

### Acme United Corp. (ACU)

Company Report – May 14, 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.

2015 was the seventh consecutive year of record performance for Acme United, and that trend has continued in the first quarter of 2016. During the three months period, ended March 31, 2016, Acme posted an 11% increase in revenues and even a 30% rise in net income. Both sales and earnings set a new first quarter record.

Westcott scissors and iPoint pencil sharpener sales achieved outstanding sales numbers. Also the first aid business has laid the groundwork in the first quarter for a strong 2016. The First Aid Only brand recently received an order for 40,000 SmartCompliance kits from a major retailer in the United States. And a significant order for hurricane preparedness first aid kits is being shipped to another large customer.

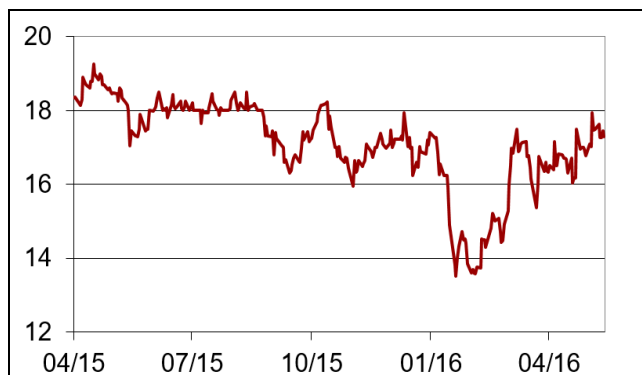
In addition, Diamond Machining Technology (DMT), a leader in sharpening tools for knives, scissors, chisels, and other cutting tools, which was acquired by Acme in February of 2016, immediately contributed about \$1 million in sales in the first quarter.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$28.12, which is 61% above today's stock price.



■ A few days ago, Acme amended its loan agreement with HSBC Bank. The original agreement with HSBC was closed in 2013 and provided for borrowings of up to \$40 million at an interest rate of LIBOR plus 1.75%. The amended agreement now provides for borrowings of up to \$50 million at LIBOR plus 2.00%, and expires on May 5, 2019. The additional borrowing capacity provides the Company liquidity to fund its growth, pay dividends, buy back shares and finance potential acquisitions.

■ 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 2.29%. This is substantially higher than the yield on a 10-year treasury bond and also higher than the 2.13% average dividend yield of S&P 500 stocks.



Market Data	
Price	\$17.29
Sector	Office Supplies
52-Week Price Range	\$13.01 - \$19.74
Shares Issued (m)	3.32
Market Cap (m)	\$57.41
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 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.

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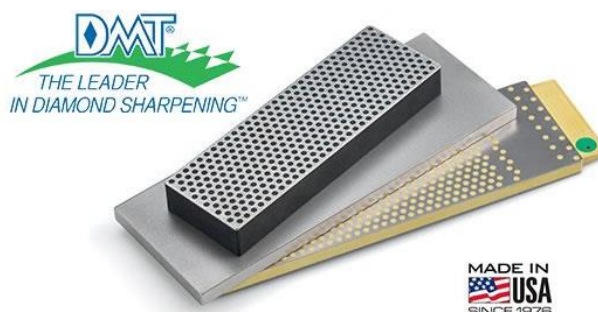
Westcott scissors and iPoint pencil sharpener sales achieved outstanding sales numbers. Also the first aid business has laid the groundwork in the first quarter for a strong 2016. The First Aid Only brand recently received an order for 40,000 SmartCompliance kits from a major retailer in the United States. The kits will be installed in the chain's stores, trucks and warehouses. Tests with SmartCompliance kits are ongoing at other large US corporations, such as airlines, food chains, large manufacturers and banks.

Moreover, a significant order for hurricane preparedness first aid kits is being shipped to another large retailer.

Diamond Machining Technology (DMT), a leader in sharpening tools for knives, scissors, chisels, and other cutting tools, which was acquired by Acme in February of 2016, contributed about \$1 million in sales.

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 immediately accretive.**

Because DMT is 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.

**During the conference call, following the release of the first quarter financials, Walter C. Johnsen, Acme's Chairman and CEO re-affirmed the guidance previously provided for 2016 of approximately \$120.0 million in revenues and \$5.6 million in net income. We believe however, that if the substantial momentum of the first quarter can be sustained in the second one, guidance for 2016 will be increased.**

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*.



