

### Acme United Corp. (ACU)

Company Report – August 19, 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.

Although Acme United's sales and earnings were down in the second quarter, the Company expects to more than make up for it in the third and fourth quarter. It is confident that it can grow its revenue with more than 20% in the second half of 2017 compared with the same period last year. This means that earnings will most likely increase even more thanks to the operating leverage.

Acme's online sales are growing very rapidly, particularly at Amazon, and also at Jet, which is part of Walmart. The Company has a full team of people working on online content, reviews, and search optimization. This is paying off!

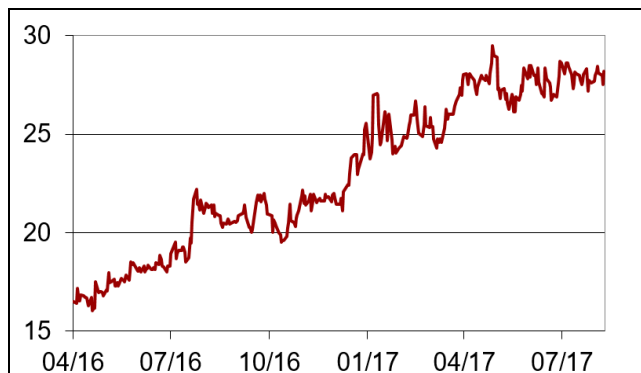
More good news was announced last month as the Company increased its quarterly cash dividend with 10% to \$0.11 per share. Walter Johnsen said, "This is Acme United's tenth dividend increase since 2004. The Company continues to make good business progress and we are delighted to provide this additional return to shareholders. Our balance sheet is strong and we are confident in the business."

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$36.68, which is 32% above today's stock price.



### Acme United Corporation

- First aid continues to be one of Acme United's growth drivers. Two weeks ago, the Company officially launched its FAO SafetyHub app, which provides a platform to manage and refill First Aid Only SmartCompliance cabinets. Users can search and scan barcodes on individual first aid products, as well as place requisitions for ANSI & OSHA compliant first aid kits. The app is unique in the industry.
- In addition, the Company has recently doubled the productive capacity at DMT. The brand is growing in the United States and in Europe.
- As for Spill Magic, Acme aims to expand its distribution into the office channel, in chains such as Staples, Office Depot, United Stationers, or SP Richards. The absorbents could also do well in the industrial market with distributors such as Granger or McMaster-Carr.



#### Market Data

Price	\$27.70
Sector	Office Supplies
52-Week Price Range	\$17.23 - \$29.49
Shares Issued (m)	3.37
Market Cap (m)	\$93.40
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, 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.

Although Acme United's sales and earnings were down in the second quarter, the Company expects to more than make up for it in the third and fourth quarter. It is convinced that it can grow sales by more than 20% in the second half of this year compared with the same period in 2016.

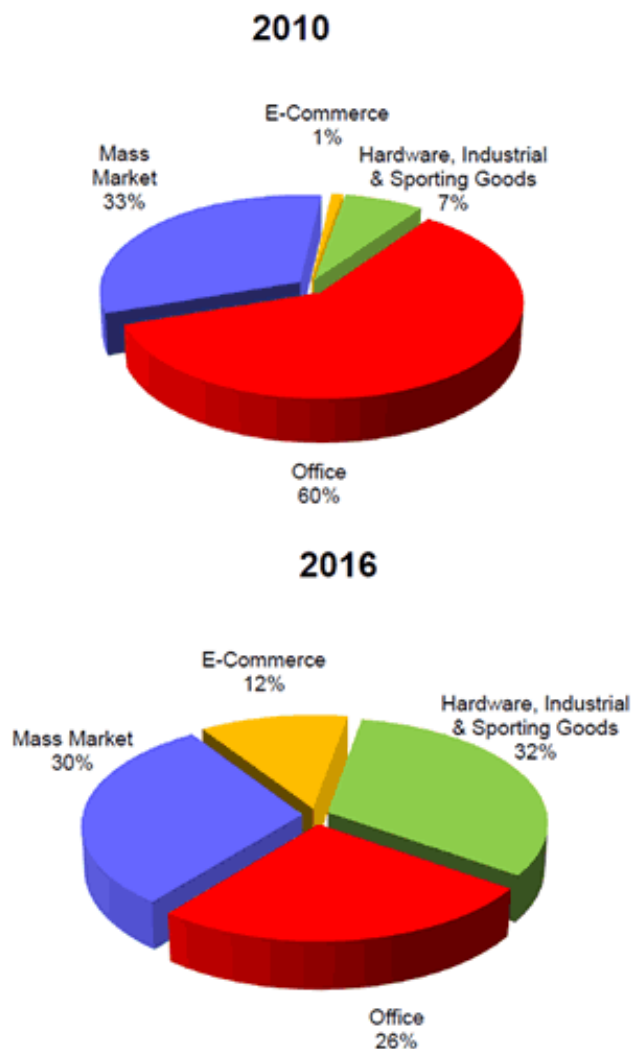
Sales for the three months ended June 30, 2017, reached \$38.8 million, a decrease of 5% compared with sales of \$41.0 million in the second quarter of 2016. Net income in the second quarter of 2017 declined by 13% to \$2.8 million, or \$0.75 per diluted share, versus \$3.3 million, or \$0.91 per diluted share, in the comparable quarter last year.

