

Acme United Corp. (ACU)

Company Report – August 15, 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.

Despite being impacted by store closures at large office supply retail chains such as Target, Staples, and Office Depot, Acme United set a new all-time quarterly sales and earnings record. The second quarter benefited from new customers that were attracted and new product families that were launched. In particular, sales of first aid items, Cuda fishing tools, and Camillus knives overcame the weakness in the office channel.

As for the following quarters, we expect Acme to resume its regular growth path. The Company has picked up a large new scissors account, for which deliveries have started late June. And many new tools are bound to hit the shelves in the coming weeks.

In addition, the Canadian dollar and euro have stabilized in recent months. Selling prices and costs in Canada and Europe are being adjusted, which should start to have a positive impact as of this quarter.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$32.42, which is 79% above today's stock price.



Acme United Corporation

- 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 in 2016 and beyond, is the Company's main goal this year.
- It's important to recognize the success that the Cuda fishing brand has achieved in the short time that the tools have been on the market. Backed by the Cuda Pros, who use the tools during tournaments and on their popular TV shows, big box and sporting goods stores continue to build interest.
- 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.



Market Data

Price	\$18.10
Sector	Office Supplies
52-Week Price Range	\$14.96 - \$20.50
Shares Issued (m)	3.34
Market Cap (m)	\$60.56
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, 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.

Despite being impacted by store closures at large office supply retail chains, Acme United set a new all-time quarterly sales and earnings record. Sales for the three months ended June 30, 2015, reached \$34.0 million, up 2% compared with sales of \$33.4 million in the second quarter of 2014. Net income in the second quarter of 2015 rose by 6% to \$2.7 million, or \$0.74 per diluted share, versus \$2.5 million, or \$0.72 per diluted share, in the comparable quarter last year.

The second quarter benefited from new customers that were attracted and new product families that were launched. In particular, sales of first aid items, Cuda fishing tools, and Camillus knives overcame the weakness in the office channel.

For the six months, ended June 30, 2015, net sales were \$56.8 million, compared to \$52.5 million in the same period in 2014, an increase of 8%. Net income for the six months ended June 30, 2015 was \$3.1 million or \$0.85 per diluted share, compared to \$2.9 million or \$0.83 per diluted share in the comparable period last year, an 8% increase in net income.

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

During the conference call, following the announcement of the second quarter results, Walter C. Johnsen, Acme United's Chairman and CEO, gave sales guidance for 2015 of \$115 million, slightly down from between \$118 and \$120 million. And earnings per share are expected to reach between \$1.40 and \$1.42, down from between \$1.45 to \$1.50 per share. We believe these are somewhat conservative estimates, especially in light of the expected growth in the second half of the year. By comparison, in 2014 Acme had revenues of \$107.2 million and earned \$1.36.



Acme's brands include Westcott, Clauss, Camillus, PhysiciansCare, Pac-Kit, First Aid Only and Cuda.

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, while Acme's total sales in that year were \$89 million.

* 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 in 2014, the latest member of the iPoint family, called Orbit, again came out on top of the prestigious design competition.

GOOD DESIGN

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 Clauss AirShoc Titanium Lawn & Garden Tools.

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 are used in the 16 *Survivorman* shows that air in 2015.



The Camillus Carnivore X machete has a 12" Titanium Bonded blade which is intended not just for cutting but sawing, chiseling, digging, prying, and wire cutting as well.

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. It 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.

Next to Les Stroud, Camillus also joined forces with Jared Ogden and Grady Powell, two stars in the highly popular TV show, *Ultimate Survival Alaska* as seen on the National Geographic Channel. In collaboration with the two, Camillus launched a new line of combat knives, which Navy SEAL and Green Beret Ogden & Powell use in the current season of the show.

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.

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 US, 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 (FAO) is a supplier of Smart Compliance first aid kits, refills, and safety products that meet regulatory requirements for a broad range of industries. It was acquired by Acme in June 2014 for \$13.8 million.

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.

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.

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.

Cuda is Acme United's most recent brand. 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 in Orlando, Florida at the International Convention of Allied Sportfishing Trades (ICAST), the largest sportfishing trade show in the world.

