

Smallcaps

Investment Research

Acme United Corp. (ACU)

Company Report – August 09, 2014

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

The Company achieved record sales and earnings during its second quarter, ended June 30, 2014. Sales reached \$33.4 million, an increase of 18% compared to the second quarter in 2013. Net income in the second quarter of 2014 was \$2,543,000, or \$.72 per diluted share, up 15% compared to the same period last year.

Thanks to the recent First Aid Only (FAO) acquisition and strong organic growth, the Company increased its sales guidance for 2014 to \$108 million, up from between \$97 and \$102 million. In addition, the Company foresees earnings in 2014 of between \$1.35 to \$1.38 per share, up from between \$1.26 and \$1.33 per share. Moreover, for 2015, Acme expects to achieve revenues of between \$125 million and \$130 million.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$26.04, which is 55% above today's stock price. This is an excellent time to add shares of Acme United to your portfolio.



- Acme United acquired First Aid Only, a supplier of first aid kits, refills, and safety products, in June, 2014 for \$13.8 million in cash. FAO employs 100 people and supplies first aid goods to well-known businesses such as McDonalds, Subway and Costco. First Aid Only immediately became accretive to Acme's earnings.
- An entire line of fishing knives and tools, under the new brand Cuda, was recently launched at ICAST. Similar to what Camillus did with Les Stroud, Cuda partnered with six professional fishermen who will use the Cuda tools on their popular TV shows. The tools are expected to be in stores in the fourth quarter.
- A few days ago, Acme United's Board of Directors approved a 13% quarterly dividend increase to 9 cents per share. This is the 8th dividend increase in the past 10 years.



Market Data	
Price	\$16.72
Sector	Office Supplies
52-Week Price Range	\$10.52 - \$19.47
Shares Issued (m)	3.54
Market Cap (m)	\$59.17
Listings	ACU (NYSE Mkt)
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, fishing, hardware and industrial markets. Its principal products are scissors, shears, rulers, pencil sharpeners, knives and first aid kits.

The Company's products are organized under seven brands: Westcott, Clauss, Camillus, PhysiciansCare, Pac-Kit, First Aid Only and Cuda. 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.

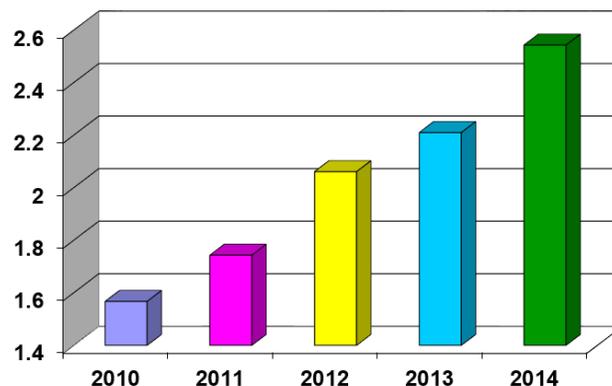
Acme reported record sales and earnings for its second quarter, ended June 30, 2014. Net sales were \$33.4 million, compared to \$28.4 million in the comparable period of 2013, an increase of 18%. Excluding additional sales resulting from the First Aid Only acquisition, comparable sales increased 10%. Net income for the quarter ended June 30, 2014 was \$2,543,000, or \$.72 per diluted share, compared to \$2,210,000, or \$.68 per diluted share, for the comparable period in 2013, an increase of 15% in net income and 6% in diluted earnings per share.

During the conference call, following the announcement of the second quarter results, Walter C. Johnsen, Acme United's Chairman and CEO, increased the Company's guidance for 2014 thanks to strong organic growth and the First Aid Only contribution. Sales are now expected to reach \$108 million in 2014, up from between \$97 and \$102 million. In addition, the Company foresees earnings in 2014 of between \$1.35 to \$1.38 per share, up from between \$1.26 and \$1.33 per share.

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. While this already existed on pots and pans, 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 were also equipped with non-stick coated blades.



