

Acme United Corp. (ACU)

Company Report – May 02, 2015

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

Acme again had an excellent first quarter in which it achieved record sales and earnings. Especially the Westcott school & office products brand outperformed. Its scissors continue to gain market share, and Orbit, the latest member of the iPoint electric pencil sharpener family, is now available in most major retailers. Also First Aid Only (FAO), the supplier of first aid and Smart Compliance kits, contributed nicely to first quarter sales.

The decline of the Canadian dollar and euro caused earnings in the first quarter to be two cents per share lower than expected. As a direct result, Acme's guidance for 2015 was slightly adjusted downwards. Sales are now estimated to reach between \$118 and \$120 million in 2015, still an increase of 10 to 11.9 percent respectively compared with 2014. In addition, earnings per share in 2015 are expected to come in at between \$1.45 and \$1.50, up 6.6 and 10.2 percent respectively compared with 2014.

Based on these numbers, we reiterate our buy recommendation for Acme United Corp. with a price target of \$31.83, which is 72% above today's stock price.



Acme United Corporation

- Mr. Johnsen, Acme's Chairman and CEO, said during the first quarter conference call that the Company is actively looking for an acquisition in Canada or Europe. The flip side of the declining euro and Canadian dollar is that company valuations in those regions are now much more attractive for a U.S. company.
- The benefits of the combined purchasing power and the further integration of Acme United's three first aid brands will start to have a bigger impact on the Company's bottom line in the coming quarters. The full optimization of the first aid brands, which will lead to cost savings of up to \$1 million annually, is the Company's main goal this year.
- Acme United's growth story is supported by a 9 cents quarterly dividend, which is an excellent way to show confidence in the business and the market.



THE COMPANY

Acme United Corporation is a supplier of cutting, measuring and safety products for the school, home, office, outdoors, fishing, hardware, and industrial markets. Its principal products are scissors, 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 again had an excellent first quarter in which it achieved record sales and earnings. Sales during the three months ended March 31, 2015, reached \$22.8 million, up 19% compared with sales of \$19.2 million in the first quarter of 2014. Net income in the first quarter of 2015 rose by 18% to \$436,000, or \$0.12 per diluted share, versus \$368,000, or \$0.11 per diluted share, in the comparable quarter last year.

Especially the Westcott school & office products brand outperformed. Its scissors continue to gain market share, and Orbit, the latest member of the iPoint electric pencil sharpener family, is now available in all major retailers in the United States and also in Europe. First Aid Only, the supplier of first aid and Smart Compliance kits, also contributed nicely to the sales increase in the first quarter. Because it was acquired by Acme in June 2014, there were no FAO sales in the first quarter last year.

Acme's Canadian and European business segments however were impacted by their currencies that significantly depreciated versus the U.S. dollar. The Canadian and European teams are reducing costs with suppliers, trimming expenses, and increasing their selling prices to partially offset the depreciation of their currencies.

The decline of the Canadian dollar and euro caused earnings to be two cents per share lower in the first quarter than expected. As a result, the Company adjusted its guidance for

2015. It now expects sales in 2015 to come in at between \$118 and \$120 million, down from \$120 to \$125 million. And earnings per share are expected to reach between \$1.45 and \$1.50, down from between \$1.51 to \$1.60 per share.



The Westcott school and office products brand continues to outperform.

Acme United succeeds in re-inventing everyday products such as scissors, knives and school and office items by applying new and improved materials to them.

For example, the blades on many of the Company's products have a titanium carbonitride coating, making them more than three times harder than stainless steel. Or blades get a non-stick coating, making them useful in difficult environments like the floral area for cutting and trimming flowers and bushes, or in the arts and crafts area, where lots of glue and paste is used. Also, some school and office products have Microban antimicrobial protection added during the manufacturing process to prevent the growth of bacteria on the surface.

Acme's quest for innovation is also reflected by its 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 traditionally 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 its line of iPoint electric pencil sharpeners. Their award-winning design* and ease of use make the iPoint one of Acme United's best selling products. In 2013, for example, the sharpener's revenues reached about \$11 million. Knowing that Acme's total sales in 2013 were \$89 million, it's clear what an impact the product has.



