

Smallcaps

Investment Research

Acme United Corp. (ACU)

Company Report – March 15, 2014

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 broke another sales record in fiscal year 2013. All of the Company's five brands contributed to its strong performance. Acme constantly introduces new tools and gains market share with its existing products, leading to growth in both revenues and earnings.

For 2014, Acme estimates it can increase its revenues to around \$100 million, which would be a significant milestone in the Company's history. As for its earnings in 2014, the Company gave an estimate of between \$4.3 million and \$4.6 million, or earnings per share between \$1.26 and \$1.33. With many new products, such as Camillus knives, Clauss gardening tools and first aid kits lined up to enter stores, we're confident the Company's guidance will again be achieved in 2014.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$25.32, which is 44% above today's stock price.



- ❑ The Company's balance sheet is very strong and can handle an acquisition when the right opportunity comes along. Acme was able to reduce its inventory by more than \$2 million the past year, despite sales growth and the increasing number of new products.
- ❑ When Acme consolidates its warehouses and production facility into its new 340,000 square foot Rocky Mount facility, it will generate annual cost savings of approximately \$750,000. The Rocky Mount warehouse won't increase sales, but it sure will improve the Company's bottom line.
- ❑ 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.



Market Data

Price	\$17.58
Sector	Office Supplies
52-Week Price Range	\$10.52 - \$17.88
Shares Issued (m)	3.39
Market Cap (m)	\$59.68
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 other cutting tools.

Acme United's products are organized under five global brands: Westcott, 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.

All of Acme's brands contributed to record sales in fiscal year 2013, ended December 31, 2013. The first aid business, under the Pac-Kit and PhysiciansCare brands, showed strong growth in the office channel and industrial safety market. Several new kits are available for office, home and outdoor use. Camillus Knives gained distribution in a number of large outdoor sporting goods chains, hunting stores, as well as with mass market retailers such as Wal-Mart. Camillus was also launched in Europe in the course of 2013 and immediately attracted a number of distributors.

Also Westcott, the school and office products brand, registered market share gains with its titanium and non-stick scissors and continued growth of its iPoint pencil sharpeners. In addition, the industrial cutting tools brand Clauss gained wider distribution with hardware and mass markets thanks to the introduction of a new line of gardening tools, marketed in partnership with The Scotts Miracle-Gro Company (NYSE: SMG).

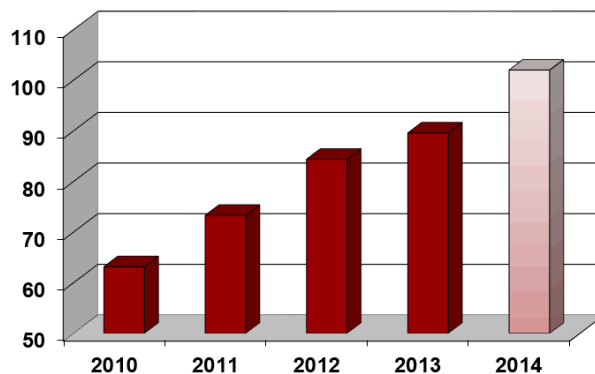
For 2014, Acme expects to increase its sales to between \$97 and \$102 million, an increase of between 8 and 14 percent. At the same time, the Company foresees earnings of between \$4.3 million and \$4.6 million in 2014, or earnings per share of between \$1.26 and \$1.33, an increase of between 3% and 9% respectively.

Acme United succeeds in re-inventing everyday products like scissors, knives and school and office items by applying new and

improved 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 blades get a non-stick coating, which 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 new line of Clauss lawn & garden products equipped with non-stick coated blades was introduced.

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.



Acme United's revenue growth since 2010, including 2014 projections (in millions USD).

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.

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 2013 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 a 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 June of 2012, Acme purchased the inventory, tooling, brands, and other intellectual property of C-Thru Ruler Company for approximately \$1.47 million. After the acquisition, the C-Thru products were gradually integrated into the Westcott family. So, the identity of C-Thru in most cases has become Westcott. For example, the lettering products below were originally sold under the C-Thru brand and now under the Westcott brand.

