

### Acme United Corp. (ACU)

Company Report – March 11, 2017

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

2016 was another record year for Acme United. Net sales for the year ended December 31, 2016 were \$124.6 million, compared to \$109.8 million in 2015, an increase of 13%. Net income for the year ended December 31, 2016 was \$5.9 million, or \$1.64 per diluted share, compared to \$4.8 million, or \$1.30 per diluted share, for the prior year, an increase of 22% in net income and 26% in earnings per share.

Walter C. Johnsen, the Chairman and CEO of Acme United, gave guidance for 2017 of approximately \$137 million in sales (+10% vs 2016), net income of \$6.7 million (+14.5% vs 2016), and \$1.78 earnings per share (+8.5% vs 2016). In addition, Mr. Johnsen recently said at the Disruptive Growth & Healthcare Conference in New York that he feels that revenues of \$160 million for 2018 are very realistic.

Part of that growth will be derived from the recently acquired Spill Magic Inc. The cutting edge manufacturer of absorbents, had revenues in 2016 of \$6.3 million and EBITDA of approximately \$1.4 million, making it accretive from day one.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$34.37, which is 39.7% above today's stock price.



Acme United Corporation

- ▣ Also Acme's other brands are performing well. Westcott is offering new school, home and office products, such as glue guns with ceramic coatings that are ideally suited for the craft, office and shipping work places. It has new heavy duty pencil sharpeners with proprietary titanium blades for the school market and it's expanding the line of ceramic box cutters for heavier duty use.
- ▣ The first aid division recently introduced an app, which allows customers to reorder first aid supplies in a quick, convenient and user-friendly matter. It received lots of positive responses at the National Safety Council Show, where it was first shown to the public.
- ▣ Clauss, Cuda, Camillus and DMT products will continue to benefit from expanded distribution in the mass market and specialty stores.



#### Market Data

Price	\$24.60
Sector	Office Supplies
52-Week Price Range	\$15.01 - \$27.35
Shares Issued (m)	3.58
Market Cap (m)	\$81.86
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 nine brands: Westcott, Clauss, Camillus, PhysiciansCare, Pac-Kit, First Aid Only, Cuda, DMT, and the recently acquired Spill Magic. 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.

2016 was the eighth consecutive year of record performance for Acme United. This strong achievement, along with the solid outlook for its brands, gives the Company confidence that sales and earnings will continue to grow in subsequent years.

In fiscal year 2016, sales were \$124.6 million, compared to \$109.8 million in 2015, an increase of 13%. Net income for the year ended December 31, 2016 was \$5.9 million, or \$1.64 per diluted share compared to \$4.8 million, or \$1.30 per diluted share for the prior year.

The Westcott school and office products brand saw strong growth in its scissors and pencil sharpener business. Thanks to over 100 new product introductions, such as ceramic box openers and a DIY tool line, the brand again gained market share.

Camillus expanded its distribution at mass market and specialty shops. While the Cuda fishing product line was expanded with 30 new tools for both fresh and saltwater fishing.

Moreover, the First Aid business grew with double digits and added many new industrial customers. The SmartCompliance cabinets and their refills have become very popular because they are cheaper and more convenient for businesses. The razor/razor blade model ensures a continuous sale of refills once the cabinets are installed. Late last year, Acme introduced a phone app, which

makes it even more convenient for customers to reorder first aid supplies. Also in 2016, Wal-Mart equipped each of its stores, warehouses, offices, and trucks with a first aid kit from Acme United.

Finally, the DMT diamond sharpener business grew both in the US and abroad, thanks to new placement at physical and online stores.

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**In addition, Mr. Johnsen recently said at the Disruptive Growth & Healthcare Conference in New York that he feels that revenues of \$160 million for 2018 are very realistic.**



Part of that growth will be derived from the recently acquired Spill Magic Inc. The Santa Ana, California based company manufactures cutting edge absorbents, with

proprietary formulation, that can handle anything from liquid spills, hazardous material spills and even biohazard spills.

Spill Magic had revenues in 2016 of \$6.3 million and EBITDA of approximately \$1.4 million. The new brand will immediately be integrated into Acme's existing first aid business. It is expected to be accretive from day one.

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 reflected by its on-going goal of generating at least 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 (also read Culture of Innovation under Growth Drivers).

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. The last quarterly dividend increase was 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 scissors business continues to become stronger. In fact, Mr. Johnsen mentioned during a recent 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 brand.

