

Smallcaps

Investment Research

Acme United Corp. (ACU)

Company Report – November 8, 2014

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

The Company reported record sales and earnings for its third quarter, ended September 30, 2014. Sales reached \$30.0 million, an increase of 36% compared to the third quarter in 2013. Net income in the third quarter of 2014 was \$1,190,000, or \$.34 per diluted share, up 24% in net income and 17% in diluted earnings per share.

Sales guidance for 2014 is between \$107 million and \$109 million. This will be the first time in Acme's history that its sales will surpass \$100 million. The Company also foresees earnings in 2014 of \$1.34 per share. Because Acme is generating both organic and acquisitive growth, sales for 2015 are estimated around \$125 million, which is somewhat conservative in our opinion.

Based on the excellent outlook and the sustained solid performance of the Company's brands, we reiterate our buy recommendation for Acme United Corp. with a price target of \$25.28, which is 45% above today's stock price.



- In its first full quarter after being acquired by Acme, First Aid Only contributed \$4.3 million in sales and was accretive. In the coming months, the combined volumes of Acme's three first aid brands should lead to lower negotiated freight costs, increased purchasing power for raw materials and access to new customers.
- 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. Initial sales are expected in the first quarter of 2015.
- Late July, 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	\$17.40
Sector	Office Supplies
52-Week Price Range	\$10.52 - \$19.47
Shares Issued (m)	3.54
Market Cap (m)	\$61.70
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 the highest third quarter sales and earnings in its history. Net sales for the quarter ended September 30, 2014, were \$30.0 million, compared to \$22.1 million in the comparable period of 2013, an increase of 36%. Excluding additional sales resulting from the First Aid Only acquisition, comparable sales increased 16%. Net income for the quarter ended September 30, 2014 was \$1,190,000, or \$.34 per diluted share, compared to \$959,000, or \$.29 per diluted share, for the comparable period in 2013, an increase of 24% in net income and 17% in diluted earnings per share

During the conference call, following the announcement of the third quarter results, Walter C. Johnsen, Acme United's Chairman and CEO, gave sales guidance for 2014 of between \$107 million and \$109 million. This will be the first time in the Company's history that it generates more than \$100 million in sales. The Company foresees earnings in 2014 of \$1.34 per share, slightly down from the previous estimate, because there will be one-time costs for the move of the corporate headquarters in the United States and Hong Kong. For 2015, Mr. Johnsen expects Acme to reach \$125 million in sales.

Acme United succeeds in re-inventing everyday products such as scissors, knives and school and office items by applying new and improved materials to them. For example, many of the Company's products have a titanium carbonitride coating, making

the knives and scissors blades more than three times harder than stainless steel.

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 was also equipped with non-stick coated blades.



The integration of First Aid Only into Acme's two existing first aid brands, Pac-Kit and PhysiciansCare, is going smoothly. Cost savings thanks to higher combined volumes are on the horizon.

These are only a few examples of how innovation has led to the improvement of many 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 pays a quarterly dividend and increases the amount by 1 cent every 6 to 8 quarters. In July of 2014 the quarterly dividend was increased from 8 to 9 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 make the iPoint one of Acme United's best selling products. In 2012, for example, the sharpener's revenues reached about \$11 million.

* 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 Scissor Caddy with Blunt Scissors recently won a prestigious 2015 Teachers' Choice Award for exceptional quality and outstanding performance. (Also see Recent Events)

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 C-Thru Ruler Company, a supplier of drafting, measuring, lettering and stencil products. After the acquisition, the C-Thru products were gradually integrated into the Westcott family.

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. Because the weather was bad during most of spring and summer, sales

didn't reach their full potential. So the spring season of 2015 will be the real test for this product category.

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. Acme purchased the Camillus brand name and intellectual property rights in 2007 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 were added to the family.

During the 36th Shot Show, held earlier this year in Las Vegas, Camillus announced that knives designed by G&G Hawk and W&D 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.

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.

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 assembled 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 Growth Drivers)

FINANCIALS

Third Quarter and Nine Months 2014 Results

Acme United had an excellent third quarter as it achieved record sales and earnings. Net sales for the third quarter, ended September 30, 2014, reached \$30.0 million, compared to \$22.1 million in the same quarter last year, an increase of \$7.9 million, or 36%. Net income in the third quarter of 2014 rose by 24% to \$1,190,000, or \$.34 per diluted share, versus \$959,000, or \$.29 per diluted share, in the comparable quarter last year.

