

Acme United Corp. (ACU) Company Report – November 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.

Acme's fourth quarter looks very strong. The Company forecasts sales growth in excess of 20% and substantially more in earnings. The growth is especially coming from the first aid area, which is receiving orders from several large safety suppliers. In addition, there will be a sizable first aid holiday promotion in the fourth quarter at a major US retailer. Other promotions are scheduled with Camillus knives worth in excess of \$1 million and Cuda fishing tools.

The Company has recently doubled the productive capacity at DMT. The brand is growing in the United States and in Europe. Production at Spill Magic was simplified, which increased the output.

As for 2018, Acme United has already secured \$8 million worth in new business in first aid, pencil sharpeners, paper trimmers and Camillus knives. Moreover, the acquisition of the First Aid Only facility will be a significant cost saver, as the annual rent of \$407,000 will be replaced by a mortgage with annual interest expenses of \$150,000.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$30.25, which is 35% above today's stock price.



- ▣ Acme's online sales are growing very rapidly, particularly at Amazon, and also at Jet, which is part of Walmart. The Company has a team working exclusively 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.

However, Acme faces several challenges with online growth. One of them is to maintain, or even grow, its market shares across all major product lines, while the shift from retail stores to online is in full force. Acme is succeeding very well in this endeavour, while many others are struggling.

- ▣ Acme expects to achieve its seventh consecutive year of record sales in 2017.



Market Data

Price	\$22.30
Sector	Office Supplies
52-Week Price Range	\$20.20 - \$29.49
Shares Issued (m)	3.37
Market Cap (m)	\$75.24
Listings	ACU (NYSE Mkt)
Website	http://www.acmeunited.com

its guidance for 2017 to \$133 million in revenues, \$5.6 million in net income, and \$1.48 earnings per share. This is down from the previous guidance of \$137 million in revenues, \$6.7 million net income, and \$1.76 earnings per share respectively.

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 11).

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. 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 early 2017, 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.



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

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 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.

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. When the tip of the gun is hot enough to dispense the glue, it turns red. The red color is also an indication for users not to touch it. When the tip has cooled off, 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 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 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, it 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.

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 others.

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.

Pac-Kit is especially known for tailoring its products to meet user requirements and for rapid turnaround.

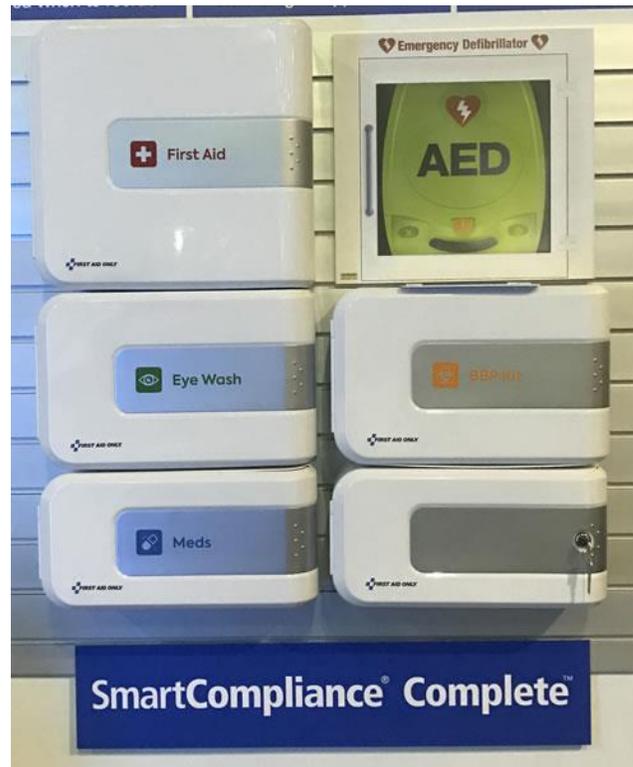
First Aid Only (FAO) is a supplier of SmartCompliance first aid kits, refills, and safety products that meet regulatory requirements for a broad range of industries.

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.