The iPoint has truly become an iconic product in its category that brings a sense of style to any office desk. It combines excellent performance with an attractive design and has taken an everyday product to a new level. This is proven with outstanding sales numbers year after year, making it one of Acme's single best selling products.

* Back in 2006, Acme's original iPoint battery powered pencil sharpener won a GOOD DESIGN award. In 2010, the iPoint Evolution achieved the same feat, and a couple of months ago, the latest member of the iPoint family, called Orbit, again came out on top.

GOOD DESIGN is an award from the Chicago Athenaeum, Museum of Architecture and Design, and is one of the oldest and most important design competitions worldwide. This year the Museum again received hundreds of submissions from over 40 countries. Recipients of the award included Apple, Hewlett Packard, BMW, and... Acme United.

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.

Clauss has its roots dating back to 1877 as a scissors, razors and kitchen knives manufacturer. Today, Clauss offers a substantial line of quality cutting tools for professionals in the hardware & industrial, lawn & garden, food processing, sewing and housewares channels.

When the brand was re-introduced, shortly after it was acquired by Acme in 2004, it was a simple scissors business, available in only a handful of stores. A decade later, Clauss has gone through a complete transformation and has really become an established name in the industry. It has developed into a broad hardware line and is now 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.

The brand, for example, markets 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.

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 hit TV series *Survivorman*. The initial four knives under the Les Stroud Signature name were introduced in 2012 and immediately sold well. Since then, the Les Stroud line has grown to ten knives, tools and first aid kits. Some of them will be used in the 16 *Survivorman* shows scheduled for 2015.

During the SHOT Show, held earlier this year in Las Vegas, Camillus introduced many new products. The Carnivore X machete is one of them. The Camillus team listened very closely to customer feedback on previous Carnivore models and came up with a brand new design. Camillus integrated a quadruple edge backbone saw that expands the entire length of the backbone, perfected the gut hook and integrated a stinger/trimming knife. In addition, it has an extremely ergonomic and highly durable zytel handle. Best of all, although the Carnivore X is significantly improved over previous Carnivore models, the price remains the same at \$29.99 (also see Recent Events).

The brand new folding knives family named "Seven" was also revealed to the public at SHOT. The name not only refers to the seven inches overall length of the knives, but also to the shape of the handle. The blades are made out of AUS-8 steel and are Titanium Bonded.

And also the Heat, Sizzle and Wildfire knives, which were originally brought to the market about ten years ago, received a complete makeover. The knives continue to be popular thanks to their quick launch technology. The blade is revealed in an instant, simply by pushing the blade tang. The blades have a Carbonitride Titanium Bonding, making them

hold an edge 10X longer than untreated blades.



The Camillus knives family "Seven" refers to the overall length of the knives and the shape of the handle.

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. In the meanwhile, Camillus is being distributed in twelve European countries.

Acme intends to further expand the number of Camillus 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.

First Aid Only 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, FAO 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.

The integration of First Aid Only is progressing as planned. The computer systems are now on one IT platform, and because Acme already owned two first aid brands - Pac-Kit and PhysiciansCare - before the acquisition, it was able to negotiate more favorable sourcing prices for bandages, tapes, pads, etc., with its suppliers.

Acme's management made a smart decision when it 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 was immediately accretive to Acme's earnings.

Cuda is Acme United's most recent brand. About 30 fishing knives and tools, specifically designed for rigorous inshore, offshore and

freshwater fishing, were shown to the public for the first time last year in Orlando, Florida at the International Convention of Allied Sportfishing Trades (ICAST), the largest sportfishing trade show in the world.

The tools combine the Company's proprietary Titanium Bonded technology, German 4116 steel, and poly carbonate cold-molded grips.

The Cuda fishing gear, which includes snips, wire cutters, scale/skin grippers, knives and scissors, was developed and tested in cooperation with professional fisherman, the so-called Cuda Pros, to ensure the highest quality and reliability. For example, the stars of the National Geographic hit show "Wicked Tuna", star of the "Real Fishing Show" Bob Izumi, Mariko Izumi from "Hooking Up", and David Dudley two-time FLW Bass Champion all tested the Cuda tools extensively and have been ambassadors ever since.

These pros will also continue to push the Cuda development team to build the very best tools and products.



