

Acme United Corp. (ACU)

Company Report – November 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's sales in the third quarter continued to grow, reflecting the success of its Westcott back-to-school scissors, Camillus knives, and first aid products. Also, year-to-year gross margins were comparable.

However, higher selling, general and administrative expenses impacted profitability levels. Severe weather conditions added to the difficulty of the quarter.

During the third quarter, the Company began reducing costs through a series of productivity initiatives. It expects annual savings of approximately \$1.5 million in purchasing, advertising, selling and personnel expenses. It is also targeting \$1.0 million in inventory reductions in the current fourth quarter.

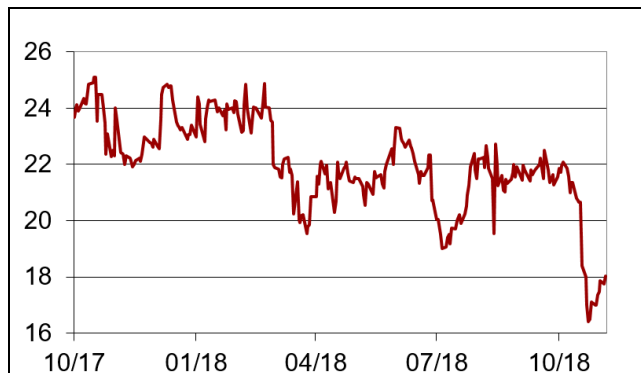
At the same time, Acme began selling its new SmartCompliance first aid kits, eye wash, and bleed control stations in the fourth quarter. Shipments of new Camillus knives are scheduled for the holidays. Many other new products will hit the shelves shortly.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$26.67, which is 55% above today's stock price.



Acme United Corporation

- ❑ As a result of the lower than expected earnings in the third quarter, the Company took decisive steps to reduce annual recurring costs by up to \$1.5 million. Moreover, Acme expects strong sales growth, as it has launched many new products that should help boost sales in the coming months.
- ❑ The Company's goals for the next 18 months are to deliver 5% to 7% organic sales growth, continue to evaluate add-on acquisitions, improve gross margins and reduce selling, general and administrative expenses as a percent of sales. Add some shares to your portfolio at these bargain prices. Better days are ahead.



Market Data

Price	\$17.17
Sector	Office Supplies
52-Week Price Range	\$15.31 - \$25.55
Shares Issued (m)	3.57
Market Cap (m)	\$61.4
Listings	ACU (NYSE Mkt)
Website	http://www.acmeunited.com

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 \$34.7 million in its third quarter ended September 30, 2018. This was up \$946,000, or 3%, compared with sales of \$33.8 million achieved in the same period of 2017.

While sales for the third quarter set a new all-time record, net income for the three months ended September 30, 2018 declined to \$807,000, or \$0.23 per diluted share, which is a decrease of 33% and 28%, respectively, compared to \$1,202,000, or \$0.32 per diluted share, reached in the third quarter of 2017.

Third quarter revenues were especially driven by record back-to-school sales of scissors online, excellent sales of Cuda fishing tools and Camillus hunting knives. In addition, first aid sales grew 7% thanks to new business at industrial distributors and additional SmartCompliance accounts.

However, the Company had to cope with several unexpected and unfortunate setbacks during the quarter. As a result, sales goals were not achieved despite increased sales and marketing personnel that was hired to support growth initiatives.

Sales of office products, for example, were impacted by continued store closing at Staples. The major retailer already closed hundreds of unprofitable stores the past few years. Whenever a store closes, its inventory is shifted to other stores, resulting in purchase orders for Acme United products being temporarily postponed.

In addition, the Company experienced softness in sales of office shears and first aid products at a major online retailer. The retailer apparently put its own private label products in the spotlight the past few months. Acme United is trying to resolve this issue. It's also positive that other major retailers are aggressively increasing their online businesses.

Furthermore, Hurricane Florence forced Acme's North Carolina warehouse to shut down during four days due to a power blackout and flooded roads. This caused about \$1 million of sales to shift to the fourth quarter. Finally, interest expenses were higher in the third quarter due to higher interest rates on the Company's variable rate credit facility. Acme's current line of credit with HSBC has an interest rate of LIBOR plus 2.00%.

