

## Acme United Corp. (ACU)

Company Report – May 05, 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 started off 2018 very strong. During the first quarter, ended March 31, 2018, the Company achieved sales of \$31.7 million, compared to \$27.7 million in the first quarter of 2017, an increase of no less than 14%. Net income was \$765,000 or \$0.21 per diluted share, for Q1 2018, compared to \$695,000 or \$0.18 per diluted share for the comparable period last year, an increase of 16% in net income and 17% in earnings per share. Both sales and earnings set a new first quarter record.

The first aid and safety business saw strong growth. The Westcott brand was also a solid contributor to the first quarter results, and the Clauss, Camillus and Cuda product lines all recorded record sales.

Acme United is clearly back on track and has paved the way for an outstanding 2018. Walter Johnsen, the Chairman and CEO of Acme United, provided guidance for 2018 of approximately \$140 million in revenues, \$5.7 million in net income, and \$1.53 earnings per share. While conservative, these numbers imply solid growth over last year!

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$29.57, which is 38% above today's stock price.



- Online sales continue to boost Acme's sales and earnings. In particular, the first aid area and the Westcott business are performing strong online. This is expected to continue in 2018, as increased online demand is foreseen in both the United States and Europe.
- Growth in margins is very significant as it reflects successful management of ecommerce warehousing and shipping. Acme United has done an outstanding job to swiftly correct the issues at its warehouse. It increased the accuracy of product dimensions and weight, and moved fast moving items closer to the shipping location. In addition, Acme started shipping its packages with US Postal, a low-cost shipper. All of this was reflected in distribution and warehouse costs that were under control.



#### Market Data

Price	\$21.49
Sector	Office Supplies
52-Week Price Range	\$20.20 - \$29.49
Shares Issued (m)	3.37
Market Cap (m)	\$72.4
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 started off 2018 very strong. During the first quarter, ended March 31, 2018, the Company achieved sales of \$31.7 million, compared to \$27.7 million in the first quarter of 2017, an increase of no less than 14%. Net income was \$765,000 or \$0.21 per diluted share, for the quarter ended March 31, 2018, compared to \$695,000 or \$0.18 per diluted share for the comparable period last year, an increase of 16% in net income and 17% in earnings per share. **Both sales and earnings set a new first quarter record.**

The first aid and safety business saw strong growth, as it landed a large industrial distributor in the United States, added a large new customer in the food service segment, and achieved strong ecommerce sales.

The Westcott brand was also a solid contributor to the first quarter results, thanks to strong online market share gains, primarily in the scissors category. In addition, the Clauss, Camillus and Cuda product lines recorded record sales.

Good to note, is that Acme United's organic growth during the first quarter, excluding the acquisition of Spill Magic in February 2017, was 12%. Spill Magic sales increased during Q1, thanks to new orders from a large supermarket and food chain, new industrial and office distribution, and expanded office retailer presence. Spill Magic ecommerce sales will start in the coming quarter.

Walter Johnsen, the Chairman and CEO of Acme United, provided financial guidance for 2018 of approximately \$140 million in revenues, \$5.7 million in net income, and \$1.53 earnings per share. This compares to sales of \$130.6 million, non-GAAP net income of \$5.3 million and earnings per share of \$1.42 for 2017. **Although Mr. Johnsen mentioned during the conference call, following the publication of the financial results, that these are fairly conservative estimates, the numbers do imply solid growth over last year!**



**Westcott's infamous grey/yellow scissors continue to be solid contributors both off and online to Acme United results.**

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. In 2016, 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 and Smyrna, TN.

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.

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.

**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.

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.

At this year's show, 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.



**The brand new Camillus Line of Sight (LOS) product line is designed to clear thick brush, and clear shooting lanes for hunters.**

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.

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.

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.

**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.



**The brand new SmartCompliance Complete Cabinet will be available for purchase as of this quarter.**

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.



**The Disc-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.**

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.

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.