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

FINANCIALS

First Quarter 2015 Results

In the first quarter of 2015, Acme again achieved record net sales and earnings. Net sales for the quarter ended March 31, 2015 were \$22.8 million, compared to \$19.2 million in the first quarter of 2014, an increase of 19%.

Net income was \$436,000 or \$.12 per diluted share for the quarter ended March 31, 2015 compared to \$368,000 or \$.11 per diluted share for the comparable period last year, an increase of 18% in net income and 9% in earnings per share.

Amounts in \$000's	03/31/15	03/31/14
Net Sales	22,837	19,152
Cost of Goods Sold	14,402	12,274
S, G & A Expenses	7,609	6,253
Income From Operations	826	625
Pre-Tax Income	621	523
Income Tax Expense	185	155
Net Income	436	368
Diluted Shares Outs.	3,702	3,443
Diluted EPS	0.12	0.11
Most important income statement data for the quarters ending March 31, 2015 and March 31, 2014. Source: Company Press Release		

Gross margins were 37% in the first quarter of 2015 versus 36% in the comparable period last year.

Outstanding U.S. Segment

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.

Net sales for the first quarter of 2015 in the U.S. segment increased 25% compared to the same period in 2014 due to strong sales of Westcott school and office products, the recently introduced Cuda brand fishing tools and the contribution of First Aid Only, which was acquired on June 1, 2014.

Amounts in \$000's	03/31/15	03/31/14
U.S.	20,123	16,105
Canada	1,249	1,510
Europe	1,465	1,537
Estimated sales per segment for the first quarter ending March 31, 2015 (Source: Smallcaps Investment Research) and actual sales per segment for the first quarter ending March 31, 2014 (Source: Company Filing)		

Note in the table above that exact revenues per segment for the first quarter 2015 will be available in the 10-Q, which will be filed shortly. Because, Acme announced for each segment the percentage by which revenues increased or decreased compared with last year's first quarter, we're able to calculate a fair estimate.

Net sales in Canada in the first quarter of 2015 decreased 8% in local currency, and 18% in U.S. currency compared to the same period in 2014. The office superstore market in Canada was soft due to weak economic conditions, but this was partially offset by growth with independent dealers.

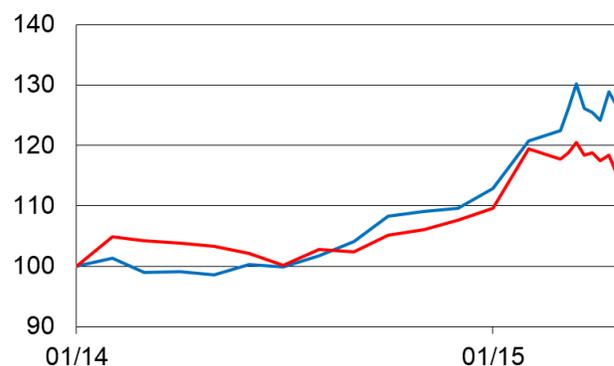
European net sales in the first quarter of 2015 increased 14% in local currency but decreased 5% in U.S. currency compared to the first quarter of 2014. European growth was due to strong office product sales.

In Europe, even more than in Canada, it's frustrating to see the negative impact of the weak euro and Canadian dollar.

Currency Fluctuations

Every company that operates in different parts of the world is impacted by currency fluctuations. This is no different for Acme United.

In 2014, for example, the U.S. dollar strengthened versus the Chinese renminbi (RMB), which is in great contrast to the past several years, when Acme fought an uphill battle against a depreciating dollar. 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. Now that the tables have turned, Acme might increase its sales margins somewhat on new products.



The graph above shows how the U.S. dollar appreciated approximately 25% and 15% against the euro (blue) and Canadian dollar (red) respectively since January 1st 2014. It also shows that in recent weeks, the currencies have stabilized.

On the other hand, the U.S. dollar also significantly appreciated against the euro and the Canadian dollar the past year, making it tough on Acme's Canadian and European segments to maintain their margins because they buy their products in U.S. dollar. To counter the margin decrease, selling prices will be increased in the coming months.

Reduced Product and Sector Risk

Next to generating growth, Acme also did an outstanding job broadening its product offering the past few years. This resulted in the Company's sales becoming less seasonal and more spread over different sectors.

