

### Acme United Corp. (ACU)

Company Report – November 14, 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.

In the third quarter, ended September 30, 2015, Acme United achieved record back-to-school sales and record earnings. In addition, the Company is on course for a new annual sales and earnings record in 2015.

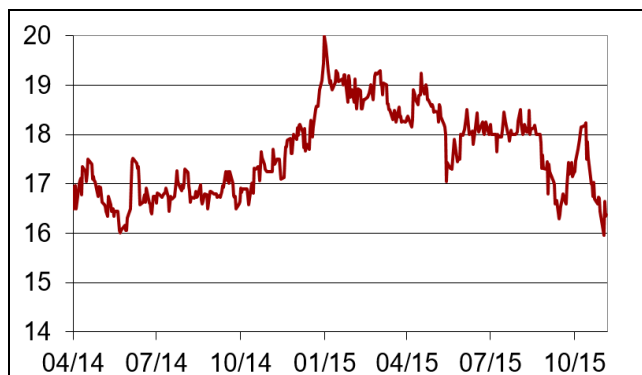
Also 2016 looks very promising. The full optimization of the Company's three first aid brands, will lead to cost savings of up to \$1 million in 2016 and beyond. We also foresee plenty of growth for Acme's other brands. Camillus, for example, is gaining market share with its knives, and camping & hunting gear.

At Clauss, a number of market tests with large retail chains are ongoing with strong results so far. As for Westcott, we should start to see the full impact of the large Office Depot/Office Max scissors account for North America that Acme picked up a couple of months ago.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$28.67, which is 68% above today's stock price.



- The decline of the Canadian dollar and euro versus the U.S. dollar has stopped in recent months. Both segments are reducing costs with suppliers, trimming expenses, and increasing their selling prices to somewhat regain their margins. All these efforts should start to have a positive impact.
- The Cuda fishing tools brand has launched an entire line for fresh water fishing. The market for fresh water tools is about three times larger than the salt water market. These tools are being rolled out into stores worldwide, starting in the fourth quarter of this year, but mostly in the first quarter of 2016. Production for Cuda recently had to be substantially increased, as sales are strong.
- 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	\$17.05
Sector	Office Supplies
52-Week Price Range	\$14.96 - \$20.50
Shares Issued (m)	3.35
Market Cap (m)	\$63.04
Listings	ACU (NYSE Mkt)
Website	<a href="http://www.acmeunited.com">http://www.acmeunited.com</a>

## 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 United again set a new all-time third quarter earnings record. Especially outstanding sales from iPoint pencil sharpeners, titanium scissors, and first aid kits contributed to the success.

Sales for the three months ended September 30, 2015, reached \$29.9 million, slightly down compared with sales of \$30.0 million in the third quarter of 2014. Net income in the third quarter of 2015 grew by 2% to \$1.21 million, or \$0.33 per diluted share, versus \$1.19 million, or \$0.34 per diluted share, in the comparable quarter last year.

As for the nine months ended September 30, 2015, sales were \$86.7 million, compared to \$82.6 million in the comparable period of 2014, an increase of 5%. Net income for the nine months ended September 30, 2015 was \$4.35 million, or \$1.18 per diluted share, compared to \$4.10 million, or \$1.18 per diluted share, in the 2014 comparable period, a 6% increase in net income.

Acme's Canadian and European business segments continue to feel the significant depreciation of their respective currencies versus the U.S. dollar. Both segments are reducing costs with suppliers, trimming expenses, and increasing their selling prices to somewhat regain their margins.

During the conference call, following the announcement of the third quarter results, Walter C. Johnsen, Acme United's Chairman and CEO, gave a sales guidance for 2015 of

\$115 million, and an earnings per share guidance of \$1.38. If these numbers are reached, Acme will set another sales and earnings record. By comparison, in 2014 Acme had revenues of \$107.2 million and earned \$1.36 per share. As for 2016, Mr. Johnsen expects sales to reach between \$120 million and \$123 million.



**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, annually sells between 60 and 80 million scissors, and between 15 and 18 million rulers. It's 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 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.



