

Acme United Corp. (ACU)

Company Report – March 26, 2016

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

For 2016 the Company's goals are to grow its revenues to approximately \$120 million and its net income to \$5.6 million. An increase of 9% and 17% respectively compared with 2015. Growth is expected to come from all brands, which are expanding their distribution and launching new products.

Westcott, for example, will start to see the full impact of the large Office Depot/Office Max scissors account that it picked up last year. In addition, the new iPoint non-stick pencil sharpener should do well as coloring books for adults have become the latest craze.

In addition, Acme recently acquired DMT, a leader in sharpening tools for knives, scissors, chisels, and other cutting tools. In 2015, DMT had revenues of \$5.4 million and EBITDA of approximately \$1.0 million. Judging by Acme's plans for the new brand EBITDA may increase significantly this year.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$28.89, which is 72% above today's stock price.



Acme United Corporation

- The First Aid Only (FAO) brand has recently been very successful selling SmartCompliance kits to large retailers and banks. Acme has reoriented its sales organization in order to target big national accounts, and that's paying off. We heard that tests are also ongoing at a major airline to evaluate the kits.
- Also in the first aid category, about \$500,000 in annual savings will be generated thanks to the Pac-Kit closure and move to Vancouver, Washington.
- Finally, the Company is paying an attractive dividend of 10 cents per quarter, which at today's share price is equivalent to an annual yield of 2.48%. This is substantially higher than the yield on a 10-year treasury bond and also higher than the 2.05% average dividend yield of S&P 500 stocks.



Market Data

Price	\$16.75
Sector	Office Supplies
52-Week Price Range	\$13.01 - \$19.74
Shares Issued (m)	3.33
Market Cap (m)	\$55.81
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 eight brands: Westcott, Clauss, Camillus, PhysiciansCare, Pac-Kit, First Aid Only, Cuda and DMT, which was acquired a few weeks ago. 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.

2015 was the seventh consecutive year of record performance for Acme United. And we expect the Company to have an excellent 2016.

Sales in 2015 were \$109.8 million, compared to \$107.2 million in 2014, an increase of 2%. Net income for the year ended December 31, 2015 was \$4,794,000 or \$1.30 per diluted share compared to \$4,789,000 or \$1.36 per diluted share for the prior year.

Net sales for the fourth quarter ended December 31, 2015 were \$23.1 million compared to \$24.7 million in the same period of 2014, a decrease of about 6%.

Net income for the quarter ended December 31, 2015 was \$440,000, or \$.12 per diluted share, compared to \$689,000, or \$.19 per diluted share, for the comparable period of 2014. During the fourth quarter of 2015, the Company incurred \$250,000 of certain one-time costs. Excluding these costs, net income after taxes would have been \$595,000 and earnings per share would have been \$0.16.

For 2016 the Company's goals are to grow its revenues to approximately \$120 million and its net income to \$5.6 million. An increase of 9% and 17% respectively compared with 2015.

Growth is expected to come from the Westcott brand thanks to its Office Depot/Office Max scissors account, its iPoint

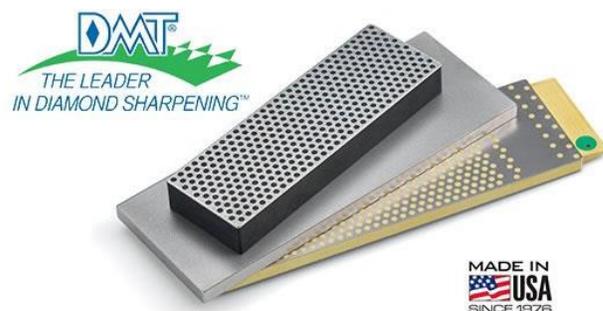
non-stick pencil sharpeners that are benefitting from the coloring-for-adults craze, and several new products that were recently brought to the market.

Both Camillus and Cuda have launched many new tools and are increasing their distribution in the US, Canada and Europe.

First Aid Only has started selling its SmartCompliance kits to large corporate accounts. This could be one of the big surprises in 2016. (Also read 'New Opportunities and Savings in First Aid' below).