Online sales of the Company's back to school products have grown substantially. Because online sales require a different timing of shipment, revenues have shifted from the second quarter of 2017 to the third quarter. In addition, Acme had a large promotion during the second quarter last year that did not repeat. However, the Company has several promotions scheduled for later this year that are expected to more than compensate for this differential.

All in all, the Company is confident that it can grow its revenue with more than 20% in the second half of 2017 compared with the same period last year. This means that earnings will most likely increase even more thanks to the operating leverage.

Accordingly, Acme is reaffirming its guidance for 2017 of \$137 million in revenues, \$6.7 million net income, and \$1.76 earnings per share.

**In addition, Mr. Johnsen recently said at the Disruptive Growth & Healthcare Conference in New York that \$160 million in sales could be achievable in 2018 with a small acquisition.**



**Acme United revenue by category. Especially the e-commerce section is noteworthy. While it was virtually non-existent in 2010, it grew to 12% last year and continues to increase rapidly.**

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 on page 9).

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. Also online sales are growing rapidly. In fact, Amazon.com is quickly becoming one of Acme United's most important customers.

Acme United pays a quarterly dividend of 11 cents per share. In fact, the Company increased its quarterly dividend with 1 cent a few weeks ago. Traditionally the Company increases the amount by 1 cent every 6 to 8 quarters.

### Increased Domestic Sourcing

Although 60 percent of Acme's products are still sourced from China, domestic manufacturing is gaining importance. Since 2011, the Company has purchased no less than four US based manufacturers.

In 2011, Acme acquired Pac-Kit Safety Equipment Company in Norwalk, Connecticut. In 2014, it purchased First Aid Only in Vancouver, Washington. Last year the Company bought Diamond Machining Technology (DMT), which is located in Marlboro, Massachusetts. And a few months ago Spill Magic was acquired, which has facilities in Santa Ana, California.

This way, the Company strategically diversifies its portfolio of sourcing, while reducing its reliance on China.

## 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, but quickly returned to Westcott because sales of the other brand were disappointing. A true validation of the brand.



**With an easy glue trigger and ergonomic design, the new Westcott Hot Glue Pen delivers accuracy to every project.**

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 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.

More recently, it launched a set of revolutionary glue guns for the craft and DIY markets. These guns have non-stick internal mechanisms so that the glue sticks don't clog up the machines. Also, the tips of the guns have non-stick color changing coatings. That way, when the tip of the gun is hot, it turns red and users know not to touch it. When it's red, it's also ready to dispense the glue. And when the tip is cool, it's blue.

The quality of the glue sticks are at, or above, competitive levels. And also the ergonomics of the guns are excellent. Consequently, These products have the potential to impact sales significantly later in the year as additional retailers begin to carry them. The Company expects this to be a multi-million dollar item this year. Even higher sales are expected for 2018 (Also read Growth Drivers).

