

## Acme United Corp. (ACU)

Company Report – March 10, 2018

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 United achieved record sales for the 7th consecutive year. In fiscal year 2017, ended December 31, 2017, all major product lines of the Company gained market share, while online sales doubled compared to 2016. In fact, Acme's online sales have grown by 100% annually over the past three years.

Despite overall weakness at many retailers, wholesalers, and superstores, Acme's revenue continues to grow thanks to impressive online sales growth 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. The Company's management is optimistic that this momentum will continue in 2018. Amazon is now the largest customer in the European segment and the third largest in the U.S.

Thanks to the repatriation of \$5.8 million and the Company's cash flow from operations a new acquisition could happen in 2018.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$29.80, which is 34% above today's stock price.



### Acme United Corporation

- All brands are doing well with plenty of new products being introduced at the most recent shows in the United States and Europe.

Paperworld, for example, is one of the highlights of the year for the office and stationary sectors. For Acme United Europe, the show was a big success as the team returned home with plenty of new sales leads and orders. It's clear that 2018 has started well for the European team, as it continues to build on its path of growth.

In addition, the 40th edition of the SHOT show was a hit for Camillus and DMT with plenty of new orders and sales leads. Both brands are growing strong in the US and Europe, and thanks to the new products introduced at SHOT growth is bound to continue in 2018.



#### Market Data

Price	\$22.20
Sector	Office Supplies
52-Week Price Range	\$20.20 - \$29.49
Shares Issued (m)	3.37
Market Cap (m)	\$74.8
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 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.

Acme United reached net sales of \$30.2 million in its fourth quarter ended December 31, 2017 compared with \$26.4 million in the fourth quarter of 2016, an increase of 14%.

Net loss, due to tax charges related to the recently enacted U.S. Tax Cuts and Jobs Act (Also read Financials), for the quarter ended December 31, 2017 was \$0.66 million, or \$0.18 per diluted share, compared to a net income of \$0.55 million, or \$0.15 per diluted share, for the 2016 period.

During 2017, the Company saw strong growth in its first aid and safety business, and it added a new major industrial distributor and a substantial food service distributor to its SmartCompliance customer list for 2018.

The Spill Magic business, which was acquired in 2017, was successfully integrated. Marketing support staff was added and placed the products at major new mass market account, industrial and safety products distributors, online customers, and into the office products market. In Europe, the Spill Magic line was launched under the Easy Absorb brand name. Further growth is expected in 2018.

Distribution was also expanded for the Clauss professional cutting tools and Camillus knives. Moreover, the hunting area gained lots of new business for 2018 under the Camillus brand as well as under a private label program for a

large retailer. This will add new revenues in 2018.

Moreover, Cuda fishing tools continued to gain market share, both in the salt and fresh water categories. Additional personnel was hired to help spread the word on the brand online.



**The Camillus Centerfire series was recently launched. This popular folding knife from the 1980s has been upgraded with carbonitride Titanium AUS-8 Stainless Steel and a quick launch bearing system.**

Finally, Westcott regained a large pencil sharpener promotion at a major retailer for 2018. This promotion occurred in 2016, but didn't repeat in 2017, causing total Westcott sales to drop slightly for the year.

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.

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.

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.



**Assortment of the Westcott Titanium super soft grip kitchen and office scissors.**

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. Last year, for example, 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 plenty of qualified "Pro Staffers" to gain insight into what campers, backpackers and survivalists are looking for. Camillus has grown exponentially in this segment, and continues to do so (Also read Recent Events).

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.

**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.



**First Aid Only offers a wide range of American Red Cross licensed items, such as the Winter Survival Pack above.**

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.

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.

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.

**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.

**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 the 2017 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'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.



**The Sonic-Sharp, DMT's first battery operated sharpener has a silver matt finish with black textured TPR around the sides to ensure a firm grip when sharpening.**

Because DMT sales are rising fast, new equipment and machinery was installed to double its production capacity. The business continues to grow both 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.



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

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.

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.

## FINANCIALS

Sales for the three months ended December 31, 2017, reached \$30.2 million, up about 14% compared with sales of \$26.4 million in the fourth quarter of 2016. Adjusted net income, excluding tax charges related to the recently enacted U.S. Tax Cuts and Jobs Act (see below), in the fourth quarter of 2017 was \$590,000, or \$.16 per diluted share, compared to \$546,000, or \$.15 per diluted share, an 8% increase in net income and 7% increase in earnings per share.