And last month, Acme United acquired Diamond Machining Technology (DMT), a Marlborough, MA based leader in sharpening tools for knives, scissors, chisels, and other cutting tools.

DMT manufactures a full line of diamond sharpening tools for people and industries dependent upon high performance edges. Incorporating diamond's ability to abrade hard metals, DMT offers sharpening solutions for virtually every user, from do-it-yourselfers to professionals and large commercial operations. It has a wide variety of customers in the woodworking, camping, fishing, hunting, outdoor and winter sports, culinary arts, gardening, police-security and industrial sectors (Also read Brands and Recent Events).



Diamond Machining Technology was acquired in February 2016, and is expected to be immediately accretive.

Acme paid \$7.0 million in cash for the company. In 2015, DMT had revenues of \$5.4 million and EBITDA of approximately \$1.0 million, which indicates that margins are high. The acquisition is expected to be immediately accretive.

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 all over the world.

Acme United pays a quarterly dividend and traditionally increases the amount by 1 cent every 6 to 8 quarters. In November 2015, the quarterly dividend was increased from 9 to 10 cents per share. The 11% dividend increase was justified as the Company is generating lots of cash and is expected to continue to do so in coming years.

BRANDS

Westcott began as a ruler company more than 140 years ago. It sells between 60 and 80 million scissors, and between 15 and 18 million rulers annually. It truly is the leading scissors brand in the United States and one of the leading ruler brands in North America.

The Company's infamous grey/yellow Titanium Bonded Non-Stick scissors are known all over the globe. The blades are

lightweight, stay sharper longer, and are five times harder than steel. Also, they have a non-stick coating that resists adhesives.

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. The iPoint continues to do amazingly well.

Other main Westcott products include TrimAir paper trimmers with a titanium coating and a proprietary blade change system for rotary and personal trimmers, Westcott Ultra Soft Handle scissors with anti-microbial protection and True Professional sewing shears.

In addition, the brand constantly innovates and bring new products to the market. Recently, it launched three types of box cutters with an automatically retractable ceramic blade, which is 10X sharper than regular steel.



The new Westcott ceramic box cutters are hitting the shelves of large retail chains in the US, Canada and Europe.

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.

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 over ten knives, tools and first aid kits. Some of them were used in the 16 *Survivorman* shows that aired in 2015.

Next to Les Stroud, Camillus joined forces with ten other Pro Staffers. Led by former Navy SEAL Jared Ogden, the Camillus Pro Staff consists of former Green Berets, expert hunters, Special Forces, adventurers, firemen and survival experts.

These are true American heroes and the best of the best at what they do. Grady Powell, for example, is a former U.S. Army Green Beret. At 21 years old he was one of the youngest soldiers to make it into the elite brotherhood of Special Forces Operators. In 2013, he competed in a survival race for National Geographic's, *Ultimate Survival Alaska* TV Show. Grady is now the host of Discovery Channel's *Dual Survival*.



Part of the Camillus Pro Staff team at the 2016 SHOT Show.

Jared Ogden, a Navy SEAL who spent eight years in the Naval Service. During his Active Duty years, he deployed to CENTCOM four times and is combat decorated, having been awarded the Bronze Star with "V" for Valor, the Combat Action Ribbon, and multiple Joint Awards. Jared was star of the National Geographic Television program, *Ultimate Survival Alaska*. All these men help design, improve and promote the Camillus tools.

Plenty of new exciting knives and tools were launched at the 2016 SHOT Show, held in Las Vegas in January of this year, which will soon find their way to distributors all over the globe (Also read [Recent Events](#)).

Acme intends to further expand the number of Camillus distributors in Europe, Canada, the US, but also in countries 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 SmartCompliance first aid kits, refills, and safety products that meet regulatory requirements for a broad range of industries.

In 2013, First Aid Only reached revenues of \$17.4 million and operating income of \$1.1 million. It was acquired by Acme in June 2014 for \$13.8 million.