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 few 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 them chain wide.

Also, two new lines of gardening tools, marketed in partnership with The ScottsMiracle-Gro Company, will soon be available at retail stores. The tools will be branded 'Scotts' and 'Miracle-Gro', but they will also carry the 'powered by Clauss technology' label. (Also see Growth Drivers)



The new Clauss Miracle-Gro pruner, which will soon be available in the United States and Canada.

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.

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 to build and sell Camillus survival knives and tools, co-designed and promoted by Les Stroud. The initial four knives under the Les Stroud Signature name were introduced in 2012 and immediately sold well. Last year, five additional Les Stroud knives, called the 'Les Stroud Elite Series', were introduced and had similar success. And now three more tools are added to the family with more to come shortly.

Camillus' distribution continues to rapidly increase. The knives are available at several mass market retailers like Wal-Mart and many major sporting goods chains like Cabellas, Academy Sports and Bass Pro. Additionally, more distributors are being attracted worldwide. (Also see Growth Drivers and Recent Events)

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.

Soon after Acme 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, Pac-Kit's revenues rapidly increased and the brand started contributing nicely to Acme's bottom line.

Since then, both the number of first aid products under the Pac-Kit name and their distribution has broadened. 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.

FINANCIALS

Fourth Quarter And Full Year 2013 Results

Acme United had an excellent 2013. It achieved record revenues of \$89.6 million, compared to \$84.4 million in 2012, an increase of 6%. Net income for the year ended December 31, 2013 was \$4,003,000, or \$1.22 per diluted share, compared to \$3,549,000, or \$1.13 per diluted share last year, a 13% increase in net income and 8% increase in diluted earnings per share.

During the fourth quarter of 2013, net sales reached \$21.4 million, compared with \$19.5 million in the fourth quarter of 2012, an increase of 9%. Net income for the fourth quarter of 2013 was \$524,000, or \$.15 per diluted share, compared to \$431,000 or \$.14

per diluted share, for the comparable period of 2012, an increase of 22% in net income and 7% in diluted earnings per share.

Amounts in \$000's	12/31/13	12/31/12
Net Sales	21,379	19,534
Cost of Goods Sold	14,004	12,979
S, G & A Expenses	6,612	6,090
Income From Operations	763	465
Pre-Tax Income	635	396
Income Tax Expense	111	35
Net Income	524	431
Diluted Shares Outs.	3,395	3,175
Diluted EPS	0.15	0.14
Most important income statement data for the quarters ending December 31, 2013 and December 31, 2012. Source: Company Filings		

Walter C. Johnsen, Chairman and CEO said, "We performed well throughout the year, and I am pleased with the financial results. We achieved record sales, strengthened our product offerings across all our brands, and acquired a superb facility in North Carolina to consolidate many of our operations. Mr. Johnsen added that the company has continued to build its balance sheet, and is positioned to finance continued growth."

Gross margins were 34.5% in the fourth quarter of 2013 versus 33.6% in the comparable period last year. Gross margins were 35.5% for the year ended December 31, 2013 versus 35.3% for the comparable period in 2012.

European Segment Profitable

Acme United reports financial information on three separate business segments: the United States (including Asia), Canada and Europe. In the U.S. segment, sales for the fourth quarter and full year 2013 increased 11% and 9%, respectively, compared to the same periods in 2012.

The increases for both periods were primarily due to higher sales of Camillus knives and back to school products as well as increased distribution of first aid kits. The U.S. segment is by far Acme's largest one making up more than 82% of worldwide sales.

In Canada, sales in the fourth quarter of 2013 decreased 7% in U.S. dollars (even in local currency) and were 8% lower in U.S. dollars and local currency for the full year, mainly due to general softness in the office products industry.