As for fiscal year 2017, sales were \$130.5 million, compared to \$124.6 million in 2016, an increase of 5%. Adjusted net income for the year ended December 31, 2017 was \$5.3 million, or \$1.42 per diluted share compared to \$5.8 million, or \$1.64 per diluted share for the prior year, a 9% decrease in net income and 13% decrease in earnings per share.

The newly introduced Tax Cuts and Jobs Act under the Trump administration allows US companies a one-time repatriation of untaxed foreign held earnings at a reduced tax rate. Acme United had approximately \$9.3 million in cash held offshore at the end of 2017. As a result of the favorable tax treatment of such funds, the Company repatriated approximately \$5.8 million so far in 2018.

Due to this repatriation, Acme retroactively recorded a provisional charge of \$1.245 million in the fourth quarter of 2017. As a result of the one-time tax charges, net loss for the quarter ended December 31, 2017 was \$655,000, or \$(0.18) per diluted share, while net income for the year ended December 31, 2017 was \$4.1 million, or \$1.09 per diluted share.

The repatriated funds were used to partially pay down the Company's revolving line of credit. Consequently, if Acme finds a new attractive acquisition target, it again can use its line of credit to help take over that business.

Amounts in \$000's	12/31/17	12/31/16
Net Sales	30,170	26,376
Cost of Goods Sold	19,544	16,564
S, G & A Expenses	9,860	9,105
<b>Income From Operations</b>	<b>766</b>	<b>707</b>
Pre-Tax Income	368	442
Income Tax Expense	1,023	(104)
<b>Net Income (Loss)</b>	<b>(655)</b>	<b>546</b>
Diluted Shares Outs.	3,676	3,668
Diluted EPS	(0.18)	0.15
<b>Selected income statement data for the quarters ending December 31, 2017 and December 31, 2016. Source: Company Press Release</b>		

In addition, the funds were used to finance the expanded production initiatives at the DMT, Spill Magic, and first aid facilities in the United States. In this case, the Tax Cuts and Jobs Act provides an additional benefit, as the installed machinery is entitled to a "bonus" depreciation of 100% in the first year.

**One final, but very important, benefit of the Tax Cuts and Jobs Act is that Acme United as of 2018 will only pay corporate taxes at a rate of approximately 22%, while that would have been around 28% otherwise.**

Gross margin was 35.2% in the three months ended December 31, 2017 compared to 37.2% in the same period in 2016. The lower gross margin was primarily due to heavier promotional spending in the Company's e-commerce business and to product mix. Gross margin was 36.7% for the year ended December 31, 2017 compared to 36.6% for last year's comparable period.

## European Segment Outperforms

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

Exact revenues per segment for 2017 will be available in the 10-K, which will be filed in a

few days. However, Acme announced for each segment the percentage by which revenues increased or decreased compared with last year. Based on those numbers, we provided the following estimate.

Amounts in \$000's	2017	2016
<b>U.S.</b>	115,420	110,800
<b>Canada</b>	6,960	6,800
<b>Europe</b>	8,170	6,900
<b>Estimated sales per segment for the year ended December 31, 2017 (Source: Smallcaps Investment Research) and actual sales per segment for the year ended December 31, 2016 (Source: Company Filing)</b>		

In the Company's U.S. segment, net sales for the quarter ended December 31, 2017 increased 14% compared to the same period in 2016. The sales increase for the fourth quarter was mainly due to strong sales of first aid and safety products, including Spill Magic. Net sales for the year ended December 31, 2017 grew 4% over 2016 in the U.S. segment. The acquisition of Spill Magic contributed \$1.6 million in net sales in the fourth quarter, and \$6.5 million for the year ended December 31, 2017.

Net sales in Canada for the three months ended December 31, 2017 increased 14% in U.S. dollars and 9% in local currency compared to the prior-year period. Net sales for the year ended December 31, 2017 increased 2% in U.S. dollars and were constant in local currency compared to the same period in 2016.

Net sales in Europe for the three months ended December 31, 2017 increased 19% in U.S. dollars and 8% in local currency compared to the same period in 2016. Net sales for the year ended December 31, 2017 increased 18% in U.S. dollars and 16% in local currency compared to last year. These increases were due to market share gains in the office products channel and higher sales of DMT products.