Acme's impressive second quarter earnings growth during the past five years (in millions USD).

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.

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 a couple of weeks ago when the quarterly dividend was increased from 8 to 9 cents per share. (Also see Recent Events)

BRANDS

Westcott, which began as a ruler company more than 140 years ago, sells between 60 and 80 million scissors, and between 15 and

18 million rulers annually, making it the leading scissors brand in the United States and one of the leading ruler brands in North America.

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

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



The Westcott 'X-Ray' scissors sold very well in the second quarter.

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 has become Westcott in most cases.

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.

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, shortly 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 and many others.

Similar to Acme's other brands, Clauss applies its proprietary coatings to everyday tools, making them stronger and more convenient to work with. In 2013, for example, Clauss introduced two lines of lawn and gardening tools in partnership with The ScottsMiracle-Gro Company. The pruners, snips, floral knives, loppers, hedge shears and branch saws have titanium bonded blades, making them 3 times harder than untreated stainless steel. In addition, the blades are non-stick so that saps and adhesives don't stick to them. The tools also feature Microban antibacterial treated blades and grips to protect the user as well as the plants themselves. And the grips are engineered to reduce the impact and fatigue of cutting through branches.

The first gardening tools were available for the 2014 spring season at Wal-Mart and Sam's Stores. As soon as the weather improved they quickly sold out, so that re-orders may be on the way.

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, numerous new knives have successfully been brought to the market.

Late 2011, Acme United signed an agreement to manufacture and sell Camillus survival knives and tools, co-designed and promoted by Les Stroud, the star of the six-time Gemini-nominated hit TV series *Survivorman*. 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 this year three more tools are added to the family with more to come shortly.

During the 36th Shot Show, held earlier this year in Las Vegas, Camillus announced that knives designed by G&G Hawk and WDW Knives will soon hit retail stores. Additionally, Camillus launched the new collaborative-designed "Camillus by Tops" knives. These knives are manufactured in the USA by Tops knives. Camillus will soon launch more knives from the joint-collaboration.

In Europe, Camillus was re-launched in 2013. Acme first concentrated on the Scandinavian countries, because outdoor there is still a part of people's daily live. It soon attracted a Swedish distributor for the Camillus range in Sweden and Norway. And a few weeks later, it signed a contract with a leading knife distributor for the German speaking countries.

Camillus intends to further expand its number of distributors in Europe, Canada, the U.S., but also in places like Australia, South Africa and the Philippines.

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 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 expanded the number of products available under the Pac-Kit name and broadened its distribution. As a result, Pac-Kit's revenues rapidly increased and the brand started contributing nicely to Acme's bottom line.

First Aid Only, Inc was acquired by Acme on June 2, 2014 for \$13.8 million in cash. FAO is a supplier of Smart Compliance first aid kits, refills, and safety products that meet regulatory requirements for a broad range of industries.



First Aid Only founder Mark Miller started the business in 1988 out of his garage. The company pioneered consultative selling and support of first aid items to large corporate customers, and has since become a recognized industry leader.

Today, the company employs 100 people and operates a modern, 54,000 square-foot facility in Vancouver, WA. It boasts a distributor network of more than 1,000 people and supplies first aid goods to well-known businesses such as McDonalds, Subway and Costco. All first aid kits sold by First Aid Only are built in the United States and sold under the First Aid Only brand.

Acme United recently launched an entire line of fishing knives and tools under the new brand **Cuda**. About 30 tools, specifically designed for rigorous inshore, offshore and freshwater fishing, were shown to the public for the first time in Orlando, Florida at the International Convention of Allied Sportfishing Trades (ICAST), the largest sportfishing trade show in the world.