The Company is addressing this decline by introducing new cutting and measuring tools in the office channel. It's also putting more emphasis on sales of hunting knives and survival tools. The launch of the Clauss/ScottsMiracle-Gro gardening tools should also benefit the Canadian division. Additionally, it will introduce first aid kits in the Canadian market, although this is tougher than it sounds because of many regulations that have to be taken into account. The Canadian segment contributes about 9% to Acme's total sales.

European net sales in the last three months of the year climbed 8% in U.S. dollars (2% in local currency) compared to the same period last year and decreased 2% in U.S. dollars (5% in local currency) for the full year. Although the results are about even, this is a strong achievement by the European team knowing that a year and a half ago it lost its biggest customer Schlecker, due to its bankruptcy and liquidation. Schlecker represented about \$1.7 million in annual sales. The lost business was replaced by strong sales to the office channel and increased mass market sales of innovative kitchen knives, manicure sets and other cutting tools. Although sales to mass market retailers are somewhat lumpy as they are mostly promotional one-time sales, they have a meaningful impact on the Company. Overall, the European segment achieved profitability in 2013. Europe remains Acme's smallest segment as it adds approximately 8.8% to sales.

Balance Sheet As Of December 31, 2013

Acme's balance sheet is very strong. Its bank debt less cash and cash equivalents on December 31, 2013 was \$11.3 million compared to \$14.6 million on December 31, 2012.

Noteworthy is that despite Acme’s sales growth and the increase of new products, its inventory declined by more than \$2 million. This is mainly because the Company lowered 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 increased the cycle time but also reduced inventory some more.

Another item 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 by this much. Money, which now can be spent on, for example, acquisitions.

Amounts in \$000's	12/31/13	12/31/12
Cash and Cash Eq.	11,644	9,750
Accounts Receivable	15,629	16,442
Inventories	28,219	30,292
Total Current Assets	56,986	58,409
Other Assets	5,936	5,364
Total Assets	68,079	67,828
Accounts Payable	4,789	6,480
Total Current Liabilities	9,876	11,730
Long Term Debt	22,912	24,320
Total Liabilities	33,074	36,962
Total Stockholder Equity	35,005	30,866
Most important balance sheet data for the periods ending December 31, 2013 and December 31, 2012. Source: Company Filings		

During the year ended December 31, 2013, Acme purchased a new distribution facility in North Carolina for \$2.8 million, added \$.9 million in refurbishments to the facility (see below), and paid \$.7 million in dividends on its common stock. On August 21, 2013 the Company received \$1.7 million from early repayment of a mortgage receivable. The Company also generated \$5.5 million in free cash flow in 2013.

GROWTH DRIVERS

Camillus Distribution Increasing

As distribution and sales of Camillus knives continues to increase throughout the United States and Canada, Acme decided 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 live. It attracted a good Swedish distributor for the Camillus range in Sweden and Norway. And only a few weeks later, it signed a contract with a leading knife distributors in German speaking countries.

Camillus has an exciting new array of hunting, fixed blade knives and folding knives. The Company intends to again expand its number of distributors in 2014 in Europe, Canada, the U.S., but also in places like Australia, South Africa and the Philippines.

Clauss/ScottsMiracle-Gro Gardening Tools

In April of last 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.

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

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 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 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.

The first Scotts tools will shortly be available at Wal-Mart and Sam's Stores. Also in Canada they will be placed at a large retail chain and in Europe the sales team is making presentations to potential buyers. The gardening tools will have a positive impact on first quarter sales numbers.

RECENT EVENTS

New Warehouse Generates Significant Cost Savings

Late August 2013, Acme United purchased a 340,000 square foot manufacturing and distribution center in Rocky Mount, North

Carolina for \$2.8 million, which is very cheap knowing that replacing the building would probably cost around \$14 million.



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

Before that, the Company had two distribution centers, which, combined, were only half the size of the new one. As a result, Rocky Mount provides lots of space for additional growth at almost zero extra cost.