**The Clauss 8.5" Titanium Detachable Chef Shears**

Similar to Acme's other brands, Clauss applies its proprietary coatings to everyday tools. The brand, for example, markets two lines of lawn and gardening tools in partnership with The ScottsMiracle-Gro Company. The SpeedPak Utility Knife is another unique product by Clauss. It features a cartridge with 10 titanium bonded double edged blades that allows for quick, easy and safe blade changes. Or the Clauss chef shear that detaches for easy cleaning. The shears have a micro-serrated blade, making them ideal for cutting and trimming poultry, meat, fish, herbs, and more.

**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 aired in 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. 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.

The brand new folding knives family named "Seven" was also revealed to the public at SHOT. 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.

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 this year's season of the show.

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.



**The new Camillus Heat, Sizzle, and Wildfire knives are made with Japanese AUS-8 Steel and the blades have a Carbonitride Titanium coating. In addition, they use the Robo Quick Launch Technology, creating a smooth and easy blade launch.**

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!

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.

#### 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.*

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.

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. In fact, in a recent interview with Smallcaps Investment Research, Walter Johnsen mentioned that Cuda production had to be increased more than initially planned, as sales were strong.

## FINANCIALS

### Third Quarter 2015 Results

Net sales for the third quarter ended September 30, 2015 were \$29.9 million, compared to \$30.0 million in the comparable period of 2014. Net income for the quarter ended September 30, 2015 was \$1.21 million, or \$0.33 per diluted share, compared to \$1.19 million, or \$0.34 per diluted share, for the 2014 period, an increase in net income of 2%.

Net sales for the nine months ended September 30, 2015 were \$86.7 million, compared to \$82.6 million in the comparable period of 2014, an increase of 5%. Net income for the nine months ended September 30, 2015 was \$4.35 million, or \$1.18 per diluted share, compared to \$4.10 million, or \$1.18 per diluted share, in the 2014 comparable period, a 6% increase in net income.

During the third quarter, the Company incurred \$150,000 of one-time moving and severance costs related to the consolidation of

its first aid operations. Excluding these costs, earnings per share would have been \$0.35 in the third quarter (also see Growth Drivers).

Especially the Westcott family of school and office products performed well in the third quarter, showing a sales growth of 7%. In fact, Acme had record back-to-school sales, with particularly strong growth in titanium scissors and iPoint pencil sharpeners. More significantly, it appears that the closing of non-performing office superstores is slowing down. In the previous quarter the closing of hundreds of stores by Staples and Office Depot, did have a negative impact on Acme's results.

The first aid business in the U.S. grew 9% after adjusting for discontinuation of low margin sales and branded medications to several large customers. New customers in the industrial market were added, and the Company also started shipping refills to a large industrial wholesaler for use in a vending machines throughout the United States (also see Growth Drivers).

Amounts in \$000's	09/30/15	09/30/14
Net Sales	29,903	30,008
Cost of Goods Sold	19,577	19,393
S, G & A Expenses	8,334	8,685
<b>Income From Operations</b>	<b>1,992</b>	<b>1,930</b>
Pre-Tax Income	1,750	1,710
Income Tax Expense	542	521
<b>Net Income</b>	<b>1,208</b>	<b>1,189</b>
Diluted Shares Outs.	3,699	3,546
Diluted EPS	0.33	0.34
<b>Most important income statement data for the quarters ending September 30, 2015 and September 30, 2014. Source: Company Press Release</b>		

Acme also introduced ANSI 2015 compliant first aid kits, which exceed newly issued OSHA safety regulations. These items are beginning to be shipped now.

Revenues in the Clauss, Camillus, and Cuda product families were \$900,000 lower than last year due to a retail promotion that did not repeat. Camillus knives is gaining market share though in the camping and hunting areas, and has booked plenty of new business for 2016.

Gross margins in the third quarter of 2015 were 34.5% compared to 35.4% in the 2014 period. Excluding the \$150,000 moving and severance costs, margins would have been 35% in the third quarter of 2015. For the nine months ended September 30, 2015, gross margins were 36.1% compared to 35.4% for last year's period. The improvement for the nine months was primarily due to a more favorable product mix.

### U.S. and European Segments Continue Growth

Acme United reports financial information on three separate business segments: the United States (including Asia), Canada and Europe.