## Balance Sheet as of December 31, 2017

Acme United's balance sheet remains robust. The Company's long-term debt less cash on December 31, 2017 was \$37.8 million



compared to \$27.0 million on December 31, 2016. This was due to the Company paying approximately \$7.2 million for Spill Magic, purchasing its First Aid Only manufacturing and distribution facility in Vancouver, WA for \$4.0 million and distributing \$1.4 million in dividends on its common stock.

Amounts in \$000's	12/31/17	12/31/16
Cash and Cash Eq.	9,338	5,911
Accounts Receivable	26,012	20,021
Inventories	40,087	37,238
Total Current Assets	78,102	65,464
Property & equipment	13,728	7,973
Intangible Assets, net	17,896	13,988
<b>Total Assets</b>	<b>114,730</b>	<b>92,067</b>
Accounts Payable	11,151	7,339
Total Current Liabilities	16,783	12,820
Bank Debt	43,450	32,936
<b>Total Liabilities</b>	<b>64,792</b>	<b>45,946</b>
Total Stockholder Equity	49,938	46,121
<b>Selected balance sheet data for December 31, 2017 and December 31, 2016. Source: Company Press Release</b>		

At the end of the 2017, Acme had more than \$61 million in working capital and an impressive current ratio of 4.65.

## GROWTH DRIVERS

### Astonishing Online Growth

Acme United's online sales have grown by 100% annually over the past three years. The Company's management is optimistic that this momentum will continue in 2018.

This growth is achieved thanks to an outstanding product mix, a strong knowledge of how to end up on the first page of search queries, a large majority of positive online reviews, and promotional strategies that help the Company gain market share.

Amazon is quickly becoming Acme United's biggest customer. The first aid area in particular is showing exceptional strength online. Also Westcott, Camillus, Clauss, and DMT sell more products at online retailers such as Amazon and Jet, which is part of Walmart, almost on a month by month basis.

The order and fulfilment 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.

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

Measures were taken to improve the speed, accuracy, and cost of deliveries. New software modules were installed to improve the efficiencies of the pick line and the Company began building a mezzanine level to store the high volume products closer to the point of shipping. Acme should benefit from these efforts in 2018.

### 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.



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

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.**

## RECENT EVENTS

### Acme United Europe Builds Upon Success at Paperworld Show

Paperworld is an annual trade fair, held in Frankfurt, Germany, that brings together all the major players from around the world in the paper, office supplies and stationery sectors. The show is ideally suited to introduce the latest products and meet new and existing customers.

Around 1,500 exhibitors from some 60 different countries presented their products at Paperworld last week. Well over 30,000 visitors discovered product innovations in the areas of office supplies, writing and drawing instruments, school supplies, gift items and packaging as well as paper goods.

For Acme United's European team, Paperworld is one of the most important marketing events of the year. Indicating that the Company's European segment is doing well, was the fact that its meeting room was 50% larger compared with last year's so that more products could be displayed.

Georg Bettin, the Managing Director of Acme United Europe, and other members of the Acme staff, sat down with plenty of existing and potential customers during the 4-day event. They introduced several new scissors and rulers, but the eye catcher was the launch of the Easy Absorb line.

The Spill Magic absorbents have been rebranded to Easy Absorb for the European

market. Initially, the regular Spill Magic absorbents will be launched in both coarse and fine varieties. Also the safety cones will be available as of next month.

Initially, distributors of office products are targeted with these new safety items. A few years ago, lots of office customers added facility management products to their assortment to compensate declining sales in the office channel. The Easy Absorb 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.

## Why Camillus and DMT Amazed Buyers at Latest SHOT Show

The 40th annual Shooting, Hunting and Outdoor Trade Show, known as SHOT Show, took place Jan. 23-26 in Las Vegas. With more than 60,000 attendees, the trade show is the largest of its kind in the world. An ideal opportunity for Acme United's Camillus, Western and DMT brands to introduce their new, innovative products for hunting and outdoor recreation purposes.

Camillus surprised everyone with another substantial expansion of its product offering. It introduced no less than 16 new folding knives, including three versions of the Centerfire Knives. These popular folding knives were originally from the 1980s with its typical bullet shield in the handle, has been upgraded with Carbonitride Titanium AUS-8 Stainless Steel and a quick launch bearing system. Also the popular Cuda knife is back. The revamped Cuda Mini has a 3" Carbonitride Titanium AUS-8 stainless steel blade, G10 ergonomic handle (in three colors) and a quick launch bearing system for fast, easy opening.