**In Europe, the Spill Magic line was recently launched under the Easy Absorb brand name. The products are already available at Amazon.de.**

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.

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.

Furthermore, the Spill Magic absorbents have been rebranded to Easy Absorb for the European market. The regular absorbents in both coarse and fine varieties were launched first, and are already available at Amazon.de.

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.

## FINANCIALS

Net sales for the quarter ended March 31, 2018 were \$31.7 million compared to \$27.7 million in the first quarter of 2017, an increase of 14%.

Net income was \$765,000 or \$0.21 per diluted share for the quarter ended March 31, 2018 compared to \$659,000, or \$0.18 per diluted share, for the comparable period last year, an increase of 16% in net income and 17% in diluted earnings per share.

Amounts in \$000's	03/31/18	03/31/17
Net Sales	31,709	27,745
Cost of Goods Sold	19,585	17,181
S, G & A Expenses	10,774	9,372
<b>Income From Operations</b>	<b>1,350</b>	<b>1,192</b>
Pre-Tax Income	405	938
Income Tax Expense (Benefit)	209	279
<b>Net Income (Loss)</b>	<b>765</b>	<b>659</b>
Diluted Shares Outs.	3,662	3,730
Diluted EPS	0.21	0.18
<b>Selected income statement data for the quarters ending March 31, 2018 and March 31, 2017. Source: Company Press Release</b>		

Gross margin was 38.2% in the first quarter of 2018 versus 38.1% in the comparable period last year. This is an exceptional achievement! Remember that gross margin in the previous quarter was only 35.2%, partly due to higher costs to adapt the Company's warehouse to higher online sales.

### Segments Running on All Cylinders

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

Exact revenues per segment for the first quarter of 2018 will be available in the Company's 10-Q, which will be filed mid-May.

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	Q1 2018	Q1 2017
<b>U.S.</b>	27,750	24,475
<b>Canada</b>	1,564	1,391
<b>Europe</b>	2,395	1,879
<b>Estimated sales per segment for the quarter ending March 31, 2018 (Source: Smallcaps Investment Research) and actual sales per segment for the quarter ended March 31, 2017 (Source: Company Filing)</b>		

Net sales in the U.S. segment increased 13% in the first quarter of 2018 compared to the same period in 2017. Growth was especially driven by market share gains in first aid and safety, growth in Westcott office scissors, and strong performance from the Camillus, DMT, and Cuda knives and sharpening tools.

In Canada, net sales increased 12% in U.S. dollars and 8% in local currency compared to the same period in 2017. The sales increase was mainly due to gains in the school and office channel and higher sales of Camillus knives.

Net sales in Europe increased an impressive 27% in U.S. dollars and 10% in local currency compared to the first quarter of 2017, thanks to increased sales in the office products channel, Cuda fishing tools, Camillus knives, DMT sharpeners, and strong e-commerce demand for these products.

### Balance Sheet as of March 31, 2018

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 in the first quarter of 2018.

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 pay for that business. 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.

Amounts in \$000's	03/31/18	03/31/17
Cash and Cash Eq.	1,065	6,175
Accounts Receivable	24,451	21,251
Inventories	41,900	37,285
<b>Total Current Assets</b>	<b>70,217</b>	<b>67,589</b>
Property & equipment	14,158	8,381
Intangible Assets, net	17,576	19,525
<b>Total Assets</b>	<b>107,246</b>	<b>100,204</b>
Accounts Payable	7,483	5,731
Total Current Liabilities	11,152	8,935
Bank Debt	41,100	44,382
<b>Total Liabilities</b>	<b>56,755</b>	<b>53,601</b>
Total Stockholder Equity	50,491	46,603

**Selected balance sheet data for March 31, 2018 and March 31, 2017. Source: Company Press Release**

Also noteworthy on the Company's balance sheet is the increase in inventory from \$37.2 million at the end of the first quarter to \$41.9 million at the end of Q1 2018. This is mainly in anticipation of higher sales to online retailers, such as Amazon and Jet (part of Walmart).