The Cuda tools are expected to be available in stores in the fourth quarter of this year. No sales information has been announced yet, but we heard there was lots of interest at ICAST from media and potential buyers. (Also see Recent Events)

FINANCIALS

Second Quarter and Six Months 2014 Results

Acme United achieved record sales and earnings during its second quarter ended June 30, 2014. The Company's sales reached \$33.4 million in the quarter, compared to \$28.4 million in the comparable period of 2013, an increase of 18%. Net income in the second quarter of 2014 rose by 15% to \$2,543,000, or \$.72 per diluted share, versus \$2,210,000, or \$.68 per diluted share, in the comparable quarter last year.

This strong performance was both driven by the First Aid Only acquisition, as well as by organic growth. As a matter of fact, even excluding the \$1.7 million sales generated by FAO in June, Acme reached record sales in the second quarter. Especially a strong back-to-school season, increased Pac-Kit and PhysiciansCare first aid products sales, and a record performance by Clauss and Camillus generated organic growth.

During the six months, ended June 30, 2014, net sales were \$52.5 million, compared to \$46.1 million in the same period in 2013, an increase of 14%. Net income for the six months ended June 30, 2014 was \$2,911,000, or \$.83 per diluted share, compared to \$2,520,000, or \$.78 per diluted share in the comparable period last year, a 16% increase in net income.

Amounts in \$000's	06/30/14	06/30/13
Net Sales	33,396	28,412
Cost of Goods Sold	21,875	18,331
S, G & A Expenses	7,983	6,889
Income From Operations	3,538	3,192
Pre-Tax Income	3,636	3,093
Income Tax Expense	1,093	883
Net Income	2,543	2,210
Diluted Shares Outs.	3,539	3,266
Diluted EPS	0.79	0.70
Most important income statement data for the quarters ending June 30, 2014 and June 30, 2013. Source: Company Press Release		

Gross margins in the second quarter of 2014 were 34.5% compared to 35.5% in the second quarter of 2013. Margins were lower mostly because of one-time costs. In the first quarter of 2014, for example, the Company successfully completed the consolidation of its U.S. warehousing operations, moving from Fremont, NC to its new 340,000 sq. ft. facility in Rocky Mount, NC. In this regard, the Company incurred approximately \$250,000 of one-time moving, training and ramp up costs in the second quarter of 2014.

Because these were one-time items, margins are expected to return to regular levels in the current quarter. Moreover, margins should benefit from increased efficiencies in regards with the FAO acquisition.

All Segments Contribute to Success

Acme United reports financial information on three separate business segments: the United States (including Asia), Canada and Europe. All three segments contributed nicely to Acme's success in the second quarter.

In the US, sales in the second quarter increased 19% compared to the same period in 2013 due to increased sales of first aid products, additional sales resulting from the acquisition of First Aid Only and higher sales of pencil sharpeners.

Net sales in Canada for the three months ended June 30, 2014 increased 17% in U.S. dollars and 24% in local currency compared to the same period in 2013, primarily due to

strong back to school sales and the introduction of new lawn and garden products.

European sales for the three months ended June 30, 2014 increased 5% in U.S. dollars but were constant in local currency compared to the same period in 2013. Especially office tools, manicure sets and Camillus knives sold well.

Segment	06/30/14 *	06/30/13
U.S.	27,925	23,496
Canada	3,639	3,139
Europe	1,832	1,777
Estimated sales per segment for the second quarter ending June 30, 2014 (Source: Smallcaps Investment Research) and actual sales per segment for the second quarter ending June 30, 2013 (Source: Company Filing)		

* Note that 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. Based on those numbers, we can give a good estimate.

Balance Sheet As Of June 30, 2014

The Company's bank debt less cash on June 30, 2014 was \$28.9 million compared to \$17.6 million on June 30, 2013. During the 12 month period the Company purchased and made capital improvements to its new distribution facility in Rocky Mount, NC for \$4.5 million and paid approximately \$13.8 million for First Aid Only. In addition, Acme paid \$1.0 million in dividends on its common stock.

During the same 12 month period, the Company also generated \$6.1 million in cash flow from operations, sold its Fremont, NC plant for \$0.8 million and received \$1.7 million from early repayment of a mortgage receivable.