In addition, Camillus introduced a new collection of hunting knives and accessories designed in partnership with Prym1 camo. The Prym1 Hunting Line includes seven new tools featuring the popular Prym1 camo pattern. The pattern utilizes the colors and tones of nature, combined with the organic shapes and motion of wildlife.

"Our collaboration with Prym1 allows us to bring something fresh and new to the marketplace, said Rick Constantine, vice president of marketing and general manager for Camillus. "The new camo line has a distinct look and comes loaded with ergonomics and features specifically designed for hunters and anything they may encounter."



**All of the knives and tools in the Camillus Prym1 line feature a Prym1 ergonomic handle.**

Moreover, Camillus is rolling out a complete new line of heavy-duty line of sight pruning tools, including a lopper, tree saw, branch saw and bypass shears. The new Line of Sight tools are designed and built specifically for hunters to ensure clear shooting lanes.

Camillus' Line of Sight series also features titanium-bonded and non-stick stainless-steel blades. In addition, all of the pruning tools incorporate an ergonomic AirShoc handle, which is impact resistant and contains an anti-microbial agent to resist mold and mildew. The handles also feature the popular Prym1 camo pattern.

In addition to the incredible Camillus product launches, DMT Sharpeners, which is recognized around the world for its unrivaled diamond technology and its iconic "polka-dot sharpening pattern, launched 8 new sharpeners at the SHOT Show. This was a very big deal for DMT distributors and customers as the new and innovative products were overwhelmingly received.

A tremendous amount of development went into the designs, which specifically address the needs of hunters and outdoor enthusiasts. The new, compact and portable sharpeners incorporate the industry's highest

concentration of diamonds per square inch., the highest-quality diamonds on every sharpener and the flattest surface to ensure a perfect edge every time..

"A sharp blade is essential for any hunt, but unfortunately many on-the-go knife sharpeners tend to sacrifice quality at the expense of portability." said Mike Cioffi, Senior Brand Manager for DMT. "With our new sharpeners you get the superior quality of a DMT sharpener in a compact, lightweight package that's designed specifically for hunters and the things they encounter in the field."

In addition to the new models designed specifically for on-the-go-use, DMT introduced three new table-top sharpeners, which include the Disc-Sharp, Simple-Sharp, and the first battery sonically powered DMT sharpener coined the Sonic-Sharp.

The new tools will be on retailers' shelves as of May 2018. They will also become available in Canada and Europe. In fact, many of the new tools will be shown, at the IWA OutdoorClassics in Nuremberg, Germany. This is the largest European trade fair for hunting, shooting sports, outdoor and security equipment.

Representatives from the Company were quoted saying that this was the best SHOT show in several years from a business perspective. New sporting goods retailers were attracted, as well as new domestic and international distributors for both Camillus and DMT.

## OUTLOOK & VALUATION

Acme United achieved record sales for the 7th consecutive year. In fiscal year 2017, ended December 31, 2017, all major product lines of the Company gained market share, while online sales doubled compared to 2016.

Despite overall weakness at many retailers, wholesalers, and superstores, Acme's revenue continues to grow thanks to impressive online sales growth 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. Also in 2018, the Company foresees increased online demand. Amazon is now the largest customer in the European segment and the third largest in the U.S.

All brands are doing well with plenty of new products being introduced at the most recent shows in the United States and Europe.

Paperworld, for example, is one of the highlights of the year for the office and stationary sectors. For Acme United Europe, the show was a big success as the team returned home with plenty of new sales leads and orders. It's clear that 2018 has started well for the European team, as it continues to build on its path of growth.

In addition, the 40th edition of the SHOT show was a hit for Camillus and DMT with plenty of new orders and sales leads. Both brands are growing strong in the US and Europe, and thanks to the new products introduced at SHOT growth is bound to continue in 2018.

Moreover, thanks to the repatriation of \$5.8 million and the Company's cash flow from operations a new acquisition could happen in 2018.

