

Acme United Corp. (ACU) Company Report – November 02, 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.

The Company reported net income of \$1,059,000 or \$0.30 per diluted share, for its third quarter ended September 30, 2019 versus \$807,000, or \$0.23 per diluted share, for the comparable period last year. This is an increase of 31% in net income and 30% in diluted earnings per share.

Especially Acme’s SmartCompliance first aid cabinets, which provide comprehensive safety products to employers, showed strong sales growth. This is encouraging and demonstrates how much employers value the fast and easy to requisition first aid system.

Significantly contributing to the bottom line was the cost savings program that the Company instituted a year ago. It let go of a number of people, cut back on print advertising, and put more focus on social media. Also, the Company started shipping and productivity initiatives at its Rocky Mount warehouse in North Carolina. These savings total about \$2 million annually. Acme continues to identify cost-saving opportunities and is formulating new targets for 2020.

We reiterate our buy recommendation for Acme United Corp. with a price target of \$29.39, which is 40% above today’s stock price.



- ❑ Acme United’s management is providing guidance for fiscal year 2019 of approximately \$142 million in sales, net income of \$5.2 million and \$1.48 earnings per share.
- ❑ Acme United is well on track to achieve its ninth consecutive year of record sales. In addition, the Company has reduced its net debt by close to \$11 million during the past 12 months. A solid achievement, which provides capital for a potential acquisition.
- ❑ Next to first aid, also the Camillus, Cuda, and DMT brands are doing well. They continue to gain market share, and are expected to grow again in 2020.



Market Data	
Price	\$20.92
Sector	Office Supplies
52-Week Price Range	\$13.50 - \$22.87
Shares Issued (m)	3.49
Market Cap (m)	\$72.93
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.

Net sales for the third quarter ended September 30, 2019, reached \$37 million, an increase of 7% compared with sales of \$34.7 million in the third quarter of 2018.

Next to first aid, the Westcott school and office products brand had a solid back-to-school performance as it expanded categories and products with e-commerce retailers. Acme also noted substantial growth with mass market customers. The office superstore market in the U.S. on the other hand was weaker than last year, reflecting overall trends. However, that is a decreasing proportion of Acme's overall business.

Moreover, the Camillus hunting, Cuda fishing, Clauss industrial cutting, and DMT sharpening product lines showed good performance. Acme recently increased the production capacity of its DMT diamond sharpening business, which is helping to propel its growth.

Chairman and CEO Walter C. Johnsen commented, "We expect continued good performance in the fourth quarter of 2019, particularly as our focus on productivity and sales growth continues. Based on the trends we are currently seeing, we are updating our financial guidance for the year. We now expect net sales of approximately \$142 million; net income of approximately \$5.2 million; and earnings per share of approximately \$1.48 for fiscal year 2019.

Achieving those numbers would be another solid performance for Acme United, as in fiscal year 2018 the Company reached sales of \$137.3 million, net income of \$4.6 million, and earnings per share of \$1.30.



100 quick-serve restaurants which were previously serviced by van delivery have reduced their monthly cost to \$18 for each location after switching to SmartCompliance, totalling savings of \$50,400 annually for the chain.

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.

China Trade War

Mr. Johnsen, who just returned from three weeks in China, Taiwan, and Hong Kong, mentioned during the third quarter conference call that the Company's Chinese suppliers are very supportive of Acme's business. Many of them have reduced their sales price because of the weakened Chinese currency. That will help to somewhat reduce the impact of the tariffs.

Another trend that is becoming noticeable, is that Chinese suppliers are looking to move some of their operations to places nearby China, such as Myanmar, Pakistan, or Thailand in order to avoid the U.S. tariffs. Once these factories are in operation, Acme would be able to import products from these

countries and so avoiding Chinese import tariffs.

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.



Acme United sells between 60 and 80 million scissors annually.

Westcott is also known for its recently introduced line of Safety Cutters. The safer-slicing retractable box cutters with ceramic knives have ergonomic improvements so the user can actuate on top or side of the slider. In addition, they are available with replaceable and non-replaceable blades. Next

to being safer, the Slice ceramic blades last up to 11 times longer than metal blades.

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.

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 brand works with plenty of "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. Moreover, the brand launched no less than 12 new attractive folders and expanded its Carnivore machete line at this year's SHOT Show.

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.



The Camillus Knives brand continues to be a solid contributor to Acme United's financial results.