The consolidation of the warehouses has progressed on plan and all goods have now been moved to Rocky Mount. One old warehouse was leased. The lease has now been terminated, which will save Acme about \$200,000 annually. The second warehouse was owned by Acme and is now on the market for \$900,000. Moreover, once it's sold Acme will save about \$250,000 per year on property taxes, maintenance, insurance and utility costs.

Even more operating leverage is expected later this year when the production of Pac-Kit first aid kits, which is currently handled in a leased facility in Norwalk, Connecticut, is moved to Rocky Mount. The annual savings goal there is over \$300,000.

Looking at the entire picture, the move to Rocky Mount generates annual cost savings of \$750,000 without taking into account the expected operating and freight efficiencies, making it an excellent purchase.

Duplicate operating costs and moving expenses amounted to about \$130,000 in the fourth quarter of 2013. In the current quarter there will be a final cost of about \$70,000. As of the next quarter, the Rocky Mount facility will generate efficiencies and cost savings, which will be beneficial to Acme's profitability.

In addition, the Company is in negotiations with officials of the State of North Carolina about an incentive package to create jobs in the new facility. More news is expected about this when the Pac-Kit operation is moved.

Purchasing the Rocky Mount warehouse was a great move by Acme United's management. The facility won't increase sales, but it sure will improve the Company's bottom line.

New Sales Director in Europe

Last month, Patrick Romboy assumed the newly created position of Sales Director at Acme United Europe. He will be responsible for mass market sales to chains like Aldi, Lidl, Rewe and Norma. As mentioned in the financials, the European segment has recently become profitable mainly thanks to promotional offerings to these well-known retailers.

Mr. Romboy brings several years of experience and an extensive knowledge of the European retail market to the table. In a similar position, he has worked with multinational companies such as Auchan, Dixons, Lidl, Media International Market and Metro AG.

"With Patrick Romboy we have found the perfect complement to our sales department and we look forward to a successful collaboration and continuous expansion of our European operations," said Georg Bettin, the Managing Director at Acme United Europe.

Camillus Thrives at Shot Show

In January, the 36th SHOT Show was held at the Sands Expo & Convention Center in Las Vegas. Manufacturers of firearms, ammunition, optics, cutlery, apparel, accessories and law enforcement equipment introduced new products and services that retailers will offer consumers during the course of the year.

More than 1,600 exhibiting companies from over 100 countries filled the 635,000 square feet exhibition space. Also Camillus Knives had a booth at the event. Acme attended the

Shot Show, with representatives from the US, Canadian, European and Asian divisions. This is Acme's biggest marketing event of the year and it also indicates Camillus' growing success.

Rick Constantine, the Vice-President of Marketing at Acme was quoted saying: "It was the best show ever in Acme's existence with Camillus". He mentioned that the Company had significant success with buyers from Europe, Asia and Canada. In the latter, Camillus products will soon be introduced at another prominent retailer.

Over twenty-nine new Camillus products were launched, including new Les Stroud tools (a hatchet, saw and multi-tool) and Les Stroud survival kits. The Camillus tools co-designed and promoted by outdoor adventurer Les Stroud sell extremely well. 'Survivorman', who attended the Camillus booth to promote the new tools, continues to attract massive amounts of visitors. At one point, visitors were in the queue for 2.5 hours to get an autograph.



The three new Les Stroud survival tools for 2014

Additionally, the Company announced that G&G Hawk and WZ Knives will soon hit retail. Additionally, Camillus launched its new collaborative-designed "Camillus by Tops" knives. These new Camillus knives are manufactured in the USA by Tops knives. Camillus will soon launch more knives from the joint-collaboration.

With over 67,000 visitors, the Shot Show shattered attendance records, giving industry professionals good reason to believe that 2014 will be another strong year for sales of firearms, ammunition, knives and outdoor gear.

Strong market demand, along with the high number of new Camillus products, gives us every reason to believe that Camillus will continue its successful growth story.

OUTLOOK & VALUATION

Acme broke another sales record in fiscal year 2013. All brands contributed to this strong performance.