**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. Since then, Clauss has completely transformed and become an established name in the industry with a broad hardware line that is 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.



**The comprehensive line of hunting knives, introduced at this year's SHOT Show features new tools designed for the most challenging environments.**

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 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.

For example, 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 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.

**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.

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.

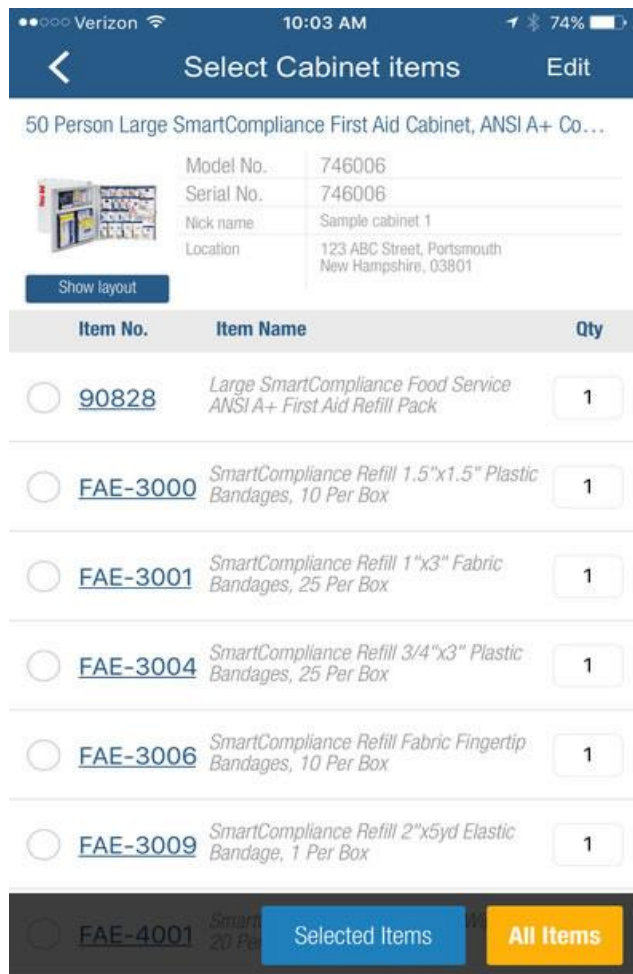
The innovative design of the SmartCompliance first aid cabinet eliminates disorganized and missing supplies often seen within traditional first aid cabinets. As first aid products are used, the SmartTab ezRefill reminders notify a user when it's time to reorder so that supplies never run out when it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

The SmartCompliance cabinets are very successful. In 2016, 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, the FAO SafetyHub app, which is available for download in the Apple iTunes store, was recently launched. It provides a platform to manage and refill First Aid Only SmartCompliance cabinets. Users can search and scan barcodes on individual first aid products, as well as place requisitions for ANSI & OSHA compliant first aid kits. This application allows requisitions to be saved, placed, or tracked from a mobile device or

tablet. Features such as the “Physical Inventory Count” keeps users aware of which products to reorder and when to do so through inventory reminders.

New first aid cabinets can be registered through the app, and can be assigned to, and managed by, multiple users. This application makes the reorder process faster and more efficient for SmartCompliance cabinet users.



**The FAO SafetyHub app lets you quickly add your cabinets for every location, then easily inventory, restock, and manage them.**

The app was recently installed at 40 franchised restaurants. Initial results are very satisfying. Consequently, it will soon be installed at other customers as well.

**Cuda** markets a broad line of tools dedicated to fresh and saltwater fishing. Only three

years ago, Cuda was brand new and practically unknown. Since then, there has been a tremendous increase in brand recognition, thanks to the flow of exciting new tools that Cuda has brought to the market. Cuda has truly grown into a lifestyle brand.

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.

A factor that has helped gain the brand a solid name in the fishing community is the Cuda Pros. Right from the start, 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.

Since then, the Cuda Pro Staff has continued to grow to more than 40 ambassadors today. They continue to suggest improvements to prototype tools, so that when they go into production, the products are the best on the market.

Also the promotion that 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.

