

Acme United Corp. (ACU)

Company Report – August 13, 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.

After having achieved an outstanding first quarter, Acme United set a new all-time sales and earnings record in its second quarter, ended June 30, 2016. The Company posted a 21% increase in both sales and earnings compared with the second quarter of 2015.

Record back-to-school sales, led by Westcott kid scissors and iPoint pencil sharpeners, were strong contributors to this achievement. In addition, Clauss, Camillus and Cuda tools performed well in the industrial and sporting goods market. Finally, sales of first aid kits were excellent. All of this led to a notable organic sales growth of 17% for the second quarter, and 13% for the year-to-date.

Acme United's strong momentum, which it experienced during the first half of 2016, is expected to continue the rest of the year. Consequently, the Company's guidance for fiscal 2016 was raised to revenues of \$123 million, net income of approximately \$5.8 million and earnings per share of \$1.55. Thanks to these excellent prospects, Acme's stock price recently hit a new all-time high of \$22.19.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$30.65, which is 46% above today's stock price.



Acme United Corporation

- The sharpening tools manufacturer Diamond Machining Technology (DMT), which was acquired by Acme United in February of this year, is also doing very well. In the United States, Canada and Europe, customers are enthusiastic about the synergies with tools from other Acme brands, such as Clauss, Camillus or Cuda. Only five months after the sharpening tools manufacturer was acquired by Acme United, its production had to be expanded to meet demand.
- Numerous new products will shortly hit the shelves. The Cuda fishing tools brand, for instance, launched about thirty new products at the recent ICAST Show in Orlando, Florida. Since its launch, Cuda has greatly exceeded expectations in both brand acceptance and placement at retail stores.



Market Data	
Price	\$20.98
Sector	Office Supplies
52-Week Price Range	\$13.01 - \$22.19
Shares Issued (m)	3.58
Market Cap (m)	\$75.17
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.

After already having achieved an outstanding first quarter, Acme United set a new all-time sales and earnings record in its second quarter, ended June 30, 2016. During that three months period, the Company posted a 21% increase in both sales and earnings compared with the second quarter of 2015.

Record back-to-school sales, led by Westcott kid scissors and iPoint pencil sharpeners, were strong contributors to this achievement. Also, Westcott shears gained market share in the office channel and their distribution was broadened in the crafts market. In addition, Clauss, Camillus and Cuda tools performed well in the industrial and sporting goods market. Finally, sales of first aid kits were excellent. All of this led to a notable organic sales growth of 17% for the second quarter, and 13% for the year-to-date.

Moreover, the sharpening tools manufacturer Diamond Machining Technology (DMT), which was acquired by Acme United in February of this year, contributed its first full quarter to revenues and profits.

Walter C. Johnsen, Acme United's Chairman and CEO, commented, "We continue to see strong growth trends as we enter the second half of the year. Accordingly, we are raising our guidance for fiscal 2016. We now expect to generate revenues of \$123 million, net income of approximately \$5.8 million and earnings per share of \$1.55. Our previous

guidance called for revenues of \$120 million, net income of \$5.6 million and earnings per share of \$1.47."

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.



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

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. Late last year, the

quarterly dividend was increased from 9 to 10 cents per share. The 11% dividend increase was justified as the Company generates lots of cash and expects 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.



The Westcott Ergo Jr. kids' scissors line are certified by a professional ergonomist & kid tested.

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. The new 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.

Or the new scissors for kids, coined Ergo Jr, which are specifically designed for ages 4 to 6. These are the first and only scissors developed with the United States Ergonomics organization.

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 returned to Acme because sales of the other brand were disappointing. A true validation of the Westcott scissors brand.

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 25 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 so-called 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. He is now the host of Discovery Channel's *Dual Survival*. Or Jared Ogden, a Navy SEAL who spent eight years in the Naval Service. Jared was star of the National Geographic Television program, *Ultimate Survival Alaska*.

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.

Plenty of new exciting knives and tools were launched at the 2016 SHOT Show, held in Las Vegas in January of this year. Amongst them was the Camillus Camtrax, a 12" 3-in-1 hatchet with a hammer and triple-edge folding saw; the M-13 Machete, featuring a 13" titanium bonded blade with gut hook; and the extremely attractive Les Stroud Heritage Collection, which includes a folding knife, two fixed blades, a machete, and a slingshot.