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.

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 brings new products to the market. The new scissors for kids, for example, 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.



Part of the new ProjectMate DIY craft tool line.

More recently, it launched the ProjectMate DIY craft tool line, as crafting is very popular these days. ProjectMate, basically a sub brand of Westcott, exclusively focusses on the crafts market with products such as compound action pliers, floral snips, diagonal cutters, a multi-purpose staple gun, etc. The tools are made with high-grade steel - similar to a

hardware item - giving them a sort of a masculine feel, while the green soft handles give them a feminine touch. An ideal combination for a crafting tool.

**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 little over 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 a family of putty knives that have a full tang construction with a hardened, tempered blade that has Titanium non-stick bonding for superior adhesive and rust resistance.

Another noteworthy product is the Clauss 8" Workbench Shear with Titanium bonded blades that are 3x harder than untreated stainless steel. The shear also features an integrated box cutter and bottle opener.

**Camillus** is one of the oldest and best known knife manufacturers in the United States. Since the company was founded in 1876, Camillus Knives has supplied the world with reliable, innovative and quality-made knives for the hunting, fishing, sporting and tactical markets. More recently, Camillus has strategically focused towards outdoor enthusiasts.

The company works with Les Stroud and plenty of other qualified "Pro Staffers", to gain insight into what campers, backpackers and survivalists are looking for. Camillus has grown exponentially in this segment as it receives unparalleled feedback from its Pro Staff and customers.

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.



**The 8" Camillus Tanto folding knife, part of the new Tactical Collection.**

The annual Shooting, Hunting and Outdoor Trade (SHOT) Show is Acme United's biggest marketing event of the year, and as such a good indicator of how well the new Camillus tools are received by distributors and consumers. Camillus launched more products at this year's show than at any other time in its history. Rick Constantine, the VP Marketing and General Manager at Acme United commented that the past SHOT Show was the best to date for Camillus.

The 39th SHOT Show signaled a positive year ahead for the industry with strong attendance and upbeat buyers. Based on the feedback from the Camillus team, and the fact that the cohesive new product lines were very well received by customers, the brand is expected to have a very positive 2017 (Also read Recent Events).

**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. It 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 United 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.

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 Wal-Mart. They

were 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).



**The SmartCompliance kits have now been placed in thousands of restaurants in the US. Last year, Wal-Mart equipped each store, warehouse, office, and truck with a first aid kit from Acme United.**

**Cuda** markets a broad line of 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.

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 the Pros will 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.

A major advantage of Acme United entering the fishing tools market is that the sport is popular in many parts of the world. The United States 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. Europe 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.

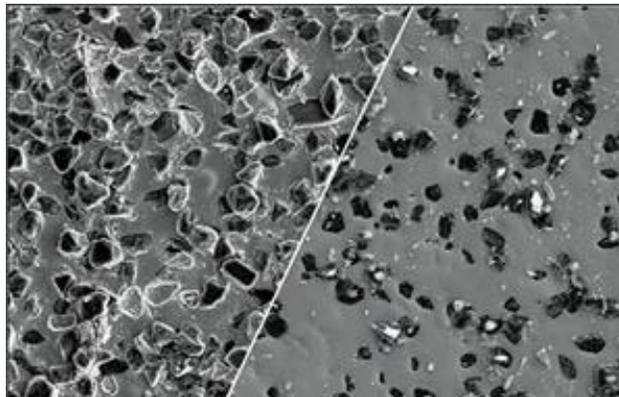
Cuda continues to exceed expectations in both brand acceptance and placement at retail stores. This is largely thanks to the innovative design and quality of the tools.

The knowledge and experience of all Cuda Pros, 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.

**Diamond Machining Technology (DMT)** is the world's leading innovator of manual diamond sharpening technology. It has around 30 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.

DMT 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.



**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.**

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.

During the one year that DMT has been a part of Acme United, plenty of synergies have been discovered. For instance, existing Acme customers are very interested in DMT products for sports & hunting purposes. Also, there are lots of opportunities for DMT in the kitchen area.

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.

Because DMT sales are rising fast, its production capacity will be doubled by late summer 2017. In order to do so, new equipment will be purchased and additional personnel will be hired.

