

Acme United Corp. (ACU)

Company Report – March 20, 2021

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%.

During the first nine months of 2020, Acme United already set a strong performance, but the final quarter was truly the cherry on cake. The Company reported year-on-year revenue gains across every category and in every geography.

For the year ended December 31st, 2020, sales reached \$164 million compared to 142.5 million in 2019, an increase of 15%. It comes as no surprise that Acme achieved record sales for the 10th consecutive year.

Net income for the year ended December 31, 2020 was \$8.1 million or \$2.31 per diluted share, compared to \$5.5 million of net income or \$1.60 per diluted share in the comparable period last year, an increase of 47% of net income and 44% in earnings per share.

We reiterate our buy recommendation for Acme United Corp. with a price target of \$56.49, which is 34% above today's stock price.



- Since the COVID-19 outbreak, kids aren't having sports practices and people working at home have more free time, so it's been an opportunity for families to reconnect with the outdoors. Hunting, camping and fishing is ideal for avoiding the virus because participants are outside and usually a good distance apart.

Although some people, who recently took up hunting or fishing, will return to their old habits once the pandemic ends, many of them will have (re)discovered hunting and spending time in nature. These will be returning consumers of Camillus knives and Cuda fishing gear that add growth beyond the pandemic

- Acme United's strong financials make it possible for the Company to continue paying its attractive quarterly dividend. This is excellent news for long term shareholders.



Market Data	
Price	\$42.00
Sector	Consumer Products
52-Week Price Range	\$17.61 - \$42.14
Shares Issued (m)	3.75
Market Cap (m)	\$157.50
Listings	ACU (NYSE Mkt)
Website	http://www.acmeunited.com

THE COMPANY

Acme United Corporation is a supplier of cutting, measuring and safety products for the school, home, office, outdoors, fishing, hardware, and industrial markets. Its principal products are scissors, rulers, pencil sharpeners, knives and first aid kits.

The Company's products are organized under nine brands: Westcott, Clauss, Camillus, PhysiciansCare, Pac-Kit, First Aid Only, Cuda, DMT, and Spill Magic. Both the number of products offered under these brands, as well as the number of physical and online stores where these products are available, continue to grow.

Acme's net sales for the fourth quarter were \$40.9 million, compared to \$33.9 million in 2019, an increase of 21%. Net income for the fourth quarter of 2020 was \$2 million or \$0.54 per share, compared to a net income of \$1 million or \$0.28 per diluted share for the same period of 2019, an increase of 109% of net income and 93% in earnings per share.

Note that the Company's earnings could have been even higher, if it hadn't been for a one-time charge of \$750,000 for the termination of its Defined Benefit Pension Plan (see Financials below).

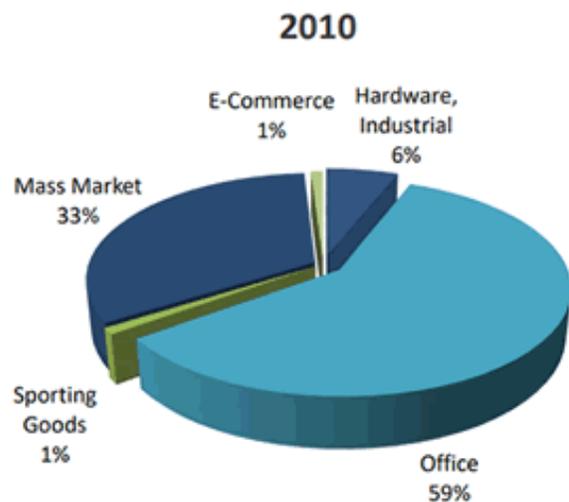
Acme United's revenues in the fourth quarter and year ended December 31, 2020 included approximately \$1.2 million and \$4.6 million, respectively, from sales of First Aid Central (FAC), which was acquired early 2020. All other growth was achieved organically.

This growth was seen in all of the Company's brands. The major trigger was that Acme United had been investing resources in e-commerce teams and platforms for many years. In fact, in the first half of 2020, online sales already represented 16% of Acme's revenues. As a result, when the COVID-19 epidemic occurred, the Company was positioned to quickly shift its sales focus to e-commerce and mass market retailers.

