

Acme United Corp. (ACU)

Company Report – March 14, 2020

2019 was a remarkable year for Acme United. The worldwide supplier of cutting devices, measuring instruments and first-aid products for school, home, office, industrial and hardware use, achieved record sales for the 9th consecutive year. Net sales for the year ended December 31, 2019 were \$142.5 million, compared to \$137.3 million in 2018, an increase of 4%.

Moreover, the decisive steps which Acme took in Q4 of 2018 to reduce annual recurring costs by up to \$1.3 million had an astonishing result. Net income for the year ended December 31, 2019 was \$5.5 million, or \$1.60 per diluted share, compared to \$4.6 million, or \$1.30 per diluted share in 2018, increases of 20% and 23%, respectively!

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.

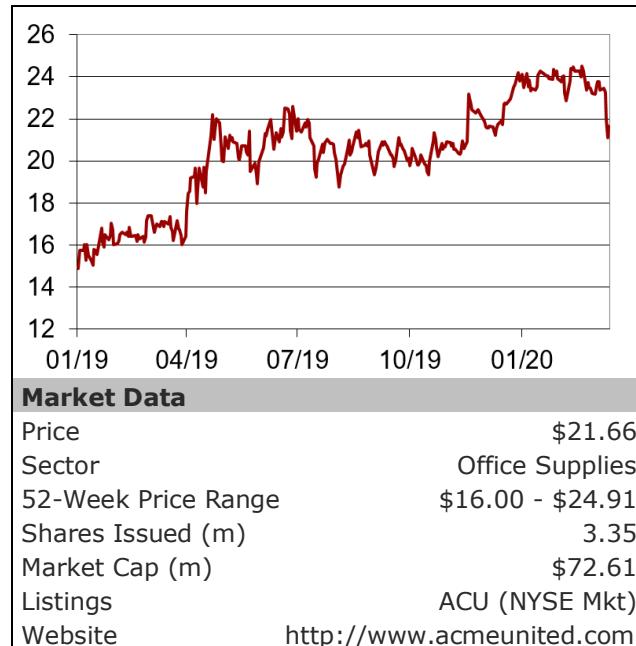
Contrary to most other companies, Corona may pose an opportunity for upside for Acme United. First, because the Company has a diversified worldwide supply base, and second because it has a large enough inventory to supply its existing and new clients.

We reiterate our buy recommendation for Acme United Corp. with a price target of \$32.86, which is 51% above today's stock price.



Acme United Corporation

- ▣ Acme began 2020 on a strong note, acquiring First Aid Central, a Canadian first aid and safety supplier, in early January. The acquisition expands the Company's product offerings, global distribution capabilities and online presence. First Aid Central is doing well and is already contributing to Acme's top and bottom line. Moreover, it could become a platform of growth and more acquisitions in a fragmented Canadian first aid market.
- ▣ 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.



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 largely owes its growth in 2019 to its first aid division. The First Aid Only brand introduced the next generation of SmartCompliance first aid cabinets, which gained traction thanks to their convenient automatic replenishment system. In addition, 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. In 2019, SmartCompliance gained major distribution in the energy, industrial, food, retail markets.

The Company also noted strong sales of its new Westcott "Glide" scissors to mass market retailers, distributors and office supply companies. These particular scissors have adjustable tension and operate more smoothly than traditional scissors.

Also Camillus knives continued to gain market share in the U.S. and Canada. The Westcott glue guns gained distribution in the craft and mass markets, while the brand's ceramic cutters were successfully sold to major distribution centers.

Moreover, the Company recently acquired the assets of First Aid Central, a Canadian first aid and safety supplier. The company had

revenues in 2019 of approximately C\$4.3 million. The purchase price was not disclosed. The acquisition is expected to be accretive during 2020.

Chairman and CEO Walter C. Johnsen said during the 4th quarter conference call, "With our continuing sales momentum in first aid and safety products, expanded line of Westcott cutting tools, increased capacity at DMT, and contributions from our recent acquisition of First Aid Central, we believe we are well positioned for growth in 2020."