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 recent 2019 ICAST fishing show, Cuda introduced plenty of new tools, including a very special dehooker (Also read Recent Events).

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 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. 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 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.



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.

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 handle anything from liquid spills, hazardous material spills and even biohazard spills. It 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 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.

FINANCIALS

Acme's net sales for the nine months ended September 30, 2019, were \$109 million compared to \$106 million in the same period in 2018, an increase of 2%. Net income for the first nine months ended September 30, 2019 was \$4.5 million, or \$1.32 per diluted share, compared to \$4 million or \$1.12 per diluted share in the comparable period last year, increases of 13% and 18%.

Amounts in \$000's	09/30/19	09/30/18
Net Sales	36,995	34,731
Cost of Goods Sold	23,861	22,281
S, G & A Expenses	11,408	11,078
Income From Operations	1,726	1,372
Pre-Tax Income	1,217	854
Income Tax Expense	158	47
Net Income (Loss)	1,059	807
Diluted Shares Outs.	3,486	3,551
Diluted EPS	0.30	0.23

Selected income statement data for the quarters ending September 30, 2019 and September 30, 2018. Source: Company Press Release

Gross margin was 35.5% in the three months ended September 30, 2019, compared to 35.8% in the same period in 2018. Gross margin was 36.6% in the nine months ended September 30, 2019, compared to 37.0% in the same period in 2018.

SG&A expenses for the third quarter of 2019 were \$11.4 million or 31% of sales compared with \$11.1 million or 32% of sales for the same period of 2018. SG&A expenses for the first nine months of 2019 were \$32.7 million or 30% of sales compared with \$32.9 million or 31% of sales in 2018.

Solid Third Quarter Results in All Segments

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.

Amounts in \$000's	Q3 2019	Q3 2018
U.S.	32,770	30,913
Canada	1,777	1,691
Europe	2,448	2,127
Estimated sales per segment for the third quarter ended September 30, 2019 (Source: Smallcaps Investment Research) and actual sales per segment for the third quarter ended September 30, 2018 (Source: Company Filing)		

In the U.S. segment, net sales for the three months ended September 30, 2019 increased 6% compared to the same period in 2018. Sales of first aid and safety products were strong, more than offsetting softness in the sales of certain school and office products. Net sales for the first nine months of 2019 in the U.S. segment increased 2% compared to the same period in 2018.

The international business was excellent. In Europe, net sales for the three months ended September 30, 2019 increased 15% in U.S. dollars and 21% in local currency compared to the same 2018 period. Net sales for the nine months ended September 30, 2019 increased 14% in U.S. dollars and 22% in local currency compared to the first nine months of 2018.

The sales increases in the quarter and nine months were mainly due to new customers in

the office products channel and continued growth of DMT sharpening products. In addition, the segment continues to grow significantly online in most product groups.

Net sales in Canada for the three months ended September 30, 2019 increased 5% in U.S. dollars and 6% in local currency compared to the same 2018 period. Sales in the third quarter mainly increased due to a strong back-to-school.

Net sales for the nine months ended September 30, 2019 decreased 6% in U.S. dollars and 3% in local currency compared to the first nine months of 2018.

Balance Sheet as of September 30, 2019

Acme United's bank debt less cash on September 30, 2019 was \$35.9 million compared to \$46.8 million on September 30, 2018. The reduction of net debt by nearly \$11 million provides new capital for growth and perhaps an acquisition.

Amounts in \$000's	09/30/19	09/30/18
Cash and Cash Eq.	5,698	4,021
Accounts Receivable	30,635	30,869
Inventories	38,970	41,274
Total Current Assets	77,090	78,434
Property & equipment	14,006	14,488
Intangible Assets, net	16,107	16,959
Total Assets	114,224	115,183
Accounts Payable	7,217	6,654
Total Current Liabilities	16,606	11,338
Bank Debt	38,125	47,028
Total Liabilities	59,200	62,692
Total Stockholder Equity	55,024	52,491
Selected balance sheet data for September 30, 2019 and September 30, 2018. Source: Company Press Release		

During the twelve-month period ended September 30, 2019, the Company distributed \$1.6 million in dividends on its common stock, repurchased \$0.4 million in treasury stock and generated \$14 million in free cash flow, including a \$2.3 million reduction in inventory.

The Company reduced its inventory by \$2.3 million, or 6% while growing overall sales by 7%. Acme's management expects to end 2019 with approximately \$35 million of net debt and to generate \$7 million to \$8 million in free cash flow for the year.