First Aid Only is a supplier of SmartCompliance 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. FAO operates out of a modern 54,000 square-foot facility in Vancouver, Washington where about 100 people are employed.

First Aid Only is especially known for its SmartCompliance kits. Most businesses are federally mandated to have first aid solutions that are compliant with OSHA as well as ANSI standards. These SmartCompliance first aid supply cabinets ensure that a business is covered.

The innovative design of the SmartCompliance first aid cabinet eliminates disorganized and missing supplies often seen within traditional first aid cabinets. As first aid products are used, the SmartTab ezRefill reminders notify a user when it's time to reorder so that supplies never run out when it matters most.

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!

And earlier this year, Cuda won six GOOD Design awards from the Chicago Athenaeum, Museum of Architecture and Design, and is one of the oldest and most important design competitions worldwide (Also read Recent Events).

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!

RECREATIONAL FISHING MARKET

Despite increased urbanization and on & offline sales, recreational angling remains one of the largest outdoor 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.*

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 initial tools extensively. In fact, the original 32 Cuda tools were used for nearly two years before the first product was released to the public. It was the most extensive test program in Acme's history. But it paid off in providing numerous product improvements and usages.

Since then, the Cuda Pro Staff has continued to grow to about 30 ambassadors today. Amongst them, is Jimmy Johnson, one of the most recognized sportsmen in the US. He is the first person in football history to win a national collegiate title as a player, serve as head coach to a NCAA championship team, and lead an NFL team to two Super Bowl victories. Jimmy Johnson is a football icon, but also an Emmy-winning commentator, and... a fishing enthusiast.

The Pro Staff network really helps to improve the Cuda products. Before any tool is sold to a customer, it goes to the Pro Staff that rigorously tests all aspects of it. Often they'll suggest small improvements, but when the

products finally go into production, they are the best on the market.

Also the promotion, which the Pro Staff provides is priceless. Jimmy Johnson, for example, has close to 300,000 Twitter followers. So when he tweets information about Cuda all his followers get to see it. The Pros also use the Cuda tools during tournaments, and they attend Cuda customer meetings to provide testimonials directly to the buyers.

Initially, about 30 fishing tools, including snips, wire cutters, scale/skin grippers, knives and scissors, were launched. And in 2015, an entire line for fresh water fishing tools were brought to the market. The market for fresh water tools is about three times larger than the salt water market.

Since its launch, 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.

A couple of weeks ago, Acme United acquired **Diamond Machining Technology (DMT)**, the world's leading innovator of manual diamond sharpening technology. The company, renowned for its polka dot pattern diamond surface products, offers sharpening solutions for virtually every user, from do-it-yourselfers to professionals and large commercial operations.

DMT's patented sharpening systems function very efficiently, and are ideal to sharpen, hone, lap or deburr a myriad of products. All DMT products continue to be manufactured in the company's facility in Marlborough, Massachusetts and are sold throughout the world to woodworkers, gardeners, chefs, hunters, fishermen, and knife collectors alike.

Acme aims to immediately increase DMT's sales, and as such its earnings, by offering the products in chains where the sharpening tools aren't available yet and with whom

Acme already has a good standing relationship.

In addition, it has plans to broaden the DMT product line. For example, by making hand ground sharpeners for hunters and fishermen. There may even be some sharpeners introduced under the Cuda or Camillus brand.

Walter C. Johnsen, Chairman and CEO of Acme United, commented, "DMT complements Acme United's existing brands and products within the industrial, hardware, floral, food preparation and sporting goods markets. We intend to keep the DMT operation in Massachusetts, and expect to expand the business and distribution through Acme United's broad customer base, innovation, and global reach."

FINANCIALS

Fourth Quarter & Full Year 2015 Results

Even though Acme reached record financials in 2015, they were lower than projected, due to a number of events beyond the Company's control. For example, Target closed all its stores in Canada, which had a big impact on Acme's Canadian division.

In addition, several other chains, such as Staples and Office Depot, closed stores in the United States, which resulted in reduced inventory needs because the inventory that was left in the closed stores was shipped to ones that were still open.