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. **In times of Corona, this is a valuable asset.**

Corona Could Become An... Opportunity

With parts of China under lockdown in an effort to contain the Coronavirus, exports have slowed dramatically from the country. As a result, inventory levels for many products might become under pressure. In addition, developing a supply chain response in the short term is extremely challenging.

Contrary to most other companies though, this sad situation might pose an opportunity for upside for Acme United.

First of all, Acme United has a large enough inventory to supply its existing and new clients - which may not be able to get products from their usual supplier. Undoubtedly, some of these new customers will continue to re-order at Acme even when their former supplier has stocked its inventory again.

Another positive given for Acme is that it has a diversified supply base. Currently, Acme sources products from manufacturers in countries such as Egypt, Italy, and Colombia.

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 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.



Acme United sells between 60 and 80 million scissors annually.

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. In fact, the 42th edition of the SHOT show, which was held earlier this year, was a hit for the brand with plenty of new orders and sales leads (Also read Recent Events).

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 most recent ICAST fishing show, Cuda introduced plenty of new tools, including a very special dehooker.



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

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.

At the most recent NSC Congress & Expo, 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.

In addition, First Aid Only launched new Bleeding Control kits at NSCs, 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 dressings, Israeli bandages, and the easy-to-use and effective SWAT-T™ "Stretch, Wrap, and Tuck" Tourniquet.

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.

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.



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.

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

Net sales for the fourth quarter ended December 31, 2019 were \$33.9 million, compared to \$31.1 million in the comparable period of 2018, an increase of 9%. Net income for the quarter ended December 31, 2019 was \$977,000, or \$0.28 per diluted share, compared to \$591,000, or \$0.17 per diluted share, an increase of 65% for both net income and earnings per share.

Amounts in \$000's	12/31/19	12/31/18
Net Sales	33,873	31,130
Cost of Goods Sold	21,579	19,768
S, G & A Expenses	10,893	10,269
Income From Operations	1,401	1,093
Pre-Tax Income	1,029	598
Income Tax Expense	52	7
Net Income (Loss)	977	591
Diluted Shares Outs.	3,495	3,421
Diluted EPS	0.28	0.17
Selected income statement data for the quarters ending December 31, 2019 and December 31, 2018. Source: Company Press Release		

As for the fourth quarter, ended December 31, 2019, sales reached \$33.9 million, compared to \$31.1 million in the comparable period of 2018, an increase of 9%. Net income for the quarter ended December 31, 2019 was \$977,000, or \$0.28 per diluted share, compared to \$591,000, or \$0.17 per diluted share, **an increase of 65% for both net income and earnings per share.**

Gross margin was 36.3% in the three months ended December 31, 2019 compared to 36.5% in the same period in 2018. Gross margin was 36.5% for the year ended December 31, 2019 compared to 36.9% for 2018.

U.S. and European Segments Excel

Acme United reports financial information on three separate business segments: the United States (including Asia), Canada and Europe. Exact revenues per segment for 2019 will be available in the 10-K report, which will be filed in a few days. However, Acme announced for each segment the percentage by which revenues increased or decreased compared

with last year. Based on those numbers, we provided the following estimate.

Amounts in \$000's	Q4 2019	Q4 2018
U.S.	125,689	120,993
Canada	6,748	7,040
Europe	10,021	9,288
Estimated sales per segment for the year ended December 31, 2019 (Source: Smallcaps Investment Research) and actual sales per segment for the year ended December 31, 2018 (Source: Company Filing)		

In the Company's U.S. segment, net sales for the quarter ended December 31, 2019 increased 11% compared to the same period in 2018. Net sales for the year ended December 31, 2019 grew 4% over 2018. As mentioned above, the sales increase for both periods was mainly due to strong sales of first aid and safety products.

Net sales in Canada for the quarter ended December 31, 2019 decreased 4% in both U.S. dollars and local currency compared to the prior-year period. Net sales for the year ended December 31, 2019 decreased 5% in U.S. dollars and 3% in local currency compared to the same period in 2018. The sales decline was especially due to weakness in the office channel.