**The Les Stroud Heritage collection was revealed 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.

FAO was acquired by Acme in June 2014 for \$13.8 million, after reaching revenues of \$17.4 million and operating income of \$1.1 million the year before.



**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.**

The business was founded in 1988 and pioneered consultative selling and support of first aid items to large corporate customers. It has since become a recognized industry leader. FAO operates out of a modern 54,000 square-foot facility in Vancouver, Washington where well over 100 people are employed. All of the FAO's first aid kits continue to be produced in the United States and sold under the First Aid Only brand.

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.

The SmartCompliance cabinets are very successful, as FAO recently received an order for 40,000 kits from a major retailer in the United States. They will be installed in the chain's stores, trucks and warehouses. In addition, tests with SmartCompliance kits are ongoing at other large US corporations, such as airlines, food chains, large manufacturers and banks. One such order could potentially be worth several hundreds of thousands of dollars.

**Cuda** markets a line of knives and tools dedicated to fresh and saltwater fishing. The brand 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.

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. 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. One pro 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.

In February 2016, 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.

Since the acquisition, Acme immediately succeeded in increasing DMT's sales, by offering the products in chains where the sharpening tools weren't available yet and with whom Acme already had a good standing relationship.

In addition, the Company 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 Johnsen 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

### First Quarter 2016 Results

Sales for the three months ended March 31, 2016, reached \$25.3 million, an increase of about 11% compared with sales of \$22.8 million in the first quarter of 2015. Net income in the first quarter of 2016 was \$565,000, or \$.16 per diluted share, compared to \$436,000, or \$.12 per diluted share, for the comparable period of 2015, a very strong increase of 30% in net income and 33% in earnings per share.

Although most brands reported higher revenues during the quarter compared with last year, sales for Clauss, Cuda, and Camillus were lower due to timing in shipment. Consequently, this group has a strong backlog for deliveries in the current quarter.

Amounts in \$000's	03/31/16	03/31/15
Net Sales	25,288	22,837
Cost of Goods Sold	16,103	14,402
S, G & A Expenses	9,185	8,435
<b>Income From Operations</b>	<b>955</b>	<b>826</b>
Pre-Tax Income	809	621
Income Tax Expense	244	185
<b>Net Income</b>	<b>565</b>	<b>436</b>
Diluted Shares Outs.	3,572	3,702
Diluted EPS	0.16	0.12
<b>Most important income statement data for the quarters ending March 31, 2016 and March 31, 2015. Source: Company Press Release</b>		

Gross margins were 36.3% in the first quarter of 2016 versus 36.9% in the comparable

period last year. The lower gross margin was primarily due to product mix.

Mr. Johnsen commented, "We are pleased to report another quarter of record performance. We delivered strong results in our Westcott family of cutting tools and our first aid business. Our Canadian business executed well, and rebounded from last year with sales to new retail customers and market share gains in the office channel. We are integrating the new DMT acquisition ahead of plan and have added new distribution in the U.S. and Europe. We believe we have a solid book of new business for the remainder of the year."

### Solid Growth Expected in All Segments

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

Amounts in \$000's	03/31/16	03/31/15
<b>U.S.</b>	22,526	20,134
<b>Canada</b>	1,389	1,244
<b>Europe</b>	1,373	1,459
<b>Sales per segment for the quarters ending March 31, 2016 and March 31, 2015 (Source: Company Filings)</b>		

Net sales for the first quarter of 2016 in the U.S. segment increased 12% compared to the same period in 2015 due to strong sales of Westcott school and office products, increased distribution of first aid products and the sale of DMT products.

Net sales in Canada in the first quarter of 2016 increased 22% in local currency, and 12% in U.S. dollars compared to the same period in 2015 primarily due to the introduction of the Cuda line of fishing tools and an improvement in the office products market in Canada.

The Company believes that this growth can be sustained in 2016, as the Canadian economy seems to recuperate somewhat. In addition, the Cuda fishing tools brand is getting more orders and placement at retail and sporting goods chains. And the DMT business will also contribute nicely to the Canadian segment's results.

