

## Acme United Corp. (ACU)

Company Report – March 16, 2019

Acme United Corporation is a worldwide supplier of cutting devices, measuring instruments and first-aid products for school, home, office, industrial and hardware use.

In 2018, the Company achieved record sales for the 8th consecutive year. Despite a setback in the online sales channel during Q2 and Q3 of 2018, the Company remarkably recovered in the last quarter of the year with a 39% increase in operating profit compared with the fourth quarter of 2017.

During the third quarter, the Company began reducing recurring costs through a series of productivity initiatives. It expects annual savings of approximately \$2 million in purchasing, advertising, selling and personnel expenses. 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.

As a result of all of these efforts, Acme United is forecasting that it will have another record year in 2019. For the year, the Company's management is providing guidance of approximately \$140 to \$143 million in sales, net income of \$5.0 to \$5.3 million and \$1.41 to \$1.50 earnings per share.

Based on our outlook and calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$27.14, which is 59% above today's stock price.



- ▣ Acme United achieved substantial operational efficiencies in 2018 at its major domestic distribution centre in Rocky Mount, NC after significant spending the past two years. 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.
- ▣ The Company also worked hard to bring the two Spill Magic plants onto the Company's common software platform. This generated leverage in the customer service, accounting, forecasting, and supply chain.
- ▣ Late 2018, the Company increased its quarterly dividend to 12 cents per share. This is the eleventh dividend increase since 2004.



## 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.

Each year between 2013 and 2017, online sales at Acme United doubled. During that time, the Company increased its advertising, sponsorship and search optimization to achieve further growth. However, in Q2 and Q3 last year, online sales flattened, as Acme's largest online customer changed some of its algorithms. However, Acme United's spending was still at higher levels. This caused an unexpected earnings decline in both quarters.

To counter the softer online sales, Acme took decisive steps in Q4 of 2018 to reduce annual recurring costs by up to \$1.3 million. For example, it let go of a number of people, which reduced personnel expenses by about \$700,000 annually. In addition, third party sales reps were replaced by in-house people. Acme also cut back on print advertising and put more focus on social media, resulting in annual savings of \$400,000.

Moreover, Acme launched many new products that helped boost sales. 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 were placed at major craft and retail chains. The Company also announced that its new ceramic box openers were well received by industrial safety customers and consumers.

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. And Camillus knives expanded distribution to major retail chains.

Last but not least, Chairman and CEO Walter C. Johnsen mentioned during the fourth quarter conference call that programs are in place to accelerate online growth.



**The new Westcott scissors with glide technology were recently placed at major craft and retail chains.**

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, and many other major chains all over the world.

Also online sales are substantial. In fact, Amazon is one of Acme United's most important customers.

Late 2018, Acme United increased its quarterly dividend with 1 cent to 12 cents per share. Walter Johnsen, commented, "This is Acme United's eleventh dividend increase since 2004. The Company continues to make good business progress and we are delighted to provide this additional return to shareholders. Our balance sheet is strong and we are confident in the business."

### 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 Marlborough, 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.

**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.



**The Clauss AirShoc 8" Bypass Pruner features Titanium Non-Stick blades and impact resistant AirShoc grips with antimicrobial protection.**

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 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.

Camillus is growing strong in the US and Europe, and thanks to the new products that were introduced at the latest SHOT Show, growth is bound to continue in 2019. (Also read 'Recent Events' below).

**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.



**Cuda offers a wide variety of tools and accessories for avid anglers. Each tool shares Cuda's technologies including the signature blue scale-patterned grip which offers slip free handles, even when your hands are wet.**

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 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.

**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 products can be found wherever sharp edges are needed - woodworkers, chefs and gardeners, in the kitchen, workshop or tool room, or on the go camping, hiking, skiing, hunting and fishing.**

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.

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

Sales for the three months ended December 31, 2018, reached \$31.1 million, up about 3% compared with sales of \$30.2 million in the fourth quarter of 2017. Net income for the quarter ended December 31, 2018 was \$591,000, or \$0.17 per diluted share. This compares to a loss of \$655,000, in the fourth quarter of 2017, which reflected tax charges in the amount of \$1.2 million incurred under the December 2017 U.S. Tax Cuts and Jobs Act.