Moreover, Acme's Canadian and European divisions were impacted by the strong decline of the Canadian dollar and the euro versus the US dollar.

Both the store closures as well as the appreciation of the US dollar seem to have mostly leveled out, which is positive for 2016.

A final one-time item that impacted earnings negatively in 2015, was expenses of about \$400,000 incurred in the 3rd and 4th quarter in relation to the closure of the Pac-Kit manufacturing plant in Norwalk, CT and the

subsequent move to the Company's First Aid Only facilities in Vancouver, Washington.

As such, the lease on the Pac-Kit manufacturing plant hasn't been renewed. This, along with the plant's other fixed costs that were eliminated, such as heat and electricity, will result in annual savings of about \$500,000.

Amounts in \$000's	12/31/15	12/31/14
Net Sales	23,118	24,667
Cost of Goods Sold	14,852	15,691
S, G & A Expenses	7,611	7,872
Income From Operations	655	1,104
Pre-Tax Income	490	934
Income Tax Expense	50	245
Net Income	440	689
Diluted Shares Outs.	3,696	3,625
Diluted EPS	0.12	0.19
Most important income statement data for the quarters ending December 31, 2015 and December 31, 2014. Source: Company Press Release		

Sales for the three months ended December 31, 2015, reached \$23.1 million, down about 5% compared with sales of \$24.7 million in the fourth quarter of 2014. Net income in the fourth quarter of 2015 was \$440,000, or \$.12 per diluted share, compared to \$689,000, or \$.19 per diluted share, for the comparable period of 2014. Excluding the one-time costs associated with the Pac-Kit move, net income after taxes would have been \$595,000 in the fourth quarter and earnings per share would have been \$0.16.

As for 2015, sales were \$109.8 million, compared to \$107.2 million in 2014, an increase of 2%. Net income for the year ended December 31, 2015 was \$4,794,000 or \$1.30 per diluted share compared to \$4,789,000 or \$1.36 per diluted share for the prior year.

Gross margins were 35.8% in the fourth quarter of 2015 versus 36.4% in the comparable period last year. Excluding the Pac-Kit moving costs, gross margins would have been 36.8% in the fourth quarter of 2015. Gross margins were 36% for the year ended December 31, 2014 and 2015.

U.S. and European Segments Outperform

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

Amounts in \$000's	12/31/15	12/31/14
U.S.	96,622	91,298
Canada	6,804	8,841
Europe	6,385	7,083
Net sales per segment for the years ended December 31, 2015 and December 31, 2014		
(Source: Company Filing)		

In the Company's U.S. segment, net sales for the year ended December 31, 2015 were \$96.6 million compared to \$91.3 million last year, a 6% increase. For the quarter ended December 31, 2015, net sales decreased 4% compared to the same period in 2014. This decline in the fourth quarter was mainly due to the discontinuation of a line of low margin branded medications, which represented sales of \$3.0 million in the fourth quarter of 2014. Excluding the discontinuation of sales of these low-margin over-the-counter medications, net sales decreased 1%.

Net sales in Canada for the year ended December 31, 2015 decreased 11% in local currency and 23% in U.S. dollars compared to 2014. Net sales in Canada for the three months ended December 31, 2015 decreased 14% in local currency and 27% in U.S. dollars compared to the prior-year period. The lower sales can be attributed to two main factors. First, the Canadian economy is weak due to the strong decline of various commodities such as oil & gas and gold & silver. Since hundreds of thousands of jobs rely on these industries, consumer spending has declined. Secondly, the closure of the Target stores.

European net sales for the year ended December 31, 2015 increased 7% in local currency but decreased 10% in U.S. dollars compared to last year. The sales increase in Europe for the year was due to market share gains for Westcott school & office products. Net sales in Europe for the three months ended December 31, 2015 decreased 9% in local currency and 21% in U.S. dollars compared to the same period in 2014 period

due to a holiday promotion to a mass market customer in the fourth quarter of 2014 that did not repeat in the fourth quarter of 2015. Overall, the European segment was profitable in 2015.