Also, the Heat2, Sizzle2 and Wildfire2 knives, were relaunched. These knives continue to be popular thanks to their "Robo-Assist" quick launch technology.

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.

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.

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.

It 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 previous year.

FAO operates out of a modern 54,000 square-foot facility in Vancouver, Washington where well over 100 people are employed. All of FAO's first aid kits are produced in the United States.

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.



As first aid and/or emergency preparedness supplies are used, SmartTabs will remind users to reorder the supplies that are running low. The information on the tab can be used to reorder the correct item.

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. A few months ago, FAO 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. More recently, Saudi Airlines was landed as a new customer. In addition, tests with SmartCompliance kits are ongoing at other corporations, such as food chains, large manufacturers and banks. One such order is potentially worth several hundreds of thousands of dollars (also read Growth Drivers).

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 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.

As a demonstration of the tools' outstanding design, Cuda won six GOOD Design awards earlier this year from the Chicago Athenaeum, Museum of Architecture and Design. This is one of the oldest and most important design competitions worldwide.

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. Often they'll suggest small improvements, but when the products finally go into production, they are the best on the market. 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.

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.

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.*

A major advantage of Acme United entering the fishing tools market a couple of years ago, is that fishing is popular in many parts of the world. Europe, for example, counts 25 million recreational anglers, while Canada has over 3 million. These are impressive statistics that immediately give an indication of Cuda's potential.

When Cuda was launched in 2014, it had 24 different tools. Now, only two years later, it has about 70, and by next year, the brand plans to have 100.

Cuda continues to exceed expectations in both brand acceptance and placement at retail stores. This is largely thanks to the innovative design and quality of the tools. Acme's Rick Constantine has been an avid fisherman for over 40 years.

All his knowledge, combined with the use of the best materials on the market, and Acme's patented coating technologies, have created a family of tools that provide consistent, high-end performance. This year's ICAST show, held a few weeks ago, proved that all of this is more and more recognized by customers and the media (also read Recent Events).

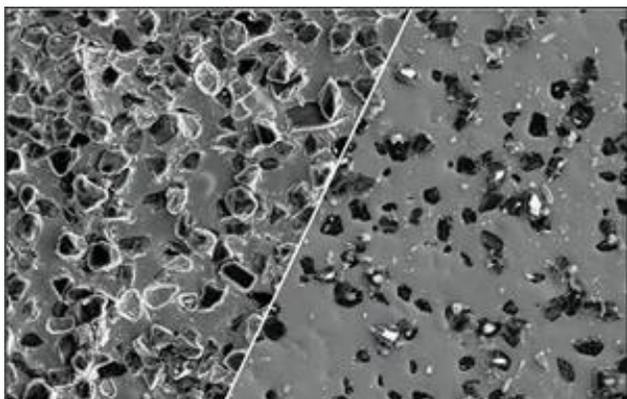
Diamond Machining Technology (DMT) is the world's leading innovator of manual diamond sharpening technology. It currently has 28 employees and sells its products at chains such as Home Depot, Bass Pro Shops, Grainger, Fastenal, and Amazon. DMT manufactures all its products in the United States and exports worldwide to nearly 50 countries.

The company was acquired by Acme United in February 2016, and is renowned for its polka dot pattern diamond surface products. It offers sharpening solutions for virtually every user, from do-it-yourselfers to professionals and large commercial operations.

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.

By attending several trade shows after DMT’s acquisition, the Acme 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 (Also read Growth Drivers).



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.

FINANCIALS

Second Quarter 2016 Results

Sales for the three months ended June 30, 2016, reached \$41.0 million, up 21% compared with sales of \$34.0 million in the second quarter of 2015. Net income in the second quarter of 2016 rose by an impressive 21% to \$3.3 million, or \$0.91 per diluted share, versus \$2.7 million, or \$0.74 per diluted share, in the comparable quarter last year.

For the six months, ended June 30, 2016, net sales were \$66.3 million, compared to \$56.8 million in the same period in 2015, an increase of 17%. Net income for the six months ended June 30, 2016 was \$3.8 million or \$1.08 per diluted share, compared to \$3.1 million or \$0.85 per diluted share in the comparable period last year, a 27% increase in net income. Again a remarkable performance for an established company.