The Company's bank debt less cash on March 31, 2018 was \$43.7 million compared to \$38.2 million on March 31, 2017. During the twelve-month period ended March 31, 2018, the Company purchased its manufacturing and distribution facility in Vancouver, WA for \$4.0 million and distributed \$1.4 million in dividends on its common stock.

## 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.



**Acme's margins grew as it did an outstanding job to swiftly correct the issues at its warehouse. It increased the accuracy of product dimensions and weight, and moved fast moving items closer to the shipping location. In addition, Acme started shipping its packages with US Postal, a low-cost shipper.**

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.

The measures taken in 2017 are now paying off. The speed, accuracy, and cost of deliveries in the warehouse have improved. New software modules were installed to increase the efficiencies of the pick line and the Company built a mezzanine level to store the high volume products closer to the point of shipping.

## RECENT EVENTS

### Acme United Europe Fills Order Books at Two Major Shows

The first half of March is always a key moment in the year for Acme United's (ACU – \$21.70) European team, as two major shows are held: the International Hardware Show in Cologne and the IWA OutdoorClassics in Nuremberg.

Next to giving a good indication of the state of the market in general, the shows also are important for meeting existing and new customers to fill the order books. The team was successful at accomplishing exactly that at both shows, as orders and new leads were noted for DMT, Westcott, Clauss and Camillus. In fact, a noticeable trend is that distributors that used to buy products from one Acme brand, such as Camillus knives, now also buy products from other brands, such as DMT sharpeners or Clauss hardware tools.

Decision-makers from all over the world made use of the **International Hardware Fair** in Cologne, Germany, the number one event in Europe for the hardware industry, to discover the latest products, innovations and trends.

The 2018 edition of the bi-annual show attracted around 2,770 exhibitors from 58 countries, and more than 47,000 trade visitors from 143 countries. The total number of visitors increased by nine percent. Substantial growth was noted from Asia, North and South America, Africa and the Russian Federation, with twelve percent more trade visitors coming from the United States.

The **IWA OutdoorClassics**, Europe's leading trade fair for hunting, shooting sports, outdoor activities and security, ended on a positive note after four successful days, which saw over 1,500 exhibitors from almost 60 countries and around 50,000 trade visitors in Nuremberg, Germany.

This year, the show celebrated its 45th edition. What started as a small exhibition accompanying the AGM of the Association of German Gunsmiths and Gun Traders in 1974 with just 106 exhibitors and around 2,000

trade visitors, has grown into a renowned international trade fair.



Acme United's booth at the latest IWA OutdoorClassics in Nuremberg, Germany.

Over the years, the original focus on hunting, sports firearms and ammunition was constantly extended, especially in the area of outdoor clothing, optics and electronics for outdoor pursuits, and products for civilian and official security. The IWA OutdoorClassics has also become one of the world's largest trade fairs for knives, with around 200 exhibitors alone presenting cutting implements for all areas, from traditional pocket knives for picnics and camping to exquisite collector's items for display cabinets.

As we indicated several times in the past, DMT is doing very well in Europe, and that trend continues. The new Sonic-Sharp, for example, DMT's first battery operated sharpener, was introduced at both German shows and received lots of attention from distributors.

Also very popular at DMT are the brand new guided sharpeners, such as the Disc-Sharp and Simple-Sharp. The reason is very simple, sharpening a tool on a bench stone requires some skill and practice, while with these new quick and easy-to-use sharpeners, even beginners can get an exact edge bevel and consistent angle. People were quoted saying, "DMT already had the best sharpeners on the market, now it also has the most convenient ones."

**The IWA OutdoorClassics as well as the International Hardware Fair were**

**successful events for Acme United Europe, as the team received orders for wide range of products from all over Europe and the Middle East.**

## OUTLOOK & VALUATION

Acme United is clearly back on track and has paved the way for an outstanding 2018.

Online sales continue to boost Acme’s sales and earnings. In particular, the first aid area and the Westcott business are performing strong online. This is expected to continue in 2018, as increased online demand is foreseen in both the United States and Europe.