In 2016, the Company expects results in Europe to continue to improve. It will shortly receive its medical certification, which will allow it to import first aid products directly from China. Also, as of January 1, 2016 a price increase was implemented to somewhat make up for the euro's decline.

Reduced Product and Sector Risk

Next to generating growth, Acme 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

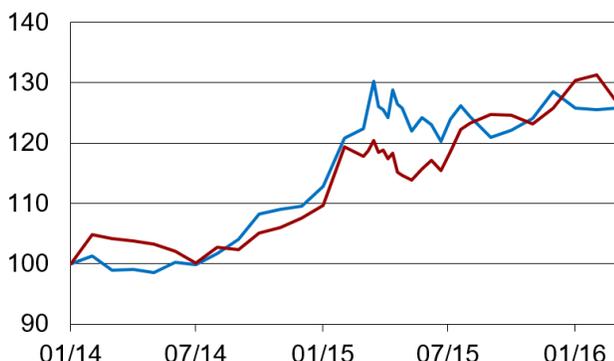
the fall and they are also typical Christmas and holiday gifts.

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 products in U.S. dollar. To counter the margin decrease, selling prices have been increased.



The graph above shows how the U.S. dollar appreciated approximately 26% against the euro (blue) and 27% against the Canadian dollar (red) since January 1st 2014. It also shows that in recent months, the currencies have stabilized.

The recent devaluation of the Chinese yuan, on the other hand, has a positive effect on the Company’s financials, as about 60% of its products are sourced in China.

Acme pays for those goods in Chinese yuan. And because of the devaluation, the same U.S. dollar amount now buys more product.

Because a majority of Acme’s products are sold domestically, selling prices won’t be impacted by the Chinese devaluation. As a result, the Company’s margins will improve on most products that are sourced in China.

Balance Sheet As Of December 31, 2015

Amounts in \$000's	12/31/15	12/31/14
Cash and Cash Eq.	1,426	2,286
Accounts Receivable	19,565	19,477
Inventories	35,508	33,671
Total Current Assets	59,634	57,511
Property & equipment	7,401	6,931
Other Assets	14,386	14,866
Total Assets	81,421	79,308
Accounts Payable	6,664	7,773
Total Current Liabilities	11,937	15,363
Long Term Debt	25,913	24,147
Total Liabilities	38,238	39,880
Total Stockholder Equity	43,184	39,428

Most important balance sheet data for the periods ending December 31, 2015 and December 31, 2014. Source: Company Press Release

Acme United’s balance sheet remains robust. On December 31, 2015 its bank debt less cash and cash equivalents was \$23.5 million, compared to \$21.9 million on December 31, 2014. The change in debt was primarily due to the increase in inventory. Note that in 2015, Acme repurchased 40,145 common shares on the open market, paid \$0.37 per share dividends.

Inventory increased by approximately \$1.8 million, or 5%, which corresponds to the increase in sales. Inventory turnover, calculated using a twelve month average inventory balance, decreased to 2.0 from 2.2 at December 31, 2014.

In addition, it has approximately \$47.7 million working capital, an increase of approximately \$5.5 million compared with December 31, 2014. The Company has a solid current ratio of 5.00 and its price to book is 1.29.

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 products such as bandages, tapes, and pads with its suppliers.

Now the consolidation of the three brands has ended 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 wasn't renewed. This, together with the plant's other fixed costs, such as heat and electricity, which are eliminated, result in annual savings of about \$500,000.

Next to the cost reductions, 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.

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 its medical certification shortly, which will allow it to import first aid products directly from China. Although first aid sales won't significantly increase right away, these licenses should have a positive effect over the longer term.

Finally, the First Aid Only brand has recently been very successful selling SmartCompliance kits to large retailers and banks. We heard that tests are also ongoing at a major airline to evaluate the kits.