At this year's ICAST show, held a few weeks ago, Cuda introduced more than twenty new tools, including several items in completely new product categories, such as nets and gloves. In addition, as Cuda aims to become a lifestyle brand for anglers, it also launched bracelets for men and women, and microfiber towels (Also read Recent Events).

With all the additional tools, Cuda now has over 100 different products in its range. Making it an amazing achievement in just four years since the brand was launched.

Regardless where you are fishing, Cuda has a tool that will satisfy every freshwater, saltwater, inshore, offshore or river bank angler.



As the product assortment has grown each year, so has Cuda's booth space.

**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.



DMT sales are contributing strongly to Acme United's results.

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.

Because DMT sales are rising fast, new equipment was recently purchased to double the brand's production capacity.

**Spill Magic** manufactures a wide variety of spill pickup products that can handle anything from liquid spills, hazardous material spills and even biohazard spills.

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.

The average cost from a slip and fall is \$22,800 per accident, while the average workers compensation claim is \$19,000. Slips are not only a problem for employees though. 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.

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.

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.



**The Spill Magic Biohazard Cleanup Kit is an OSHA compliant solution for safely removing blood and bodily fluids.**

Acme United acquired Spill Magic in February 2017, and aims 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.

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.

## FINANCIALS

Acme's net sales for the second quarter were \$39 million compared to \$41 million in 2016, a decrease of 5%. Net income for the second quarter of 2017 was \$2.8 million or \$0.75 per diluted share compared to a net income of \$3.3 million or \$0.91 per diluted share for the same period of 2016.

Oddly enough, the major reason for the decline in both sales and earnings in the second quarter is the Company's booming online sales activity. While Acme registered about \$15 million in online sales in 2016, which was double from the previous year, they continue to grow at a strong pace.

The order and fulfillment patterns for online sales however are profoundly different compared with brick and mortar store sales. They actually differ so much that they are affecting the timing of the Company's revenues.

Acme United's second quarter has traditionally been the one in which a majority of the back-to-school products were shipped from the Asian factories to the distribution centers of major retailers. Those retailers would then receive the containers and distribute the products to their stores for sales in July and August.

With online sales though, Acme is receiving orders that closely match the timing of actual purchases by end users. Because in the U.S. and Europe most schools go back in session in August or early September, orders by online retailers, such as Amazon and Jet, are only received in the third quarter. **Consequently, a significant part of Acme's back-to-school business will be booked in the third quarter instead of the second.**



Next to the sales shift, revenue was also down in the second quarter because last year there was a large promotion of Westcott products that did not repeat in 2017. However, the Company has a variety of new promotions lined up in the second half of this year, including new Camillus knives, Cuda fishing tools, Westcott glue guns and first aid kits. **Those new promotions should more than compensate the loss of the Westcott order.**

For the six months, ended June 30, 2017, net sales were \$66.6 million, compared to \$66.3 million in the same period in 2016. Net income for the six months ended June 30, 2017 was \$3.5 million or \$0.94 per diluted share, compared to \$3.8 million or \$1.08 per diluted share in the comparable period last year, an 8% decline in net income.

Amounts in \$000's	06/30/17	06/30/16
Net Sales	38,849	40,997
Cost of Goods Sold	24,366	26,303
S, G & A Expenses	10,594	10,054
<b>Income From Operations</b>	<b>3,889</b>	<b>4,640</b>
Pre-Tax Income	3,619	4,418
Income Tax Expense	773	1,151
<b>Net Income</b>	<b>2,846</b>	<b>3,267</b>
Diluted Shares Outs.	3,780	3,583
Diluted EPS	0.75	0.91

**Selected income statement data for the quarters ending June 30, 2017 and June 30, 2016. Source: Company Press Release**

Gross margin was 37% in the three months ended June 30, 2017, compared to 36% in the same period in 2016. Gross margin was 38% in the six months ended June 30, 2017, compared to 36% in the same period in 2016. The higher gross margin was primarily due to lower costs in the Company's Vancouver, Washington first aid facility, and by stronger sales of high margin DMT Sharpeners and Spill Magic cleanup materials.

### Latest Acquisitions Doing Very Well

Acme United's latest acquisitions DMT and Spill Magic are both contributing strongly to the Company's results.