Remember that the Tax Cuts and Jobs Act, introduced 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 early in 2018. Due to this repatriation, Acme retroactively recorded a provisional charge of \$1.245 million in the fourth quarter of 2017.

Excluding these tax charges, Acme's adjusted net income was \$590,000, or \$0.16 per diluted share, for the fourth quarter of 2017. Earnings per share increased 6% in the fourth quarter of 2018 over the adjusted earnings per share in the fourth quarter of 2017.

As for fiscal year 2018, sales were \$137.3 million, compared to \$130.5 million in 2017, an increase of 5%. Net income for the year ended December 31, 2018 was \$4.6 million, or \$1.30 per diluted share. This compares to net income in 2017 of \$4.1 million, or \$1.09 per diluted share.

Adjusted net income for FY 2017 however, was \$5.3 million, or \$1.42 per diluted share. Consequently, on an adjusted basis, net

income for 2018 decreased 13% and earnings per share decreased 8% year over year.

Amounts in \$000's	12/31/18	12/31/17
Net Sales	31,130	30,170
Cost of Goods Sold	19,768	19,544
S, G & A Expenses	10,269	9,838
<b>Income From Operations</b>	<b>1,093</b>	<b>788</b>
Pre-Tax Income	598	368
Income Tax Expense (Benefit)	7	1,023
<b>Net Income (Loss)</b>	<b>591</b>	<b>(655)</b>
Diluted Shares Outs.	3,421	3,676
Diluted EPS	0.17	(0.18)

**Selected income statement data for the quarters ending December 31, 2018 and December 31, 2017. Source: Company Press Release**

Noteworthy in the table above is the strong improvement in operating profit in the fourth quarter of 2018 versus the comparable period in 2017. This was mainly achieved thanks to the strong cost reductions that were implemented.

Gross margin was 36.5% in the three months ended December 31, 2018 compared to 35.2% in the same period in 2017. The higher gross margin was primarily due to reduced promotional spending in the Company's e-commerce business, cost cutting initiatives and product mix. Gross margin was 36.9% for the year ended December 31, 2018 compared to 36.7% for 2017.

### 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 2018 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.

In the Company's U.S. segment, net sales for the quarter ended December 31, 2018 increased 3% compared to the same period in 2017. Net sales for the year ended December

31, 2018 grew 5% over 2017 in the U.S. segment. The sales increase for both periods was mainly due to strong sales of first aid and safety products as well as Camillus knives.

Amounts in \$000's	Q4 2018	Q4 2017
<b>U.S.</b>	120,951	115,407
<b>Canada</b>	7,080	6,935
<b>Europe</b>	9,290	8,208

**Estimated sales per segment for the year ended December 31, 2018 (Source: Smallcaps Investment Research) and actual sales per segment for the year ended December 31, 2017 (Source: Company Filing)**

Net sales in Canada for the quarter ended December 31, 2018 decreased 4% in U.S. dollars and were constant in local currency compared to the prior-year period. Net sales for the year ended December 31, 2018 increased 2% in U.S. dollars and 1% in local currency compared to the same period in 2017.

Net sales in Europe for the quarter ended December 31, 2018 increased 13% in U.S. dollars and 17% in local currency compared to the same period in 2017. Net sales for the year ended December 31, 2018 increased 13% in U.S. dollars and 9% in local currency compared to last year. 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.

### Balance Sheet as of December 31, 2018

Acme United's bank debt less cash on December 31, 2018 was \$39.3 million compared to \$37.8 million on December 31, 2017.

During the twelve-month period ended December 31, 2018, they spent \$1.5 million on dividends, \$0.4 million on stock buybacks, and generated \$1.6 million in free cash flow. For 2019, the Company expects to generate \$4 to \$5 million in free cash flow.

At the end of the 2018, Acme had more than \$60 million in working capital and an impressive current ratio of 5.49.