Noteworthy is Acme's strong performance with its inventory. Despite the Company's sales growth, the increase of available products and the acquisition of First Aid Only, its inventory only rose by \$1.4 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.

Amounts in \$000's	06/30/14	06/30/13
Cash and Cash Eq.	2,426	8,458
Accounts Receivable	30,794	25,420
Inventories	30,885	29,450
Total Current Assets	66,075	65,443
Other Assets	21,912	9,293
Total Assets	87,987	74,736
Accounts Payable	10,919	9,092
Total Current Liabilities	18,385	14,493
Long Term Debt	31,325	26,012
Total Liabilities	50,150	41,526
Total Stockholder Equity	37,838	33,210
Most important balance sheet data for the periods ending June 30, 2014 and June 30, 2013. Source: Company Press Release		

RECENT EVENTS

First Aid Only Acquisition Makes Perfect Sense

Acme United acquired First Aid Only, Inc, a supplier of first aid kits, refills, and safety products, about two months ago for \$13.8 million in cash. In 2013, First Aid Only reached revenues of \$17.4 million and operating income of \$1.1 million. The acquired net assets totaled approximately \$3.5 million, which included inventory, equipment and accounts receivable. The purchase price also included intangible assets of approximately \$10.3 million. During the month of June, First Aid Only was immediately accretive to Acme's earnings.

Before the acquisition, Acme United already owned two first aid brands, Pac-Kit and PhysiciansCare. Adding First Aid Only obviously brings plenty of cost saving opportunities. For example, the combined entities will buy much higher volumes, so it

would be logical that they're able to negotiate lower prices on raw materials and components that go into first aid kits. Because of higher volumes, freight costs should decline as well. Moreover, now that Acme has a foot in the door with every First Aid Only customer, it can also offer its other first aid products.



First Aid Only is a supplier of Smart Compliance first aid kits, refills, and safety products that meet regulatory requirements for a broad range of industries.

Acme's previous acquisitions, C-Thru Ruler and Pac-Kit were integrated very smoothly into the Company with cost savings and increased profit margins as a result. Although First Aid Only is much larger, we're convinced that the experience from those earlier acquisitions is a major positive. In addition, the entire management team and all personnel of First Aid Only plans to stay, which forms a solid basis for a smooth transition.

Acme Launches Fishing Tools Under Cuda Brand

Designed with strength, durability, and precision in mind, the Cuda line of knives and tools dedicated to fresh and saltwater fishing was launched at The International Convention of Allied Sportfishing Trades – better known as ICAST.

The most important feature for ICAST exhibitors and attendees is the new product awards competition. This year, more than 700 tackle products and accessories were entered

by 253 companies to win one of the 24 "Best of Show" awards. Cuda entered the competition in the FishSmart Tackle category with the Grip & Scale tool, and immediately came out on top. A true achievement and an indication of the quality of the new tools!

ICAST

ICAST is the premier showcase for the latest innovations in fishing gear, accessories and apparel. This year's show attracted more than 11,000 visitors from all over the world, including nearly 1,000 media outlets.

ICAST is organized by the American Sportfishing Association (ASA), which represents America's 60 million anglers. Those anglers generate over \$48 billion in retail sales annually with a \$115 billion impact on the nation's economy creating employment for more than 828,000 people.

Similar to what Camillus did with Les Stroud, Cuda partnered with six professional fishermen to be Cuda Pros, each hand-picked for their fishing accomplishments and dedication to the fishing community.

Bob Izumi, known from the syndicated television show Real Fishing, Mariko Izumi of the World Fishing Network's Hookin' Up, and four captains seen on National Geographic Channel's hit series Wicked Tuna: TJ Ott, Tyler McLaughlin, Dave Marciano, and Dave Carraro, will be using Cuda tools on upcoming episodes of their respective television shows.