The most important feature for ICAST exhibitors and attendees is the new product awards competition. In 2014, 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 Grip & Scale tool, which won the Best of Show award in the FishSmart Tackle category, in full action.

Similar to what Camillus did with Les Stroud, Cuda attracted several well-known fishermen to design, test and represent the brand. Bob Izumi, star of the "Real Fishing Show", Mariko Izumi from "Hooking Up", several captains from the National Geographic Channel's hit series Wicked Tuna including TJ Ott and Paul Hebert, and David Dudley two-time FLW Bass Champion all tested the tools extensively and have been ambassadors ever since.

So far, twenty-eight Pros have been hand-picked for their fishing accomplishments and dedication to the fishing community, and more are being added.

Next to helping design and develop new Cuda fishing tools, these Pros are true evangelists for the brand. They use the tools at fishing tournaments or on their TV shows and they help spread the word on Cuda on their Facebook, Instagram, Twitter and YouTube channels. All in all, they are very helpful to build brand recognition.

Last year about 30 fishing tools, including snips, wire cutters, scale/skin grippers, knives and scissors, were launched. At ICAST 2015, more than 20 additional tools were shown to the public for the first time (also see 'Recent Events').

RECREATIONAL FISHING MARKET

Despite competition from video games and other similar activities and increased urbanization, recreational angling remains one of the largest outdoor recreational activities in the United States.

According to the 2011* National Survey of Fishing, Hunting and Wildlife-Associated Recreation, the U.S. counts more than 40 million licensed anglers. To put this number in perspective, more Americans fish than play golf (21 million) and tennis (13 million) combined. The anglers generate over \$46 billion in retail sales with a \$115 billion impact on the nation's economy creating employment for more than 828,000 people.

** The survey is conducted every five years by the U.S. Fish and Wildlife Service (USFWS).*

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 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!

Since its launch, a little over a year ago, Cuda has greatly exceeded expectations in both brand acceptance and placement at retail stores. There is no doubt that it will continue on this growth trajectory as it seems to appeal to everyone in the fishing industry.

FINANCIALS

Second Quarter 2015 Results

Net sales for the second quarter ended June 30, 2015 were \$34.0 million, compared to \$33.4 million in the comparable period of 2014, an increase of 2%, or 4% in constant currency. Net income for the quarter ended June 30, 2015 was \$2.7 million, or \$0.74 per diluted share, compared to \$2.5 million, or \$0.72 per diluted share, for the 2014 period, an increase in net income of 6%.

Net sales for the six months ended June 30, 2015 were \$56.8 million, compared to \$52.5 million in the same period in 2014, an increase of 8%, or 10% in constant currency. Net income for the six months ended June 30, 2015 was \$3.1 million, or \$0.85 per diluted share, compared to \$2.9 million, or \$0.83 per diluted share, in last year's period, an 8% increase in net income.

Acme's second quarter financials were impacted, because back-to-school sales of scissors, rulers, and pencil sharpeners were less than forecast. Especially sales to office retail chains were soft.

Consumers haven't stopped buying, it's just that some of these chains are closing hundreds of stores in 2015. For example, Target is closing 133 stores in Canada, Staples is shutting down 250 stores and Office Depot is reducing its number of locations by over a hundred. As a result, the inventory from those closed locations was sent to other sites, resulting in temporarily reduced purchases.

If Staples' acquisition of Office Depot isn't blocked by the Federal Trade Commission (FTC), there may be more store closures in

the coming years. It's very likely however that it will be blocked. It's also important to note that although the number of physical stores may be declining, Acme's online sales, at for example Amazon, are rapidly rising.

The strong appreciation of the U.S. dollar versus the Canadian dollar and euro also negatively influenced Acme's second quarter. Because the Canadian and European segments buy their products in U.S. dollar, they have a hard time maintaining their margins. As a result, they have reduced costs with suppliers, trimmed expenses, and increased their selling prices to partially offset the depreciation of their currencies.