First aid continues to be one of Acme United’s growth drivers. The SmartCompliance business, for example, is a big success. This is a typical razor/razorblade sales model, as Acme United initially benefits from the placement of the first aid kits, and then as people use the components, there’s a strong resale business. In fact, revenues from refills about equal sales of the kits.

Acme’s strategy to refill the kits through the internet is contrary to service people in delivery vans who will typically go into different locations to fill the first aid kits and then come back on a regular basis. The latter is obviously a time consuming and very expensive model, as the cost of the individual sales staff, the truck, the employee, and benefits have to be taken into account. Consequently, Acme United is gaining share in this \$600 million market segment.

Since the acquisition of Spill Magic in February 2017, the products were placed at major new mass market accounts, industrial and safety products distributors, online customers, and into the office products market. In Europe, the Spill Magic line was recently launched under the Easy Absorb brand name. Further growth is expected in 2018.

Also the DMT, Camillus, and Cuda businesses continue to grow both in the U.S. and abroad, with solid margins.

Growth in margins in very significant as it reflects successful management of

ecommerce warehousing and shipping. Acme United has done an outstanding job to swiftly correct the issues at its warehouse. It increased the accuracy of product dimensions and weight, and moved fast moving items closer to the shipping location. In addition, Acme started shipping its packages with US Postal, a low-cost shipper. All of this was reflected in distribution and warehouse costs that were under control.

Walter C. Johnsen, Chairman and CEO concluded, “This was a strong start for 2018, and we have many plans to continue introducing new products and applications that leverage our proprietary technologies, our diverse customer base and our global reach.”

### 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 19.33x, up from an average of 18.98x in our previous report.

Amounts in \$000's	2016	2017	2018E
<b>Total Revenue</b>	124,574	130,550	140,000
<b>Net Income</b>	5,851	5,297	5,700
<b>Annual sales and earnings FY 2016 – 2018E.</b>			
<b>Source: Company Filings and Company estimates</b>			

**Applying the 19.33x P/E multiple from the peer group to the estimated EPS for**

**2018, we reach the following calculation: \$1.53 estimated EPS multiplied by 19.33 = \$29.57.**

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$29.57, which is 38% above today's stock price.**

## SHARE DATA & OWNERSHIP

On March 31, 2018 Acme United had approximately 3,662,000 fully diluted common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (16.4%), Walter Johnsen (8.3%), Capital Management Corp (7.4%), Bard Associates Inc. (3.9%), and Royce Capital Fund (3.9%).

## 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 2015 – 3M 2018

All numbers in thousands

PERIOD ENDING	FY 2015	FY 2016	FY 2017	3M 2018
<b>Total Revenue</b>	<b>109,812</b>	<b>124,574</b>	<b>130,550</b>	<b>31,709</b>
Cost of Revenue	70,251	79,019	82,651	19,585
<b>Gross Profit</b>	<b>39,561</b>	<b>45,555</b>	<b>47,899</b>	<b>12,124</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	32,214	37,113	40,103	10,774
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	32,214	37,113	40,103	10,774
<b>Operating Income or Loss</b>	<b>7,347</b>	<b>8,442</b>	<b>7,796</b>	<b>1,350</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	(168)	(76)	25	28
Earnings Before Interest And Taxes	7,179	8,366	7,820	1,378
Net Interest Expense	565	869	1,327	405
Income Before Tax	6,614	7,497	6,493	974
Income Tax Expense	1,820	1,646	1,196	209
Net Income From Continuing Ops	4,794	5,851	5,297	765
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	1,245	1,245
<b>Net Income</b>	<b>4,794</b>	<b>5,851</b>	<b>4,052</b>	<b>765</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$4,794</b>	<b>\$5,851</b>	<b>\$4,052</b>	<b>\$765</b>

Annual Income Statement FY 2015 – 3M 2018. Source: Company Filings



# Acme United Corporation

## NYSE American: 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.