Diamond Machining Technology (DMT) was acquired by Acme United in February 2016

and is the world's leading innovator of manual diamond sharpening technology. It is renowned for its polka dot pattern diamond surface products.

DMT products are available 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.

Recently, new equipment and machinery was installed to double its production capacity. The business continues to grow in the U.S. and abroad and has high margins.

Spill Magic, a cutting edge manufacturer of absorbents, was acquired in February 2017 and continues to perform well. Its product line has been fully integrated into Acme's existing first aid business, and it is actively selling products to industrial, retail, food service and school accounts.

One of Spill Magic's best selling products remains 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.

Next to its regular absorbent, Spill Magic recently started offering a wider variety of spill removers. For example, it offers the Biohazard Cleanup Kit, which is an OSHA compliant solution to safely remove blood and bodily fluid spills. **The Company recently landed a contract worth \$1 million to supply these kits to a major retailer.**

In addition, Spill Magic developed the Hazmat Cleanup Kit, which is a completely customizable kit to safely remove hazardous liquid spills. And also the Acid Absorbent Neutralizer, which is a lightweight high performance absorbent that provides quicker and safer response to acid spills.

Spill Magic contributed \$1.8 million to Acme's net sales in the second quarter, and \$3.0 million year to date. All in all, the brand's performance has been above last year's and Acme's internal budget.

## European Segment On a Roll

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

Amounts in \$000's	Q2 2017	Q2 2016
<b>U.S.</b>	34,140	36,296
<b>Canada</b>	2,503	2,646
<b>Europe</b>	2,206	2,055
<b>Sales per segment for the quarters ending June 30, 2017 and June 30, 2016 (Source: Company Filing)</b>		

In the U.S. segment, net sales for the quarter ended June 30, 2017 decreased 6% compared to the same period in 2016 due to certain back-to-school promotions that did not repeat this year. Additionally, as noted above, the change from brick and mortar sales to online sales is causing some of the back-to-school business to move to the third quarter. Net sales for the first six months of 2017 were constant compared to the same period in 2016.

Net sales in Europe for the three months ended June 30, 2017 increased 8% in U.S. dollars and 10% in local currency compared to the same 2016 period. Net sales for the six months ended June 30, 2017 increased 20% in U.S. dollars and 23% in local currency compared to the first half of 2016. Net sales for both periods increased due to new customers in the office and sporting goods channels. Especially Westcott office products, Cuda fishing tools and DMT sharpening products sold well.

Online sales are growing faster than expected in Europe. Although current sales are obviously still much smaller than in the US, there are an equal number of people living in Europe. So the potential is certainly there. Also margins are growing in this segment.

Net sales in Canada for the three months ended June 30, 2017 decreased 5% in U.S. dollars and 2% in local currency compared to the prior-year period. Net sales for the six months ended June 30, 2017 decreased 4% in U.S. dollars and 2% in local currency compared to the same period in 2016.

## Balance Sheet as of June 30, 2017

Three items stand out on Acme's balance sheet. First, despite its achieved growth during the past 12 months and the acquisition of Spill Magic, the Company's inventory was reduced with almost \$2.8 million or 7%.

Although it's difficult to accomplish - given the uncertainties of unforecast customer requirements - the Company has been actively working to reduce the inventory by narrowing the number of product families, lowering the order quantities, and trying to more carefully align stocks to forecasts. As this is an ongoing process, inventory might be cut even further.

Amounts in \$000's	06/30/17	06/30/16
Cash and Cash Eq.	5,674	2,087
Accounts Receivable	32,616	34,646
Inventories	35,638	38,416
<b>Total Current Assets</b>	<b>76,345</b>	<b>77,573</b>
Property & equipment	9,077	7,704
Intangible Assets, net	19,227	13,596
<b>Total Assets</b>	<b>109,362</b>	<b>104,728</b>
Accounts Payable	7,498	11,573
<b>Total Current Liabilities</b>	<b>12,713</b>	<b>18,026</b>
Bank Debt	46,956	40,821
<b>Total Liabilities</b>	<b>60,014</b>	<b>59,202</b>
Total Stockholder Equity	49,348	45,526
<b>Selected balance sheet data for June 30, 2017 and June 30, 2016. Source: Company Press Release</b>		

Second, the Company's long-term debt increased from \$40.8 million a year ago to \$46.9 million on June 30, 2017. As a result, Acme's bank debt less cash on June 30, 2017 was \$41.3million compared to \$38.7 million on June 30, 2016.

