

Acme United Corp. (ACU)

Company Report – August 22, 2020

Acme United, the worldwide supplier of cutting devices, measuring instruments and first-aid products for school, home, office, industrial and hardware use announced that sales for the second quarter ended June 30, 2020, reached \$44.0 million, an increase of 9% compared with sales of \$40.2 million in the second quarter of 2019.

First Aid Central (FAC), which was acquired by Acme in January of 2020, contributed about US\$1.1 million to second quarter revenues. FAC, which is based in Laval, Canada, expanded Acme's ability to provide safety products which meet Health Canada regulations through the Company's existing Canadian customer base as well as its large multinational customers.

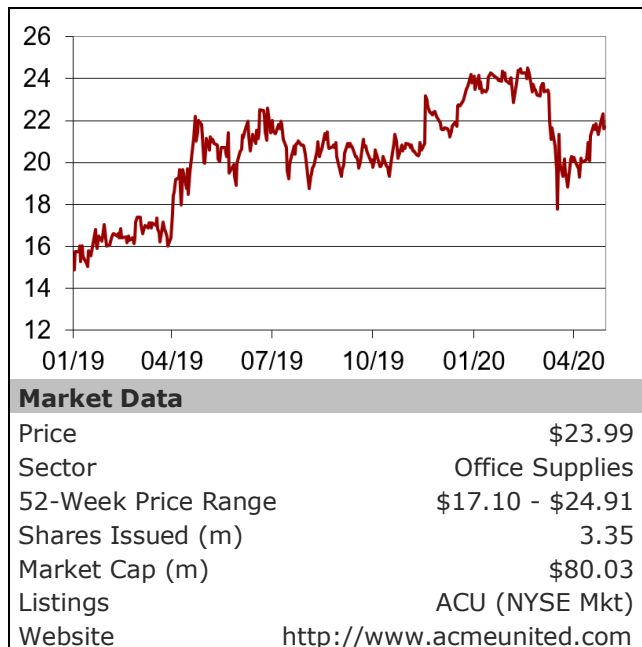
Similar to Acme's first quarter results, Q2 also benefitted from sales of first aid and safety products due to market share gains and a surge of approximately \$1.5 million of sales of COVID-related supplies.

Net income in the second quarter of 2020 reached \$3.2 million, or \$0.92 per diluted share, compared to \$2.6 million, or \$0.77 per diluted share, for the same period in 2019, increases of no less than 20% and 19%, respectively.

We reiterate our buy recommendation for Acme United Corp. with a price target of \$38.73, which is 61% above today's stock price.



- 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, Acme United's first aid segment continues to grow. 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.
- Acme United 's solid financial results also make it unlikely that the Company will have to suspend its quarterly dividend as so many companies have in light of COVID-19. This is excellent news for long term shareholders.



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.

For the quarter ended June 30, 2020 Acme United achieved net sales of \$44.0 million compared to \$40.2 million in the second quarter of 2019, an increase of 9%. Net sales for the six months ended June 30, 2020 were \$79.8 million, compared to \$71.6 million in the same period in 2019, an increase of 11%.

Net income was \$3,199,000 or \$0.92 per diluted share for the quarter ended June 30, 2020 compared to \$2,672,000, or \$0.77 per diluted share, for the comparable period last year, an increase of 20% in net income and 19% in diluted earnings per share. Net income for the six months ended June 30, 2020 was \$4,476,000, or \$1.28 per diluted share, compared to \$3,478,000, or \$1.01 per diluted share, in last year's same period, increases of 29% and 27%, respectively.

The major contributor to this result was strong sales of first aid and safety products, primarily due to continued market share gains in the industrial, safety, home improvement, mass market, and ecommerce channels. In addition, there was growth from a surge in demand for first aid and safety products related to COVID-19.

In addition, Camillus knives and also DMT continue to outperform. The diamond sharpener brand has expanded its production capacity in recent quarters and is running at full capacity.

Moreover, Acme has a solid balance sheet with over \$14 million additional borrowing

capacity under its \$50 million line of credit with HSBC Bank.

Because COVID-19 will play an important role the coming quarters, we expect Acme's first aid sales to continue to outperform.