## FINANCIALS

### Fourth Quarter and Full Year 2016 Results

Net sales for the fourth quarter ended December 31, 2016 were \$26.4 million compared to \$23.1 million in the same period of 2015, an increase of 14%. Net income for the quarter ended December 31, 2016 was \$551,000, or \$0.15 per diluted share, compared to \$440,000, or \$0.12 per diluted share, for the comparable period of 2015, both increases of 25%.

Net sales for the year ended December 31, 2016 were \$124.6 million, compared to \$109.8 million in 2015, an increase of 13%. Net income for the year ended December 31, 2016 was \$5.9 million, or \$1.64 per diluted share, compared to \$4.8 million, or \$1.30 per diluted share, for the prior year, an increase of 22% in net income and 26% in earnings per share.

Walter Johnsen said, "Our team delivered strong results in 2016, and I am very proud of all of their efforts. In particular, we achieved strong growth in Westcott cutting tools. The Company generated strength in revenues in the First Aid business with improved margins. We increased market shares for both our Cuda fishing tools and Camillus hunting knives. The DMT sharpening business which we acquired in February 2016 exceeded our expectations, while our Canadian and European businesses delivered strong performances."

Gross margin was 37.2% in the fourth quarter of 2016 versus 35.8% in the comparable

period last year. The higher gross margin was primarily due to a favorable product mix. Gross margin was 36.6% for the year ended December 31, 2016 compared to 36% in 2015.

Amounts in \$000's	12/31/16	12/31/15
Net Sales	26,376	23,118
Cost of Goods Sold	16,564	14,852
S, G & A Expenses	9,105	7,611
<b>Income From Operations</b>	<b>707</b>	<b>655</b>
Pre-Tax Income	442	490
Income Tax Expense (benefit)	(109)	50
<b>Net Income</b>	<b>551</b>	<b>440</b>
Diluted Shares Outs.	3,668	3,696
Diluted EPS	0.15	0.12
<b>Most important income statement data for the quarters ending December 31, 2016 and December 31, 2015. Source: Company Press Release</b>		

Although Acme's margins are already quite impressive, they are expected to continue to improve in 2017. The US dollar has strengthened against the Chinese yuan, which means that Acme should be able to source its products at a lower cost (about 60% of Acme's products are manufactured in China). In addition, Acme United continues to drive down raw material costs. And finally, DMT and Spill Magic have higher margins than the Company's other brands, which overall should have a positive effect.

### Excellent Growth by US and European Segments

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

Exact revenues per segment for the full year will be available in the Company's 10-K, which typically is filed mid-March. However, Acme announced for each segment the percentage by which revenues increased or decreased compared with 2015. Based on those numbers, we can give a fair estimation.

In the Company's U.S. segment, net sales for the quarter ended December 31, 2016 increased 13% compared to the same period in 2015 due to strong sales of Camillus

knives, Cuda fishing tools, and first aid kits. Revenues from the DMT acquisition contributed \$1.7 million in the fourth quarter and \$5.5 million since its acquisition in February 2016 through year-end. Net sales for the year ended December 31, 2016 grew 15% over the comparable period in 2015 due to strong sales of Westcott school and office products, and Camillus knives, Cuda fishing tools and first aid products.

Amounts in \$000's	2016	2015
<b>U.S.</b>	110,810	96,622
<b>Canada</b>	6,824	6,804
<b>Europe</b>	6,940	6,385
<b>Estimated sales per segment for the year ended December 31, 2016 (Source: Smallcaps Investment Research) and actual sales per segment for the year ended December 31, 2015 (Source: Company Filing)</b>		

Net sales in Canada for the quarter ended December 31, 2016 increased 12% in both U.S. dollars and local currency compared to the same period in 2015. Despite the soft Canadian economy, net sales for the year ended December 31, 2016 were constant in U.S. dollars and increased 4% in local currency. This was mainly due to growth in the Westcott cutting tools business and expanded distribution of Camillus hunting tools and knives. Further growth is expected in Canada thanks to additional Camillus and Cuda sales.

European net sales for the quarter ended December 31, 2016 increased 25% in both U.S. dollars and local currency compared to the same period in 2015. Net sales for the year ended December 31, 2016 increased 9% in both U.S. dollars and local currency. The sales increases in Europe for both periods was due to:

- Westcott gaining market share by winning new customers and placement;
- Strong online sales growth; and
- Added sales of DMT.