The Cuda fishing gear, which includes snips, wire cutters, scale/skin grippers, knives and scissors, was developed and tested in cooperation with some of the Cuda Pros in fresh and saltwater environments, to ensure the highest quality and reliability.

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 German 4116 steel for unsurpassed corrosion resistance, they carry 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. In fact, Cuda guarantees all of its tools with a lifetime warranty!



The Cuda Grip & Scale tool, which won the Best of Show award in the FishSmart Tackle category, in full action.

Backed by the Cuda Pros, which will use the Cuda tools on their popular TV shows, we assume prominent big box and sporting goods stores to have a serious interest in these high-quality tools.

13% Dividend Increase

A few days ago, Acme's Board of Directors approved a 13% increase to its quarterly dividend from 8 to 9 cents per share.

Mr. Johnsen said, "This is the eighth dividend increase since 2004. The Company continues to make good business progress and we are delighted to provide this additional return to shareholders. The Company's balance sheet is strong and we are confident in the business."

The next dividend is payable on October 16, 2014 to stockholders of record on the close of business on October 1, 2014.

GROWTH DRIVERS

First Aid Growing in Industrial and Office Channels

In recent quarters, Acme's first aid business has shown strong growth in both the industrial safety market and the office channel.

Industrial safety is growing in the western world because there are increased government regulations to ensure the safety of employees.

In the United States, Canada, the UK and the EU government institutions set guidelines or even obligate every employer to have adequate first aid supplies. The size and quantity of first aid kits depends on how hazardous the work environment is and on the number of people who work at a certain location. For example, injuries in an office are generally less frequent and severe than those on a construction site.

The contents of a first aid kit also depends on the hazards that are specific to a particular workplace environment. If, for example, the first aid kit is for use in a canteen, it should contain more burn dressings and blue plasters. Likewise, a kit destined for use on a production line would need more eye pads and dressings.

Moreover, more employers are starting to realize that when an injury is properly treated after an accident, the employee is able to resume work faster, which reduces the cost to the employer.

First aid sales to the **office channel** are also growing mainly because office supply companies like Staples, Office Depot and OfficeMax are looking for additional products to carry outside their traditional office supplies. So they have expanded their offerings of first aid products and their sales forces call on business to business customers. The first aid area is also one that's particularly appealing, because in addition to selling just the first aid kits they also have a recurring stream of refill revenues.

Acme's management made a smart decision when it recently acquired First Aid Only as it bought a business in a sector that's growing at rates above average. In addition, First Aid Only is profitable. In fact, in the first month after its acquisition, FAO was immediately accretive to Acme's earnings.

Acme aims to achieve \$40 million in sales from its first aid division in 2014. About \$17 million should come from First Aid Only and \$23 million from Pac-Kit and PhysiciansCare combined.

New Products Entering The Market

As mention above, Acme strives to generate 30% of its sales from products developed in the last three years. As a result, there's a constant stream of new products entering the market.

Westcott 'X-Ray' scissors and new paper trimmers are excellent.

In the garden area, the Scotts MiracleGro line, manufactured by Clauss, has had good placement. During the first part of the year, the weather in most parts of the county was cold and rainy and not particularly good for garden items. However, as soon as the weather improved, the tools quickly sold out. For next year's gardening season, additional tools are being developed.

Also the people at Acme's first aid brands are always innovating. Pac-Kit, for example, sells about twelve different first aid kits to a large industrial tool distributor, offered under this retailer's house brand, which are all targeted at different industries such as welding, construction and mining.

Finally, Les Stroud survival tools and other new Camillus knives are being placed in new locations and are expected to contribute nicely to the fourth quarter of 2014.

OUTLOOK & VALUATION

Acme United's second quarter results are very strong thanks to significant internal growth and a nice contribution from First Aid Only. The new first aid brand is off to a good start as it has already become accretive to the Company's earnings.

The current third quarter, is the first one in which we'll see the full impact of First Aid Only on revenues. And as FAO becomes fully integrated in the coming quarters, Acme's bottom line will also continue to benefit thanks to improved efficiencies.