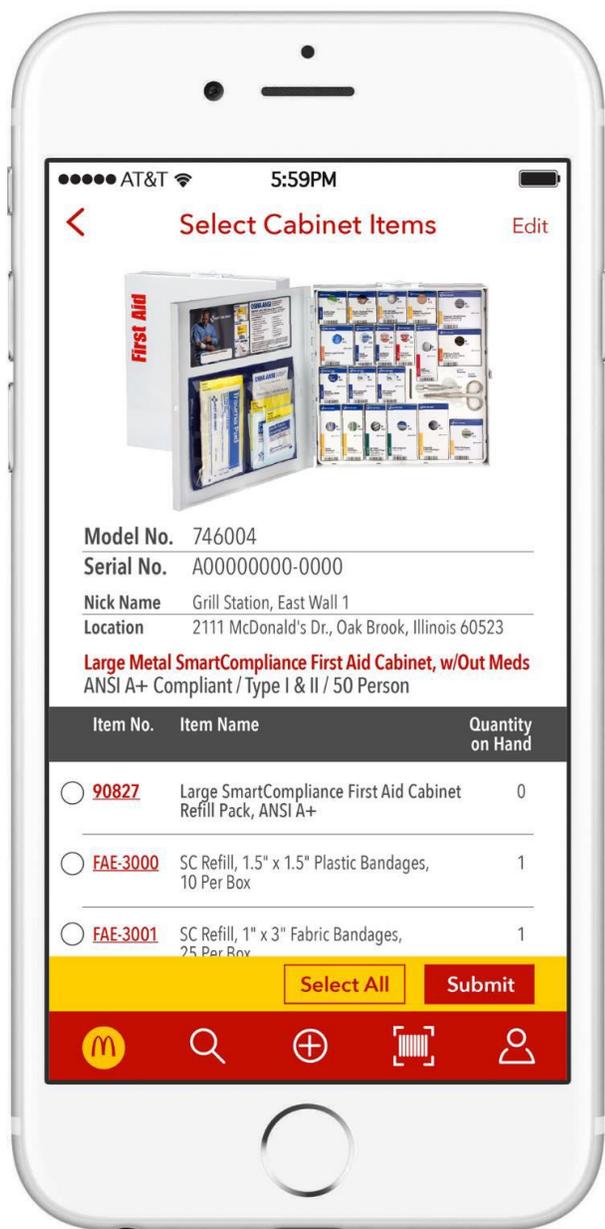
The brand new SmartCompliance Complete Cabinet was shown to the public for the first time. It will be available for purchase in the second quarter of 2018.

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.

The First Aid Only SafetyHub app, which is available for both Apple and Android, was

released in July 2017. 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.



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

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 so that users remain ANSI & OSHA compliant. Initial users are very satisfied with the app.

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. It 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 fishing show, 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.

With all the additional tools, Cuda now has over 100 different products in its range. 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.

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 sharpener 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 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 manufactures a wide variety of spill pickup products that can handle anything from liquid spills, hazardous material spills and even biohazard spills. It was founded in 1995, and has two facilities, one in Santa Ana, CA and the other one in Smyrna, TN. Acme United acquired Spill Magic in February 2017.

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.

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.

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.



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

Acme aims to broaden its distribution to sectors where the products aren't available yet. For example, the spill pickup 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. 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.

FINANCIALS

Net sales for Acme United's third quarter ended September 30, 2017 were \$33.8 million, compared to \$31.9 million in the comparable period of 2016, an increase of 6%. Net income for the quarter ended September 30, 2017 was \$1.2 million, or \$0.32 per diluted share, compared to \$1.5 million, or \$0.40 per diluted share, for the 2016 period, a 19% decrease in net income and 20% decrease in earnings per share.

For the nine months, ended September 30, 2017, Acme's net sales reached \$100.4 million, compared to \$98.2 million in the same period in 2016, an increase of 2%. Net income for the nine months ended September 30, 2017 was \$4.7 million, or \$1.25 per diluted share, compared to \$5.3 million, or \$1.49 per diluted share, in last year's comparable period, an 11% decrease in net income and 16% decrease in earnings per share.

Amounts in \$000's	09/30/17	09/30/16
Net Sales	33,785	31,913
Cost of Goods Sold	21,559	20,050
S, G & A Expenses	10,277	9,723
Income From Operations	1,949	2,140
Pre-Tax Income	1,567	1,828
Income Tax Expense	366	355
Net Income	1,201	1,473
Diluted Shares Outs.	3,794	3,641
Diluted EPS	0.32	0.40
Selected income statement data for the quarters ending September 30, 2017 and September 30, 2016. Source: Company Press Release		

SG&A expenses for the third quarter of 2017 were \$10.3 million or 30% of sales compared with \$9.7 million or 30% of sales for the same period of 2016. SG&A for the first nine months of 2017 was \$30 million or 30% of sales compared to \$28 million or 29% of sales in 2016. The increase for the nine months was

mostly due to the Spill Magic business, higher variable selling costs as a result of higher sales and increased personnel.