Gross margin was 36% in the three and six months ended June 30, 2016, compared to

37% in the same periods in 2015. The slightly lower gross margin in 2016 was primarily due to strong sales of back to school products, which tend to have lower gross margins. Because traditionally less back to school products are sold in the second half of the year, margins are expected to increase to 38%.

Amounts in \$000's	06/30/16	06/30/15
Net Sales	40,997	33,954
Cost of Goods Sold	26,303	21,419
S, G & A Expenses	10,054	8,660
Income From Operations	4,640	3,875
Pre-Tax Income	4,418	3,752
Income Tax Expense	1,151	1,044
Net Income	3,267	2,708
Diluted Shares Outs.	3,583	3,681
Diluted EPS	0.91	0.74

Most important income statement data for the quarters ending June 30, 2016 and June 30, 2015. Source: Company Press Release

Mr. Johnsen commented, “We have set a new record in quarterly sales and earnings by a wide margin. Organic sales growth represented 17% for the second quarter, and 13% for the year to date. We are particularly pleased that every major product line contributed to setting these new performance levels. We gained market share with Westcott cutting tools and Camillus knives and expanded distribution of industrial first aid kits. Sales and profits of sharpening tools from the recent acquisition of Diamond Machining Technology exceeded our expectations.”

US and European Segments Accelerating

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

Exact revenues per segment for the second quarter will be available in the 10-Q, which will be filed in a few days. However, Acme announced for each segment the percentage by which revenues increased or decreased compared with last year’s second quarter. Based on those numbers, we can give a good estimation.

Amounts in \$000's	06/30/16	06/30/15
U.S.	36,290	29,649
Canada	2,680	2,813
Europe	2,027	1,492
Estimated sales per segment for the second quarter ending June 30, 2016 (Source: Smallcaps Investment Research) and actual sales per segment for the second quarter ending June 30, 2015 (Source: Company Filing)		

In the U.S. segment, net sales for the quarter ended June 30, 2016 increased 22% compared to the same period in 2015 due to strong sales of Westcott school and office products, Camillus knives, and first aid kits. DMT contributed \$1.3 million in sales in the second quarter, and \$2.3 million year to date. Net sales for the first six months of 2016 grew 18% over the comparable period in 2015.

Net sales in Canada for the three months ended June 30, 2016 decreased 6% in U.S. dollars and 2% in local currency compared to the prior-year period. Net sales for the six months ended June 30, 2016 were constant in U.S. dollars but increased 5% in local currency compared to the same period in 2015. These numbers indicate that the sales decline in Canada was halted and also that the Canadian dollar has stabilized.

Net sales in Europe for the three months ended June 30, 2016 increased 36% in U.S. dollars and 34% in local currency compared to the comparable 2015 period due to market share gains in the office products channel. Net sales for the first half of 2016 increased 15% in U.S. dollars and 16% in local currency compared to the first half of 2015. The strong growth in Europe was mainly driven by office products sales and the contribution of DMT.

In a recent interview, Georg Bettin, the Head of Acme United Europe, explained that they are now warehousing all DMT tools in Solingen, Germany and that they are taking care of the delivery of orders to European customers. A service that is much appreciated by customers, as it makes delivery times much shorter and it eliminates currency risk.

In addition, Mr. Bettin said that he looks forward to building the first aid business in Europe now that they have received the

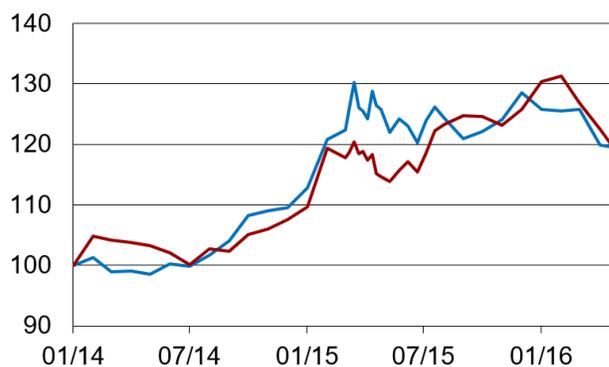
necessary certifications to start importing first aid products directly from Asia.

During the conference call, following the release of the second quarter results, Mr. Johnsen also mentioned that selling prices to UK customers would soon be increased due to the fall of the British pound after the country's so-called Brexit.