Mr. Johnsen noted that the third quarter already looks good thanks to FAO and a strong order flow from the other brands. New products are in the pipeline and we also expect to see positive results from the Cuda fishing tools by the end of the year.

The Company increased its sales guidance for 2014 from between \$97 and \$102 million to \$108 million. And for 2015, Acme expects to achieve revenues of between \$125 million and \$130 million.



The three new Les Stroud survival tools for 2014

Westcott, for example, has some very exciting new iPoint pencil sharpeners that are in the back-to-school line-ups. First sales figures indicate they're doing well. Also sales of the

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. 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.

First aid is an outstanding product family for Acme because it's non-seasonal and because it has the razor/razorblade sales model. When customers buy a first aid kit, they're bound to buy refills later as well.

Similar with the new Cuda fishing tools. Although these are all year round products, they generate most sales early in the year, because they have to be in stores by spring.

And finally Camillus knives, which are often used for hunting in the fall and they're 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 22.20x, equal to our previous report. Because we feel that the markets are somewhat overvalued at the moment, 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 18.87x for the Housewares & Accessories industry.

Valuation

As we mentioned in our previous Company Report on Acme United, the Company's balance sheet was very strong and there was plenty of room for an acquisition. The Company took advantage of this opportunity and acquired a sizeable and well-known first aid distributor which will be accretive to earnings.

Moreover, the Company's cash flow and balance sheet remain solid, so a smaller acquisition in the course of this year is certainly a possibility.

Thanks to the FAO acquisition and strong organic growth, the sales guidance for 2014 was increased to \$108 million, while earnings in 2014 are expected to reach between \$1.35 to \$1.38 per share.

Looking at the economic picture, Acme's internal growth and the exciting new products that will enter the market during the remainder of the year, we expect the Company to at least reach the high end of its earnings estimate.

Amounts in \$000's	2012	2013	2014E
Total Revenue	84,370	89,577	108,000
Net Income	3,549	4,003	4,880
Annual sales and earnings FY 2012 - 2014E.			
Source: Company Filings and Smallcaps Investment Research estimates			

Using the \$1.38 EPS projection for FY 2014 and applying the 18.87x P/E multiple from the peer group, we reach the following calculation: \$1.38 estimated EPS multiplied by 18.87 = \$26.04.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$26.04, which is 55% above today's stock price.

SHARE DATA & OWNERSHIP

As of June 30, 2014, there were approximately 3,539,000 fully diluted common shares of Acme United outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (11.4%), Walter Johnsen (9.7%), First Wilshire Securities Management (8.1%), Bard Associates Inc. (4.9%) and Dimensional Fund Advisors (2.9%).

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 2011 – 6M 2014

All numbers in thousands

PERIOD ENDING	FY 2011	FY 2012	FY 2013	6M 2014
Total Revenue	73,302	84,370	89,577	46,063
Cost of Revenue	46,977	54,623	57,753	29,554
Gross Profit	26,325	29,747	31,824	18,398
Operating Expenses				
Research & Development	-	-	-	-
Selling, General and Administrative	22,040	24,386	25,945	14,235
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	22,040	24,386	25,945	14,235
Operating Income or Loss	4,285	5,361	5,879	4,163
Income from Continuing Operations				
Total Other Income (Expenses) Net	145	80	35	184
Earnings Before Interest And Taxes	4,430	5,441	5,844	4,347
Interest Expense	404	444	350	188
Income Before Tax	4,026	4,997	5,494	4,159
Income Tax Expense	1,215	1,448	1,491	1,248
Minority Interest	-	-	-	-
Net Income From Continuing Ops	2,811	3,549	4,003	2,911
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	2,811	3,549	4,003	2,911
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$2,811	\$3,549	\$4,003	\$2,911

Annual Income Statement FY 2011 – 6M 2014. Source: Company Filings



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