As a result of all of this, the Company has adjusted its guidance for 2018 to \$139 million in revenues, \$4.7 million in net income, and \$1.30 earnings per diluted share. This compares to sales of \$130.6 million, GAAP net income of \$4.1 million (which included a \$1.2 million non-cash tax charge related to the U.S. Tax Cuts and Jobs Act) and earnings per diluted share of \$1.42 for 2017.



Camillus launched two 8.5" fixed blades knives and two 6.75" folding knives. They are all made in the United States and come with the brass Eagle Scout emblem.

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.

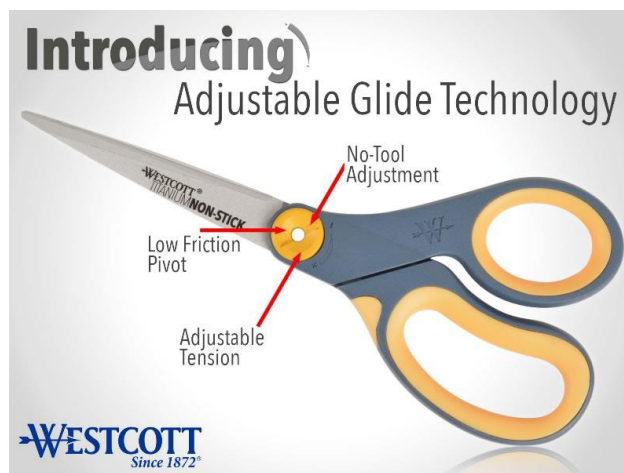
This way, the Company strategically diversifies its portfolio of sourcing, while reducing its reliance on China.

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.



The new Westcott scissors with glide technology are being placed at major craft and retail chains at the moment.

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.

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.



The Clauss non-stick putty knives with a coating that prevents rusting and which allows easier application of the putty have now been launched in Europe.

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 its founding in 1876, Camillus 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. 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.

Early this year, Camillus 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.

Moreover, Camillus is rolled 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.

Cuda markets a broad line of tools dedicated to fresh and saltwater fishing. 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 2018 ICAST fishing show, Cuda introduced plenty of new tools, such as the new Professional 8" plier and 8" snip with matching sheaths. With all the additional tools, Cuda now has well over 100 different products in its range. An amazing achievement in just five years since the brand was launched!

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

The business was founded in 1988 and pioneered consultative selling and support of first aid items to large corporate customers. It has since become a recognized industry leader. It was acquired by Acme United in June 2014.

FAO operates out of a modern 54,000 square-foot facility in Vancouver, Washington where

well over 100 people are employed. All of FAO's first aid kits are produced in the United States.

First Aid Only is especially known for its SmartCompliance kits. Most businesses are federally mandated to have first aid solutions that are compliant with OSHA as well as ANSI standards. These SmartCompliance first aid supply cabinets ensure that a business is covered.

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



The First Aid Only SmartCompliance Complete Cabinet.

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.

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.

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.

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.

Spill Magic's best selling product is its non-toxic, non-flammable, lightweight absorbent that quickly removes any spilled liquid or semi-liquid of any origin. It turns the liquid into a dry powder almost immediately, while leaving no spill residue behind. It's safe for use around humans, animals, plants and the environment; and will not damage cement, asphalt, carpet or any floor surface.

The Spill Magic absorbent 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.

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.

FINANCIALS

Net sales for the three months ended September 30, 2018 were \$34.7 million, compared to \$33.8 million in the same period of 2017, an increase of 3%. Net income for the three months ended September 30, 2018 was \$807,000, or \$0.23 per diluted share, compared to \$1,202,000, or \$0.32 per diluted share, for the same period in 2017, decreases of 33% and 28%, respectively.

Net sales for the nine months ended September 30, 2018 were \$106.2 million, compared to \$100.4 million in the same period in 2017, an increase of 6%. Net income for the nine months ended September 30, 2018 was \$4.0 million, or \$1.12 per diluted share, compared to \$4.7 million, or \$1.25 per diluted share, for last year's same period, decreases of 15% and 10%, respectively.

The gross margin was 36% in both the third quarter of 2017 and 2018. The year-to-date

gross margin was 37% compared to 37% in last year's period.