In the U.S. segment, net sales for the quarter ended September 30, 2015 increased 2% compared to the same period in 2014. Especially sales of Westcott and first aid products, which grew by 7% and 4% respectively, contributed to the success. Sales of Camillus knives, on the other hand, declined \$0.7 million in the quarter due to a retail promotion in last year's quarter that did not repeat this year. During the first nine months of 2015 sales grew 9%.

Sales in Canada for the three months ended September 30, 2015 decreased 9% in local currency and 24% in U.S. dollars compared to the prior-year period. The segment generated \$30,000 in operating profit during the third quarter, versus \$95,000 in the same period last year. Year over year, net sales for the nine months ended September 30, 2015 decreased 11% in local currency and 22% in U.S. dollars. These decreases were primarily due to Target closing all its stores in Canada and soft economic conditions.

Sales in Europe for the third quarter ended September 30, 2015 increased 24% in local currency, and 5% in U.S. dollars compared to the 2014 period. The operating profit in Europe for the third quarter of 2015 was \$112,000 compared with \$17,000 in the same period last year. Net sales for the nine months ended September 30, 2015 rose 13% in local currency and decreased 7% in U.S. dollars.

Because the U.S. dollar significantly appreciated against the euro and the

Canadian dollar during the past eighteen months, Acme's Canadian and European segments are having a tough time to maintain their margins as they buy their products in U.S. dollar. Fortunately, the currencies have stabilized in recent months.

Amounts in \$000's	09/30/15 *	09/30/14
<b>U.S.</b>	26,207	25,833
<b>Canada</b>	1,639	2,190
<b>Europe</b>	2,057	1,985
<b>Sales per segment for the quarters ending September 30, 2015 and September 30, 2014 (Source: Smallcaps Investment Research and Company Filing)</b>		

\* Note in the table above that exact revenues per segment for the third quarter 2015 will be available in the 10-Q, which will be filed mid-November 2015. However, Acme announced for each segment the percentage by which revenues increased or decreased compared with last year's third quarter. Based on those numbers, we can give a fair estimate.

### 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.

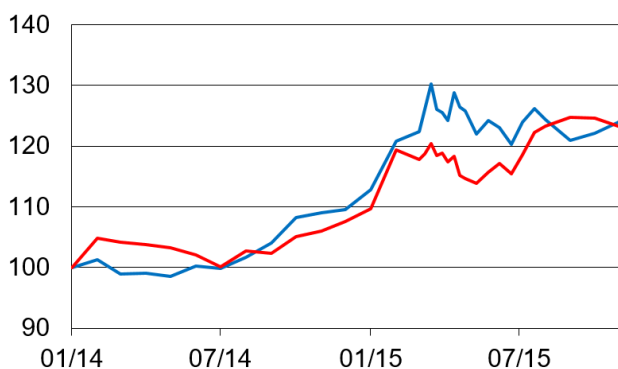
The reason behind this shift is that Acme launched products, such as the lawn and garden tools in partnership with ScottsMiracle-Gro, which are typical fourth and first quarter items as they have to be on the shelves early spring. Similar with Camillus knives, which are often used for hunting in the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

### Currency Fluctuations

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

Since early 2014, the U.S. dollar significantly appreciated against the euro and the Canadian dollar. This made 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 1<sup>st</sup> 2014. It also shows that in recent months, the currencies have stabilized.

The recent devaluation of the Chinese yuan, on the other hand, should have a positive effect on the Company's financials, as about 60% of its products are sourced in China. This is in great contrast to the past several years,

when Acme fought an uphill battle against a depreciating dollar. Now that the tables have turned, Acme might increase its sales margins somewhat on new products.

### Balance Sheet As Of September 30, 2015

Amounts in \$000's	09/30/15	09/30/14
Cash and Cash Eq.	4,621	5,814
Accounts Receivable	23,587	24,007
Inventories	34,497	31,461
<b>Total Current Assets</b>	<b>64,868</b>	<b>63,121</b>
Property & equipment	7,343	6,649
Intangible Assets	8,613	12,761
<b>Total Assets</b>	<b>86,576</b>	<b>84,943</b>
Accounts Payable	7,206	6,574
<b>Total Current Liabilities</b>	<b>13,965</b>	<b>14,641</b>
Bank Debt	28,551	30,344
<b>Total Liabilities</b>	<b>42,878</b>	<b>45,792</b>
Total Stockholder Equity	43,698	39,151

**Most important balance sheet data for the periods ending September 30, 2015 and September 30, 2014. Source: Company Press Release**

Acme United's balance sheet remains robust. Its bank debt less cash on September 30, 2015 was \$23.9 million compared to \$24.5 million on September 30, 2014.