In addition, Acme's outstanding sourcing team in Asia was able to get the products manufactured, shipped, and delivered, despite

all the temporary factory closures and shortages of workers at the factories.

Chairman and CEO Walter C. Johnsen said, "Despite the pandemic, we delivered record sales and earnings, and made two strategic acquisitions during 2020. All of our business units and subsidiaries had outstanding performance. Our associates overcame COVID-19 related supply chain and production issues, worked safely through a difficult environment, and developed a pipeline of new products that will be shipped in 2021."



The major trigger for Acme's growth is the fact that the Company has been investing in e-commerce teams and platforms for many years. In fact, in the first half of 2020, online sales already represented 16% of Acme's revenues.

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 six North American-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. Early 2017, Spill Magic was acquired, which has facilities in Santa Ana, California and Smyrna, TN. In 2020, Acme acquired First Aid Central and Med-Nap LLC, both manufacturers of first aid supplies and respectively based in Quebec, Canada and Brooksville, Florida.

This way, the Company strategically diversifies its portfolio of sourcing, while reducing its reliance on China.

BRANDS

Westcott began as a ruler company more than 140 years ago. It sells between 60 and 80 million scissors, and between 15 and 18 million rulers annually. It truly is the leading scissors brand in the United States and one of the leading ruler brands in North America.

The Company's infamous grey/yellow Titanium Bonded Non-Stick scissors are known all over the globe. The blades are lightweight, stay sharper longer, and are five times harder than steel. Also, they have a non-stick coating that resists adhesives.

The Westcott scissors business continues to become stronger. In fact, Mr. Johnsen mentioned during a conference call that a large retailer tried a different scissors supplier, but quickly returned to Westcott because sales of the other brand were disappointing. A true validation of the brand.



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Westcott is also known for its 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 due to COVID-19 (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.

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. However, more orders are coming in as the business continues to grow both in the U.S. and abroad.

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.

Since Acme bought DMT in 2016, sales have continued to rise fast. New equipment and machinery was since installed to double its production capacity, but that still wasn't enough to meet the rising demand.

Over \$1 million worth of additional machinery will soon be installed at DMT. This will increase the potential output with another 33%. However, more orders are coming in as the business continues to grow both in the U.S. and abroad.

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.

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.



The fact that FAC's products meet federal Health Canada and provincial regulatory requirements was crucial in the acquisition, as it gave Acme United access to the vast Canadian market.

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.

RECENT EVENTS

The SHOT Show, the largest event for shooting, hunting and outdoor recreation, which usually takes place late January, was this year cancelled due to COVID-19. As a result, sales people from Camillus Knives, one of Acme United's brands, switched to giving virtual presentations to key customers.

Camillus has been gaining market share the past several years. On top of that, since the outbreak of COVID-19, the hunting and camping segments have grown exponentially. Weary of being cooped up at home - and of masking and social distancing when they go out - people take refuge in outdoor sports that offer safety and solitude.

In the State of Michigan, for example, more than 545,000 hunters bought a license in 2020, up 10% compared with 2019. Moreover, the number of people getting a license for the first time jumped by 80%, to nearly 84,500. Also Maine reports a state record for deer hunting permits, and Vermont and Nevada have had double-digit hunting increases. All of this caused Camillus sales to surge in 2020.

Moreover, fishing license sales have also soared for the same reason. Louisiana and Idaho both reported a strong surge, but the trend appears to be nationwide. This in turn is good news for Acme's fishing tools brand Cuda, which also experienced a dramatic increase in sales in 2020.

Perfectly in line with the hunting trend, Camillus developed an All-In-1 Hunting Kit. It contains a 9" gut hook fixed blade, a 7" caping knife, a rib spreader, elbow length cleaning gloves, a hip sheath, and a field dressing sheet. These sets are ideal for new hunters as they contain everything one needs to go deer hunting at an extremely low retail price of \$29.99.