2017 should be strong in Europe. The team expects to double sales of DMT from approximately \$400,000 to \$800,000 thanks to growth through Amazon and Camillus customers.

## Robust Year-End Balance Sheet

Acme United's balance sheet remains robust. The Company's bank debt less cash and cash equivalents on December 31, 2016 was \$27.0 million compared to \$23.5 million on December 31, 2015.

During 2016, the Company paid approximately \$7.0 million for the acquisition of the assets of DMT, spent \$0.9 million on stock repurchases and paid \$1.3 million in dividends on its common stock.

At the end of the 2016, Acme had close to \$52.6 million in working capital and an impressive current ratio of 5.11.

Amounts in \$000's	12/31/16	12/31/15
Cash and Cash Eq.	5,911	2,426
Accounts Receivable	20,021	19,565
Inventories	37,238	35,508
<b>Total Current Assets</b>	<b>65,464</b>	<b>59,634</b>
Property & equipment	7,973	7,401
Intangible Assets, net	13,988	11,951
<b>Total Assets</b>	<b>92,067</b>	<b>81,421</b>
Accounts Payable	7,339	6,664
<b>Total Current Liabilities</b>	<b>12,820</b>	<b>11,937</b>
Bank Debt	32,936	25,913
<b>Total Liabilities</b>	<b>45,946</b>	<b>38,238</b>
Total Stockholder Equity	46,121	43,184
<b>Most important balance sheet data for the periods ending December 31, 2016 and December 31, 2015. Source: Company Press Release</b>		

## GROWTH DRIVERS

### Culture of Innovation Leads to Blockbuster Products

New product development is truly in the DNA of Acme United. The Company's quest for innovation is reflected by its ongoing goal of generating at least 30% of its sales from products developed in the last 3 years.

In order to achieve this goal, well thought-out products are brought to the market almost on a constant basis. The school and office products brand Westcott, for example, this

year alone has already launched over 100 new scissors, trimmers, cutters, pencil sharpeners, etc.

The entire process of innovation at Acme United starts with hiring the right people. Many employees have a product development background or gained expertise at the product marketing department of previous employers.

The next step is to “feel” the market by speaking with end-users. In the case of Westcott products, these end-user are teachers, crafters, office people, etc. It’s important to speak with them. To find out what they’re struggling with, how they feel certain products can be improved upon.

To get a hold of this knowledge, these people are visited where they are using the products. Chris Alagno, Vice President at Acme United, was recently quoted saying, “Great innovative products don’t come from the four walls in our office, instead they come from the field”.

#### **VITALITY INDEX**

The Vitality Index measures new product revenues as a percent of total revenues. It was 3M that first recognized the need for an overall measure of innovativeness. They created the metric named “Vitality Index” in 1988. The actual value differs greatly by company and the market it’s in. At Acme United the goal is to reach a products vitality rate of 30%.

It’s relatively easy to calculate. The only management decision is how long a launched product remains “new”. Most companies, such as Acme United, consider a product as being new when it’s less than three years on the market. But, anything is possible. Some software companies only use 9 months.

The third step is trying to solve the issues that were raised by the users. A solution is sought in cooperation with engineers, product developers, and designers. As soon as a product idea is received from Acme's marketing and brand managers, the New Product Development team starts working on

the technical and industrial aspects of the design. It converts sketches into a physical products, and evaluates if the tool will actually function as it's supposed to.

The final step in the process is testing. Before mass production of the new product is initiated, a team of testers evaluates the pre-production samples to ensure the product's quality and functionality. Only when they are satisfied with all aspects of the samples, the go-ahead is given for mass production.

Amongst the tools that Acme launched the past few months, there are several ones with blockbuster potential. The new scissors for kids, coined Ergo Jr, for example are specifically designed for ages 4 to 6. These are the first and only scissors developed with the United States Ergonomics organization.

During many months of testing, the specific muscles, which children use while cutting, were researched. As a result, the surprisingly innovative design of the Ergo Jr. reduces stress on a child’s arm and wrist by as much as 50% compared with a regular scissor. We expect this to be a good product for next year’s back-to-school season.



**The new Westcott carbo-titanium scissors can cut through almost 40 layers of denim.**

Also the new Westcott Carbo line of scissors and trimmers looks and performs exceptionally well. The carbo-titanium coating, makes the blades 8 times stronger than untreated steel. In addition, the handle and scissors are reinforced to withstand the pressure when cutting through thick materials. The carbo-titanium scissors can cut through almost 40 layers of denim fabric!