Traditionally the Company's sales relied heavily on the office products and back-to-school markets, for which sales peak in the second and third quarter of the year. Although the second quarter remains Acme's strongest, the other quarters are showing more growth.

For example, total sales for the fourth quarter in 2010 were \$13.4 million, while they were \$24.7 million in the fourth quarter of 2014, an increase of 84%. In the full year 2010, sales were \$63.1 million versus \$107.2 million last year, an increase of 69.8%. Although this is an impressive growth rate for the full year, the fourth quarter sales have risen stronger.

Also, in 2009, sales to the office channel represented about 65% of revenues. By 2014, that number had declined to about 34%, while the mass market channel represented 38% and the hardware, industrial and sporting goods channel 28%. Basically, revenues are more evenly spread over more market segments.

The reason behind this shift is that Acme launched products such as the lawn and garden tools in partnership with ScottsMiracle-Gro, which are typical fourth and first quarter items as they have to be on the shelves early spring. Similar with Camillus knives, which are often used for hunting in the fall and they are also typical Christmas and holiday gifts.

This is a very positive evolution, as having a broad range of products in different sectors

reduces the reliance on any single market factor.

Balance Sheet As Of March 31, 2015

Acme's balance sheet remains solid. Bank debt less cash on March 31, 2015 was \$25.8 million compared to \$13.9 million on March 31, 2014. During the twelve month period, the Company paid approximately \$13.8 million for the acquisition of the assets of First Aid Only and paid \$1.2 million in dividends on its common stock.

Amounts in \$000's	03/31/15	03/31/14
Cash and Cash Eq.	1,797	3,367
Accounts Receivable	16,722	16,111
Inventories	35,925	28,977
Total Current Assets	56,290	50,210
Property & equipment	7,158	6,455
Intangible Assets	12,374	4,035
Total Assets	78,800	61,781
Accounts Payable	5,905	4,312
Total Current Liabilities	11,458	9,179
Bank Debt	27,561	17,286
Total Liabilities	39,334	26,741
Total Stockholder Equity	39,466	35,040
Most important balance sheet data for the periods ending March 31, 2015 and March 31, 2014. Source: Company Filing		

During the twelve month period, the Company also generated \$3.0 million in cash flow from operations and received approximately \$1.5 million from the exercise of employee stock options.

Also, the rise in inventories of only \$7.0 million despite the sales growth, the much wider product range and the acquisition of First Aid Only is notable.

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.

In addition, more employers are realizing 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 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.

Before the First Aid Only acquisition, Acme United already owned two first aid brands, Pac-Kit and PhysiciansCare. Thanks to the combination of the three brands, the Company increased its volumes, and as such was able to negotiate more favorable sourcing prices for bandages, tapes, pads, etc., with its suppliers. In addition, First Aid Only increased its distribution because it gained access to Acme's existing broad customer base. All in all, the Company expects to generate over \$1 million savings annually in the first aid area thanks to the First Aid Only acquisition.

Cuda Fishing Tools Hit the Market

Designed with strength, durability, and precision in mind, the Cuda line of knives and tools dedicated to fresh and saltwater fishing, was launched in July 2014 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. In the past edition, 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!

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.

Similar to what Camillus did with Les Stroud, Cuda attracted several well-known fishermen to design, test and represent the brand. The stars of the National Geographic hit show "Wicked Tuna", star of the "Real Fishing Show" Bob Izumi, Mariko Izumi from "Hooking Up", and David Dudley two-time FLW Bass Champion all tested the tools extensively and have been ambassadors ever since. Cuda even brings the "Cuda Pros" to customer

meetings so they can provide their testimonials directly to the buyers.

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 full tang is clearly visible on this filet knife thanks to the partly see-through handle, which also features a scale grip pattern for outstanding grip.

It's important to recognize the success that Cuda has achieved in the short time that the fishing tools have been on the market. Knowing this is only the beginning, it's safe to assume that the brand will become another significant contributor to Acme's results.

RECENT EVENTS

IWA Big Success for Acme Europe

For the second year, the Acme United Europe team attended the IWA OutdoorClassics trade show in Nuremberg, Germany. Every year in

March representatives from the hunting, shooting sports, outdoor and security equipment sectors come together to showcase their latest products.