Net sales in Europe for the quarter ended December 31, 2019 decreased 10% in U.S. dollars and 7% in local currency compared to the same period in 2018. Net sales for the year ended December 31, 2019 increased 8% in U.S. dollars and 14% in local currency compared to last year. The sales decline in the quarter was mainly due to a large promotional sale in the fourth quarter of 2018 that did not repeat in 2019. Net sales for the year grew mainly due to new customers in the office products channel and growth in sales of DMT sharpening products. Also online sales grew significantly. In fact, Amazon.de – the German sister website of Amazon – is now Acme Europe's biggest customer.

Balance Sheet as of December 31, 2019

The Company's debt less cash on December 31, 2019 was \$30.0 million compared to \$39.6 million on December 31, 2018. During

2019, the Company distributed \$1.6 million in dividends on its common stock and generated \$13.0 million in free cash flow, including a \$2.1 million reduction in inventory.

Acme now has \$20 million in access borrowing capacity, enabling the Company to continue to finance its growth and make accretive acquisitions.

Amounts in \$000's	12/31/19	12/31/18
Cash and Cash Eq.	6,822	4,409
Accounts Receivable	25,485	25,102
Inventories	39,261	41,332
Total Current Assets	73,146	73,372
Property & equipment	14,036	14,543
Intangible Assets, net	15,793	16,664
Total Assets	110,749	109,478
Accounts Payable	6,693	7,983
Total Current Liabilities	16,633	13,365
Bank Debt	33,240	40,283
Total Liabilities	55,044	57,145
Total Stockholder Equity	55,705	52,333
Selected balance sheet data for December 31, 2019 and December 31, 2018. Source: Company Press Release		

At the end of the 2019, Acme had more than \$56.5 million in working capital and a solid current ratio of 4.39.

RECENT EVENTS

Paperworld Show Unveils Outstanding Growth Prospects For Acme United Europe

Paperworld, the largest office and stationery trade fair in the world, was held last month in Frankfurt, Germany. A total of 1,591 exhibitors from 69 countries presented their products, and over 30,000 visitors discovered product innovations in the areas of school & office supplies, writing instruments, and stationery.

Also Acme United's European team had a booth at the show. Several new products were launched under the Westcott brand. Although these are everyday items, adding them to the range makes it convenient for customers to

see Westcott as a one-stop shop for all their school and office supplies.

While in previous years, most of Acme's focus during Paperworld was on typical school and office products, such as scissors, rulers, and paper trimmers, this year was somewhat different. The European team received some very good feedback on its extended first aid product range. In fact, several new prospects approached Acme themselves because they had seen the first aid offering.



Paperworld is one of the highlights of the year for the office and stationary sectors. For Acme United Europe, the show was a big success as the team returned home with plenty of new sales leads and orders.

In Europe, there's an overall regulation for first aid items. However, every country has its own specific set of regulations as well, such as labeling. This makes it hard on most companies to sell in different countries, causing many and quite heterogeneous players to compete. This obviously creates an opportunity for Acme United to gain some serious market share in Europe.

The first signs of growth are already present. A big online office products customer in Germany recently has started listing Acme's range of first aid products. Sales in the first weeks exceed expectations. It's good to know that a few years ago, lots of office customers added facility management products to their assortment to compensate declining sales in the office channel. The first aid products obviously fall right into the facility management category.

As a result of all this activity in first aid, Acme's European team has decided to double

or even triple the existing first aid range during the next six months.

Georg Bettin, the Managing Director for Acme United Europe, commented, "Frankfurt's Paperworld is one of the most important trade shows for our Company. All the trends and industry innovations come together at the fair. Once again we were able to highlight our new products and create opportunities for our business with existing and new customers."

Camillus Knives Again Demonstrates Growth Opportunities at SHOT Show

Late January 2020, the Shooting, Hunting and Outdoor Trade Show (SHOT Show) concluded its four-day run with attendees optimistic of building on last year's increase in sales of industry products.

The 42nd edition of the SHOT Show at the Sands Expo Center, displayed products used for target shooting, hunting, outdoor recreation and law enforcement purposes. More than 55,000 industry professionals attended the event, with the number of exhibiting companies exceeding 2,500. Product display booths covered more than 692,000 net square feet, or nearly 16 acres, of exhibit space.