## First Aid Keeps Going Strong

Before the First Aid Only acquisition in 2014, 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.

**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 the kits.

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 Fastenal, 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.

## RECENT EVENTS

### Acme United Acquires Highly Profitable Spill Magic, Inc

Spill Magic Inc. manufactures a wide variety of spill pickup products that help companies dramatically reduce slip and fall accidents with customers and employees.

One of Spill Magic's best selling products is its Spill Response System, which is being used thousands of times every day in national and regional grocery, retail, big box, and countless other retail stores in the United States.



**Acme United did it again. With Spill Magic, it acquired a relatively small, yet highly profitable company in one of its areas of expertise.**

Founded in 1995, Spill Magic has a 30,000 square foot facility in Santa Ana, CA (about 30 miles south of Los Angeles). This is where the company's headquarters and its shipping and receiving facilities for the Western U.S. and Pacific Rim are located. It also has an additional facility in Smyrna, TN (about 20 miles south of Nashville) that provides manufacturing and fulfillment for the Central and Eastern U.S.

Walter Johnsen said, "Spill Magic complements Acme United's existing products within the office, industrial, retail, food

service, and safety markets. We intend to expand the business and its distribution through Acme United's broad customer base, innovation, and global reach."

Spill Magic currently focusses on B2B customers, such as retail, grocery, restaurant, hotel chains and governmental agencies with the goal of reducing slip and fall accidents in their locations. Some of its customers include Target, McDonalds, and Wal-Mart. The latter, for example, uses Spill Magic products in each of its stores.

However, similar to last year's acquisition of Diamond Machining Technology (DMT), Acme aims to grow the new brand rapidly. Acme's sales people will immediately start to offer the Spill Magic products in chains where they aren't available yet and with whom the Company already has a good standing relationship.

The goal is also to broaden the distribution to sectors where Spill Magic isn't available. For example, the products are ideally suited to be used in auto repair shops, where oil, gasoline, transmission fluid, brake fluid, coolants, and solvents present a challenge when spilled.

The products will also be launched online at Amazon.com. Remember that Amazon is quickly becoming one of Acme United's most important customers. In addition, Spill Magic will be introduced at Staples and Office Depot to include in their catalogues.

Moreover, Acme will shortly introduce a consumer version of the products in small user-friendly containers. This way, spills like syrup, liquid soap, eggs, or paint can easily be swept away.

Finally, Acme aims to geographically expand the availability of the products, as it will introduce them in Europe and Canada.

Next to increasing sales, another key initiative will be to grow Spill Magic's already attractive margins, by looking at shipping costs, or sourcing costs of raw materials.

The average cost from slip and fall is \$22,800 per accident, while the average workers compensation claim is \$19,000.

Slips are not only a problem for workers. Customers, and even the general public, can also be at risk. If a building occupant or visitor has an accident, there is no limit to what fees (medical, legal, etc.) companies will be responsible for. Those costs add up quickly. Preventing spill falls saves retailers tons of money.

Knowing that over 540,000 slip and fall injuries, requiring hospital care, occur in North America each year, it's clear that Spill Magic's products are highly needed. After all, preventing spill falls saves employers and retailers tons of money.

## Camillus Knives Poised To Have Another Promising Year

For the eighth year in a row, the SHOT Show took place at the Sands Expo Center in Las Vegas. The show attracts buyers from all 50 states and more than 100 countries, hosting more than 1,600 exhibiting companies across show floor space that exceeds 630,000 net square feet - equivalent to more than 13 acres. Some 12.5 miles of aisles lead to displays of a wide spectrum of products, including firearms, ammunition, safety equipment, hunting accessories, and knives.



**The 2-story Camillus/Western/DMT booth at the 2017 SHOT Show.**

Industry professionals packed the aisles from the opening bell, and attendance totaled nearly 65,000, surpassing last year's turnout to make it the second most attended SHOT Show ever.

In total, 26 new Camillus, Western, and DMT tools were shown to the public. Camillus introduced a brand new collection of five hunting knives. They are constructed with Carbonitride Titanium bonded AUS-8 steel, which offers increased corrosion and adhesion resistance while holding a 10 times stronger, sharper edge.

