

## Acme United Corp. (ACU) Company Report – November 07, 2020

Acme United is a leading consumer products company with a focus on first aid and safety products, as well as cutting solutions, for commercial and industrial markets worldwide. The Company reached net sales of \$43.3 million in the third quarter ended September 30, 2020, compared to \$37.0 million for the same period of 2019, a solid increase of 17%.

Net income for the three months ended September 30, 2020 was \$1.57 million, or \$0.46 per diluted share, compared to \$1.05 million, or \$0.30 per diluted share, for the comparable period in 2019, an astonishing increases of 49% and 53%, respectively.

As in the first half of the year, Acme’s third quarter results benefited from market share gains in several areas, such as first aid and safety supplies, Westcott craft cutting products, Camillus hunting and Cuda fishing products.

The Company gave no guidance, but knowing that in the first nine months of 2020 it achieved earnings per share (EPS) of \$1.75, and also knowing that it reached EPS of \$.28 in the fourth quarter last year, it is very realistic that Acme United will realize total fiscal year 2020 EPS of \$2.10. This is an increase of more than 30% compared to 2019 earnings per share of \$1.60.

We reiterate our buy recommendation for Acme United Corp. with a price target of \$46.95, which is 73% 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 September 30, 2020 Acme United achieved net sales of \$43.3 million compared to \$36.9 million in the third quarter of 2019, an increase of 17%. Net sales for the nine months ended September 30, 2020 were \$123.1 million, compared to \$108.6 million in the same period in 2019, an increase of 13%.

Net income was \$1,579,000 or \$0.46 per diluted share for the quarter ended September 30, 2020 compared to \$1,059,000, or \$0.30 per diluted share, for the comparable period last year, an increase of 49% in net income and 53% in diluted earnings per share. Net income for the nine months ended September 30, 2020 was \$6,055,000, or \$1.75 per diluted share, compared to \$4,537,000, or \$1.32 per diluted share, in last year's same period, an increase of 33% in net income and diluted earnings per share.

The Company's first aid and safety business was the true driver behind this success. Acme gained multi-million dollar contracts at a very large home improvement chain, as well as a huge wholesale club, resulting in third quarter first aid sales of about \$20 million. Personal protection kits, for example, that include gloves, sanitizers, masks, wipes and thermometers, attracted many existing and new customers.

In addition, First Aid Central (FAC), which was acquired by Acme in January of 2020,

contributed about US\$1.1 million to third 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.



**Acme experienced a surge in demand for first aid and safety products related to COVID-19. These sales amounted to approximately \$1.5 million in the third quarter and \$3.0 million for the nine months ended September 30, 2020.**

In addition, the Camillus hunting, Cuda fishing, and DMT sharpening product lines showed excellent growth. Because people seek more isolated activities, away from large crowds, these brands will remain strong performers as COVID-19 continues to spread. In fact, Acme is still increasing the production capacity of its DMT diamond sharpening business, which is helping to propel its growth.

More surprisingly, sales of the Westcott school and office products brand were approximately even with last year's third quarter. Sales to industrial and office customers, such as restaurants, hotels, and food service companies, were severely impacted as those businesses were mostly closed. Sales to the mass and e-commerce markets however, were at record highs. When schools reopened in August and September, sales truly boomed.

Remember, that there are approximately 3.8 million children born a year in the United States. They all need to be properly equipped each year when they're headed off to school.

Acme United started focusing on e-commerce sales many years ago with the result that the Company has gained significant knowledge and capabilities to be on the forefront at online platforms that matter.

Acme's Chairman and CEO Walter C. Johnsen said, "We achieved very strong results in our third quarter by successfully managing and executing across all of our markets under very difficult circumstances. We have successfully shifted our business to support mass market and e-commerce customers, which has compensated for weak sales to offices, schools, restaurants, and other businesses adversely impacted by the COVID-19 pandemic."

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.



**Westcott sells between 60 and 80 million scissors, and between 15 and 18 million rulers 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 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.

**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, 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.



**DMT continues to increase production to satisfy growing demand.**

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, 2020, were \$123.1 million compared to \$108.6 million in the same period in 2019, an increase of 13%. Net income for the first nine months ended September 30, 2020 was \$6.0 million, or \$1.75 per diluted share, compared to \$4.5 million or \$1.32 per diluted share in the comparable period last year, both increases of about 33%.