Amounts in \$000's	09/30/18	09/30/17
Net Sales	34,731	33,785
Cost of Goods Sold	22,281	21,559
S, G & A Expenses	11,078	10,256
Income From Operations	1,372	1,970
Pre-Tax Income	854	1,568
Income Tax Expense (Benefit)	47	366
Net Income (Loss)	807	1,202
Diluted Shares Outs.	3,551	3,794
Diluted EPS	0.23	0.32

Selected income statement data for the quarters ending September 30, 2018 and September 30, 2017. Source: Company Press Release

SG&A expenses for the third quarter of 2018 were \$11.1 million or 31.9% of sales compared with \$10.3 million or 30.4% of sales for the same period of 2017. SG&A expenses for the first nine months of 2018 were \$32.9 million or 31% of sales compared with \$30.2 million or 30% sales in 2017. The SG&A increase for the three and nine months was due to higher outbound freight costs and sales commissions as a result of the sales growth, and the addition of sales and marketing personnel.

European Segment Continues Steady Growth

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

Exact revenues per segment for the third quarter will be available in the 10-Q, which will be filed mid-November. However, Acme announced for each segment the percentage by which revenues increased or decreased compared with last year's third quarter. Based on those numbers, we can give a fair estimate.

In the U.S. segment, net sales for the three months ended September 30, 2018 increased 3% compared to the same period in 2017. Sales of first aid and safety products were \$15 million, an increase of 7%. Net sales for the first nine months of 2018 in the U.S.

segment increased 6% compared to the same period in 2017. Sales of first aid and safety products increased 12% due to market share gains.

Amounts in \$000's	Q3 2018	Q3 2017
U.S.	30,909	30,038
Canada	1,694	1,661
Europe	2,128	2,086
Estimated sales per segment for the quarter ending September 30, 2018 (Source: Smallcaps Investment Research) and actual sales per segment for the quarter ended September 30, 2017 (Source: Company Filing)		

Net sales in Europe for the three months ended September 30, 2018 increased 2% in U.S. dollars and 3% in local currency compared to the same 2017 period. Net sales for the nine months ended September 30, 2018 increased 13% in U.S. dollars and 6% in local currency compared to the first nine months of 2017.

Net sales for both periods grew mainly due to new customers in the office products channel, growth in sales of DMT sharpening products, and strong e-commerce demand for these products.

Net sales in Canada for the three months ended September 30, 2018 increased 2% in U.S. dollars and 6% in local currency compared to the same prior-year period. Net sales for the nine months ended September 30, 2018 increased 3% in U.S. dollars and 2% in local currency compared to the same period in 2017.

Balance Sheet as of September 30, 2018

Acme United's bank debt less cash on September 30, 2018 was \$46.5 million compared to \$38.9 million on September 30, 2017. During the twelve-month period ended September 30, 2018, the Company purchased its manufacturing and distribution facility in Vancouver, WA for \$4.0 million and distributed \$1.5 million in dividends on its common stock.

The Company's inventory increased \$4.5 million, mostly in anticipation of new business.

At the end of the third quarter of 2018, Acme had over \$67 million in working capital and an impressive current ratio of 6.91.

Amounts in \$000's	09/30/18	09/30/17
Cash and Cash Eq.	4,021	7,021
Accounts Receivable	30,869	31,579
Inventories	41,274	36,799
Total Current Assets	78,434	77,847
Property & equipment	14,488	9,449
Intangible Assets, net	16,959	18,181
Total Assets	115,183	110,938
Accounts Payable	6,654	8,463
Total Current Liabilities	11,338	13,983
Bank Debt	47,028	45,969
Total Liabilities	62,692	60,218
Total Stockholder Equity	52,491	50,720
Selected balance sheet data for September 30, 2018 and September 30, 2017. Source: Company Press Release		

GROWTH DRIVERS

New Tools Ready for Launch

It's no secret, innovation is difficult for most established companies. They succeed by optimizing their existing businesses rather than through game-changing creativity. Yet, 150-year old Acme United has been on the forefront of innovation for tools in the school, home, office, industrial and hardware sectors for a couple of decades now. In more recent years, it also worked its magic for fishing, gardening, and outdoor enthusiasts.