Amounts in \$000's	12/31/18	12/31/17
Cash and Cash Eq.	4,409	9,338
Accounts Receivable	25,102	26,012
Inventories	41,332	40,087
Total Current Assets	73,372	78,101
Property & equipment	14,543	13,728
Intangible Assets, net	16,664	17,882
<b>Total Assets</b>	<b>109,478</b>	<b>114,730</b>
Accounts Payable	7,983	11,151
Total Current Liabilities	13,365	16,783
Bank Debt	40,283	43,450
<b>Total Liabilities</b>	<b>57,145</b>	<b>64,792</b>
Total Stockholder Equity	52,333	49,938

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

## RECENT EVENTS

### Acme United Europe Shines at Frankfurt Paperworld Show

Late January 2019, a total of 1,668 exhibitors from 64 countries presented their products at Paperworld in Frankfurt, Germany.

A total of 33,010 visitors from 143 countries discovered product innovations in the areas of office supplies, writing and drawing instruments, school supplies, gift items and packaging as well as paper goods and greeting cards.

For major brand manufacturers or international newcomers, Paperworld, with its unique product diversity, is the most important industry meeting point and source of inspiration for the wholesale and retail trade as well as for corporate buyers.

One of the attending companies was Acme United. For its European team, Paperworld is one of the most important marketing events of the year. As such, this is an ideal venue to show the latest products in the assortment.

Georg Bettin, the Managing Director for Acme United Europe, and his team had plenty to talk about as they introduced, for example, a new line of Westcott paper clips, Westcott multi-tools, Westcott scissors with a "retro" look, and a Clauss staple gun.

During the 4-day event, the team met plenty of new and existing buyers from all over Europe. The follow-up to those meetings has already started, so the European team will soon know which stores will place new or additional products on their shelves.



Part of Acme United's wide assortment of products displayed at Paperworld 2019.

Georg Bettin was enthusiastic after the show and commented that he looks forward to another year of exciting growth in the school, office, DIY, and outdoors markets.

**Looking at how well the Paperworld show went, it's clear that 2019 will be another solid year for the European team, as it continues to expand its product range and number of customers.**

### Camillus Knives Ready for Further Expansion in 2019

The 41st Shooting, Hunting and Outdoor Trade (SHOT) Show, which ran Jan. 22-25 at the Sands Expo Center, showcased products used for target shooting, hunting, outdoor recreation and law enforcement purposes. More than 58,000 industry professionals attended with the number of exhibiting companies exceeding 2,400, a new record. Their booths covered more than 692,000 net square feet of exhibit space.

One of the attending companies was Acme United. Both its Camillus knives and DMT sharpener brands introduced several new, innovative products for hunting and outdoor recreation purposes.

Camillus launched no less than 12 new attractive folders and expanded its Carnivore machete line at this year's SHOT Show. As

there is a clear trend in the industry towards folding knives, Camillus is limiting the number of new fixed blade knives.

One knife that immediately caught the attention of most visitors at the Camillus booth was the impressive Dominator II, designed by Darrel Ralph. The new Dominator II has all of the essence and design flair that can only be created by Darrell himself.



**The Dominator II features a Titanium bonded VG10 stainless steel blade, a carbon fiber handle, a frame lock, and custom pocket clip.**

Another striking newcomer is the Veracious, the only knife in the new line with a tanto blade. It is a very light weight knife with a Carbonitride Titanium AUS-8 steel blade. Like most new Camillus knives, it comes with a finger flipper and dual ball-bearings which easily launches the blade.



**Both the Veracious (top) and Barber are 7" and feature glass filled nylon handles, a quick launch bearing system, pocket clip, and lanyard hole. They will be available at under \$30.**

Contrary to the previous knife, the Barber has a Titanium Bonded 440 Stainless Steel Cleaver style blade. The steel is bonded with Titanium that resists corrosion and is up to 3x harder than untreated steel so the blade stays sharper, longer. It resembles a butcher knife and is a follow-up to Camillus' very successful Chunk knife, which it launched last year.

The Bushcrafter is already a very popular fixed blade Camillus knife, but now the brand launched an 8.5" Bushcrafter folding knife version to expand the line. It has a Titanium Bonded Sandvik 12C27 Stainless Steel Blade,

and comes with a sturdy burlap-micarta handle, making the knife an ideal companion for survivalists or campers.