Amounts in \$000's	09/30/20	09/30/19
Net Sales	43,316	36,995
Cost of Goods Sold	28,360	23,861
S, G & A Expenses	12,832	11,408
<b>Income From Operations</b>	<b>2,124</b>	<b>1,726</b>
Pre-Tax Income	1,991	1,217
Income Tax Expense	412	158
<b>Net Income (Loss)</b>	<b>1,579</b>	<b>1,059</b>
Diluted Shares Outs.	3,461	3,486
Diluted EPS	0.46	0.30

**Selected income statement data for the quarters ending September 30, 2020 and September 30, 2019. Source: Company Press Release**

Gross margin was 34.5% in the three months ended September 30, 2020, compared to 35.5% in the same period in 2019. Gross margin was 36.2% in the nine months ended September 30, 2020, compared to 36.6% in the same period in 2019.

Gross margins were impacted by COVID-19 expenses, such as payment of extra compensation to employees, and additional cleaning and maintenance at the Company's facilities. Acme expects to continue to operate with higher COVI-19 related costs for at least the coming year.

SG&A expenses for the third quarter of 2020 were \$12.8 million or 30% of sales compared with \$11.4 million or 31% of sales for the same period of 2019. SG&A expenses for the first nine months of 2020 were \$36 million or 29% of sales compared with \$32.7 million or 30% of sales in 2019.

Also noteworthy is the significant drop in interest expenses. This is due to the sharp decline in interest rate on its \$50 million line of credit with HSBC Bank. Acme currently borrows at around 2 percent.

## 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 2020	Q3 2019
<b>U.S.</b>	37,799	32,780
<b>Canada</b>	2,216	1,775
<b>Europe</b>	3,301	2,440

**Sales per segment for the quarters ending June 30, 2020 and June 30, 2019. Source: Company Filing**

In the **U.S. segment**, net sales for the three months ended September 30, 2020 increased 12% compared to the same period in 2019. Net sales for the first nine months of 2020 in the U.S. segment increased 11% compared to the same period in 2019. The improvement was mainly attributable to strong sales of first aid and safety products, primarily due to continued market share gains in the industrial, safety, home improvement, mass market and e-commerce channels. In addition, there was a surge in demand for first aid and safety products related to COVID-19. These sales amounted to approximately \$1.5 million in the third quarter and \$3.0 million for the nine months ended September 30, 2020.

In **Europe**, sales for the third quarter of 2020 increased 35% in U.S. dollars and 32% in local currency compared to the third quarter of 2019. Net sales for the nine months ended September 30, 2020 increased 17% in both U.S. dollars and local currency compared to the first nine months of 2019. The sales increase for both periods was primarily due to increased sales of Westcott and Camillus product in the e-commerce channel as well as higher sales of DMT sharpening product.

Net sales in **Canada**, excluding First Aid Central products, for the third quarter of 2020 increased 25% in both U.S. dollars and local currency compared to the same period in 2019 primarily due to an easing of COVID-19 lockdown restrictions and a shift of back-to-school sales from the second quarter to the third quarter. However, year-to-date sales were impacted by the earlier office and store closings. As a result, sales for the nine months ended September 30, 2020 decreased 10% in both U.S. dollars and local currency compared to the first nine months of 2019. Including First Aid Central, sales in the Canadian segment increased 53% year-to-date.

It is very remarkable that Acme’s sales got a boost both in Europe and Canada after offices and schools reopened. The main reason for this might be that Acme United remained open and available for its customers during the lockdown, while many of its competitors temporarily shut their doors.

### Balance Sheet as of September 30, 2020

The Company’s debt less cash on September 30, 2020 was \$34.4 million compared to \$35.9 million on September 30, 2019.

During the twelve-month period ended September 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 \$6.5 million in free cash flow.

Inventory was increased by approximately \$9 million in anticipation of further growth. Moreover, it provides a buffer to offset the

impact of potential supply chain interruptions related to COVID-19. In case those interruptions don’t occur, Acme expects to sell the excess inventory during 2021 through normal sales.