At the end of the third quarter of 2019, Acme had over \$60 million in working capital and an impressive current ratio of 4.64.

RECENT EVENTS

Acme United Unveils Next Growth Drivers in First Aid Category

The National Safety Council (NSC) was founded in 1913 by business leaders who decided workplace fatalities didn't have to be the cost of doing business.

More than a century later, the NSC Congress & Expo has become the nation's largest annual gathering of safety professionals with 15,000 attendees, hundreds of technical sessions and over 1,200 exhibitors offering the latest safety products and keynotes from big names in safety.

One of the companies attending this year's show was Acme United, as it is the Company's biggest marketing event of the year in the first aid category.



Acme United had a large booth at the show, where it showcased the latest products for the First Aid Only, PhysiciansCare, and Spill Magic brands.

The show was a true success for Acme with lots of exciting meetings. It had a large booth, which was packed with the latest products from the First Aid Only (FAO), PhysiciansCare,

and Spill Magic brands. Also, the safety cutter range of the Westcott brand was shown to the public. Consequently, the booth attracted lots of quality traffic, such as safety managers, distributors, and buyers from major customers.

Acme, for example, showed its latest SmartCompliance cabinets. Also the new Bleeding Control and Bodily Fluid Control modules of the SmartCompliance Complete Cabinet were shown to the public for the first time.

In addition, the SafetyHub App was expanded with new features such as the 'Offline Mode' to help users who don't have wifi or cellular service. Thank to this new feature a user can still create a requisition on-site and then upload everything where there's wifi or cellular access.

The First Aid Only SafetyHub app simplifies supply requisitioning so that users can stay organized and in compliance. The innovative app allows to set automatic reminders for checking stock levels on the SmartCompliance family of products and refills. The app also provides easy-to-use tools like bar-code scanning for creating and sending supply requisitions to a first aid supplier.

Finally, in the SmartCompliance category, the Retrofit Cabinet was introduced. This innovative system, lets a company convert any brand first aid cabinet over 15" wide with three or more SmartCompliance shelves, which consist of three fully-stocked grids and extra supplies to immediately make a cabinet ANSI B compliant.

These grid inserts with individual refill boxes are easy to install into existing cabinets and help to eliminate cluttering. The SmartTab re-order reminders make it easier to stay ANSI B compliant, while the free SafetyHub phone App makes supply requisitions easy and allows to reduce first aid costs by up to 50% over traditional van services.

In addition, First Aid Only launched new Bleeding Control kits, which empower a bystander with the right tools to help those who are in an emergency situation to stop life-threatening blood loss before professional

help arrives. FAO offers several kits that include hemostatic pressings, Israeli bandages, and the easy-to-use and effective SWAT-T™ "Stretch, Wrap, and Tuck" Tourniquet.

Another highlight at Acme's booth were the Westcott Safety Cutters. It is logical that these cutters were shown at the NSC show, because in most cases the safety manager who has the authority to purchase first aid items, also decides on the purchase of cutters.

Acme United Europe Highlights New School & Office Products at Insights-X Fair

Running at exactly the right time for placing orders for next year's back-to-school season, the Insights-X fair opened its doors last month at the Exhibition Centre in Nuremberg, Germany.



The Westcott display at the Insights-X Fair with the assortment of new products (left) and the new Westcott magnets.

Spread across an area of 26,000m² (280,000 square feet), 321 exhibitors from 41 countries took advantage of the opportunity to showcase their latest products and innovations. One of those exhibitors was Acme United. Its European team presented

plenty of new products to specialist retailers and buyers. Georg Bettin, the Managing Director of Acme United Europe, commented, "Also this year, Insights-X was a successful event for our Company, as we had lots of interesting meetings with existing and potential customers."

The team introduced plenty of new items, such as magnets, clip boards, and several metal clips in all shapes and sizes. These items are already available and sold both under the Westcott brand and private label.

Although these aren't high-priced items, they sell in large quantities. And having them in the assortment makes it more convenient for buyers that already purchase scissors, pencil sharpeners or rulers from Acme United, to also buy these everyday school and office products from the same supplier.

The Insights-X expo gives visitors the opportunity to forge important business contacts, whilst allowing exhibitors to invest plenty of time in talking to customers.