During the past 12 months it generated \$2.6 million in cash flow from operations.

In addition, it has more than \$50.9 million in working capital and a solid current ratio of 4.65. The price to book is 1.39

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

## GROWTH DRIVERS

### New Opportunities and Savings in First Aid

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.

Now the consolidation of the three brands has entered its final stage as the production of Pac-Kit has moved from Norwalk, CT to the Company's First Aid Only facilities in Vancouver, Washington. As such, the lease on the current Pac-Kit manufacturing plant won't be renewed. This, together with the plant's other fixed costs that will be eliminated, such as heat and electricity, will result in annual savings of about \$450,000. **These savings will go straight to Acme's bottom line.**

Next to the expected cost savings, the first aid division at Acme has several growth opportunities. First, the American National Standards Institute (ANSI) has announced its 2015 minimum requirements for workplace first aid kits and supplies.



**Acme's first aid products are now being sold in vending machines at facilities throughout the U.S.**

First aid kits are classified based on the assortment and quantity of first aid supplies intended to deal with most types of injuries and sudden illnesses that may be encountered in the workplace. These may include major and minor wounds; minor burns; sprains and strains; and eye injuries.

It can be expected that the contents of each kit will be supplemented as needed based on the new ANSI guidelines. In fact, Acme is already shipping the first products that

comply with the new requirements.

In addition, the Canadian division has received its Health Safety license, which means it can start to manufacture and assemble its own first aid kits. Also in Europe, Acme expects to receive a similar license early 2016. Although first aid sales won't significantly increase right away, these licenses should have a positive effect over the longer term.

And finally, the Company started shipping refills to a large industrial wholesaler for potential use in thousands of vending machines that are placed at facilities throughout the U.S. These are products such as eye wash or to treat burns on the work floor. This is a brand new customer, that is expected to become a meaningful part of the first aid business.

Acme United's first aid products are now being sold in vending machines at facilities throughout the U.S.

## New Products Entering the Market

The coming quarters again look solid for Acme United, as it's gaining new business, and launching several new products.

For example, a few months ago Office Depot/Office Max decided to consolidate their entire scissors business in North America. Acme won that account. First shipments have already occurred, but we should start to see the full impact shortly. This contract also gives Acme a platform to begin selling far more items into Office Depot, because now it has become a more substantial supplier than it was before.

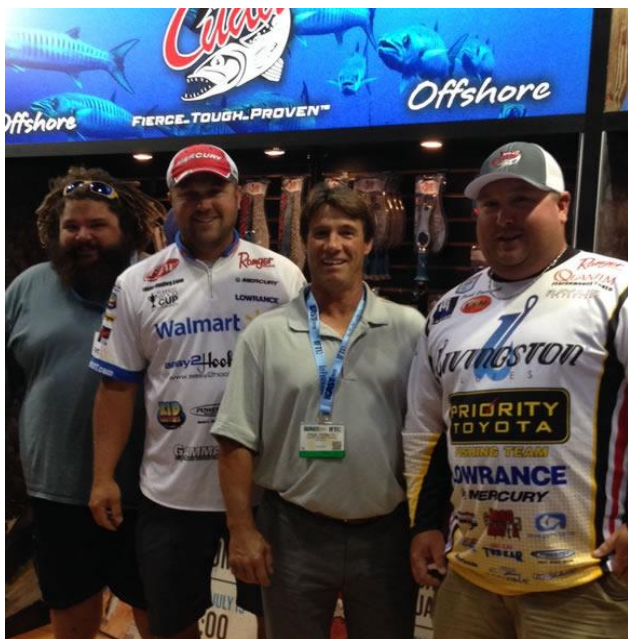
In addition, the Cuda fishing tools brand has launched an entire line for fresh water fishing. The market for fresh water tools is about three times larger compared with the salt water market. These tools are being rolled out into stores worldwide, starting in the fourth quarter of this year, but mostly in the first quarter of 2016.