Moreover, a new Tactical Knife Collection was revealed, which was created in collaboration with Camillus Pro Staff members, Jared Ogden, a former Navy SEAL, and Grady Powell, a former Green Beret. The collection features four new tools designed specifically for extreme situations.

Finally, Camillus also rolled out the Morph, an 8-inch, titanium-bonded, ball-bearing folding knife designed for extreme durability and versatility in the field. Created in collaboration with Joel Davis, a renowned metalsmith, the Morph features a unique, offset blade, making it ideal for high-leverage cutting. Additionally, the distinct shape and design of the blade makes the knife extremely strong and instinctive. With stainless steel ball bearings, the Morph opens quickly and is as reactive as the task requires.

Similar to previous SHOT Shows, several Pro Staff members were present at the booth to sign autographs. In fact, three new Pro Staffers joined the Camillus team during the SHOT Show. The first was Kyla Dolan, one of the leading female guides in the world, who works for a company called Tombstone Outfitters. She is ideally suited to attract more women to outdoor sports, and to familiarize them with the Camillus brand.

Also the Beasley brothers, known from their multi-award-winning hunting adventure show, Canada in the Rough, signed autographs at the booth. Each episode of Canada in the Rough strives to educate, inform, and entertain through a unique balance of a hunting experience combined with both the human and biological interactions with the varieties of species. The show airs in prime time on premium networks in both Canada and the United States. From now on, the Beasley brothers will only use Camillus tools in each of their episodes.

**Camillus contributed nicely to Acme United's results in 2016, and with the help of the new products, and the formidable Pro Staff, the brand is poised to have another promising year.**

### Acme United Wins Multiple Awards for Westcott School & Office Line

In January 2017, Acme United won the prestigious 2017 Teachers' Choice Award for its Westcott heavy duty electric pencil sharpener. Learning magazine – the organizer of the Teachers' Choice Award – selected the Westcott sharpener for exceptional quality and outstanding performance in an educational setting.

For over 20 years, the Teachers' Choice Awards have heralded the very best in classroom-tested, teacher-recommended products. Each year, a nationwide panel of teacher-judges names the standouts in books, classroom supplies, educational games, software, websites, and more. After receiving top ratings in two rounds of rigorous judging, the winners are chosen.



**The Westcott Heavy Duty Electric Pencil Sharpener is designed for high volume use at school, home and office. It sharpens all popular pencil sizes at super-fast speed thanks to its helical 12-blade technology. Moreover, the sharpener has an auto-stop safety feature when the shavings reservoir is removed.**

Chris Alagno, Vice President of the Westcott brand said, "We are honored to accept this award from the Learning magazine. Our

Westcott sharpeners have revolutionized the category through design, performance and innovation. They sharpen from the top, utilize patented titanium bonded technology, and stay sharp three times longer than competitive products.”

The winners of the award are on display at [www.teacherschoiceawards.com](http://www.teacherschoiceawards.com), and they will appear in two issues of Learning magazine, which has a readership of hundreds of thousands of teachers and parents. Needless to say that getting free press in such an influential publication is priceless.

The heavy duty pencil sharpener joins the Westcott Scissor Caddy and the iPoint Evolution Axis pencil sharpener, which won a Teacher’s Choice Award in 2015 and 2014 respectively.

In the same week, Acme United won no less than four GOOD DESIGN awards from the Chicago Athenaeum: Museum of Architecture for its Westcott family. The Ergo Jr. kids scissor, carbo-titanium scissors, iPoint Orbit, and the ceramic box cutters all received the exclusive award.

Chris Alagno commented, “We are honored to accept this award. Our Westcott line of school, office and craft items are amongst the most innovative and visually stunning products on the market. The Westcott brand sets itself apart from the rest of the market by delivering products superior in both form and function.”

**These days, it isn’t sufficient that products work perfectly and are competitively priced, they also have to be attractive looking. Consequently, companies need to go that extra mile to manufacture outstanding items that have additional features and a fabulous design. Tesla would only sell half as many cars as it does today, if they had an everyday design.**

**Acme United knows this very well and constantly raises the bar. It makes sure that its products stand out on the shelves, setting them apart from their competitors.**

## OUTLOOK & VALUATION

Acme acquired Spill Magic a few weeks ago. The manufacturer of cutting edge absorbents, had revenues in 2016 of \$6.3 million and EBITDA of approximately \$1.4 million, making it accretive from day one.