Camillus introduced several shorter knives this year. In some jurisdictions, blade length is limited to 2.5", so there is growing demand for them. The **LK6** folder, for example. This is an extremely stout knife that boasts a 2.5" Titanium Bonded D2 stainless steel blade. Dual ball bearings in the pivot allow for smooth and convenient opening. The knife

uses a G10 handle paired with a stainless steel frame lock. Even though the knife is relatively short, it has great ergonomics that allow for a clean overall look and feel.



The **Wedge** is even a bit shorter with a blade of 2.25" and a length of 5.5" overall. The very attractive knife features a Titanium bonded 420 stainless steel blade, dual stainless steel ball-bearing cam system and a secure-grip, glass filled nylon handle.



The **Heater 2** is the shortest of them all. It is a 4.25" overall fixed blade knife made out of Carbonitride Titanium. The original Heater, which was launched in 2017 is has been an incredible success for Camillus. The brand is now introducing the next generation with a glass filled nylon handle, bottle opener and an upgraded hard sheath.

Sam Dodge, Senior Brand Manager for Camillus Knives said, "Camillus has once again delivered a new line of knives that are strategic to the trends, technology, ergonomics and are positioned for the ultimate value to the sporting and outdoor enthusiast. At our core we build products that satisfy the passion for the outdoors, each detail and feature are things we would look

for if we were to put ourselves in the customer shoes. Our 2020 line could not have had a better launch and we are excited to everyone to get their hands on them."

GROWTH DRIVER

Acme United Acquires Canadian First Aid and Safety Supplier

Acme United's management had been hinting for a while that a new acquisition might be on the way. Early 2020, the Company opened up the Canadian first aid market thanks to the acquisition of First Aid Central (FAC), a Canadian owned and operated manufacturer of first aid kits and safety supplies.

In business for over 12 years, FAC is a provider of cost effective first aid products for individuals and businesses in every industry. FAC generated approximately C\$4.3 million in revenues in 2019. Although an acquisition price was not disclosed, Acme United did mention that it expects FAC to be accretive in 2020.



First Aid Central's first aid kits are available at retailers across Canada. In addition, hundreds of companies rely on the first aid kits and products to protect their employees in the workplace.

What makes this acquisition so attractive – next to the financial aspect – is the fact that FAC holds a valid **Medical Device Establishment License** issued by Health Canada. This requirement helps to ensure that certain regulatory requirements and procedures are in place with regards to the medical products that FAC offers in Canada.

This license is hard to obtain and truly opens many doors in Canada for Acme United. Several of Acme's multinational customers that already purchase first aid products in the United States, can now also be served in their Canadian branches. After all, regulations

regarding medical products are very strict and differ significantly country by country.

Based in Laval, Canada, FAC produces and sells a complete line of first aid kits, refills, and safety products that cover all personal and industrial needs as well as provincial and federal regulations.

While FAC ensures that its products are of the highest standard, its national accounts and re-sellers, benefit from receiving competitive preferred distributor pricing. Some of its products include:

- CPR Kits - A variety of single use CPR kits to defibrillators.
- First Aid Kits - Personal use first aid kits.
- Sports Kits - Ideal for the active person or for sports teams.
- Automotive Safety Kits - Assortment of first aid and automotive emergency supplies.
- Emergency Preparedness Kits for flooding, fire, hurricane or earthquake.
- Pet First Aid kits.

Walter C. Johnsen, Chairman and CEO of Acme United, commented on the acquisition by saying, "We are delighted to bring First Aid Central and its talented team of employees into our organization. We intend to use the Laval location to expand production. We believe our global customers will benefit from local production and service of our product line in Canada."

The fact that FAC's products meet federal Health Canada and provincial regulatory requirements is crucial in this acquisition, as it gives Acme United access to the vast Canadian market. This will surely help grow the Company's first aid related revenues further.

Moreover, Acme has a history of rapidly integrating acquisitions in its existing structure. We have every reason to believe it will be identical this time around.

A final advantage of the acquisition is that it will give the financial results of Acme's Canadian division a significant boost.

OUTLOOK & VALUATION

2019 was an excellent for Acme United from many different perspectives. The Company achieved its ninth consecutive year of record sales, generated strong cash flow, increased its dividend, and reduced net debt by almost \$10 million.