Currency Fluctuations

Next to the British pound, Acme United's results are also influenced by other currencies, such as the Canadian dollar and the euro.

Since 2014 these two currencies significantly depreciated against the US dollar. This decline made it tough on Acme's Canadian and European segments to maintain their margins because they buy products in US dollar. To counter the margin decrease, selling prices were increased.



The graph above shows how the U.S. dollar appreciated approximately 22% against the euro (blue) and 23% against the Canadian dollar (red) since January 1st 2014. It also shows that in recent months, the euro and Canadian dollar are gaining back some ground against the US currency.

The 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 June 30, 2016

The Company's long-term debt less cash on June 30, 2016 was \$38.7 million compared to \$28.2 million on June 30, 2015. By year-end, bank debt less cash is expected to decline to about \$28 million. This will mainly be achieved by accounts receivable and inventories returning back to their normal levels. Traditionally, these numbers are up considerably at the end of the second quarter due to the back-to-school season.

Amounts in \$000's	06/30/16	06/30/15
Cash and Cash Eq.	2,087	1,941
Accounts Receivable	34,646	27,123
Inventories	38,417	36,217
Total Current Assets	77,574	67,706
Property & equipment	7,702	7,195
Intangible Assets, Less Amortization	13,596	12,173
Total Assets	104,727	89,421
Accounts Payable	11,573	9,332
Total Current Liabilities	18,027	16,371
Bank Debt	40,821	30,179
Total Liabilities	59,203	46,886
Total Stockholder Equity	45,526	42,535
Most important balance sheet data for the periods ending June 30, 2016 and June 30, 2015. Source: Company Press Release		

During the twelve months period ended June 30, 2016, the Company paid approximately \$7 million for the acquisition of the assets of DMT, spent \$1.6 million on stock re-purchases and distributed \$1.3 million in dividends on its common stock.

At the end of the second quarter of 2016, Acme had more than \$59.5 million in working capital and a current ratio of only 4.30.

GROWTH DRIVERS

First Aid Keeps Going Strong

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.

The consolidation of the three brands has now been finalized, as the production of Pac-Kit was 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 elimination of the plant's other fixed costs, such as heat and electricity, results in annual savings of about \$500,000.

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 generate between 35% and 40% of the Company's revenues.

And they continue to grow fast. The SmartCompliance business by FAO, for example, is becoming a big success. This is a typical razor/razorblade sales model, as Acme United initially benefits from the placement of the first aid kits, and then as people use the components, there's a strong resale business. In fact, revenues from refills about equal sales of SmartCompliance kits.



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

Acme's strategy to refill the kits through the internet is contrary to service people in delivery vans who will typically go into different locations to fill the first aid kits and then come back on a regular basis. The latter is obviously a time consuming and very

expensive model, as the cost of the individual sales staff, the truck, the employee, and benefits have to be taken into account. Consequently, Acme United is clearly gaining share in this \$600 million market segment.

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 received its medical certification, which allows it to import first aid products directly from China.

And finally, a few months ago the Company started shipping products and refills to a large industrial wholesaler for use in vending machines that are placed at facilities throughout the U.S. These are products such as eye wash or to treat burns on the work floor.

To fulfill all orders for first aid products, the Company recently added a second shift at its manufacturing plant in Vancouver, Washington and a full second production line at the Rocky Mount, North Carolina warehouse.

DMT - World Renowned Sharpening Products Manufacturer

Since the acquisition of DMT, additional orders worth around \$1 million, were received. A large retailer reviewed its sharpener business and ordered \$500,000 worth of products. And another large chain, which was an existing DMT customer, doubled its regular order.

In addition, while DMT has only been a part of Acme United for a few months, plenty of synergies have 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. Consequently, Acme will immediately start to pursue new customers in those areas.

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.

RECENT EVENTS

DMT & Cuda Tools Impress at EFTTEX

In June, we visited Acme's European team at the European Fishing Tackle Trade Exhibition (EFTTEX). We got a good impression of the Company's Cuda and DMT tools, and how well they are being received in the European marketplace.

The 35th edition of EFTTEX was held in the RAI Exhibition center in Amsterdam, the Netherlands, and attracted 215 exhibitors from 35 different countries. Visitors included manufacturers, wholesalers and retailers from all over the world.