Commenting on the second quarter, Chairman and CEO Walter C. Johnsen said, "This was a very difficult quarter that ended with good results. We benefited from the diversification during the past 5 years of our customer base and product lines. I am incredibly proud of our team. They are working under difficult conditions with a sense of purpose, and delivering results."



First Aid Central, which was acquired early 2020, already contributed \$2.1 million in sales during the first six months of the year.

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.

Acme United pays a quarterly dividend of 12 cents per share. Traditionally the Company increases the amount by 1 cent every 6 to 8 quarters.

Acme's Response to COVID-19

Acme United's sales teams and offices in the U.S., Hong Kong, Canada, and Germany are working remotely together. The warehouses in Canada and Germany are functioning and the five plants and warehouses in the United States are even running multiple shifts.

Although demand for antiseptic wipes, isolation gowns, masks, and gloves is at record levels worldwide, Acme is able to purchase them thanks to its excellent relationship with Chinese suppliers with whom the Company has worked for many years.

In many cases, Acme purchases these items on the **spot market** through its Hong Kong office at a cost well above normal, and then adjusts the price accordingly to its customers.

SPOT MARKET

The spot market is a market in which goods are bought and sold for immediate delivery at a price that is good only at a particular moment in time. Delivery usually takes place in the same or next business day.

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.



Acme United sells between 60 and 80 million scissors annually.

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. 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 introduced several shorter knives this year. The LK6 folder, for example, is an extremely stout knife that boasts a 2.5" Titanium Bonded D2 stainless steel blade.

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.

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 several new tools and accessories to help make a day on the water both exciting and rewarding (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 SmartCompliance requisition app simplifies supply requisitioning and keeps first aid cabinet organized and in compliance.

The First Aid Only SafetyHub app, which is available for both Apple and Android, 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 pressings, 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.

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

For the six months, ended June 30, 2020, net sales were \$79.8 million, compared to \$71.6 million in the same period in 2019, an increase of 11%. First Aid Central contributed \$2.1 million in sales during the first six months of the year. Net income for the six months ended June 30, 2020 was \$4.4 million or \$1.28 per diluted share, compared to \$3.4

million or \$1.01 per diluted share in the comparable period last year, increases of 29% and 27%, respectively.

Amounts in \$000's	06/30/20	06/30/19
Net Sales	44,042	40,220
Cost of Goods Sold	27,989	25,449
S, G & A Expenses	11,670	11,003
Income From Operations	4,383	3,768
Pre-Tax Income	4,150	3,263
Income Tax Expense	951	592
Net Income (Loss)	3,199	2,671
Diluted Shares Outs.	3,482	3,485
Diluted EPS	0.92	0.77
Selected income statement data for the quarters ending June 30, 2020 and June 30, 2019. Source: Company Press Release		

Gross margin was 36.5% in the second quarter of 2020 versus 36.7% in the comparable period last year. Gross margin was 37.1% in the each of the six months ended June 30, 2020 and 2019.

SG&A expenses for three months ended June 30, 2020 were \$11,670,000 (26.5% of net sales) compared with \$11,003,000 (27.4% of net sales) in the same period in 2019, an increase of \$667,000. SG&A expenses for the six months ended June 30, 2020 were \$23,191,000 (29.1% of net sales) compared with \$21,271,000 (29.7% of net sales) for the same periods of 2019, an increase of \$1,920,000. The increases in SG&A expenses for three and six months ended June 30, 2020, compared to the same periods in 2019 were primarily due to higher commissions and shipping costs related to higher sales, provision for bad debt primarily related to the impact of COVID-19 on our customers, as well as added expenses related to the acquisition of First Aid Central partially offset by lower travel and marketing expenses.

Interest expense, net for the three months ended June 30, 2020 was \$234,000 compared with \$491,000 in the same period of 2019, a \$257,000 decrease. Interest expense, net for the six months ended June 30, 2020 was \$554,000 compared with \$994,000 for the same period of 2019, a \$440,000 decrease. The decrease in interest expense resulted from a lower average interest rate as well as

lower average debt outstanding, under the Company's revolving credit facility.

U.S. and European Segments Shine

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

Amounts in \$000's	Q1 2020	Q1 2019
U.S.	38,472	34,958
Canada	2,388	2,216
Europe	3,182	3,046
Sales per segment for the quarters ending June 30, 2020 and June 30, 2019. Source: Company Filing		

Net sales for the second quarter and the first six months of 2020 in the U.S. segment increased 10% compared to the same periods in 2019 again thanks to strong first aid sales.