Amounts in \$000's	09/30/20	09/30/19
Cash and Cash Eq.	3,031	5,698
Accounts Receivable	32,154	30,635
Inventories	48,351	38,970
<b>Total Current Assets</b>	<b>85,678</b>	<b>77,090</b>
Property & equipment	14,341	14,006
Intangible Assets, net	16,072	16,107
<b>Total Assets</b>	<b>123,017</b>	<b>114,224</b>
Accounts Payable	9,251	7,217
<b>Total Current Liabilities</b>	<b>23,741</b>	<b>16,606</b>
Bank Debt	30,703	38,125
<b>Total Liabilities</b>	<b>62,421</b>	<b>59,200</b>
Total Stockholder Equity	60,596	55,024
<b>Selected balance sheet data for September 30, 2020 and September 30, 2019. Source: Company Press Release</b>		

At the end of the third quarter of 2020, Acme had close to \$62 million in working capital and a solid current ratio of 3.60.

## 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.



**So far, First Aid Central has contributed approximately \$3.3 million in sales in 2020. FAC has the potential to become a major supplier of first aid products 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.

Mr. 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 gives the financial results of Acme's Canadian division a significant boost.

## OUTLOOK & VALUATION

Acme United is truly running on all cylinders. The Company is achieving strong growth quarter after quarter and year after year, while many of its competitors are crumbling. It is doing so by being bold during these exceptional times.

While competitors are cutting back on advertising, cutting back on new product development, and firing people, Acme is doing the exact opposite. It is putting more money into online advertising, it has intensified product development, and is adding staff.

In short, the Company is executing its growth plan by aggressively seeking new business, while managing new and continuing problems related to the COVID-19 pandemic.

In addition, it continues to look for opportunistic acquisitions. Remember that Acme acquired the assets of First Aid Central in January 2020. So far, FAC has contributed approximately \$3.3 million in sales in 2020. First Aid Central has the potential to become a major supplier of first aid products in Canada.

Over the years, Acme United has gained a strong reputation of finding attractive acquisition targets and integrating them quickly in the organization.

Acme's shares reached a new 52-week high after the excellent third quarter financials were announced. This is certainly not the end of the ride, as the current and following quarters look to be strong as well.

## 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 Mapped 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 22.36x. Applying our full fiscal year EPS estimate of \$2.10 (see front page), and the 22.36x P/E multiple from the peer group, we reach the following calculation: \$2.10 estimated EPS multiplied by 22.36 = \$46.95.

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$46.95, which is 73% above today's stock price.**

## SHARE DATA & OWNERSHIP

On October 21, 2020 Acme United had approximately 3,461,000 common shares outstanding. The principal owners of the Company's common stock are Capital Management Corp (12.8%), North Star Investment Management Corporation (11.4%), Walter Johnsen (8.8%), Renaissance Technologies LLC (6.2%), 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 – 9M 2020

All numbers in thousands

PERIOD ENDING	FY 2017	FY 2018	FY 2019	9M 2020
<b>Total Revenue</b>	<b>130,550</b>	<b>137,321</b>	<b>142,457</b>	<b>123,133</b>
Cost of Revenue	82,651	86,672	90,456	78,594
<b>Gross Profit</b>	<b>47,899</b>	<b>50,649</b>	<b>52,001</b>	<b>44,539</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	40,103	43,192	43,572	36,023
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	40,103	43,192	43,572	36,023
<b>Operating Income or Loss</b>	<b>7,796</b>	<b>7,457</b>	<b>8,429</b>	<b>8,516</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	25	(68)	(98)	(2)
Earnings Before Interest And Taxes	7,820	7,389	8,331	8,514
Net Interest Expense	1,327	1,858	1,788	722
Income Before Tax	6,493	5,531	6,543	7,792
Income Tax Expense	1,196	933	1,030	1,737
Net Income From Continuing Ops	5,297	4,598	5,513	6,055
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	1,245*	-	-	-
<b>Net Income</b>	<b>4,052</b>	<b>4,598</b>	<b>5,513</b>	<b>6,055</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$4,052</b>	<b>\$4,598</b>	<b>\$5,513</b>	<b>\$6,055</b>

**Annual Income Statement FY 2017 – 9M 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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