Acme United constantly introduces new tools and gains market share with its existing products, leading to growth in both revenues and earnings. The Company's balance sheet is healthy and can handle an acquisition when the right opportunity comes along.

For 2014, Acme estimates it can increase its revenues to around \$100 million, which would be a significant milestone in the Company's history. As for its earnings in 2014, the Company gave an estimate of between \$4.3 million and \$4.6 million, or earnings per share between \$1.26 and \$1.33.

With many new products, such as Camillus knives and first aid kits, lined up to enter stores, we're confident the Company's guidance will again be achieved in 2014.

Results Becoming Less Seasonal

The trend of Acme United's results becoming less seasonal is starting to show more and more. Traditionally the Company's sales relied heavily on the office products and back-to-

school markets, for which sales peaked in the second and third quarter.

Although the second quarter remains Acme's strongest, the other quarters are showing more growth. For example, sales for the fourth quarter in 2010 were \$13.4 million, while they were \$21.4 million in the fourth quarter of 2013, an increase of 60%. In the full year 2010, sales were \$63.1 million versus \$89.5 million last year, an increase of 42.8%. While this is an impressive growth rate for the full year, it indicates that fourth quarter sales have risen even stronger.

This is because Acme brought in other products such as the lawn and garden tools in partnership with ScottsMiracle-Gro. These 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. And finally Camillus knives, which are often used for hunting in the fall and they are also typical Christmas and holiday gifts.

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 Housewares & Accessories industry. The average P/E ratio for a Company in that industry is 23.00x, up almost 9% from

21.13x 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 19.55x for the Housewares & Accessories industry.

Valuation

Until we have a clearer picture of how Acme's results develop in 2014, we'll use the average of the Company's sales and earnings projections in our valuation.

Therefore, our estimates for fiscal year 2014 are revenues of \$99.5 million and earnings of \$1.295 per share, or approximately \$4.45 million. This increase is certainly achievable as many new products are scheduled to enter the market shortly. Moreover, these estimates exclude any potential acquisition, which may happen as the Company's management is always looking to take over a brand or product that can easily be integrated and because Acme's balance sheet can handle it.

Amounts in \$000's	2012	2013	2014E
Total Revenue	84,370	89,577	99,500
Net Income	3,549	4,003	4,450
Annual sales and earnings FY 2012 - 2014E.			
Source: Company Filings and Smallcaps Investment Research estimates			

Using the \$1.295 EPS projection for FY 2014 and applying the 19.55x P/E multiple from the peer group, we reach the following calculation: \$1.295 estimated EPS multiplied by 19.55 = \$25.32.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$25.32, which is 44% above today's stock price.

SHARE DATA & OWNERSHIP

As of September 30, 2013, there were approximately 3,395,000 common shares of Acme United outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (11.8%), Walter Johnsen (10.1%), First Wilshire Securities Management (8.6%), Bard Associates Inc. (5.1%) 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 – FY 2013

All numbers in thousands

PERIOD ENDING	FY 2009	FY 2010	FY 2011	FY 2013
Total Revenue	63,149	73,302	84,370	89,577
Cost of Revenue	39,784	46,977	54,623	57,753
Gross Profit	23,365	26,325	29,747	31,824
Operating Expenses				
Research & Development	-	-	-	-
Selling, General and Administrative	20,385	22,040	24,386	25,945
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	20,385	22,040	24,386	25,945
Operating Income or Loss	2,980	4,285	5,361	5,879
Income from Continuing Operations				
Total Other Income (Expenses) Net	232	145	80	35
Earnings Before Interest And Taxes	3,212	4,430	5,441	5,844
Interest Expense	301	404	444	350
Income Before Tax	2,911	4,026	4,997	5,494
Income Tax Expense	338	1,215	1,448	1,491
Minority Interest	-	-	-	-
Net Income From Continuing Ops	2,573	2,811	3,549	4,003
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	2,573	2,811	3,549	4,003
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$2,573	\$2,811	\$3,549	\$4,003

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



Acme United Corporation

NYSE MKT: ACU

Company Headquarters

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