Organic sales for the third quarter increased approximately \$3.5 million, or 16%, year over year. This was mainly driven by strong back-to-school sales where iPoint pencil sharpeners excelled, increased Camillus knives distribution where Les Stroud continues to do well and first aid sales. Recently acquired First Aid Only, contributed about \$4.3 million in sales during the quarter and is on target to meet its goals for this year.

For the nine months, ended September 30, 2014, net sales were \$82.6 million, compared to \$68.2 million in the same period in 2013, an increase of 21%. Excluding sales of First Aid Only products, sales increased 12%. Net income for the nine months ended September

30, 2014 was \$4,099,000 or \$1.18 per diluted share, compared to \$3,479,000 or \$1.07 per diluted share in the comparable period last year, an 18% increase in net income.

Amounts in \$000's	09/30/14	09/30/13
Net Sales	30,008	22,135
Cost of Goods Sold	19,393	14,195
S, G & A Expenses	8,685	6,531
Income From Operations	1,930	1,409
Pre-Tax Income	1,709	1,323
Income Tax Expense	520	364
Net Income	1,189	959
Diluted Shares Outs.	3,546	3,325
Diluted EPS	0.34	0.29
Most important income statement data for the quarters ending September 30, 2014 and September 30, 2013. Source: Company Press Release		

Gross margins were 35.4% in the third quarter of 2014 compared to 35.9% in the third quarter of 2013. In the third quarter 2014, the Company donated surgical masks with a value of \$115,000 to MAP International, a humanitarian aid organization, to assist in the Ebola crisis in West Africa. Excluding this donation, gross margins would have been 35.8%. Gross margins were 35.4% for the nine months ended September 30, 2014 compared to 35.9% for the comparable period last year.

U.S. Segment Excels

Acme United reports financial information on three separate business segments: the United States (including Asia), Canada and Europe. And although the U.S. segment has historically been the largest, it continues to be the fastest grower.

In the U.S., sales during the third quarter increased by an astonishing 41% compared to the same period in 2013, thanks to increased sales of first aid products, additional sales resulting from the acquisition of First Aid Only, Inc. and increased sales of Camillus knives.

Net sales in Canada for the three months ended September 30, 2014 increased 23% in U.S. dollars and 28% in local currency compared to the same period in 2013. The

increase in sales is primarily due to strong back to school sales, higher sales of Camillus knives and the introduction of new lawn and garden products.

In Europe, net sales for the three months ended September 30, 2014 decreased 5% in both U.S. dollars and local currency compared to the same period in 2013. The decrease in sales can be attributed to less promotional sales to mass market chains. Sales of back-to-school items, office products and medical instruments on the other hand picked up nicely.

Segment	09/30/14 *	09/30/13
U.S.	25,788	18,273
Canada	2,214	1,782
Europe	1,998	2,080

Estimated sales per segment for the second quarter ending September 30, 2014 (Source: Smallcaps Investment Research) and actual sales per segment for the second quarter ending September 30, 2013 (Source: Company Filing)

* Note in the table above that exact revenues per segment for the third quarter will be available in the 10-Q, which will be filed mid-November. 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 fair estimate.

Strengthening Dollar

In 2014, the U.S. dollar has strengthened versus the Chinese renminbi (RMB). This is in great contrast to the past several years, when Acme was fighting an uphill battle against a depreciating dollar.



The decline of the U.S. dollar versus the Chinese renminbi has been halted.

As a result, the Company was forced to increase prices, implement severe cost savings and optimize the design of its products to offset the decline in buying power.

Many analysts foresee the renminbi to remain stable going forward. A somewhat strong dollar is good news for Acme because it imports most of its products from China and sells them in the United States.

Balance Sheet As Of September 30, 2014

The Company's bank debt less cash on September 30, 2014 was \$24.5 million compared to \$13.2 million on September 30, 2013. During the past 12 months, the Company acquired First Aid Only, Inc. for approximately \$13.8 million, made capital improvements to its new distribution facility in Rocky Mount, NC for \$1.5 million and paid \$1.0 million in dividends on its common stock.