Another exciting development for outdoorsmen is the Carnivore Maxx 2.0 machete. It is 23" overall, and boasts an 18" Titanium bonded blade that features a 12" quadruple grind saw. It furthermore comes with an ergonomic TPR handle, cord cutter and chisel tip, most importantly it has an upgraded fully molded sheath for storage and confident carrying.

Also brand new is the stunning Camillus Classic folding knife. It has a blade of 3.25" and a length of 7.25" overall. The knife features a Titanium bonded 440 stainless steel blade, a micarta handle with beautiful bayonet emblem and a handy lock back locking mechanism.



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Speaking about lock mechanisms, Camillus for the first time also launched a knife with an "Axis Lock" style locking mechanism. Camillus is referring to it as the "CUDA-Lock" and it works using a small, hardened spring loaded bar that moves back and forth in a slot made into both steel liners. Positioned at the rear of the blade, it extends on both sides of the knife, spanning the liners. The lock then engages a ramped tang portion of the blade when it is opened, securing the blade in place.

The Cuda Bolt knife is 6.75" overall and has a 2.75" 440 stainless steel blade. The knife furthermore features a dual thumb studs and a secure-grip GFN handle.

All in all, Camillus launched 9 new knives. Two of them will already be available early spring, and the other ones around June. Most of them will also become available in Canada and Europe.

Not attending the SHOT Show in 2021 has proven to be a challenge that Camillus has overcome. It has provided some short term savings for the company, but Camillus is fully committed to returning to the SHOT Show in 2022 with another round of products that will support the continued growth in their industry.

FINANCIALS

SG&A expenses for the fourth quarter of 2020 were \$12.2 million or 30% of sales, compared with \$10.9 million or 32% of sales for the same period of 2019. SG&A expenses for the

year ended December 31st, 2020 were \$48.2 million or 29% of sales compared to \$43.6 million or 31% of sales in 2019.

Amounts in \$000's	12/31/20	12/31/19
Net Sales	40,871	33,873
Cost of Goods Sold	25,824	21,579
S, G & A Expenses	12,151	10,893
Income From Operations	2,896	1,401
Pre-Tax Income	2,034	1,029
Income Tax Expense	(9)	52
Net Income (Loss)	2,043	977
Diluted Shares Outs.	3,753	3,495
Diluted EPS	0.54	0.28

Selected income statement data for the quarters ending December 31, 2020 and December 31, 2019. Source: Company Press Release

Included in other expenses in the fourth quarter of 2020 is a one-time charge of \$750,000 for the termination of the Company's Defined Benefit Pension Plan. The plan had been frozen to employees since 1996 and its participants and obligations have gradually declined over the years. Acme had about 25 retirees in the plan at closure, with all the costs, audits, paperwork and oversights that are required.

The Company settled all outstanding liabilities related to the plan by purchasing annuities or paying lump sums to the participants. The charge represents accumulated losses on plan assets which would have been amortized over its remaining life. The Company's past employees now have annuities from a major insurance company while Acme has transferred the pension risk, and will save approximately \$75,000 annually.

Gross margin was 36.7% in the fourth quarter of 2020 compared to 36.3% in 2019. The gross margin for the year ended December 31st, 2020 was 36.3% compared to 36.5% for 2019. Especially COVID related expenses caused the decline in gross margins.

Outperformance By European Segment

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	FY 2020	FY 2019
U.S.	141,017	125,717
Canada	10,414	6,678
Europe	12,572	10,062
Estimated sales per segment for the year ended December 31, 2020 (Source: Smallcaps Investment Research) and actual sales per segment for the year ended December 31, 2019 (Source: Company Filing)		

For the fourth quarter of 2020, net sales in the **U.S. segment** increased 14% compared to the same period in 2019. Net sales for the year ended December 31, 2020 increased 12%. The sales increases for the fourth quarter and full year were mainly attributable to strong sales of first aid and safety products, which mainly resulted from continued market share gains in the industrial, safety, home improvement, mass market and e-commerce channels, and to a lesser extent gains from COVID-19 related service demand.

European net sales for the fourth quarter of 2020 increased **no less than 65% in U.S. dollars and 55% in local currency** compared to the fourth quarter of 2019. Net sales for the year ended December 31, 2020 increased 25% in both U.S. dollars and local currency compared to 2019. The sales increase for both periods was primarily due to an increased sales of Westcott and Camillus products in the e-commerce channel, as well as higher sales of DMT sharpening products.