## 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 18.98x, down from an average of 20.44x in our previous report.

Amounts in \$000's	2016	2017	2018E
<b>Total Revenue</b>	124,574	130,550	137,000
<b>Net Income</b>	5,851	5,297	5,850
<b>Annual sales and earnings FY 2016 – 2018E.</b>			
<b>Source: Company Filings and Smallcaps Investment Research estimates</b>			

Because online sales are more difficult to forecast than sales to brick-and-mortar stores, the Company is holding off from giving financial guidance for 2018, until the first quarter earnings report.

Thanks to the new business in 2018, along with the foreseen online sales growth, we estimate total sales for the year to reach \$137 million. In addition, we estimate net earnings to reach \$5.85 million, or \$1.57 per diluted share.

**Applying the 18.98x P/E multiple from the peer group to the estimated EPS for 2018, we reach the following calculation: \$1.57 estimated EPS multiplied by 18.98 = \$29.80.**

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$29.80, which is 34% above today's stock price.**

## SHARE DATA & OWNERSHIP

On December 31, 2017 Acme United had approximately 3,725,000 fully diluted common shares outstanding. The principal owners of the Company's common stock are

North Star Investment Management Corporation (16.0%), Walter Johnsen (8.2%), Capital Management Corp (4.6%), Bard Associates Inc. (3.9%), and Royce Capital Fund (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 – FY 2017

All numbers in thousands

PERIOD ENDING	FY 2014	FY 2015	FY 2016	FY 2017
<b>Total Revenue</b>	<b>107,222</b>	<b>109,812</b>	<b>124,574</b>	<b>130,550</b>
Cost of Revenue	69,037	70,251	79,019	82,651
<b>Gross Profit</b>	<b>38,186</b>	<b>39,561</b>	<b>45,555</b>	<b>47,899</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	30,791	32,214	37,113	40,103
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	30,791	32,214	37,113	40,103
<b>Operating Income or Loss</b>	<b>7,394</b>	<b>7,347</b>	<b>8,442</b>	<b>7,796</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	(118)	(168)	(76)	25
Earnings Before Interest And Taxes	7,276	7,179	8,366	7,820
Net Interest Expense	473	565	869	1,327
Income Before Tax	6,803	6,614	7,497	6,493
Income Tax Expense	2,014	1,820	1,646	1,196
Net Income From Continuing Ops	4,789	4,794	5,851	5,297
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	1,245
<b>Net Income</b>	<b>4,789</b>	<b>4,794</b>	<b>5,851</b>	<b>4,052</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>\$4,052</b>

Annual Income Statement FY 2014 – FY 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

**About Smallcaps Investment Research**

We're proud that Smallcaps Investment Research is recognized as one of the most trusted online sources on U.S. and Canadian small cap stocks. We've earned that trust because we only highlight stable, ethical companies to our visitors and newsletter subscribers. We focus on fundamentally undervalued companies with a market cap below \$100 million, and we have a special interest in stocks with a high potential, innovative product or service. Read our [About](#) for more information.

This Company Report is prepared and distributed by Smallcaps Investment Research.

Contact: [editor@smallcaps.us](mailto:editor@smallcaps.us)

## DISCLOSURES

This publication has been prepared by Smallcaps Investment Research, which owns and operates the website <http://www.smallcaps.us>. Smallcaps Investment Research is not a registered financial advisor, nor is it a stockbroker or investment advisor.

This publication is provided for information purposes only and is not intended to be an offer, or the solicitation of an offer, to buy or sell the securities referred to herein.

Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. Past performance is no guarantee for future results. Smallcaps Investment Research nor any of its employees shall be responsible for any investment decision.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. However its accuracy and completeness is not guaranteed. All opinions, forecasts and estimates herein reflect the judgment of Smallcaps Investment Research on the date of this publication.

This Company Report may contain certain "forward-looking statements" within the meaning of applicable securities laws, including without limitation, statements related to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth, and (iii) other risks and uncertainties indicated from time to time in the Company's public filings.

Smallcaps Investment Research has been compensated by Acme United Corporation to develop and execute a communication plan to enhance the Company's exposure to the investor community.

Smallcaps Investment Research and/or its employees may hold positions in companies mentioned. However, it is prohibited for Smallcaps Investment Research and/or its employees to trade in financial instruments of companies one week prior to publication of the initial Company Report or a rating change until one week thereafter.

No part of this publication may be reproduced in any manner without the prior written consent of Smallcaps Investment Research. © 2003 - 2018 Smallcaps Investment Research.