Amounts in \$000's	09/30/14	09/30/13
Cash and Cash Eq.	5,814	11,809
Accounts Receivable	24,007	17,488
Inventories	31,461	29,280
Total Current Assets	63,121	60,461
Intangible Assets	14,101	4,105
Total Assets	84,942	70,738
Accounts Payable	6,574	5,016
Total Current Liabilities	14,652	10,283
Bank Debt	30,344	25,031
Total Liabilities	45,803	36,286
Total Stockholder Equity	39,139	34,452

Most important balance sheet data for the periods ending September 30, 2014 and September 30, 2013. Source: Company Press Release

During the same 12 months period, the Company generated \$5.0 million in cash flow from operations and sold its Fremont, NC plant for \$0.8 million.

The Accounts Receivable is up about 37% compared with last year, but that's due to the 41% increase in sales. Also, the rise in Inventories of only \$2.2 million despite the sales growth, the increase of available

products and the acquisition of First Aid Only is impressive.

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 2013, First Aid Only reached revenues of \$17.4 million and operating income of \$1.1 million. In the first few months after its acquisition, FAO has immediately been 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.

Acme aims to achieve \$40 million in sales from its first aid division during the next 12 months. About \$17 million is expected to come from First Aid Only and \$23 million from Pac-Kit and PhysiciansCare combined.

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 during the past Summer at ICAST, the premier showcase for the latest innovations in fishing gear, accessories and apparel.

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!



The Cuda Pros using the Cuda tools on their popular TV shows.

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.

RECREATIONAL FISHING MARKET

Both in the United States and Europe, fishing has become one of the most popular outdoor recreational activities.

According to the U.S. Fish & Wildlife Service's National Survey of Fishing, Hunting and Wildlife-Associated Recreation, there are more than 40 million licensed anglers in the U.S. To put this number in perspective, more Americans fish than play golf (21 million) and tennis (13 million) combined.

Together, they spend \$48 billion annually on equipment, licenses, trips and other fishing-related items or events. These funds help create and support more than 828,000 jobs in the United States.

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!

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. The tools should start to generate revenues in the first quarter of 2015.

RECENT EVENTS

Acme United Helps Fight Ebola Crisis

To help fight the Ebola outbreak in West Africa, Acme recently donated 150,000 disposable respirator masks, worth about \$500,000, to the non-profit organization MAP International.

Mr. Johnsen said, "We are very fortunate to be able to help the humanitarian efforts, and I'm delighted to announce this donation."

The key to containing Ebola is having enough medical supplies. Unfortunately, that's not the case in Africa at the moment, where the affected countries have a shortage of medical staff and goods to treat the patients. As a result, the disease continues to spread.

Exactly for that reason the chance of Ebola becoming a pandemic in the Western world is minimal. However, it does mean that countries and cities in North America and Europe need to be prepared in case they're confronted with infected people coming from Africa. The first cases of Ebola diagnosed in the United States and Europe have made this painstakingly clear.

This is where Acme's first aid brand Pac-Kit can be very helpful, because it assembles its first aid kits in the United States. So medical supplies such as face masks, gloves, isolation gowns, eye and face shields, and clean up wipes, don't have to come from overseas, but can be delivered rapidly.

Since Acme donated the masks, it received many inquiries from cities, police departments, as well as from medical and industrial distributors.

MAP INTERNATIONAL

MAP International is a global Christian health organization that partners with people living in the world's poorest communities. With an extensive global procurement and logistics network, MAP International is able to get hundreds of millions of dollars' worth of vital medicines and critical supplies into the hands of health professionals serving people in need.

By increasing access to these resources, MAP prevents illness, treats disease and improves the health of children and their families. The organization serves 30 million people annually in over 115 countries. During this Ebola crisis, MAP is providing infectious disease protection suits and supplies to protect those treating the infected.

Westcott Scissor Caddy wins Teachers' Choice Award

Learning magazine announced that the Westcott Scissor Caddy with Blunt Scissors won a prestigious 2015 Teachers' Choice Award for exceptional quality and outstanding performance in an educational setting. The product was selected based on teacher and in-classroom feedback and teacher recommendations.

This innovative product helps to keep classroom scissors, school tools, and art supplies organized and is designed with four colorful, removable cups for easy storage and supply distribution. The Scissor Caddy comes with 24 scissors and the caddy and scissor handles are all infused with an anti-microbial

product protection to inhibit the growth of bacterial odors.

For 20 years, the Teachers' Choice Awards have heralded the very best in classroom-tested, teacher-recommended products. Each year, a nationwide panel of teacher-judges names the standouts in books, classroom supplies, educational games, software, websites, and more. After receiving top ratings in two rounds of rigorous judging, the winners are chosen.