Gross margin was 36.2% in the three months ended September 30, 2017 compared to 37.2% in the same period in 2016. The lower gross margin was primarily due to customer and product mix, and increased costs in distribution due to on-line sales. Gross margin was 37.1% for the nine months ended September 30, 2017 compared to 36.4% for last year's comparable period.

Process Changes Due to Booming Online Sales

Amazon is quickly becoming Acme United's biggest customer. The first aid area in particular is showing exceptional strength online. In addition, Westcott, Camillus, Clauss, and DMT sell more products at Amazon almost on a month by month basis.

The order and fulfillment patterns for online sales however are profoundly different compared with brick and mortar store sales. With online sales, Acme is receiving orders that closely match the timing of actual purchases by end users, which puts pressure on securing enough inventory without having to air freight it.



Image from inside the Rocky Mount warehouse.

Furthermore, the Company is incurring additional warehousing and logistics expenses due to the higher number of small packages and frequent shipping.

Acme is addressing these costs with new software, improved warehouse layouts,

optimized packaging, and better freight rates. During the fourth quarter, it will be installing a mezzanine in its Rocky Mount, NC warehouse to move more high volume products closer to the shipping locations. And next year, it will install new location software to optimize efficiency. These steps are expected to improve productivity quickly.

Finally, Walter Johnsen, the Chairman and CEO of Acme United, mentioned during the third quarter conference call that he was in China at that moment to try to shorten the supply chain so that products can be delivered faster when ordered.

European Segment Experiences Online Sales Boost

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

Amounts in \$000's	Q3 2017	Q3 2016
U.S.	30,038	28,489
Canada	1,661	1,585
Europe	2,086	1,839

Sales per segment for the quarters ending September 30, 2017 and September 30, 2016 (Source: Company Filing)

In the U.S. segment, net sales for the quarter ended September 30, 2017 increased 5% compared to the same period in 2016. Net sales for the first nine months of 2017 grew 2% over the comparable period in 2016. Soft back-to-school sales, along with a large promotion in the second quarter of 2016 that did not repeat this year, affected growth for the nine months. Spill Magic, which was acquired in February 2017, contributed \$1.8 million in net sales in the third quarter, and \$4.8 million year to date.

Net sales in Canada for the three months ended September 30, 2017 increased 5% in U.S. dollars and were constant in local currency compared to the prior-year period. Net sales for the nine months ended September 30, 2017 decreased 2% in U.S. dollars and 1% in local currency compared to the same period in 2016.

Net sales in Europe for the three months ended September 30, 2017 increased 15% in

U.S. dollars and 8% in local currency compared to the same period in 2016. Net sales for the nine months ended September 30, 2017 increased 18% in both U.S. dollars and local currency compared to last year's period. The sales increase for both periods was primarily due to new business in the office and sporting goods channels as well as sales of DMT sharpening products.

Although it is not of the same magnitude as in the United States, the importance of Amazon.de – the German sister website of Amazon.com – is significantly growing in Europe as well. In fact, Amazon.de will be the number one or number two customer for Acme United Europe this year.

Balance Sheet as of September 30, 2017

The Company's long-term debt less cash on September 30, 2017 was \$38.9 million compared to \$33.4 million on September 30, 2016. By year-end, that number is expected to decline again. This will mainly be achieved by a reduction of bank debt as inventories return back to more normal levels after the back to school season.

Amounts in \$000's	09/30/17	09/30/16
Cash and Cash Eq.	7,021	6,272
Accounts Receivable	31,579	25,909
Inventories	36,799	38,117
Total Current Assets	77,847	72,293
Property & equipment	9,449	7,893
Intangible Assets, net	18,929	16,768
Total Assets	110,938	99,372
Accounts Payable	8,463	6,748
Total Current Liabilities	13,983	13,345
Bank Debt	45,969	39,706
Total Liabilities	60,217	53,625
Total Stockholder Equity	50,720	45,747
Selected balance sheet data for September 30, 2017 and September 30, 2016. Source: Company Press Release		

During the twelve-month period ended September 30, 2017, the Company paid approximately \$7.2 million for Spill Magic and distributed \$1.4 million in dividends on its

common stock. During the twelve-month period, the Company generated \$3.2 million in free cash flow.

At the end of the third quarter of 2017, Acme had close to \$64 million in working capital and an impressive current ratio of 5.57.

GROWTH DRIVERS

Westcott's Innovative Glue Gun Family

In June 2017, 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.