European net sales for the second quarter of 2020 increased 4% in U.S. dollars and 6% in local currency compared to the second quarter of 2019. Net sales for the six months ended June 30, 2020 increased 9% in U.S. dollars and 12% in local currency compared to the first half of 2019. The increases for both the quarter and six months were mainly due to growth in sales of Westcott and Camillus products in the ecommerce channel and continued growth of DMT sharpening products.

Net sales in Canada, excluding First Aid Central products, for the second quarter of 2020 declined 44% in U.S. dollars and 42% in local currency compared to the same period in 2019. Net sales for the six months ended June 30, 2020 decreased 27% in U.S. dollars and 25% local currency compared to the first half of 2019. These decreases reflected declines in sales of office products due to office and store closings as a result of COVID-19.

Balance Sheet as of June 30, 2020

The Company's debt less cash on June 30, 2020 was \$37.3 million compared to \$41.0 million on June 30, 2019. During the twelve-month period ended June 30, 2020, the Company paid approximately \$2.1 million for the acquisition of the assets of First Aid

Central, distributed \$1.6 million in dividends on its common stock, and generated \$9 million in free cash flow.

It is especially noteworthy that Acme was able to increase its cash position by more than \$3 million, while at the same time also increase its inventories by almost \$5 million. An impressive achievement!

Amounts in \$000's	06/30/20	06/30/19
Cash and Cash Eq.	5,239	1,924
Accounts Receivable	44,311	35,462
Inventories	44,311	39,615
Total Current Assets	85,708	79,086
Property & equipment	14,278	14,200
Intangible Assets, net	15,164	16,422
Total Assets	123,536	117,030
Accounts Payable	8,733	9,931
Total Current Liabilities	20,613	18,050
Bank Debt	35,742	39,388
Total Liabilities	64,529	62,228
Total Stockholder Equity	59,007	54,802

Selected balance sheet data for June 30, 2020 and June 30, 2019. Source: Company Press Release

Also note that Acme received a loan of \$3.5 million from the Paycheck Protection Program during the second quarter of 2020. These proceeds were applied to payroll expenses. The loan enhanced the Company's ability to maintain its entire payroll during uncertain times.

RECENT EVENTS

Online ICAST Doesn't Stop Cuda From Moving Forward

Cuda continues to perform very well. Last month, ICAST, the world's largest sportfishing trade show, cancelled its physical event. Nevertheless, Cuda introduced several new tools and accessories to help make a day on the water both exciting and rewarding.

For example, new heavy duty mono cutters will soon enter the market. Made out of Zirconium infused stainless steel, the cutters are designed for the commercial fishing

market as they provide a solution for heavy duty 400lb mono cutting. Also fingerless Cool & Dry fishing gloves will soon be available at a major retailer. These gloves are designed to absorb sweat and cool a user off with patches on the back of the hand (one patch keeps you dry and the other keeps you cool). A true innovation to the glove category. In addition, a tape measure with inches on one side and centimeters on the back side, will be launched. The tape is UV protected, tear-resistant, and has magnetic ends for easy fold and storage.



At the most recent ICAST fishing show, Cuda introduced several new tools and accessories to help make a day on the water both exciting and rewarding.

Although the cancellation of ICAST was tough, as it is the largest annual marketing event for Cuda, the brand was able to do its own outreach to existing and new potential customers. Good to know is that distribution of the Cuda products continues to expand to many online and physical stores and chains.

From its humble beginnings in 2014, Cuda has evolved to a brand with over 125 different products in its range today. Consequently, it's safe to say that Cuda has a tool that will satisfy every freshwater, saltwater, inshore, offshore or river bank angler.

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.

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. The first quarter of 2020 was a good indication, as FAC contributed US\$1 million in sales.

OUTLOOK & VALUATION

When Acme United announced its second quarter results a couple of weeks ago, it was refreshing to find out how quickly the Company had adapted to the new world that we currently live in.

Next to record breaking Q2 sales and earnings, Acme was also positive about the future. The Company mentioned that overall sales of its Westcott, Cuda, and Camillus brands increased and continued to do so.