Amounts in \$000's	06/30/15	06/30/14
Net Sales	33,954	33,396
Cost of Goods Sold	21,419	21,875
S, G & A Expenses	8,660	7,983
Income From Operations	3,875	3,538
Pre-Tax Income	3,752	3,636
Income Tax Expense	1,044	1,093
Net Income	2,708	2,543
Diluted Shares Outs.	3,682	3,539
Diluted EPS	0.74	0.72
Most important income statement data for the quarters ending June 30, 2015 and June 30, 2014. Source: Company Press Release		

Margin growth was solid. In the second quarter of 2015, gross margins reached 36.9% compared to 35.1% in the 2014 period. And for the six months ended June 30, 2015, gross margins were 36.9% compared to 35.4% for last year's period. The gross margin improvement for both periods was primarily due to a favorable product mix.

U.S. Making Up for Softer Canadian and European Segments

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. segment, net sales for the quarter ended June 30, 2015 increased 6% compared to the same period in 2014 due to increased

sales of first aid products, Camillus knives, and Cuda fishing tools. Year over year, net sales for the first six months of 2015 grew 13% due to increased sales of first aid products and Westcott scissors.

Amounts in \$000's	06/30/15	06/30/14
U.S.	29,649	27,870
Canada	2,813	3,673
Europe	1,492	1,853
Sales per segment for the quarters ending June 30, 2015 and June 30, 2014 (Source: Company Filing)		

Net sales in Canada for the three months ended June 30, 2015 decreased 23% in U.S. dollars and 13% in local currency compared to the prior-year period. Year over year, net sales for the six months ended June 30, 2015 decreased 22% in U.S. dollars and 11% in local currency. These decreases were primarily due to Target closing all its stores.

Net sales in Europe for the three months ended June 30, 2015 decreased 19% in U.S. dollars but were constant in local currency compared to the 2014 period. Net sales for the first half of 2015 decreased 13% in U.S. dollars but rose 6% in local currency.

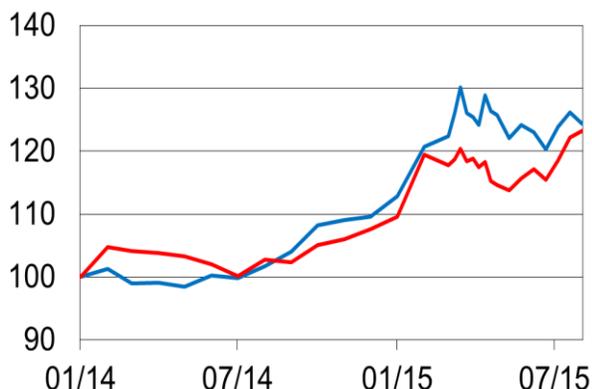
Currency Fluctuations

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.

On the other hand, the U.S. dollar also significantly appreciated against the euro and the Canadian dollar the past eighteen months, 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 are being increased.



The graph above shows how the U.S. dollar appreciated approximately 24% against the euro (blue) and 23% against the Canadian dollar (red) since January 1st 2014. It also shows that in recent months, the currencies have somewhat stabilized.

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.

The fact that all of its brands are performing well is one of Acme United’s true strengths. If one brand performs a little softer, such as Westcott did in the past quarter, the other brands make up for it.

Balance Sheet As Of June 30, 2015

Amounts in \$000's	06/30/15	06/30/14
Cash and Cash Eq.	1,941	2,426
Accounts Receivable	27,123	30,795
Inventories	36,217	30,885
Total Current Assets	67,706	66,075
Property & equipment	7,195	6,577
Intangible Assets	12,174	12,876
Total Assets	89,421	87,987
Accounts Payable	9,332	10,919
Total Current Liabilities	16,371	18,385
Bank Debt	30,179	31,325
Total Liabilities	46,886	50,150
Total Stockholder Equity	42,535	37,838
Most important balance sheet data for the periods ending June 30, 2015 and June 30, 2014. Source: Company Filing		

The Company’s bank debt less cash on June 30, 2015 was \$28.2 million compared to \$28.9 million on June 30, 2014. The Company expects this number to decline to approximately \$20 million by year end.

Inventories are high due to the seasonality of the back-to-school season. This will correct itself in the coming months.