The Company's Westcott brand, for example, launches new products almost on a continuous basis. Sometimes, it is an upgrade of an existing product, or an expansion of a product family, but every now and then a revolutionary new tool will be brought to the market, such as the revolutionary glue guns that were launched last year.

In addition, the popular fishing tools brand Cuda launched plenty of new items at this year's ICAST Show in Orlando, Florida. ICAST, the world's largest sportfishing trade show, is the premier showcase for the latest innovations in fishing gear, accessories and

apparel, making it the biggest marketing event of the year for Cuda.

This year, the brand presented an expansion of its product assortment with a large tip ring-slitter, aimed at fishermen on the west coast and Europe. In addition, several tools in the Professional line, such as Professional snips and pliers, were added to the family as they continue to grow in popularity and sales. They come with German 4116 stainless steel and a carbonitride non-stick Titanium bonding. Moreover, they have cold-molded micarta handles and a hard ratcheting sheath.

Finally, given the success of Prym1 Camillus knives and tools, which were launched in January 2018, the Company aims to duplicate that success with Cuda sheaths and bags that come with a Prym1 blue pattern. Prym1 is especially known for utilizing colors and tones of nature, combined with the organic shapes and motion of wildlife.



The new Westcott storage bag.

There's also good news for DMT, as the latest sharpeners will soon become available in Europe. DMT introduced three new table-top sharpeners specifically designed for on-the-go-use. These new models included the Disc-Sharp, Simple-Sharp, and the first battery powered DMT sharpener coined the Sonic-Sharp.

Finally, First Aid Only recently broadened the capabilities of its SafetyHub app for

SmartCompliance first aid cabinets. It is now able to track anything in a facility that needs to be either serviced, replenished, or calibrated at certain intervals. For example, the expiration dates of all fire extinguishers in a facility can be uploaded into the app. Subsequently, 30 or 60 days before the due date, the user would get a push notification on the app alerting him to order new extinguishers. This also works for Automated External Defibrillators (AED's), in which batteries need to be replaced every so many years. The latest update of the app also provides predictive analytics for its users.

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.

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

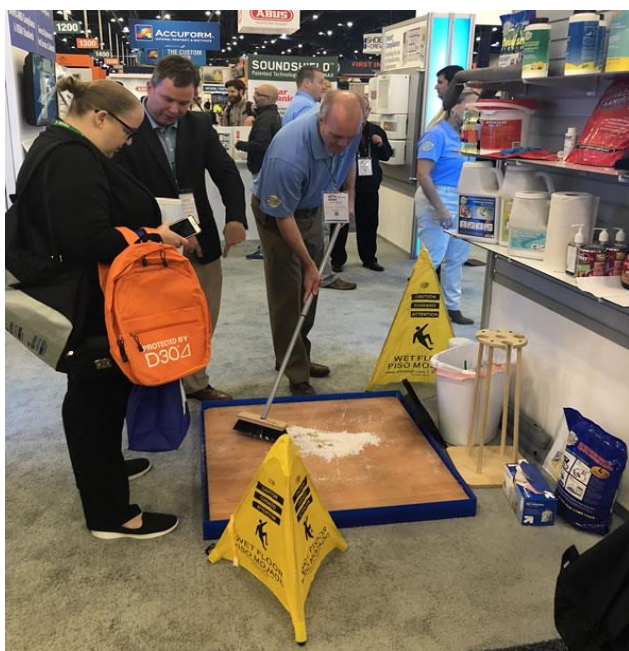
increase the efficiencies of the pick line and the Company built a mezzanine level to store the high volume products closer to the point of shipping.

RECENT EVENTS

Acme United Introduces New Safety Items at NSC Congress & Expo

The National Safety Council (NSC) Congress & Expo is the world's largest annual event for environmental, health and safety professionals.

This year, the show, which was held in Houston, Texas, hosted 1,100 exhibiting companies and welcomed close to 15,000 decision makers, end users and distributors from the United States, Canada and more than 60 other countries.



An Acme United representative demonstrates the Spill Magic spill pickup products at the NSC Congress & Expo.

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

The Company had a 20x30 booth at the show, its largest one ever at the event. Acme showcased its latest and upcoming products

for the First Aid Only, PhysiciansCare, and Spill Magic brands.