This is a remarkable achievement knowing that during 12-month period, Acme purchased the assets of Spill Magic for \$7.2 million and paid \$1.3 million in dividends on its common stock. The Company generated \$7.2 million in free cash flow.

And finally, Acme's cash position increased to almost \$5.7 million, up over \$3.5 million compared with a year ago.

## GROWTH DRIVERS

### Westcott Launches Innovative Glue Gun Family

A few weeks ago, the long-awaited Westcott family of glue guns was launched. Four new items are offered: the revolutionary glue pen, glue guns with high and low temperatures, and glue sticks.

Crafting has become a popular activity for millions of adults. The Do-It-Yourself (DIY) movement took off during the recession, and as the economy recovered, people just continued with their crafting habits. It's a steadily growing market.

The Westcott team at Acme United noticed this trend and realized that although it sold products such as scissors and paper trimmers, it didn't have tools specifically aimed at crafters, making it an untapped market.

Early 2016 the team identified glue guns as a sizeable market in the craft and home DIY space, with little product innovation. They concluded that there was a significant opportunity for Westcott to capture a decent share of the market.

So the Westcott people started thinking about which features and benefits the glue guns should have, the color combinations, the sizes, and price points. In other words, they wanted to figure out how to add maximum value to glue guns without adding a whole lot of cost. After all, crafters want an affordable, but quality product.

The end products are outstanding, and unlike any other glue gun in the crafting market. To give an idea of how innovative these products are, Acme United filed no less than 15 utility patents for these glue guns, while during the past 20 years all other glue gun manufacturers together filed 4 patents!

The existing manufacturers of glue guns, are lagging behind compared with Westcott's new guns. They will most likely react to these new tools, but will it be enough? After all, many of the Westcott features are patented. A few years ago, competitors also reacted when

Westcott first launched its revolutionary iPoint pencil sharpener. However to no avail, as the iPoint is now by far the most popular electric pencil sharpener on the market.

To launch its new family of glue guns, Westcott ran a campaign targeted at crafting enthusiasts, teachers, and moms. For example, celebrated fashion designer and leading cast member of the Real Housewives of New York City show Heather Thomson, featured the Westcott products on regional TV channels. She did a special on Mother's Day gifts and the Westcott glue guns were one of the items that she suggested.



**Heather Thomson, featured the Westcott products on regional TV channels.**

The entire glue gun family was first placed at Michaels, with distribution shortly following at chains like Rite Aid and Walmart. Next to physical stores, the products are already available at several online stores such as Amazon.com, and Walmart.com. The tools will most likely become available in Europe and Canada as well.

The arts and crafts markets have been growing in popularity the past few years, so

it's only logical that Westcott wants to take optimal advantage of this opportunity.

We understand that several more guns are in the pipeline, which will be launched late 2017, or early 2018. **The Westcott glue guns are expected to soon become a multi-million dollar business for Acme United.**

### 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".

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.

#### 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 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.

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!

## RECENT EVENTS

### Cuda Again Bigger and Better at ICAST Fishing Show

Cuda has a habit of each year becoming bigger and better at the ICAST show in Orlando, Florida. This year was no different. From distributors to buyers and media, representatives from the domestic and international fishing community, all visited the attractive 20' by 30' Cuda booth.

The International Convention of Allied Sportfishing Trades, better known as ICAST, is the world's largest sport fishing industry trade show. The 60th edition of the show hosted 582 exhibitors in 1982 booths covering almost 200,000 square feet of the Orange County Convention Center. The show attracted close to 15,000 attendees, including 1,156 people from 73 countries.

ICAST is the ultimate showcase for the latest innovations in gear, accessories and apparel that help to make a day on the water both exciting and rewarding. Keeping up with that tradition, Cuda launched many new tools at the show with unique features and benefits. Most tools are scheduled to be available in stores from fall in the U.S., Canada, and Europe.