The European team had a 325 square foot booth to show the professional audience the extensive range of Camillus knives and Cuda fishing tools. It was a positive event for the team as they met many potential distributors and buyers from sporting goods chains. In addition, they received lots of orders at the show from many different countries for both Camillus and Cuda.

Interesting to know is that Acme Europe has opted to continue selling Camillus through distributors, but that the Cuda tools will be sold directly to retailers, which will have a positive effect on margins.

Camillus knives are now being distributed in twelve European countries and negotiations are ongoing with many others. It's clear that also in Europe Camillus is gaining traction and that the Cuda fishing gear has been very well received.

The IWA show attracted a record number of over 41,000 visitors from 123 different countries and 1,383 exhibitors. After Germany, the leading exhibitor nations were the USA, Italy, Great Britain, Turkey, China, France, the Czech Republic, Spain and Austria.

New Products Launched at SHOT

Earlier in the year, Acme also attended the SHOT Show in Las Vegas. The Shooting, Hunting and Outdoor Trade Show (SHOT) brings together buyers and sellers of firearms, ammunition, optics, cutlery, apparel, accessories and law enforcement equipment from the United States and more than 100 countries. It's Acme United's biggest marketing event of the year, and as such a good indicator of how well the Company's new products for 2015 are received by distributors and consumers.

Rick Constantine, Vice President and General Manager at Acme, was quoted saying: "It was the best SHOT Show in years for our Company". He saw three main reasons for

this. First, the Company's booth was ideally located right at the entrance of the exhibit hall, which made sure that every visitor had to pass by the stand.

Secondly, a great deal of new products were launched. Camillus, for example, presented the completely re-designed Carnivore X machete, the 'Seven' series folding knife line and an updated version of the highly successful Heat, Sizzle and Wildfire knives.

Also, the once popular Western knife brand was re-launched with all new designs, packaging and branding. Although similar to Camillus, a lifetime guarantee is also offered on all Western products, they have a lower entry level price point. In addition, the Cuda fishing tools made their first appearance at SHOT.

ULTIMATE SURVIVAL ALASKA

Now in its third season, Ultimate Survival Alaska focuses on survivalist men and women who are dropped off in the Alaskan wilderness where they compete with each other in various wilderness races.

Twelve of the world's toughest outdoorsmen are divided into four teams and are then dropped off by aircraft in the Alaskan wilderness where they compete in races through Alaska's unpredictable weather, barren landscapes, and hostile predators.

In each of the 13 legs this season, teams have just 60 hours to make it from start to finish ... surviving off the land with only the gear on their backs. For Jared Ogden and Grady Powell, that means Camillus gear.

The third reason why the show was such a success for the Company was because Camillus launched a new line of combat knives in collaboration with Jared Ogden and Grady Powell. Ogden & Powell are the stars in the highly popular TV show, Ultimate Survival Alaska as seen on the National Geographic Channel. Navy Seal and Green Beret military experts, Ogden & Powell, use Camillus tools exclusively in the current season and signed

autographs during the second day of the Shot Show.

The past SHOT Show again gave the industry a very good indicator that a strong sales year lies ahead, which is obviously excellent news for the three Acme United brands that presented their new products. The strong feedback from distributors and customers is another confirmation that Camillus, Western and Cuda are going into the right direction.

OUTLOOK & VALUATION

Although the decline of the Canadian dollar and euro had an impact, Acme again reached record sales and earnings in the first quarter of 2015. Positive news is that the currencies have stabilized in recent weeks, while selling prices and costs in Canada and Europe are being adjusted. The increased sales prices should start to have a positive impact from the third quarter.

Interesting to know is that Mr. Johnsen mentioned during the first quarter conference call that the Company is actively looking for an acquisition, preferably in Canada or Europe. The flip side of the declining currencies is that company valuations in those regions have become much more attractive for a U.S. based company.

The U.S. market remains very strong. Westcott sales continue to grow exceptionally well and also online sales through Amazon are up significantly. The recently introduced Cuda filet knives, crimpers, pliers, and other fishing tools have had a strong reception in the U.S., Canada, and Europe.