Inventory turnover, calculated using a twelve month average inventory balance, was 2.1 for the six months ended June 30, 2015 compared to 2.2 for the twelve months ended December 31, 2014.

The average number of days sales outstanding in accounts receivable was 61 days at June 30, 2015 compared to 63 days at December 31, 2014.

GROWTH DRIVERS

Significant Cost Savings in First Aid Business

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 the first aid kits themselves, 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, the production from Pac-Kit will soon be shifted to the First Aid Only facility in Vancouver, Washington. As such, the lease on the current Pac-Kit manufacturing plant in South Norwalk, Connecticut won't be renewed. This will, together with the plant's other fixed costs that will be eliminated, such as heat and electricity, result in annual savings of about \$500,000.

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.

Many Promotions & New Products in Second Half 2015

The second half of the year looks very solid for Acme United, as it's gaining new business, launching several new products and benefitting from a number of cost savings.

Earlier this year, it won a major long-term scissors contract at a large office superstore chain. First shipments took place in June, but the bulk of it is now underway. And the Cuda fishing gear brand is growing rapidly.



Camillus keeps accelerating. It's launching the DAGR in a collaboration with Grady Powell, former Green Beret and the SKOL in a collaboration with Jared Ogden, Navy SEAL. Both Grady and Jared are members of the military team on the hit show Ultimate Survival Alaska.

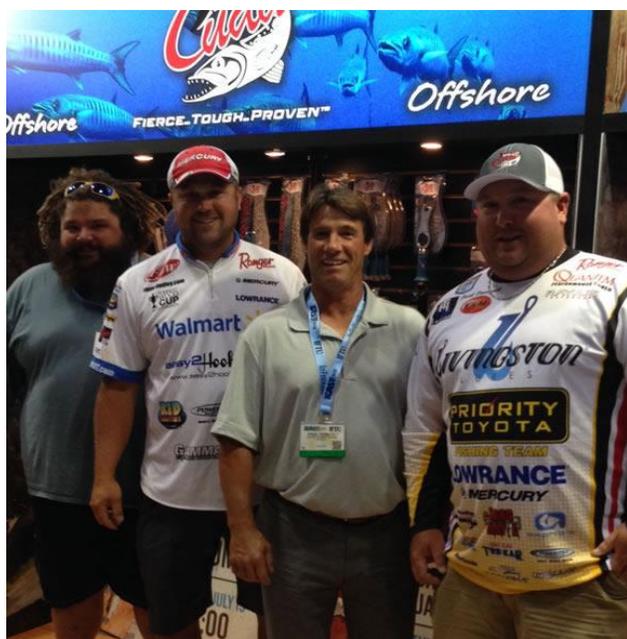
As for new products, there are a number of new first aid, hunting, and office product tools that will be launched in the following quarters.

And there's a substantial pencil sharpener promotion at a large retail chain that ships this quarter. In addition, Camillus knife sales look to be strong for the fall and holiday season, and new first aid promotions for the hardware market are being prepared.

RECENT EVENTS

Cuda Brand Shines at 2015 ICAST Show

Almost 13,000 representatives of the global sportfishing community converged in Orlando, Florida for the 58th International Convention of Allied Sportfishing Trades, better known as ICAST. The world's largest sportfishing trade show is the cornerstone of the industry and is the showcase for the latest innovations in tackle, gear and accessories.



Four of the Cuda Pros visiting the booth at ICAST 2015.

Acme United's Cuda fishing brand had a booth at the show and attracted lots of interest from distributors, retailers and sporting goods chains. Rick Constantine, Acme's Vice President of Marketing & General Manager commented, "The ICAST 2015 Cuda booth was the busiest show booth in my career."

In addition, a "Professional" line of knives featuring full tang USA CTS 40A stainless

steel blades with titanium-ceramic non-stick coatings and 47-layer compressed, cold-molded, micarta handles were launched at the show.

Finally, a first wave of clothing items will be for sale as well.

The success that Cuda has achieved in the short time that the fishing tools have been on the market is immense. Additional distributors were added and Cuda increased its offerings at almost every major sporting goods retailer and tackle shop across the nation.