RECENT EVENTS

Acme Acquires First Aid Only Facility

A few days ago, Acme acquired the First Aid Only manufacturing and distribution center in Vancouver, WA at very attractive terms. The option to purchase the facility was part of the First Aid Only acquisition that the Company completed in 2014.

Built in 1993, the property consists of 53,000 square feet of office, manufacturing, and warehouse space on 2.86 acres. Acme paid \$4

million for the property, which is inexpensive, knowing that it was recently appraised at \$6.25 million.

The purchase was financed by a variable rate mortgage at 3.74%. This will result in an annual interest expenses of \$150,000 while that annual rent before the purchase was \$407,000.



Acme paid \$4 million for the First Aid Only facility, which is inexpensive, knowing that it was recently appraised at \$6.25 million.

Walter Johnsen said, "The commercial real estate market in Vancouver, Washington is strong, and the purchase represents an excellent value for our shareholders. We expect savings to begin immediately."

Acme United Europe Team Thrives at Insights-X Fair

Although the annual Paperworld show continues to be the biggest event for school and office products manufacturers, the Insights-X event in Nuremberg, Germany is rapidly catching up. Only in its third year of existence, over 5,500 visitors marveled at the diversity of office supplies, back-to-school, and hobby products presented by the 305 exhibitors from 41 countries.

A major asset of the show is when it is held, as autumn is the perfect time for buyers to discuss and order new products for next year's back-to-school.

Unveiling their latest product ideas, these companies were spread across three halls, covering an area of 25,000m² (270,000 square ft), at Nuremberg's Exhibition Centre.

One of those exhibiting companies was Acme United. Its European team, attended Insights-X for the first time and returned home with plenty of new sales leads and orders. In fact, Georg Bettin, the Managing Director of Acme United Europe, was quoted saying, "We're very pleased with our appearance at the fair and we were particularly happy with the quality of the visitors".



Since its premiere in 2015, the young and dynamic Insights-X expo has grown very rapidly.

Mr. Bettin and his crew introduced several new items, such as an extension of the Westcott ruler range, pencil sharpeners, and several exciting ideas for back to school. Most importantly, however, was that Acme Europe for the first time showed the Spill Magic products to European retailers and buyers.

Initially, distributors of office products will be targeted with these new safety items. A few years ago, lots of office customers added facility management products to their assortment to compensate the development in the office channel. The Spill Magic products obviously fall right into the facility management category. Consequently, the office products customers were all very interested at the fair to find out about the lightweight high-performance absorbents and accessories as cone heads.

It's worth noting that in Europe the Spill Magic products will be marketed under the *Easy Absorb* brand name. They are scheduled to become available as soon as late 2017.

With 56 percent of exhibitors, and more than 48 percent of visitors, Insights-X recorded a particularly sharp rise in interest from outside

of Germany. This is also a trend that the Acme Europe team noted, as it met with a lot of new potential distributors for the Middle East and North Africa.

Insights-X was a very positive event for Acme United Europe. In fact, they have already confirmed their attendance to the 2018 show.

First Aid Brands Confirm Solid Outlook at NSC Congress & Expo

Several representatives from Acme United's First Aid Only and Spill Magic brands recently attended the NSC Congress & Expo, the world's largest annual safety, health and environmental event. The show, held in Indianapolis, featured 1,100 exhibitors and brought together more than 15,000 safety professionals, serving the billion dollar occupational safety and health market.

The NSC Congress & Expo is Acme's biggest marketing event of the year in the first aid category. As such, it gives a good indication of the outlook for the industry and Acme's first aid and safety brands.



The Acme United booth at the NSC Congress & Expo.

The show was a true success for the Company. It had a 20x20 booth, which was packed with the largest number of new products in many years from the First Aid Only, PhysiciansCare, and Spill Magic brands. Also, a wide range of American Red Cross licensed items were shown to the public.

Consequently, the booth attracted lots of quality traffic, such as safety managers, distributors, and buyers from major customers. A clear indication that first aid continues to grow at Acme United.

Acme United's team focused on five elements during the show: SmartCompliance cabinets, the SafetyHub app, a new disaster preparedness line, the American Red Cross emergency kits, and Spill Magic.

Most businesses are federally mandated to have first aid solutions that are compliant with OSHA as well as ANSI standards. **SmartCompliance first aid supply cabinets** ensure that businesses are 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 a mass merchandiser. They were installed in the chain's stores and warehouses. More recently, Saudi Airlines, food chains, large manufacturers and banks were landed as new customers. To give an idea, one such order can be worth several hundreds of thousands of dollars.

At the NSC show, the new SmartCompliance Complete Cabinet was shown to the public for the first time. It will be available for purchase in the second quarter of 2018.