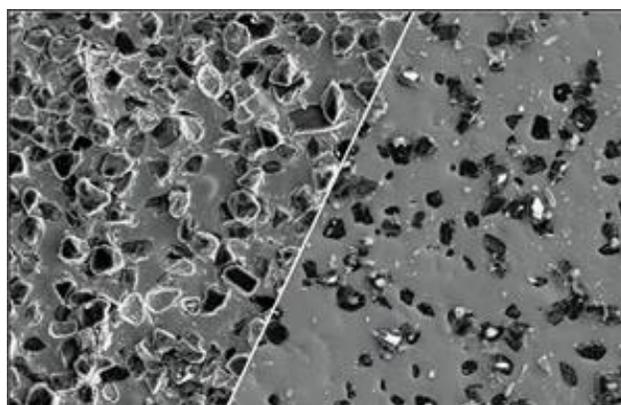
SMARTCOMPLIANCE KITS

SmartCompliance kits by First Aid Only are ideal for businesses, offices, and work sites. Clearly labeled compartments create a cabinet that is easy to use and restock. And the kits ensure customers to be compliant with safety regulations.

RECENT EVENTS

Acme United Acquires World Renowned Sharpening Products Manufacturer

Diamond Machining Technology was founded in 1976. Originally a manufacturer of grinding wheels the company repurposed a center punch-out of a diamond grinding wheel and developed an entire new way of manual sharpening. After testing a sample of a center punch out sent to them, a purchasing agent for L.L. Bean extolled the product's sharpening performance and worked with the engineers at DMT to refine the resulting product. That cooperation launched DMT on its way to becoming the recognized leader and the industry standard in diamond honing hand tools.



The DMT sharpening surface (left) exhibits full coverage and the diamonds show striking consistency in size to ensure peak performance and durability. The copycat surface (right) carries a sparse, patchy coating made from a jumble of different sized diamonds.

Suddenly, there was an alternative to the traditional methods of sharpening that required no messy oil, never grooved or hollowed, and lasted and lasted. It was an

unbreakable, clean-cutting, and super-fast sharpener, It was a tool that could sharpen any material, including the toughest composites, ceramics and any metal, including tungsten carbide and even polycrystalline diamond inserts.

DMT's products differ significantly from those of its competitors. For example, DMT makes certain that each sharpening surface carries the most diamonds per square inch in the industry to guarantee long-lasting performance.

The uniformity of the diamond is also key to a sharpener's performance. DMT uses a proprietary process that ensures near-perfect consistency in grit size. The result is a micronized monocrystalline diamond that covers evenly across the sharpening surface to prove effective with every use, year after year.

A couple of weeks ago, the European division of Acme United hosted booths at the International Hardware Fair in Cologne, Germany and the IWA OutdoorClassics, in Nuremberg, Germany, two major European trade shows. These were the initial events that Acme attended after its acquisition of DMT last month. The team learned that the diamond sharpening tools brand has plenty of growth opportunities, both in the number of market segments where the products are offered, as well as in the number of customers.



The Acme United booth at the 2016 International Hardware Fair in Cologne, Germany.

DMT currently has 28 employees and sells its products at chains such as Home Depot, Bass Pro Shops, Grainger, Fastenal, and Amazon. It manufactures all its products in the United

States and exports worldwide to nearly 50 countries.

Throughout its history, DMT introduced more than 125 products and was granted over 50 patents and trademarks. In addition, the company has earned countless awards, including HANDY Innovation Award; Seals of Approval from the North American Hunting Club, the National Home Gardening Club, the Handyman Club of America and the Cooking Club of America; seven Blade Magazine Knife Accessory of the Year Awards and an international award for innovation at Germany's International Hardware Fair.

Fabulous SHOT Show for Camillus and Western Brands

In January of this year more than 1,600 exhibiting companies filled the Sands Expo Center in Las Vegas for the annual Shooting, Hunting and Outdoor Trade (SHOT) Show.

Camillus and Western each showed about ten new products for the first time to distributors and potential customers. Amongst them was the Camillus Camtrax, a 12" 3-in-1 hatchet with a hammer and triple-edge folding saw. It's made out of Titanium stainless steel, has a handy lockback function and a glass filled nylon handle. In addition, the M-13 Machete, featuring a 13" titanium bonded blade with gut hook was launched. This full tang knife comes with a glass filled nylon handle and sheath. It can even be used as a spear when tied to a stick.