A total of 5,669 trade visitors from 85 countries found their way to the Exhibition Centre. With 56 percent of exhibitors and 43 percent of visitors travelling to Nuremberg from abroad, the expo has clearly made its mark on the international stage.

Cuda Impresses at ICAST Show

The International Convention of Allied Sportfishing Trades, better known as ICAST, is the world's largest sport fishing industry trade show. This year's show, held a couple of weeks ago, was again the ultimate showcase for the latest innovations in gear, accessories and apparel that help to make a day on the water both exciting and rewarding.

Keeping up with that tradition, Cuda launched many new tools at the show with unique features and benefits. Most tools are scheduled to be available in stores from fall in the U.S., Canada, and Europe.

One of the most exciting new products at ICAST this year was the Cuda Bait Dehooker, which quickly and easily removes bait from Sabiki® rigs (click to see video). Featuring an

ergonomic trigger handle for rapid bait release fishermen are able to safely control hooks and line while dehooking. The handle has the Cuda Scale Pattern, which provides a secure and comfortable grip in all environments and conditions.



The Cuda Dehooker was the star of this year's ICAST show in Orlando, Florida.

The Cuda team had excellent meetings at the show with existing and potentially new customers. Mr. Johnsen commented, "It was probably the best ICAST we've ever had."

OUTLOOK & VALUATION

Changes in the economy, demographics, work environments, technology and job structures are creating new safety challenges and bring with them new workplace risks. So it is imperative that companies large and small keep focusing on safety at work.

As a result, the first aid segment continues to grow at Acme United. In fact, it generates about half of the Company's total revenues, due to excellent growth during the past few years.

Especially the SmartCompliance cabinets are gaining traction thanks to their convenient automatic replenishment system. Every time the Company places a new SmartCompliance unit, the SafetyHub app is capturing an increasing percentage of the refill business.

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.

Also the Camillus, Cuda, and DMT brands are doing well. They continue to gain market share, and are expected to grow again in 2020.

Acme United is well on track to achieve its ninth consecutive year of record sales. In addition, the Company has reduced its net debt by close to \$11 million during the past 12 months. A solid achievement, which provides capital for a potential acquisition.

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 23.37x, up from an average of 22.90x in our previous report. Due to the current uncertainty in the market, and because we want to remain conservative in our estimates, we are going to apply a 15% discount to the industry's average P/E ratio.

Taking the discount into account, we end up with an average P/E ratio of 19.86x for the Housewares & Accessories industry.

Amounts in \$000's	2017	2018	2019E
Total Revenue	130,550	137,321	142,000
Net Income	5,297	4,598	5,200
Annual sales and earnings FY 2017 - 2019E.			
Source: Company Filings and Company estimates			

Applying the 19.86x P/E multiple from the peer group to the estimated EPS for 2019, we reach the following calculation: \$1.48 estimated EPS multiplied by 19.86 = \$29.39.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$29.39, which is 40% above today's stock price.

SHARE DATA & OWNERSHIP

On June 30, 2019 Acme United had approximately 3,486,000 fully diluted common shares outstanding. The principal owners of the Company's common stock are North Star Investment Management Corporation (16.6%), Walter Johnsen (8.7%), Capital Management Corp (7.1%), Renaissance Technologies LLC (4.6%), and Dimensional Fund Advisors (4.6%).

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 2016 – 9M 2019

All numbers in thousands

PERIOD ENDING	FY 2016	FY 2017	FY 2018	9M 2019
Total Revenue	124,574	130,550	137,321	108,585
Cost of Revenue	79,019	82,651	86,672	68,877
Gross Profit	45,555	47,899	50,649	39,708
Operating Expenses				
Selling, General and Administrative	37,113	40,103	43,192	32,679
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	37,113	40,103	43,192	32,679
Operating Income or Loss	8,442	7,796	7,457	7,029
Income from Continuing Operations				
Total Other Income (Expenses) Net	(76)	25	(68)	(52)
Earnings Before Interest And Taxes	8,366	7,820	7,389	6,977
Net Interest Expense	869	1,327	1,858	1,463
Income Before Tax	7,497	6,493	5,531	5,514
Income Tax Expense	1,646	1,196	933	977
Net Income From Continuing Ops	5,851	5,297	4,598	4,537
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	1,245*	-	-
Net Income	5,851	4,052	4,598	4,537
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$5,851	\$4,052	\$4,598	\$4,537

Annual Income Statement FY 2016 – 9M 2019. 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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