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

## 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

In the third quarter, Acme United achieved record back-to-school sales and record earnings. In addition, the Company is on course for a new annual sales and earnings record in 2015.

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.

In addition, the Canadian division has received its Health Safety license, which means it can start to manufacture and assemble its own first aid kits. Also in Europe, Acme expects to receive a similar license early 2016.

Next to the first aid brands, we also foresee growth in 2016 for Acme United's other brands. Camillus, for example, is gaining market share with its knives, and camping & hunting gear.

At Clauss, a number of market tests with large retail chains are ongoing with strong results so far. As for Westcott, we should start to see the full impact of the large Office Depot/Office Max scissors account for North America that Acme picked up a couple of months ago.

And Cuda has broadened its distribution for 2016 in the United States, Canada and Europe. It now also offers fresh water fishing tools. 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.

Also 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. And thanks to the recent devaluation of the Chinese RMB, Acme's margins will likely increase.

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.

All in all, there are plenty of reasons to be very optimistic about 2016. All of the Company's brands are launching new exciting products for 2016, which will have a positive effect on revenues. In addition, significant cost savings will be realized with the closure of the Pac-Kit facility.

### 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 29.68x, down from 32.85x in our previous report. Because we continue to 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 20.77x for the Housewares & Accessories industry.

Amounts in \$000's	2013	2014	2015E
<b>Total Revenue</b>	89,577	107,222	115,000
<b>Net Income</b>	4,003	4,789	5,105
<b>Annual sales and earnings FY 2013 - 2015E.</b>			
<b>Source: Company Filings and Smallcaps Investment Research estimates</b>			

**Using the \$1.38 EPS projection for FY 2015 and applying the 20.77x P/E multiple from the peer group, we reach the following calculation: \$1.38 estimated EPS multiplied by 20.77 = \$28.67.**

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$28.67, which is 68% above today's stock price.**

## SHARE DATA & OWNERSHIP

As of October 16, 2015, Acme United had approximately 3,354,000 common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (13.6%), Walter Johnsen (9.5%), First Wilshire Securities Management (5.9%), 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 – 9M 2015

All numbers in thousands

PERIOD ENDING	FY 2012	FY 2013	FY 2014	9M 2015
<b>Total Revenue</b>	<b>84,370</b>	<b>89,577</b>	<b>107,222</b>	<b>86,694</b>
Cost of Revenue	54,623	57,753	69,037	55,398
<b>Gross Profit</b>	<b>29,747</b>	<b>31,824</b>	<b>38,186</b>	<b>31,296</b>
<b>Operating Expenses</b>				
Research & Development	-	-	-	-
Selling, General and Administrative	24,386	25,945	30,791	24,603
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	24,386	25,945	30,791	24,603
<b>Operating Income or Loss</b>	<b>5,361</b>	<b>5,879</b>	<b>7,394</b>	<b>6,693</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	80	35	118	149
Earnings Before Interest And Taxes	5,441	5,844	7,276	6,544
Net Interest Expense	444	350	473	420
Income Before Tax	4,997	5,494	6,803	6,124
Income Tax Expense	1,448	1,491	2,014	1,771
Minority Interest	-	-	-	-
Net Income From Continuing Ops	3,549	4,003	4,789	4,353
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
<b>Net Income</b>	<b>3,549</b>	<b>4,003</b>	<b>4,789</b>	<b>4,353</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$3,549</b>	<b>\$4,003</b>	<b>\$4,789</b>	<b>\$4,353</b>

Annual Income Statement FY 2012 – 9M 2015. Source: Company Filings



# Acme United Corporation

**NYSE MKT: ACU**

**Company Headquarters**

55 Walls Drive, Suite 201  
Fairfield, CT 06824  
United States

**Company Contact Information**

Paul G. Driscoll, Chief Financial Officer  
Phone: +1 203-254-6060  
Fax: +1 203-254-6019

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Contact: [editor@smallcaps.us](mailto:editor@smallcaps.us)

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