Also, the Heat2, Sizzle2 and Wildfire2 knives, which were originally brought to the market over ten years ago have been relaunched. The knives continue to be popular thanks to their "Robo-Assist" quick launch technology. The blades, which have a Carbonitride Titanium Bonding, are revealed in an instant, thanks to the assisted open technology.

Moreover, the extremely attractive Les Stroud Heritage Collection was revealed. It includes a folding knife, two fixed blades, a machete, and a slingshot. These are top performing tools made out of 440 stainless steel with Carbonitride Titanium non-stick blades and glass-filled nylon handles.

Finally, the beautifully designed Western brand knives all have Titanium bonded stainless steel blades and incredibly workmanship. Western knives are aggressively priced and are backed by a lifetime warranty.

The SHOT Show is Acme United's biggest marketing event of the year, and as such a good indicator of how well the Company's new products are received by distributors and consumers. Rick Constantine, Acme's Vice President of Marketing & General Manager, was quoted saying: "SHOT Show 2016 was a huge success". So it's fair to assume that we could see another year of solid growth at Camillus and Western with increased distribution and sales.



The M-13 Machete, featuring a 13" titanium bonded blade with gut hook.

The Pro Staffers have quickly become an invaluable part of the Camillus team. With their help, the Camillus tools truly stand out in regards to design, performance and durability. As many of them have been in extremely dangerous, and often life-threatening situations, they give information that Camillus designers could never know about. In addition, these well-known stars have thousands of followers on social media, which is ideal to promote all the new tools.

Cuda Wins 6 GOOD Design Awards

In January 2016, won six GOOD Design awards from the Chicago Athenaeum, Museum of Architecture and Design, and is one of the oldest and most important design competitions worldwide. The Marine Shear, Flex Fillet Knife, Grip & Weigh, Snip, Small Dehooker, and Dual Plier all received the exclusive award.

Walter C. Johnsen, Chairman and CEO of Acme United said, "We are delighted to receive these awards for innovation. The Cuda product line of fishing tools and knives has had strong customer acceptance and generated excellent growth. The award-winning Cuda products are now being sold at authorized fishing and outdoor retailers in the U.S., Canada, Australia, and Europe."

GOOD DESIGN

GOOD Founded in Chicago in 1950 by the former MoMA curator Edgar Kaufmann, Jr., together with such pioneers in modern design as Charles and Ray Eames, Russel Wright, George Nelson, and Eero Saarinen, GOOD Design honors the yearly achievements of the best industrial and graphic designers and world manufacturers for their pursuit of extraordinary design excellence.

Each year, the Museum receives hundreds of submissions from the biggest and most famous brands like Apple, Hewlett Packard, BMW, Porsche, Microsoft, and... Acme United.

Will consumers buy the Cuda gear just because it has won a GOOD Design award? Probably not. But the fact that a tool wins, indicates that it stands out from the other ones. And that, in combination with exceptional features, does persuade consumers.

For example, a few years ago Acme's iPoint electric pencil sharpener also won a GOOD Design award. Since then, the sharpener has generated over \$10 million in sales annually. Not necessarily because of the award, but simply because it looks better and functions better than its competitors' sharpeners. Cuda is another success story in the making at Acme United.

OUTLOOK & VALUATION

Acme's sales and earnings in 2015 weren't as high as initially projected, due to a number of events beyond the Company's control and several one-time costs. Most of these issues however appear to be over.

In fact, the Company foresees to increase its revenues by about \$10 million in 2016. All the brands are expanding their distribution and launching new products.

Westcott, for example, will start to see the full impact of the large Office Depot/Office Max scissors account that it picked up last year. This contract also gives Acme a platform to sell more items into Office Depot, because it has become a more substantial supplier than it was before.



The Marine Shear, Flex Fillet Knife, Grip & Weigh, Snip, Small Dehooker, and Dual Plier all received the exclusive GOOD Design award.