The brand is, for example, expanding its product offering with a complete new line of fishing nets, which are available in small, medium and large sizes and feature telescoping handles that allow the length to be adjusted from 4ft to 7.75ft. All Cuda fishing nets integrate a zipper for easy net attachment and removal. There's no need to restring a replacement net around the hoop, simply zip and go. In addition, each product includes a mesh-coated net, which helps preserve the longevity of the fiber while making it easy to clean with nothing more than fresh water.

A second brand new category for Cuda is a line of saltwater and freshwater fishing gloves that meet the needs of both salt and freshwater anglers. Available in three styles – bait, wire wrap and offshore – the gloves are constructed from puncture-resistant, quadruple-layer Kevlar. For added convenience, the gloves also incorporate touchscreen capabilities so you can operate a smartphone or other electronic devices while wearing the gloves. Due to the Kevlar construction, the gloves are extremely durable and protect the user from cuts and abrasions, while remaining lightweight and comfortable to wear.



**The new line of Cuda fishing nets includes a baitwell net and three telescoping nets.**

Cuda is also rolling out an innovative tool containment system, called the Cuda Tackle Center, which is designed to keep important tools organized and within reach. It conveniently fits into most standard size boat and kayak cup holders. Accommodating tools and knives up to 7 inches long, the system utilizes a unique patented containment fitting system to secure tools. A small net that covers the system can be fastened via clips on

all four sides so that the tools are kept in place even in the roughest of waters.

Moreover, Cuda has developed a corrosion-resistant, spring-action hook cutter that easily slashes through the toughest hooks and is built to withstand harsh conditions. After all, when a fish swallows a hook, or you've accidentally set a hook in your hand, a quality hook cutter becomes a 'must-have' for every angler. Since the hook cutter cuts by friction vs. sharp edges, the tool will not dull or let you down when it is needed most.

Finally, Cuda is introducing a premium line of knife and hook sharpeners designed specifically for fresh and saltwater anglers. To meet a wide range of fishing needs, Cuda created three sharpeners - developed in cooperation with newly acquired DMT - with grits ranging from fine to extra fine. The entire collection - which includes a bench stone, knife and hook sharpener and cutting board sharpener - features rust-proof construction and is made in the USA. Especially the Cutting Board Channel Sharpener, which will fit right on the back edge of a marine cutting board, proved to be extremely popular and convenient.

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. The new tools presented at ICAST are no exception to that rule.

The brand has signed several new distribution agreements the past few months in the U.S. and abroad. In Europe, for example, Cuda will soon be available in almost every country. In the coming months these agreements will undoubtedly start contributing to Cuda's growing success and Acme's financials.

## OUTLOOK & VALUATION

For those not paying close attention this might have been a disappointing quarter with

both revenues and earnings down. However, knowing that a strong second half of 2017 with more than 20% revenue growth is expected, it looks like Acme is going to have another robust year.

Acme's online sales are growing very rapidly, particularly at Amazon, and also at Jet, which is part of Walmart. The Company has a full team of people working on online content, reviews, and search optimization. This is paying off. In particular, the first aid area and the Westcott business are performing strong online.

As for Spill Magic, Acme aims to expand its distribution into the office channel, in chains such as Staples, Office Depot, United Stationers, or SP Richards. In Europe, it could be Aldi or Lidl, and in Canada, it could be any number of major retailers. The Spill Magic absorbents could also do well in the industrial market with distributors such as Granger, McMaster-Carr, Fastenal, as well as online markets such as Amazon.

In addition, the Company has recently doubled the productive capacity at DMT. The brand is growing in the United States and in Europe.

Also first aid continues to be one of Acme United's growth drivers. The SmartCompliance business, 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.

Two weeks ago, the Company officially launched its FAO SafetyHub app, which provides a platform to manage and refill First Aid Only SmartCompliance cabinets. Users can search and scan barcodes on individual first aid products, as well as place requisitions for ANSI & OSHA compliant first aid kits. This application allows requisitions to be saved, placed, or tracked from a mobile device or tablet.