Acme’s line of credit with HSBC has an interest rate of LIBOR plus 2.00%. Consequently, at today’s LIBOR rate, Acme pays a little less than 2.5% interest on its borrowings. To borrow \$7.2 million – Spill Magic’s acquisition price - Acme roughly pays \$180,000 interest annually. Compared with the new brand’s EBITDA, this for sure was a nice deal!

Slips & falls are a major safety issue. They are the number one cause of accidents in the home and workplace (30%) of all reported injuries. At the same time, they are one of the most common and preventable injuries, as the basic precaution is very simple and cost effective: a clean and dry walking surface. This is exactly why Spill Magic’s products are very useful and highly needed.

Moreover, Acme aims to increase sales from its latest acquisition by introducing the products to the Company’s office and industrial customers. Acme is also convinced that there’s a fair amount of cross selling opportunity between its existing first air business and the newly acquired Spill Magic.

Also Acme’s other brands are performing well. Westcott is offering new school, home and office products, such as glue guns with ceramic coatings that are ideally suited for the craft, office and shipping work places. It has new heavy duty pencil sharpeners with proprietary titanium blades for the school market and it’s expanding the line of ceramic box cutters for heavier duty use.

The first aid division recently introduced an app, which allows customers to reorder first aid supplies in a quick, convenient and user-friendly matter. It received lots of positive responses at the National Safety Council Show, where it was first shown to the public.

Clauss, Cuda, Camillus and DMT products will continue to benefit from expanded distribution in the mass market and specialty stores. For Cuda, new freshwater fishing tools will be launched and several product line extensions, such as carbon fiber gaffs and nets, will be introduced.

Acme United is one of those companies that you don't come across often. Although it operates in mature industries that don't grow much, it's able gain market share through relentless innovation.

Consequently, loyal shareholders have been rewarded plentifully. In 2016, Acme's stock price has gone up 47%. But the performance of the Company's stock is even more impressive over a five year period. Since late 2011, it has risen a whopping 153.5%, excluding all dividends. This is a compounded growth rate of 20.45% over a five year period!

To put that in perspective, let's compare that number with the performance of three major indexes that are all over the news and are praised for their excellent returns.

Since late 2011, the Dow Jones has gone up 62%, NASDAQ has risen 108% and the Russell 2000 Index - the so-called small cap index, although it contains some companies with a market cap of more than \$1 billion - is up 82%. All in all, nowhere near Acme's return.

### 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 24.14x, down from an average of 25.2x 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 19.31x for the Housewares & Accessories industry.

Amounts in \$000's	2015	2016	2017E
<b>Total Revenue</b>	109,812	124,574	137,000
<b>Net Income</b>	4,794	5,851	6,700

Annual sales and earnings FY 2015 - 2017E.  
Source: Company Filings and Company estimates

**Applying the 19.31x P/E multiple from the peer group to the estimated EPS for 2017, we reach the following calculation: \$1.78 estimated EPS multiplied by 19.31 = \$34.37.**

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$34.37, which is 39.7% above today's stock price.**

## SHARE DATA & OWNERSHIP

On March 3, 2017 Acme United had approximately 3,327,455 fully diluted common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (16.3%), Walter Johnsen (14.7%), Bard Associates Inc. (4.2), Capital Management Corp (3.8%), 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 – FY 2016

All numbers in thousands

PERIOD ENDING	FY 2013	FY 2014	FY 2015	FY 2016
<b>Total Revenue</b>	<b>89,577</b>	<b>107,222</b>	<b>109,812</b>	<b>124,574</b>
Cost of Revenue	57,753	69,037	70,251	79,019
<b>Gross Profit</b>	<b>31,824</b>	<b>38,186</b>	<b>39,561</b>	<b>45,555</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	25,945	30,791	32,214	37,113
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	25,945	30,791	32,214	37,113
<b>Operating Income or Loss</b>	<b>5,879</b>	<b>7,394</b>	<b>7,347</b>	<b>8,442</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	(35)	(118)	(168)	(76)
Earnings Before Interest And Taxes	5,844	7,276	7,179	8,366
Net Interest Expense	350	473	565	869
Income Before Tax	5,494	6,803	6,614	7,497
Income Tax Expense	1,491	2,014	1,820	1,646
Net Income From Continuing Ops	4,003	4,789	4,794	5,851
<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>5,851</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>\$5,851</b>

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



# Acme United Corporation

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