The Westcott Scissor Caddy joins the Westcott's iPoint Evolution Axis Electric Pencil Sharpener which won a 2014 Teacher's Choice Award.

Acme Receives \$400,000 Building Reuse Grant

When Acme's management was in negotiations to purchase the Rocky Mount facility it found out about the possibility of a grant from Edgecombe County and the North Carolina Department of Commerce based on job creation. The Company applied for the grant, and received it late August of 2014.

The \$400,000 Building Reuse Grant is in the form of a promissory note that gradually will be forgiven as the Company hires more people at its Rocky Mount warehouse.

When a company receives such a grant, it doesn't have to return \$10,000 of the promissory note for every full-time job it creates. So for every person that Acme hires at Rocky Mount, it can recognize an income of \$10,000, with a maximum of \$400,000, which equals 40 full-time employees.

Currently Acme employs about 50 people at Rocky Mount, but it plans to add more for manufacturing, distribution, and growth.

OUTLOOK & VALUATION

The integration of First Aid Only into Acme's two existing first aid brands, Pac-Kit and PhysiciansCare, is going smoothly. The initial goals of combining the sales forces and expanding the offerings have been completed.

Next on the agenda are the reduction of duplicate products between the three first aid brands and the integration of Acme's computer system at FAO. In addition, some of Acme's first aid production, that's currently takes place in other facilities, will be transferred to the First Aid Only site to reduce fixed costs.

In its first full quarter after being acquired by Acme, FAO contributed \$4.3 million in sales and was accretive. In the coming months, the acquisition is expected to start generating cost savings as a result of the higher combined volumes that Acme will achieve. This should lead to lower negotiated freight costs, increased purchasing power for raw materials and access to new customers.

Ebola-related sales may give fourth quarter sales a boost and the Westcott, Camillus and Clauss product lines continue to grow. Based on the size of the recreational fishing market, it's clear that Cuda could become another strong sales and earnings generator for Acme.

Sales guidance for 2014 is between \$107 million and \$109 million. This will be the first time in Acme's history that its sales will surpass \$100 million. Truly a significant milestone. At the same time, Mr. Johnsen foresees earnings in 2014 of \$1.34 per share, slightly lower than the previous estimate, because there will be one-time costs for the move of the corporate headquarters in the United States and Hong Kong.

Because the Company is generating both organic and acquisitive growth, sales for 2015 are estimated around \$125 million, which is somewhat conservative in our opinion.

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 one, 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 & Valuation

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.

Amounts in \$000's	2012	2013	2014E
Total Revenue	84,370	89,577	108,000
Net Income	3,549	4,003	4,750
Annual sales and earnings FY 2012 - 2014E.			
Source: Company Filings and Smallcaps Investment Research estimates			

Using the \$1.34 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 = \$25.28.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$25.28, which is 45% above today's stock price.

SHARE DATA & OWNERSHIP

As of September 30, 2014, Acme United had approximately 3,486,000 fully diluted common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (11.4%), Walter Johnsen (9.9%), First Wilshire Securities Management (8.1%), Bard Associates Inc. (4.9%) and Dimensional Fund Advisors (3.1%).

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 – 9M 2014

All numbers in thousands

PERIOD ENDING	FY 2011	FY 2012	FY 2013	9M 2014
Total Revenue	73,302	84,370	89,577	82,555
Cost of Revenue	46,977	54,623	57,753	53,345
Gross Profit	26,325	29,747	31,824	29,210
Operating Expenses				
Research & Development	-	-	-	-
Selling, General and Administrative	22,040	24,386	25,945	22,920
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	22,040	24,386	25,945	22,920
Operating Income or Loss	4,285	5,361	5,879	6,290
Income from Continuing Operations				
Total Other Income (Expenses) Net	145	80	35	79
Earnings Before Interest And Taxes	4,430	5,441	5,844	6,211
Interest Expense	404	444	350	343
Income Before Tax	4,026	4,997	5,494	5,868
Income Tax Expense	1,215	1,448	1,491	1,769
Minority Interest	-	-	-	-
Net Income From Continuing Ops	2,811	3,549	4,003	4,099
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	2,811	3,549	4,003	4,099
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$2,811	\$3,549	\$4,003	\$4,099

Annual Income Statement FY 2011 – 9M 2014. Source: Company Filings



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