Although schools may not immediately open when the new school year starts, students will get educated, and as such need school supplies. As a result, sales of Westcott are not only holding up, but are in fact increasing. In addition, Westcott will re-emphasize on its anti-microbial scissors and rulers, which it launched a couple of years ago. Although they were a success when first launched, the second time around may be much bigger, as

parents, more than ever, focus on keeping their children germ-free.

Also strong sales of Cuda, the fresh and saltwater fishing tools brand, and Camillus, the world-renowned knife brand, may have come as a surprise due to COVID-19, but were somewhat logical as people seek more isolated activities, away from large crowds. Fishing, hunting, and camping all fall under that category.

Of course, the main driver for Acme United's solid numbers in the second quarter was first aid. The SmartCompliance business, for example, is becoming a bigger success every day. This is a typical razor/razorblade sales model, as Acme initially benefits from the placement of the first aid kits, and then as people use the components, there's a strong resale business. In fact, revenues from refills about equal sales of the kits.

Good to know is that the Company introduced new personal protection kits that have gloves, sanitizers, masks, wipes and thermometers for use in offices, schools, dining facilities, planes and many other locations. These new items will ship in the current quarter.

The COVID-19 pandemic has changed the way the world is doing business right now. However, innovation never stops. This is again why Acme is able to outperform, as innovation is truly in the heart and soul of the Company.

Although financial results are even more uncertain now than in other years, we feel that there are many positive signs for a solid third quarter for Acme United. In fact, the Company is significantly increasing its inventory as it expects a strong order flow and wants to be prepared for potential supply chain disruptions during the coming quarters.

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 30.75x, up from an average of 30.34x 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 21.52x for the Housewares & Accessories industry.

In the first half of 2020, Acme has earned \$1.28 per share, compared with \$1.01 in 2019. In the second half of last year, Acme earned \$0.59 per share for total earnings per share of \$1.60 in 2019. When we add \$0.59 (EPS second half 2019) to \$1.28 (EPS first half 2020), we wind up with total EPS of \$1.87 for 2020.

However, because we again want to remain very conservative, we set our EPS objective for Acme United in 2020 at \$1.80. Note that this is a very conservative estimate and that the objective can again be increased after the Q3 financials have been announced.

Applying the 21.52x P/E multiple from the peer group to the estimated EPS for 2020, we reach the following calculation: \$1.80 estimated EPS multiplied by 21.52 = \$38.73.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$38.73, which is 61% above today's stock price.

SHARE DATA & OWNERSHIP

On August 3, 2020 Acme United had approximately 3,336,000 common shares outstanding. The principal owners of the Company's common stock are Capital Management Corp (12.2%), North Star Investment Management Corporation (12.1%), Walter Johnsen (9.1%), Renaissance Technologies LLC (5.5%), and Dimensional Fund Advisors (4.9%).

MANAGEMENT

▣ **WALTER C. JOHNSEN - CHAIRMAN AND CEO**

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

▣ **PAUL DRISCOLL - VICE PRESIDENT AND CFO, SECRETARY AND TREASURER**

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

▣ **BRIAN OLSCHAN - PRESIDENT AND COO**

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

ANNUAL INCOME STATEMENT FY 2017 – 6M 2020

All numbers in thousands

PERIOD ENDING	FY 2017	FY 2018	FY 2019	6M 2020
Total Revenue	130,550	137,321	142,457	79,817
Cost of Revenue	82,651	86,672	90,456	50,234
Gross Profit	47,899	50,649	52,001	29,583
Operating Expenses				
Selling, General and Administrative	40,103	43,192	43,572	23,191
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	40,103	43,192	43,572	23,191
Operating Income or Loss	7,796	7,457	8,429	6,392
Income from Continuing Operations				
Total Other Income (Expenses) Net	25	(68)	(98)	(36)
Earnings Before Interest And Taxes	7,820	7,389	8,331	6,356
Net Interest Expense	1,327	1,858	1,788	554
Income Before Tax	6,493	5,531	6,543	5,802
Income Tax Expense	1,196	933	1,030	1,326
Net Income From Continuing Ops	5,297	4,598	5,513	4,476
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	1,245*	-	-	-
Net Income	4,052	4,598	5,513	4,476
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$4,052	\$4,598	\$5,513	\$4,476

Annual Income Statement FY 2017 – 6M 2020. 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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US: ACU

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