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.

More good news was announced last month as the Company increased its quarterly cash dividend with 10% to \$0.11 per share. Walter Johnsen said, "This is Acme United's tenth dividend increase since 2004. The Company continues to make good business progress and we are delighted to provide this additional return to shareholders. Our balance sheet is strong and we are confident in the business."

This year marks the 150th anniversary of the founding of Acme United. In one and a half century, the Company has become the biggest scissor manufacturer in the world, and a major supplier of cutting devices, hunting and fishing tools, and first-aid products for school, home, office, industrial and hardware use.

After 150 years, Acme United is more vibrant and resilient than ever to withstand the ebbs and flows of international business. Walter Johnsen commented, "While Acme's history is long, we have built a team of talented associates who I believe can carry us into the future. Our products are well-established, we are growing faster than our competition, and we are earning our sales every day. I look forward to continuing this tradition."

### 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 20.84x, down from an average of 22.86x in our previous report.

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 20.84x P/E multiple from the peer group to the estimated EPS for 2017, we reach the following calculation: \$1.76 estimated EPS multiplied by 20.84 = \$36.68.**

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$36.68, which is 32% above today's stock price.**

## SHARE DATA & OWNERSHIP

On August 1, 2017 Acme United had approximately 3,780,000 fully diluted common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (17.9%), Walter Johnsen (9.1%), Bard Associates Inc. (4.4), Royce Capital Fund (3.9%), and Teton Advisors (3.8%).

## MANAGEMENT

### ❑ WALTER C. JOHNSEN - CHAIRMAN AND CEO

Mr. Johnsen has served as director since 1995 and as Chairman and Chief Executive Officer since November 30, 1995. Before joining the Company he was Vice Chairman and a principal of Marshall Products, Inc., a medical supply distributor.

### ❑ PAUL DRISCOLL - VICE PRESIDENT AND CFO, SECRETARY AND TREASURER

Mr. Driscoll has served as Vice President and Chief Financial Officer, Secretary and Treasurer since October 2, 2002. Mr. Driscoll joined Acme as Director International Finance on March 19, 2001. From 1997 to 2001 he was employed by Ernest and Julio Gallo Winery including two years in Japan as Director of Finance and Operations. Prior to Gallo he served in several increasingly responsible positions in Sterling Winthrop Inc. in New York City and Sanofi S.A. in France.

▣ **BRIAN OLSCHAN - PRESIDENT AND COO**

Mr. Olschan served as Senior Vice President of Sales and Marketing from September 10, 1996 until January 22, 1999. Effective January 23, 1999, he was promoted to President and Chief Operating Officer. From 1984 to 1996, he was employed by General Cable Corporation in various executive positions.



## ANNUAL INCOME STATEMENT FY 2014 – 6M 2017

All numbers in thousands

PERIOD ENDING	FY 2014	FY 2015	FY 2016	6M 2017
<b>Total Revenue</b>	<b>107,222</b>	<b>109,812</b>	<b>124,574</b>	<b>66,595</b>
Cost of Revenue	69,037	70,251	79,019	41,548
<b>Gross Profit</b>	<b>38,186</b>	<b>39,561</b>	<b>45,555</b>	<b>25,047</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	30,791	32,214	37,113	19,967
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	30,791	32,214	37,113	19,967
<b>Operating Income or Loss</b>	<b>7,394</b>	<b>7,347</b>	<b>8,442</b>	<b>5,080</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	(118)	(168)	(76)	60
Earnings Before Interest And Taxes	7,276	7,179	8,366	5,140
Net Interest Expense	473	565	869	583
Income Before Tax	6,803	6,614	7,497	4,557
Income Tax Expense	2,014	1,820	1,646	1,052
Net Income From Continuing Ops	4,789	4,794	5,851	3,505
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
<b>Net Income</b>	<b>4,789</b>	<b>4,794</b>	<b>5,851</b>	<b>3,505</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$4,789</b>	<b>\$4,794</b>	<b>\$5,851</b>	<b>\$3,505</b>

Annual Income Statement FY 2014 – 6M 2017. Source: Company Filings



# Acme United Corporation

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