Many visitors were also interested in the First Aid Only **SafetyHub app**, as it helps them manage their first aid requirements.

In addition, First Aid Only launched a new **disaster preparedness line** with focus on five key emergencies: hurricane, tornado, blizzard, wildfire, and heatwave. Because disasters and accidents happen suddenly and without warning, First Aid Only now has a full range of first aid and survival kits that are tailor-made for different types of emergencies.

Moreover, in partnership with the American Red Cross the brand also is launching several **emergency preparedness kits**. Although First Aid Only has had the American Red Cross license for a while, it is now really focusing to make its share of sales bigger. This should be feasible, after all, the "red cross" is one of the most recognized and well-trusted logos in the world.

Finally, the **Spill Magic absorbents** were shown for the first time at a major show since Acme United acquired the brand in February 2017.

We understand that Acme United will have a 20x30 booth at next year's NSC conference (50% larger than this year's), as it aims for further growth and even more product introductions in 2018. Thanks to the successful NSC show, distribution of Acme's first aid products is again expected to expand at industrial and office distributors, retailers, and online.

OUTLOOK & VALUATION

Acme's online sales are growing very rapidly, particularly at Amazon, and also at Jet, which is part of Walmart. The Company has a team working exclusively 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.

However, Acme faces several challenges with online growth. One of them is to maintain, or even grow, its market shares across all major product lines, while the shift from retail stores to online is in full force. Acme is succeeding very well in this endeavor, while many others are struggling.

Overall, the business in the fourth quarter looks good, with forecasted growth for Camillus, Cuda, and Westcott. Also the first aid business continues to do very well. For example, a major new contract for SmartCompliance cabinets was recently landed.

Acme’s strategy to refill these 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 Company has recently doubled the productive capacity at DMT. The brand is growing in the United States and in Europe. And it has simplified production at Spill Magic, which increased the output.

As for 2018, Acme United has already secured \$8 million worth in new business in first aid, pencil sharpeners, paper trimmers and Camillus knives. Moreover, the acquisition of the First Aid Only facility will be a significant cost saver. The Company also continues to look to acquire undervalued assets and attractive companies.

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 20.44x, slightly down from an average of 20.84x in our previous report.

Amounts in \$000's	2015	2016	2017E
Total Revenue	109,812	124,574	133,000
Net Income	4,794	5,851	5,600
Annual sales and earnings FY 2015 – 2017E.			
Source: Company Filings and Company estimates			

Applying the 20.44x P/E multiple from the peer group to the estimated EPS for 2017, we reach the following calculation: \$1.48 estimated EPS multiplied by 20.44 = \$30.25.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$30.25, which is 35% above today’s stock price.

SHARE DATA & OWNERSHIP

On September 30, 2017 Acme United had approximately 3,794,000 fully diluted common shares outstanding. The principal owners of the Company’s common stock are North Star Investment Management Corporation (15.5%), Walter Johnsen (8.0%), Bard Associates Inc. (3.9%), Renaissance Technologies (3.6%), and Royce Capital Fund (3.4%).

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 – 9M 2017

All numbers in thousands

PERIOD ENDING	FY 2014	FY 2015	FY 2016	9M 2017
Total Revenue	107,222	109,812	124,574	100,380
Cost of Revenue	69,037	70,251	79,019	63,107
Gross Profit	38,186	39,561	45,555	37,273
Operating Expenses				
Selling, General and Administrative	30,791	32,214	37,113	30,243
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	30,791	32,214	37,113	30,243
Operating Income or Loss	7,394	7,347	8,442	7,030
Income from Continuing Operations				
Total Other Income (Expenses) Net	(118)	(168)	(76)	43
Earnings Before Interest And Taxes	7,276	7,179	8,366	7,073
Net Interest Expense	473	565	869	948
Income Before Tax	6,803	6,614	7,497	6,125
Income Tax Expense	2,014	1,820	1,646	1,418
Net Income From Continuing Ops	4,789	4,794	5,851	4,707
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	4,789	4,794	5,851	4,707
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$4,789	\$4,794	\$5,851	\$4,707

Annual Income Statement FY 2014 – 9M 2017. Source: Company Filings



Acme United Corporation

NYSE MKT: ACU

Company Headquarters

55 Walls Drive, Suite 201
Fairfield, CT 06824
United States

Company Contact Information

Paul G. Driscoll, Chief Financial Officer
Phone: +1 203-254-6060
Fax: +1 203-254-6019

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Contact: editor@smallcaps.us

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