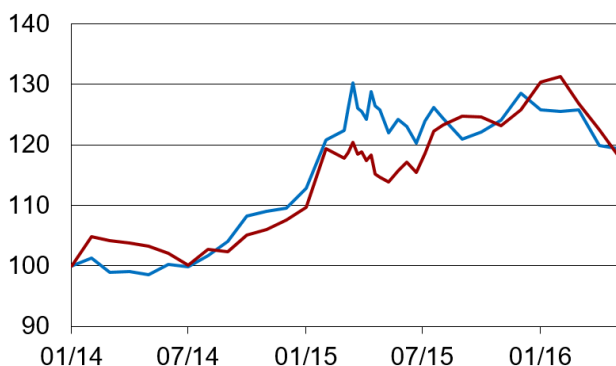
European net sales in the first quarter of 2016 decreased 4% in local currency and 6% in U.S. dollars compared to the first quarter of 2015 mainly due to the timing of shipments into the office products channel.

A record year is expected in Europe due to a number of reasons. First, Cuda and Camillus knives are both increasing their distribution and sales. Also, Acme Europe received its medical certification, which allows it to import first aid products directly from China. And finally, DMT is expected to add about \$800,000 to sales.

### 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 19% against the euro (blue) and 18% against the Canadian dollar (red) since January 1<sup>st</sup> 2014. It also shows that in recent months, the euro and Canadian dollar are gaining back some ground against the US currency.

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.

Since a majority of Acme's products are sold domestically, selling prices won't be impacted by the Chinese devaluation. Consequently, the Company's margins should improve on most products that are sourced in China.

### Balance Sheet As Of March 31, 2016

Acme's balance sheet remains robust. Its bank debt less cash on March 31, 2016 was \$34 million compared to \$26 million on March 31, 2015.

During the twelve months period ended March 31, 2016, the Company paid approximately \$7 million for the acquisition of the assets of DMT. Money well spent knowing that DMT is a solid contributor to sales and earnings. In addition, the Company paid \$1.3 million in dividends on its common stock and spent \$1.5 million on stock re-purchases.

At the end of the first quarter 2016, Acme had more than \$51.7 million in working capital and a current ratio of 6.67.

Amounts in \$000's	03/31/16	03/31/15
Cash and Cash Eq.	1,474	1,797
Accounts Receivable	19,118	16,722
Inventories	37,551	35,925
<b>Total Current Assets</b>	<b>60,876</b>	<b>56,920</b>
Property & equipment	7,745	7,158
Intangible Assets, Less Amortization	17,224	12,374
<b>Total Assets</b>	<b>88,290</b>	<b>78,800</b>
Accounts Payable	6,279	5,905
Total Current Liabilities	9,133	11,458
Long Term Debt	35,696	27,561
<b>Total Liabilities</b>	<b>45,145</b>	<b>39,334</b>
Total Stockholder Equity	43,145	39,466
<b>Most important balance sheet data for the periods ending March 31, 2016 and March 31, 2015. Source: Company Press Release</b>		

Only a few days ago, Acme amended its loan agreement with HSBC Bank. The original agreement with HSBC was closed in 2013 and provided for borrowings of up to \$40 million at an interest rate of LIBOR plus 1.75%. The amended agreement now provides for borrowings of up to \$50 million at LIBOR plus 2.00%, and expires on May 5, 2019. At



today's LIBOR rate, Acme pays approximately 2.4 percent interest.

As of March 31, 2016, the Company had outstanding borrowings of \$35.7 million under the revolving loan agreement with HSBC. So the additional borrowing capacity provides the Company liquidity to fund its growth, pay dividends, buy back shares and finance potential acquisitions.

## 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 former 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.

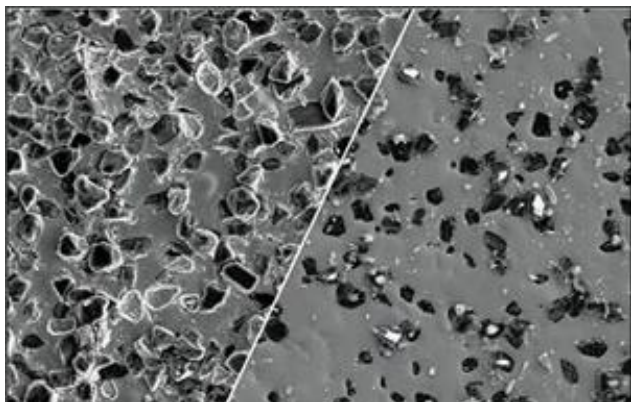
Acme United has been in the first aid business for over 40 years. Combined, its three brands are among the top-10 producers of first aid kits in the United States, and they accounted for 35% of Acme United's total sales in 2014.

## 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.

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**

Early 2016, 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.

