season. It will ship a large order of first aid hazard protection kits in this quarter. And in Europe more mass market sales are lined up. All of this should give fourth quarter sales a boost. Acme expects it to be about equal to the third quarter, which would be the first time in the Company's history.

Also in Canada, which has seen some slowness in the past two quarters, growth is expected in the coming quarters. The ScottsMiracle-Gro gardening tools have been placed at several retailers, Camillus is making inroads and Clauss has a real chance to increase its distribution next year.

Acme is working hard to upgrade its new Rocky Mount warehouse facility it bought late August. And while there will be duplicate operating costs and moving expenses, the Company will begin to realize savings as of next year. Even more importantly, Acme has put its U.S. distribution facilities in one location where it has plenty of room for growth.

Acme is providing guidance for fiscal year 2013 of about \$90 million with earnings per share between \$1.20 and \$1.22. The high end of the range was lowered from \$1.25 in the previous quarter, because of one-time costs related with the Rocky Mount warehouse.

Other Quarters Growing

The trend of Acme United's results becoming less seasonal is starting to show more and more. Traditionally sales peaked in the second quarter due to the seasonal nature of the back-to-school market. And although the second quarter remains Acme's strongest, the other quarters are showing more growth.

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.

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 21.13x, up more than 10% from 19.13x in our

previous report. The rise is mostly attributable to the 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 15% discount to the average P/E ratio. Taking the discount into account, we end up with an average P/E ratio of 17.96x for the office supplies industry.

Valuation

Acme United is on track to meet its sales and earnings estimates for 2013. To remain on the conservative side though, we will use the low end of the Company's own guidance, which is \$1.20 earnings per share for fiscal year 2013, or approximately \$3.99 million, an increase of about 12.4% in earnings per share and 6.7% in sales compared with 2012.

Amounts in \$000's	2011	2012	2013E
Total Revenue	73,302	84,370	90,000
Net Income	2,811	3,549	3,990
Annual sales and earnings FY 2011 – 2013E. Source: Company Filings and Smallcaps.us estimates			

Using the \$1.20 EPS projection for FY 2013 and applying the 17.96x P/E multiple from the peer group, we reach the following calculation: \$1.20 estimated EPS multiplied by 17.96 = \$21.55.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$21.55, which is almost 50% above today's stock price.

Share Data & Ownership

As of September 30, 2013, there were approximately 3,325,000 common shares of Acme United outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (11.6%), Walter Johnsen (10.5%), First Wilshire Securities Management (8.8%), Bard Associates Inc. (5.3%) and Dimensional Fund Advisors (3.1%).

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 – 9M 2013

All numbers in thousands

PERIOD ENDING	FY 2009	FY 2010	FY 2011	9M 2013
Total Revenue	63,149	73,302	84,370	68,198
Cost of Revenue	39,784	46,977	54,623	43,749
Gross Profit	23,365	26,325	29,747	24,449
Operating Expenses				
Research & Development	-	-	-	-
Selling, General and Administrative	20,385	22,040	24,386	19,334
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	20,385	22,040	24,386	19,334
Operating Income or Loss	2,980	4,285	5,361	5,115
Income from Continuing Operations				
Total Other Income (Expenses) Net	232	145	80	15
Earnings Before Interest And Taxes	3,212	4,430	5,441	5,100
Interest Expense	301	404	444	242
Income Before Tax	2,911	4,026	4,997	4,858
Income Tax Expense	338	1,215	1,448	1,379
Minority Interest	-	-	-	-
Net Income From Continuing Ops	2,573	2,811	3,549	3,479
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	2,573	2,811	3,549	3,479
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$2,573	\$2,811	\$3,549	\$3,479

Annual Income Statement FY 2010 – 9M 2013. Source: Company Filings



Acme United Corporation

NYSE Amex: ACU

Company Headquarters

60 Round Hill Road
Fairfield, CT 06824
United States

Company Contact Information

Paul G. Driscoll, Chief Financial Officer
Phone: +1 203-254-6060
Fax: +1 203-254-6019

This Company Report is prepared and distributed by Smallcaps.us
editor@smallcaps.us

About Smallcaps.us

Smallcaps.us, highlights solid and honest companies with a market cap below \$100 million. We focus on fundamentally undervalued Companies with real revenues and earnings and we have a special interest in stocks with a high potential, innovative product or service.

Disclaimer

This publication has been prepared by Wizard Media Group, which owns and operates the website <http://www.smallcaps.us>. Wizard Media Group is not a registered financial advisor, nor is it a stockbroker or investment advisor.

This publication is provided for information purposes only and is not intended to be an offer, or the solicitation of an offer, to buy or sell the securities referred to herein.

Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. Past performance is no guarantee for future results. Wizard Media Group nor any of its employees shall be responsible for any investment decision.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. However its accuracy and completeness is not guaranteed. All opinions, forecasts and estimates herein reflect the judgment of Wizard Media Group on the date of this publication.

This Company Report may contain certain "forward-looking statements" within the meaning of applicable securities laws, including without limitation, statements related to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth, and (iii) other risks and uncertainties indicated from time to time in the Company's public filings.

Wizard Media Group receives \$2,000 USD per month from Acme United Corporation to develop and execute a communication plan to enhance the Company's exposure to the investor community. Any and all compensation received from companies profiled on Smallcaps.us is mentioned in the disclaimer.

Wizard Media Group and/or its employees may hold positions in companies mentioned. However, it is prohibited for Wizard Media Group and/or its employees to trade in financial instruments of companies one week prior to publication of the initial Company Report or a rating change until one week thereafter.

No part of this publication may be reproduced in any manner without the prior written consent of Wizard Media Group. © 2003 - 2013 Wizard Media Group.