Next to all the folding knives, Camillus also launched an updated version of its Carnivore machete, nicknamed the Inject. This is an important tool for Camillus as the Carnivore is one of the brand's best selling items. The Inject has a small trimming knife that can be inserted into the handle of the machete. To make cutting and chopping even more comfortable, the handle now has an ergonomic suregrip handle texture for an optimal grip, even in wet conditions. The Carnivore Inject will retail for less than \$40.

In addition to the Camillus product launches, DMT Sharpeners, which is recognized around the world for its unrivaled diamond technology, quality and its iconic polka-dot sharpening pattern, launched its Spring Assisted sharpener. It stores and opens like a pocket knife and features an ergonomic grip for easy sharpening. It's a great item for the back pack, tool box, or to take with you while hunting. The new tool was received very well by DMT distributors and customers.

The new tools will be on retailers' shelves as of June. They will also become available in Canada and Europe.

Rick Constantine, Vice President of Marketing and General Manager at Acme United was pleased with this year's turnout of buyers as well as professional end users and said the booth was busy the entire show. He commented, Shot Show gives both Camillus and DMT the ability to speak with existing customers, new customers as well as industry professionals. **Year after year, our incredible growth is ignited in January at Shot Show and 2019 was the best yet."**

## 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.

Acme United's solid increase in operating income during the fourth quarter of 2018 is very encouraging, as it clearly indicates that the cost cutting programs are paying off. These efforts will continue throughout 2019.

In addition, several sales initiatives should drive top line growth. 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 Company announced new ceramic box openers that are geared towards industrial safety and consumer markets. Westcott also introduced new glue guns, glue sticks and cutting tools for the craft market. 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 Company foresees approximately \$140 to \$143 million in sales, and \$1.41 to \$1.50 earnings per share in 2019. Consequently, we see no reason why Acme United's stock price could not return to the mid-20s, levels that it reached when earnings were comparable with 2019 guidance.

### 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 18.72x, down from an average of 20.52x in our previous report.

Amounts in \$000's	2017	2018	2019E
<b>Total Revenue</b>	130,550	137,321	141,500
<b>Net Income</b>	5,297	4,598	5,150
<b>Annual sales and earnings FY 2017 - 2019E.</b>			
<b>Source: Company Filings and Company estimates</b>			

**Applying the 18.72x P/E multiple from the peer group to the estimated EPS for 2019, we reach the following calculation: \$1.45 estimated average EPS multiplied by 18.72 = \$27.14.**

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$27.14, which is 59% above today's stock price.**

## SHARE DATA & OWNERSHIP

On December 31, 2018 Acme United had approximately 3,421,000 fully diluted common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (18.1%), Capital Management Corp (7.7%), Walter Johnsen (8.9%), Dimensional Fund Advisors (4.2%), and Bard Associates Inc. (4.0%).

## 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 – FY 2018

All numbers in thousands

PERIOD ENDING	FY 2015	FY 2016	FY 2017	FY 2018
<b>Total Revenue</b>	<b>109,812</b>	<b>124,574</b>	<b>130,550</b>	<b>137,321</b>
Cost of Revenue	70,251	79,019	82,651	86,672
<b>Gross Profit</b>	<b>39,561</b>	<b>45,555</b>	<b>47,899</b>	<b>50,649</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	32,214	37,113	40,103	43,192
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	32,214	37,113	40,103	43,192
<b>Operating Income or Loss</b>	<b>7,347</b>	<b>8,442</b>	<b>7,796</b>	<b>7,457</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	(168)	(76)	25	(68)
Earnings Before Interest And Taxes	7,179	8,366	7,820	7,389
Net Interest Expense	565	869	1,327	1,858
Income Before Tax	6,614	7,497	6,493	5,531
Income Tax Expense	1,820	1,646	1,196	933
Net Income From Continuing Ops	4,794	5,851	5,297	4,598
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	1,245*	-
<b>Net Income</b>	<b>4,794</b>	<b>5,851</b>	<b>4,052</b>	<b>4,598</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>\$4,598</b>

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

\* Note that in the fourth quarter of 2017 tax charges were incurred under the December 2017 U.S. Tax Cuts and Jobs Act.



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