The annual event always attracts some of the most well-known names in the industry. In fact, over the years, it has developed into the premier European fishing fair and the third largest one in the world.



The Cuda/DMT booth at the opening of the Show

We saw smiling faces at the Cuda/DMT booth. Although it was only day two of the three-day event when we visited, the Company had already received lots of enquiries and orders.

While walking around at the show, it soon became clear that the Cuda fishing tools truly distinguish themselves for a couple of

reasons. First, there were only a handful of competitors that offered knives, which indicates that the playing field is still wide open.

And second, the breakthrough design of the Cuda tools is exceptional. The knives feature Titanium Bonded German 4116 full-tang stainless steel, which is known for its corrosion resistance and edge retention. They have an integrated scale grip pattern for extra grip. All Cuda tools also feature a full-tang window proving the knife blade goes all the way through the handle.

We also learned that the distribution of Cuda continues to expand. The tools are now available at the largest fishing chain in Germany, and they are doing well in Spain, the UK, the Netherlands and the Scandinavian countries.

We walked away from the event very satisfied. We saw firsthand that the Cuda and DMT tools are in demand in Europe. We're convinced that the Acme United Europe team will have plenty of work following up on all the leads that were generated at EFTTEX.

Cuda Makes Heads Turn at ICAST

Cuda again made heads turn at the annual ICAST show in Orlando, Florida. The event was a phenomenal success. Thanks to the introduction of more than 30 new tools, plenty of existing and potential customers stopped by at the Cuda booth.

In addition, the brand attracted the attention of the media, as it had around 20 appointments with magazines and trade journals. Consequently, some good editorial coverage is expected in the next few weeks.

The Cuda Pro staff was also well represented at the show. Having such celebrated and respected fishermen at the booth is priceless, as they engage with customers to discuss the product line and they attract lots of curious anglers. The Cuda representatives even scheduled a two-hour meet and great session with the popular Capt. TJ Ott from the hit National Geographic show, Wicked Tuna.

ICAST

The International Convention of Allied Sportfishing Trades, better known as ICAST, is the world's largest sportfishing industry trade show. Over 15,000 people attended to learn about the latest products and trends in the domestic and international sportfishing and boating community. The show hosted 1,850 booths with an overall exhibitor count of more than 700.

ICAST traditionally is about new gear, apparel and accessories that help make a day on the water both exciting and rewarding. Keeping up with that tradition, Cuda launched a series of new tools at ICAST that are now on the shelves of retailers and sporting goods chains. In addition, several DMT products were shown as some tools have a hook sharpener, specifically designed for fishermen.



Captain TJ Ott with a fan

Cuda, for example, introduced its first ever professional line of knives. The seven different knives feature USA CTS 40A Titanium NonStick Bonded corrosion resistant Carpenter steel blades and have full tang handles that fit comfortably in the user's hand.

Cuda's regular knife line for both fresh and saltwater fishing was also expanded with seven new models. Ranging from a marlin spike, to a wide, semi-flex fillet knife, the new line incorporates a number of advanced features, including Cuda's signature visible

full-tang construction, non-slip scale pattern grips and titanium-bonded stainless steel.

In addition, Cuda introduced four gaffs ranging in length from four to eight feet, featuring carbon-fiber shafts, making them lightweight yet extremely strong. Each gaff featured a patented stainless steel hook with advanced corrosion and adhesion resistance.

Moreover, Cuda presented the new Cuda Fish Measure, designed with a removable straight edge starting point to ensure consistent measurements with each catch. As seen on the hit National Geographic television show, Wicked Tuna, the new fish measure features large, easy-to-read numbers, and is made from durable, waterproof nylon.

Additional new items to the accessory line include the heavy-duty Cuda Sheath & Lanyard, which fits a variety of Cuda pliers and snips; a Cuda Ice Pick; and a Cuda Connect, which connects an action camera, such as a GoPro or WASP to a Cuda Tag Stick or Harpoon.



Three new marine first aid kits

Finally, Cuda, for the first time, showed a new series of marine first aid kits designed specifically for the unique needs of anglers. Available in three sizes – personal, inshore and offshore – the kits are compact and constructed for easy stowage for a convenient onboard first aid center.

Included in the kit are first aid essentials for burn, CPR and shock treatment, as well as sunscreen, sting relief, aspirin and wound care necessities.