OUTLOOK & VALUATION

The second quarter didn't meet management's expectations. Especially the Westcott brand was impacted by store closures at large office supply chains. The other brands, such as Cuda, First Aid Only, and Camillus more than made up for Westcott's softer performance. All in all, Acme was able to report an all-time quarterly sales and earnings record.

As for the following quarters, we expect Acme to resume its regular growth path. Westcott's impact is biggest in the second quarter because of back-to-school. So even if the brand's sales are still somewhat softer due to store closures, it won't have the same influence on the Company's financials as in the second quarter.

In addition, the Company has picked up a large new scissors account, for which deliveries have started late June. And many new tools are bound to hit the shelves in the coming weeks.

Good news is that the Canadian dollar and euro have stabilized in recent months. Selling prices and costs in Canada and Europe are being adjusted, which should start to have a positive impact from the third quarter.

Moreover, Acme continues to actively search 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.

We expect a lot from Cuda as well in the following quarters. Recreational fishing is big business with a \$46 billion annual market. There are 40 million licensed anglers in the United States alone. Backed by the Cuda Pros, who use the Cuda tools during tournaments and on their popular TV shows, big box and sporting goods stores continue to build interest in these high-quality tools. Cuda will soon expand distribution in Canada and Europe as well.

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.

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 in 2016 and beyond, is the Company's main goal this year.

Because of the store closures, Acme's management adjusted the Company's guidance for 2015 slightly downwards. It now foresees sales in 2015 to reach \$115 million, slightly down from between \$118 and \$120 million. And earnings per share are expected to reach between \$1.40 and \$1.42, down from between \$1.45 to \$1.50 per share. We believe these are somewhat conservative estimates, especially in light of the expected growth in the second half of the year. By comparison, in 2014 Acme had revenues of \$107.2 million and earned \$1.36.

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 32.85x, up from 30.84x 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 22.99x for the Housewares & Accessories industry.

Amounts in \$000's	2013	2014	2015E
Total Revenue	89,577	107,222	115,000
Net Income	4,003	4,789	5,192
Annual sales and earnings FY 2013 - 2015E.			
Source: Company Filings and Smallcaps Investment Research estimates			

Using the \$1.41 EPS projection for FY 2015 and applying the 22.99x P/E multiple from the peer group, we reach the following calculation: \$1.41 estimated EPS multiplied by 22.99 = \$32.42.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$32.42, which is 79% above today's stock price.

SHARE DATA & OWNERSHIP

As of August 3, 2015, Acme United had 3,346,103 common shares outstanding. The principal owners of the Company's common

stock are North Star Investment Management Corporation (13.51%), Walter Johnsen (9.5%), First Wilshire Securities Management (7.1%), Bard Associates Inc. (4.9%), and Capital Management Corp (4.7%).

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 – 6M 2015

All numbers in thousands

PERIOD ENDING	FY 2012	FY 2013	FY 2014	6M 2015
Total Revenue	84,370	89,577	107,222	56,791
Cost of Revenue	54,623	57,753	69,037	35,821
Gross Profit	29,747	31,824	38,186	20,970
Operating Expenses				
Research & Development	-	-	-	-
Selling, General and Administrative	24,386	25,945	30,791	16,269
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	24,386	25,945	30,791	16,269
Operating Income or Loss	5,361	5,879	7,394	4,702
Income from Continuing Operations				
Total Other Income (Expenses) Net	80	35	118	60
Earnings Before Interest And Taxes	5,441	5,844	7,276	4,642
Net Interest Expense	444	350	473	270
Income Before Tax	4,997	5,494	6,803	4,373
Income Tax Expense	1,448	1,491	2,014	1,229
Minority Interest	-	-	-	-
Net Income From Continuing Ops	3,549	4,003	4,789	3,144
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	3,549	4,003	4,789	3,144
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$3,549	\$4,003	\$4,789	\$3,144

Annual Income Statement FY 2012 – 6M 2015. Source: Company Filings



Acme United Corporation

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This Company Report is prepared and distributed by Smallcaps Investment Research.

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