Acme, for example, showed its latest SmartCompliance cabinets. Today, there are about thirty different configurations. Depending on the number of people in an organization and the type of business it is in, FAO has the suited SmartCompliance cabinet.

SmartCompliance's main competitors are the van delivery companies. Their model is very different though. A driver will periodically go to every site to check the cabinets and refill the products that are missing.

This model offers very high service, but also carries a hefty price tag to remain compliant. In today's world, where companies are very competitive and concerned about costs, the van delivery system may have seen its heyday. FAO's SmartCompliance design also meets every workplace's first aid needs, while providing the customer complete control of what to order at a much lower cost.

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

As more and more companies understand that they need to become, and stay, OSHA compliant, and can do so at a fraction of the cost of the "old" van delivery model, the choice is obvious. Consequently, First Aid Only and its SmartCompliance cabinets have plenty of room to grow in an estimated a \$1 billion US market.

Acme United Europe Team Introduces Plenty of New Products at Insights-X Fair

Ever since its launch, four years ago, Insights-X has been synonymous with a high-quality stationery fair. Perfectly timed to introduce new products for the coming year, the expo ran from 4 to 6 October at the Exhibition Centre in Nuremberg, Germany.

A total of 311 exhibitors from 39 countries attended this year's event. Both established brand manufacturers and innovative start-ups

seized the opportunity to unveil a wide selection of innovative office supplies, back-to-school and hobby products.

Filling an area of 26,500m², the exhibitors at Insights-X presented their latest innovations in six product groups: Writing Utensils and Equipment, Paper and Filing, Artistic and Creative, Desktop, Bags and Accessories as well as Stationery and Gift Articles.

Acme's European team presented plenty of new products to specialist retailers and buyers. Georg Bettin, the Managing Director of Acme United Europe, was quoted saying, "We were able to welcome many important customers and key accounts and had many successful business talks."

Mr. Bettin and his crew introduced, for example, a new Westcott Glue Gun. Although several Westcott glue guns have been available in the United States since 2017, the first one has now been adapted to European standards.

Several other glue guns will soon expand the European range. Similar to the United States, where the glue guns are selling very well, buyers showed lots of interest.

Also new for the European market, were the Clauss putty knives. The blades are both adhesive and corrosion resistant, making them quite unique in their category. So if you forget to clean your Clauss putty knife, you'll be able to wipe off the dried putty in a matter of seconds and it won't rust with age.

There was also plenty of interest from potential customers for this new category, as initial sales on Amazon.de – the German sister website of Amazon – are exceeding expectations.

In addition, the European team introduced manicure tools specifically aimed at the elderly. The line includes nail scissors with an extra-long handle and angled blades, tweezer with a magnifier, and a nail clipper with scissors handles. These are all sold under the First Aid Only brand.

The items are currently exclusively available at one chain in Europe. In 2019, the products

will become available for other stores and distributors as well.

Acme United's European segment continues to expand its product offering. The Insights-X fair again demonstrated that it is able to place new products with an ever growing customer base. Consequently, this segment should continue to perform well the coming quarters.

Insights-X confirmed its place as a brand fair for the international stationery sector. More than 5,500 trade buyers from 92 countries travelled to Nuremberg. The show made it clear that global interest among industry representatives remains high in the sector.



The nail clipper with scissors handles makes the handling much easier and also allows people with restricted mobility to groom their nails.

Acme United Closes Slice, Inc. Distribution Agreement

Late September, 2018 Acme United signed a global agreement to build and sell cutting tools featuring safety blades designed by Slice, Inc., a leader in safety cutting tools. The product line will be marketed under the Westcott brand, featuring Slice safety blades.

The safety cutters will include Slice ceramic blades, which last up to 11 times longer than metal blades, and are much safer than traditional blades. Additional safety tools will be launched in early 2019.

Mr. Johnsen said, "The expertise and input from Slice, Inc. combined with Westcott

innovation and quality have created powerful tools for the industrial, school, home, and retail safety segments. We are eager to continue to provide the very best in safe cutting tools to our customers.”

OUTLOOK & VALUATION

As a result of the lower than expected earnings in the third quarter, the Company took decisive steps to significantly reduce costs. It let go of a number of people, which will reduce personnel expenses by about \$700,000 annually. Acme has also cut back on print advertising and put more focus on social media, resulting in savings of \$400,000 as of January 2019.