Commenting on the success of the new tools, Capt. Rick Constantine, vice president of marketing and general manager for Acme United said, "Cuda products are known for quality and performance. We design our tools in cooperation with the Pro Staff and the result is a powerful line, built with anglers in mind. There's a tool for every task and each one is designed to make life easier and more productive on the water."

OUTLOOK & VALUATION

Acme United's strong momentum, which it experienced during the first half of 2016, is expected to continue the rest of the year.

It's great to see that every brand contributed to the Company's success. While Westcott cutting tools, such as the newly launched Ergo kids scissors, gained a lot of market share, also Camillus knives and Clauss expanded their distribution.

Next to school and office products, first aid is a second major growth driver for Acme. Production capacity was recently added, and may have to be expanded even further. SmartCompliance kits and their refills have become very popular because they are cheaper and more convenient for businesses. The razor/razor blade model ensures a continual sale of refills once the cabinets are installed.

Also DMT is doing very well. In the United States, Canada and Europe, customers are enthusiastic about the synergies with tools from other Acme brands, such as Clauss, Camillus or Cuda. Only five months after the sharpening tools manufacturer was acquired by Acme United, its production had to be expanded to meet demand.

Finally, numerous new products will shortly hit the shelves. The Cuda fishing tools brand, for instance, launched about thirty new products at the recent ICAST Show in Orlando, Florida. Since its launch, Cuda has greatly exceeded expectations in both brand acceptance and placement at retail stores.

Also very helpful to the brand is its unique Pro Staff. Next to helping design and develop new

Cuda fishing tools, these Pros are true evangelists for the brand. They use the tools at fishing tournaments or on their TV shows and they help spread the word on Cuda on their Facebook, Instagram, Twitter and YouTube channels. There is no doubt that it will continue on this growth trajectory as it seems to appeal to everyone in the fishing industry.

Mr. Johnsen raised the Company's guidance for fiscal 2016 to revenues of \$123 million, net income of approximately \$5.8 million and earnings per share of \$1.55. Moreover, Mr. Johnsen indicated during the second quarter conference call that he's already looking for a new acquisition target.

Thanks to these excellent prospects, Acme's stock price recently hit a new all-time high of \$22.19.

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 24.72x, up from 23.87x 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 20% discount to the industry's average P/E ratio.

Taking the discount into account, we end up with an average P/E ratio of 19.78x for the Housewares & Accessories industry.

Amounts in \$000's	2014	2015	2016E
Total Revenue	107,222	109,812	123,000
Net Income	4,789	4,794	5,800
Annual sales and earnings FY 2014 - 2016E.			
Source: Company Filings and Smallcaps Investment Research estimates			

Applying the 19.78x P/E multiple from the peer group to the revised estimated EPS for 2016, we reach the following calculation: \$1.55 estimated EPS multiplied by 19.78 = \$30.65.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$30.65, which is 46% above today's stock price.

SHARE DATA & OWNERSHIP

At the end of the second quarter, Acme United had approximately 3,583,000 common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (13.5%), Walter Johnsen (8.6%), Bard Associates Inc. (4.4), Capital Management Corp (4.3%), and Teton Advisors (3.6%).

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 – Q2 2016

All numbers in thousands

PERIOD ENDING	FY 2013	FY 2014	FY 2015	Q2 2016
Total Revenue	89,577	107,222	109,812	66,285
Cost of Revenue	57,753	69,037	70,251	42,406
Gross Profit	31,824	38,186	39,561	5,595
Operating Expenses				
Research & Development	-	-	-	-
Selling, General and Administrative	25,945	30,791	32,214	18,284
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	25,945	30,791	32,214	18,284
Operating Income or Loss	5,879	7,394	7,347	5,595
Income from Continuing Operations				
Total Other Income (Expenses) Net	(35)	(118)	(168)	27
Earnings Before Interest And Taxes	5,844	7,276	7,179	5,622
Net Interest Expense	350	473	565	395
Income Before Tax	5,494	6,803	6,614	5,227
Income Tax Expense	1,491	2,014	1,820	1,395
Net Income From Continuing Ops	4,003	4,789	4,794	3,832
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	4,003	4,789	4,794	3,832
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$4,003	\$4,789	\$4,794	\$3,832

Annual Income Statement FY 2013 – Q2 2016. Source: Company Filings



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