## OUTLOOK & VALUATION

Although the first quarter already showed significant strength, more growth is expected for Acme United in 2016.

The new Westcott ceramic box cutters, for example, are hitting the shelves of large retail chains in the US, Canada and Europe. They feature rugged ceramic blades that are much safer than traditional metal cutters. They will start to impact sales as of the current quarter.

The Westcott scissors business continues to become stronger. In fact, Mr. Johnsen mentioned during the conference call that a large retailer tried a different scissors supplier a few months ago, and now has returned to Acme because sales of the other brand were disappointing. A true validation of the Westcott scissors brand.

Also the new iPoint non-stick pencil sharpener should do well. Coloring books for adults have become popular, and we expect pencil sharpener sales to benefit from this trend. The product is traditionally also a big hit during Acme's second and third quarter, the back-to-school season.

The Cuda line of fishing tools continues to gain market share in the US, Canada and Europe. Also the Clauss and Camillus brands are poised to achieve record sales in 2016, as they've gained new business at mass market retailers and sporting good chains.

Moreover, at DMT new accounts worth around \$1 million have already been added since the sharpening products manufacturer was acquired two and a half months ago. A large retailer reviewed its sharpener business and ordered \$500,000 worth of products. Another large chain, which was an existing DMT customer, doubled its regular order.

While DMT has only been a part of Acme United for a couple of months, plenty of synergies have already been discovered. For instance, existing Acme customers are very interested in DMT products for sports &



hunting purposes. In fact, the famous DMT polka dot sharpener has won seven Knife Accessory of the Year awards from Blade Magazine. Also, there are lots of opportunities for DMT in the kitchen area. As a result, Acme will immediately start to pursue new customers in those areas.



**Coloring books for adults have become very popular. iPoint pencil sharpener sales are benefitting from this trend.**

And it works the other way around as well. DMT has plenty of customers in the industrial area where Acme's sales are soft. Consequently, Camillus knives and Clauss industrial tools, such as scissors and cutters, should fit ideally in the DMT customers' range of products.

One or more of the ongoing evaluations with SmartCompliance kits could result in actual orders. One such order is potentially worth several hundreds of thousands of dollars.

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 2.29%. This is substantially higher than the yield on a 10-year treasury bond and also higher than the 2.13% 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 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 23.87x, down from 24.57x 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 industry's average P/E ratio.

Taking the discount into account, we end up with an average P/E ratio of 17.91x for the Housewares & Accessories industry.

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

**Using the estimated net income of \$5.6 million for 2016, and 3,572,000 fully diluted shares, we derive an estimated P/E for 2016 of \$1.57.**

**Applying the 17.91x P/E multiple from the peer group, we reach the following calculation: \$1.57 estimated EPS multiplied by 17.91 = \$28.12.**

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$28.12, which is 62% above today's stock price.**

### SHARE DATA & OWNERSHIP

As of May 5, 2016, Acme United had 3,320,450 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 2013 – Q1 2016

All numbers in thousands

PERIOD ENDING	FY 2013	FY 2014	FY 2015	Q1 2016
<b>Total Revenue</b>	<b>89,577</b>	<b>107,222</b>	<b>109,812</b>	<b>25,288</b>
Cost of Revenue	57,753	69,037	70,251	16,103
<b>Gross Profit</b>	<b>31,824</b>	<b>38,186</b>	<b>39,561</b>	<b>9,185</b>
<b>Operating Expenses</b>				
Research & Development	-	-	-	-
Selling, General and Administrative	25,945	30,791	32,214	8,230
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	25,945	30,791	32,214	8,230
<b>Operating Income or Loss</b>	<b>5,879</b>	<b>7,394</b>	<b>7,347</b>	<b>955</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	35	118	168	38
Earnings Before Interest And Taxes	5,844	7,276	7,179	993
Net Interest Expense	350	473	565	184
Income Before Tax	5,494	6,803	6,614	809
Income Tax Expense	1,491	2,014	1,820	244
Minority Interest	-	-	-	-
Net Income From Continuing Ops	4,003	4,789	4,794	565
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
<b>Net Income</b>	<b>4,003</b>	<b>4,789</b>	<b>4,794</b>	<b>565</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$4,003</b>	<b>\$4,789</b>	<b>\$4,794</b>	<b>\$565</b>

Annual Income Statement FY 2013 – Q1 2016. Source: Company Filings



# Acme United Corporation

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