In addition, the Company has started productivity initiatives at its Rocky Mount warehouse in North Carolina, which should result in annual savings of another \$400,000. Finally, it is addressing its inventory levels. They hit a peak in June 2018 of \$42.5 million and dropped to \$42 million by the end of September. The goal is to reduce inventory further with another \$1 million by year-end.

Moreover, Acme expects strong sales growth, as it has launched many new products that should help boost sales in the coming months. For example, the Company introduced a new line of Westcott scissors that incorporate the glide technology. These scissors, which have a low friction pivot with adjustable tension, cut extremely fluidly and efficiently. The scissors are being placed at major craft and retail chains at the moment.

The Company announced new ceramic box openers that are geared towards industrial safety and consumer markets. Trials are ongoing with a major online retailer. Westcott introduced new glue guns, glue sticks and cutting tools for the craft market. These will be available at major retailers next year. The first aid business introduced the next generation safety hub ecosystem and a new line of modern first aid stations that can be customized with different industries.

Distribution of Spill Magic cleanup absorbents has expanded to industrial wholesalers, online customers, and new end-users. New DMT

diamond sharpeners that automatically adjust their sharpening angles were recently introduced and are expanding distribution. Camillus Knives continues to set new sales records. The brand launched four high-quality knives for The Boy Scouts of America.

The Company’s goals for the next 18 months are to deliver 5% to 7% organic sales growth, continue to evaluate add-on acquisitions, improve gross margins and reduce selling, general and administrative expenses as a percent of sales. Add some shares to your portfolio at these bargain prices.

Peer Comparison & Valuation

Acme United competes with many companies in each market and geographic area. The major competitors in the cutting category are 3M and Fiskars Corporation, while Maped and Staedtler are the major competitors in the measuring category. In addition, the major competitor in the pencil sharpener category is Bostitch, and in the safety category Acme faces most competition from Johnson and Johnson.

Although there are many competitors, it’s hard to identify a peer group of companies, because there’s no other Company in exactly the same line of business as Acme United. Moreover, some of these other companies that engage in the Company's line-of-business do so through divisions or subsidiaries that are not publicly-traded.

For reason of comparison, we have placed the Company in the Housewares & Accessories industry. The average P/E ratio for a Company in that industry is 20.52x, down from an average of 20.95x in our previous report.

Amounts in \$000's	2016	2017	2018E
Total Revenue	124,574	130,550	139,000
Net Income	5,851	5,297	4,700
Annual sales and earnings FY 2016 – 2018E.			
Source: Company Filings and Company estimates			

Applying the 20.52x P/E multiple from the peer group to the estimated EPS for 2018, we reach the following calculation: \$1.30 estimated EPS multiplied by 20.52 = \$26.67.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$26.67, which is 55% above today's stock price.

SHARE DATA & OWNERSHIP

On September 30, 2018 Acme United had approximately 3,574,000 fully diluted common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (17.3%), Capital Management Corp (8.7%), Walter Johnsen (8.5%), Renaissance Technologies (3.9%), and Bard Associates Inc. (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 – 9M 2018

All numbers in thousands

PERIOD ENDING	FY 2015	FY 2016	FY 2017	9M 2018
Total Revenue	109,812	124,574	130,550	106,191
Cost of Revenue	70,251	79,019	82,651	66,905
Gross Profit	39,561	45,555	47,899	39,286
Operating Expenses				
Selling, General and Administrative	32,214	37,113	40,103	32,923
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	32,214	37,113	40,103	32,923
Operating Income or Loss	7,347	8,442	7,796	6,363
Income from Continuing Operations				
Total Other Income (Expenses) Net	(168)	(76)	25	84
Earnings Before Interest And Taxes	7,179	8,366	7,820	6,279
Net Interest Expense	565	869	1,327	1,347
Income Before Tax	6,614	7,497	6,493	4,932
Income Tax Expense	1,820	1,646	1,196	926
Net Income From Continuing Ops	4,794	5,851	5,297	4,006
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	1,245	-
Net Income	4,794	5,851	4,052	4,006
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$4,794	\$5,851	\$4,052	\$4,006

Annual Income Statement FY 2015 – 9M 2018. Source: Company Filings



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