In addition, the new iPoint non-stick pencil sharpener should do well. Coloring books for adults have become the latest craze, and we expect pencil sharpener sales to benefit from this trend.

Also, the new ceramic box cutters are hitting the shelves of large retail chains in the US, Canada and Europe.

Judging from the outstanding response that the new Camillus products received at the recent SHOT Show, they should do very well. And the 6 GOOD Design awards that the Cuda fishing tools received, along with the brand's expansion into fresh water tools, will give its sales another boost.

Moreover, the First Aid Only (FAO) brand has recently been very successful selling SmartCompliance kits to large retailers and banks. We heard that tests are also ongoing at a major airline to evaluate the kits.

When Acme acquired FAO in 2014, it was already selling these kits to large corporations such as McDonalds. In the meanwhile, Acme has reoriented its sales organization in order to target big national accounts. This allows them to sell a large amount of kits to an entire chain.

About \$500,000 in annual savings will be generated thanks to the Pac-Kit closure and move to Vancouver, Washington.

Moreover, Acme recently acquired DMT, a leader in sharpening tools for knives, scissors, chisels, and other cutting tools. In just 40 years, Diamond Machining Technology's patented and award-winning products have become known worldwide for their superior quality and versatility. They are easy to use and allow for sharpening in a fraction of the time required by other methods. Synergies for Acme's cutting products are plenty and obvious.

Because it's a leader in its category, margins are relatively high. In 2015, DMT had revenues of \$5.4 million and EBITDA of approximately \$1.0 million. Judging by Acme's plans for the new brand EBITDA may increase significantly this year. To put that all in perspective, in 2014, Acme United's EBITDA was \$9.09 million, while net earnings reached \$4.78 million.

Finally, the Company is paying an attractive dividend of 10 cents per quarter, which at today's share price is equivalent to an annual yield of 2.48%. This is substantially higher than the yield on a 10-year treasury bond and also higher than the 2.05% average dividend yield of S&P 500 stocks.

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 Mapped 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 24.57x, down from 29.68x 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 25% discount to the average P/E ratio.

Taking the discount into account, we end up with an average P/E ratio of 17.20x for the Housewares & Accessories industry.

Amounts in \$000's	2014	2015	2016E
Total Revenue	107,222	109,812	120,000
Net Income	4,789	4,794	5,600
Annual sales and earnings FY 2014 - 2016E.			
Source: Company Filings and Smallcaps Investment Research estimates			

Using the \$1.68 EPS projection for FY 2016 and applying the 17.20x P/E multiple from the peer group, we reach the following calculation: \$1.68 estimated EPS multiplied by 17.20 = \$28.89.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$28.89, which is 72% above today's stock price.

SHARE DATA & OWNERSHIP

As of February 23, 2016, Acme United had 3,332,460 common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (13.8%), Walter Johnsen (9.3%), Capital Management Corp (4.9%), Bard Associates Inc. (4.7), and Teton Advisors (3.8%).

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 – FY 2015

All numbers in thousands

PERIOD ENDING	FY 2012	FY 2013	FY 2014	9M 2015
Total Revenue	84,370	89,577	107,222	109,812
Cost of Revenue	54,623	57,753	69,037	70,251
Gross Profit	29,747	31,824	38,186	39,561
Operating Expenses				
Research & Development	-	-	-	-
Selling, General and Administrative	24,386	25,945	30,791	32,214
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	24,386	25,945	30,791	32,214
Operating Income or Loss	5,361	5,879	7,394	7,347
Income from Continuing Operations				
Total Other Income (Expenses) Net	80	35	118	168
Earnings Before Interest And Taxes	5,441	5,844	7,276	7,179
Net Interest Expense	444	350	473	565
Income Before Tax	4,997	5,494	6,803	6,614
Income Tax Expense	1,448	1,491	2,014	1,820
Minority Interest	-	-	-	-
Net Income From Continuing Ops	3,549	4,003	4,789	4,794
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	3,549	4,003	4,789	4,794
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$3,549	\$4,003	\$4,789	\$4,794

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



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