Acme also began 2020 on a strong note, acquiring First Aid Central, a Canadian first aid and safety supplier, in early January. The acquisition expands the Company's product offerings, global distribution capabilities and online presence. First Aid Central is doing well and is already contributing to Acme's top and bottom line. Moreover, it could become a platform of growth and more acquisitions in a fragmented Canadian first aid market.

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. 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.

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 28.45x, up from an average of 23.37x 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 30% discount to the industry's average P/E ratio.

Taking the discount into account, we end up with an average P/E ratio of 19.92x for the Housewares & Accessories industry.

So far, Acme hasn't provided guidance for 2020. Mr. Johnsen did indicate that the Company is well positioned for growth. As a result, we believe that an EPS objective of \$1.65 for 2020 is realistic.

**Applying the 19.92x P/E multiple from the peer group to the estimated EPS for 2020, we reach the following calculation:
\$1.65 estimated EPS multiplied by 19.92 = \$32.86.**

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$32.86, which is 51% above today's stock price.

SHARE DATA & OWNERSHIP

On November 1, 2019 Acme United had approximately 3,352,130 common shares outstanding. The principal owners of the

Company's common stock are North Star Investment Management Corporation (16.8%), Walter Johnsen (9.1%), Capital Management Corp (9.0%), Renaissance Technologies LLC (5.3%), and Dimensional Fund Advisors (4.8%).

MANAGEMENT

■ WALTER C. JOHNSEN - CHAIRMAN AND CEO

Mr. Johnsen has served as director since 1995 and as Chairman and Chief Executive Officer since November 30, 1995. Before joining the Company he was Vice Chairman and a principal of Marshall Products, Inc., a medical supply distributor.

■ PAUL DRISCOLL - VICE PRESIDENT AND CFO, SECRETARY AND TREASURER

Mr. Driscoll has served as Vice President and Chief Financial Officer, Secretary and Treasurer since October 2, 2002. Mr. Driscoll joined Acme as Director International Finance on March 19, 2001. From 1997 to 2001 he was employed by Ernest and Julio Gallo Winery including two years in Japan as Director of Finance and Operations. Prior to Gallo he served in several increasingly responsible positions in Sterling Winthrop Inc. in New York City and Sanofi S.A. in France.

■ BRIAN OLSCHAN - PRESIDENT AND COO

Mr. Olschan served as Senior Vice President of Sales and Marketing from September 10, 1996 until January 22, 1999. Effective January 23, 1999, he was promoted to President and Chief Operating Officer. From 1984 to 1996, he was employed by General Cable Corporation in various executive positions.

ANNUAL INCOME STATEMENT FY 2016 – FY 2019

PERIOD ENDING	All numbers in thousands			
	FY 2016	FY 2017	FY 2018	FY 2019
Total Revenue	124,574	130,550	137,321	142,457
Cost of Revenue	79,019	82,651	86,672	90,456
Gross Profit	45,555	47,899	50,649	52,001
Operating Expenses				
Selling, General and Administrative	37,113	40,103	43,192	43,572
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	37,113	40,103	43,192	43,572
Operating Income or Loss	8,442	7,796	7,457	8,429
Income from Continuing Operations				
Total Other Income (Expenses) Net	(76)	25	(68)	(98)
Earnings Before Interest And Taxes	8,366	7,820	7,389	8,331
Net Interest Expense	869	1,327	1,858	1,788
Income Before Tax	7,497	6,493	5,531	6,543
Income Tax Expense	1,646	1,196	933	1,030
Net Income From Continuing Ops	5,851	5,297	4,598	5,513
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	1,245*	-	-
Net Income	5,851	4,052	4,598	5,513
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$5,851	\$4,052	\$4,598	\$5,513

Annual Income Statement FY 2016 – FY 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.



Acme United Corporation

US: ACU

Company Headquarters

55 Walls Drive, Suite 201
Fairfield, CT 06824
United States

Company Contact Information

Paul G. Driscoll, Chief Financial Officer
Phone: +1 203-254-6060
Fax: +1 203-254-6019

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Contact: editor@smallcaps.us

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