Also First Aid Only contributed nicely to the sales increase in the first quarter. The benefits of the combined purchasing power and the further integration of the three first aid brands will start to have a bigger impact on Acme's bottom line in the coming quarters. As a matter of fact, the full optimization of the first aid brands, which will lead to cost savings of up to \$1 million annually, is the Company's main goal this year.

For example, it will lower the number of different components used in all the kits as that will free up inventory, and as such reduce costs. Also, the number of manufacturing locations may be reduced from three to two. The Pac-Kit production will most likely be shifted to the Rocky Mount warehouse in North Carolina or the FAO facility in Washington State. This will result in significant annual cost savings.

Due to the sharp and unexpected decline of the Canadian dollar and euro, Acme's management adjusted the Company's guidance for 2015 slightly downwards. It now foresees sales to reach between \$118 and \$120 million in 2015, still an increase of 10 to 11.9 percent respectively compared with 2014. In addition, it expects earnings per share in 2015 to come in at between \$1.45 and \$1.50, up 6.6 and 10.2 percent respectively compared with 2014.

Peer Comparison & Valuation

Acme United competes with many companies in each market and geographic area. The major competitors in the cutting category are 3M and Fiskars Corporation, while Maped and Staedtler are the major competitors in the measuring category. In addition, the major competitor in the pencil sharpener category is Bostitch, and in the safety category Acme faces most competition from Johnson and Johnson.

Although there are many competitors, it's hard to identify a peer group of companies, because there's no other Company in exactly the same line of business as Acme United. Moreover, some of these other companies that engage in the Company's line-of-business do so through divisions or subsidiaries that are not publicly-traded.

For reason of comparison, we have placed the Company in the Housewares & Accessories industry. The average P/E ratio for a Company in that industry is 30.84x, up from 27.07x in our previous report. Because we feel that the markets are somewhat overvalued at these multiples, and because we want to remain conservative in our estimates, we are going to

apply a 30% discount to the average P/E ratio.

Taking the discount into account, we end up with an average P/E ratio of 21.58x for the Housewares & Accessories industry.

When Acme's second quarter numbers are public, we'll undoubtedly have a much clearer picture of how the Company's results will develop this year. Until then, we'll use the average of the Company's own sales and earnings projections in our valuation.

Amounts in \$000's	2013	2014	2015E
Total Revenue	89,577	107,222	119,000
Net Income	4,003	4,789	5,460
Annual sales and earnings FY 2013 - 2015E.			
Source: Company Filings and Smallcaps Investment Research estimates			

Using the \$1.475 EPS projection for FY 2015 and applying the 21.58x P/E multiple from the peer group, we reach the following calculation: \$1.475 estimated EPS multiplied by 21.58 = \$31.83.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$31.83, which is 72% above today's stock price.

SHARE DATA & OWNERSHIP

As of February 25, 2015, Acme United had 3,702,000 common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (12.03%), Walter Johnsen (8.7%), First Wilshire Securities Management (6.9%), Bard Associates Inc. (4.5%), and Capital Management Corp (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 2012 – 3M 2015

All numbers in thousands

PERIOD ENDING	FY 2012	FY 2013	FY 2014	3M 2015
Total Revenue	84,370	89,577	107,222	22,837
Cost of Revenue	54,623	57,753	69,037	14,402
Gross Profit	29,747	31,824	38,186	8,435
Operating Expenses				
Research & Development	-	-	-	-
Selling, General and Administrative	24,386	25,945	30,791	30,791
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	24,386	25,945	30,791	7,609
Operating Income or Loss	5,361	5,879	7,394	826
Income from Continuing Operations				
Total Other Income (Expenses) Net	80	35	118	75
Earnings Before Interest And Taxes	5,441	5,844	7,276	751
Interest Expense	444	350	473	130
Income Before Tax	4,997	5,494	6,803	621
Income Tax Expense	1,448	1,491	2,014	185
Minority Interest	-	-	-	-
Net Income From Continuing Ops	3,549	4,003	4,789	436
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	3,549	4,003	4,789	436
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$3,549	\$4,003	\$4,789	\$436

Annual Income Statement FY 2012 – 3M 2015. Source: Company Filings



Acme United Corporation

NYSE MKT: ACU

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