Net sales in **Canada, excluding First Aid Central products**, for the fourth quarter of 2020 increased 23% in both U.S. dollars and local currency compared to the same period in 2019. This was primarily due to higher sales of Camillus knives and DMT sharpeners. Net sales for the year ended December 31, 2020 decreased 4% in U.S. dollars and 3% in local currency compared to the same period in 2019.

However, including First Aid Central, sales in Canada increased 56% for the year. During 2020, Acme began selling Health Canada registered first aid products through FAC to its traditional mass market, industrial and office products customers and expanded sales to multinational customers in Canada. The Company is convinced that it can continue to increase First Aid Central sales in the foreseeable future.

Balance Sheet as of December 31, 2020

The Company's debt less cash on December 31, 2020 was \$41.3 million compared to \$30 million on December 31, 2019. During the year, the Company paid approximately \$11.4 million for the acquisition of the assets of First Aid Central and Med-Nap LLC, distributed \$1.6 million in dividends on its common stock, and generated \$3.2 million in free cash flow.

Amounts in \$000's	12/31/20	12/31/19
Cash and Cash Eq.	4,167	6,822
Accounts Receivable	27,173	25,485
Inventories	50,704	39,261
Total Current Assets	83,685	73,146
Property & equipment	20,239	14,036
Intangible Assets, net	18,825	15,793
Total Assets	129,867	110,749
Accounts Payable	7,601	6,693
Total Current Liabilities	20,235	16,633
Bank Debt	38,767	33,240
Total Liabilities	67,135	55,044
Total Stockholder Equity	62,732	55,705
Selected balance sheet data for December 31, 2020 and December 31, 2019. Source: Company Press Release		

Inventory increased approximately \$10 million due primarily to anticipated growth in the business as well as the acquisition of product to offset the impact of potential supply chain interruptions related to COVID-19. As more people return to work post-COVID, demand for Acme's products may increase. This may result in some further inventory growth.

At the end of the 2020, Acme had more than \$63.4 million in working capital and a solid current ratio of 4.13.

GROWTH DRIVER

Acme United Closes Second Acquisition in 2020

Acme United ended 2020, as it began, with an acquisition. In January, the Company acquired First Aid Central (FAC), and mid-December it acquired the assets of Med-Nap LLC., a Brooksville, Florida based manufacturer of alcohol prep pads, alcohol wipes, benzalkonium chloride wipes (BZK), antiseptic wipes, and other first aid products.

Although the purchase price was not disclosed, Acme did mention that it expected Med-Nap to be immediately accretive. For 2020, Med-Nap is estimated to reach revenues of \$4.9 million and EBITDA of \$1.0 million. The existing management of Med-Nap has agreed to remain on board.



Med-Nap was founded in 2007 and currently employs 25 people. The acquisition provides Acme United an FDA-registered manufacturing facility in the U.S.

What makes this acquisition for Acme even more interesting is that Med-Nap has an FDA-registered manufacturing facility where it produces all of its products. In fact, there are only a handful of companies that manufacture these types of products in the United States. This gives Acme two major advantages. First, it doesn't have to import these products anymore from China. With the emphasis on sourcing local getting stronger, this is important. Second, having such a manufacturing facility at its disposal gives Acme the ability to manufacture all kinds of other tear-open packaging products, such as burn cream, etc.

Med-Nap sold its products directly to first aid suppliers and major retailers. They did so

under private label and Med-Nap brands. Nothing will change about this strategy, except that products will also be manufactured under the First Aid Only brand to include in first aid kits. Moreover, because the current demand for Med-Nap's products is so strong, Acme will immediately add machinery to increase the production capacity.

Walter C. Johnsen, Chairman and CEO of Acme United, was quoted saying, "The acquisition of Med-Nap's business provides our company with an FDA-registered manufacturing facility in the U.S. for antiseptic wipes and pads that are used in all our first aid kits and refills. In addition, it adds new product lines of alcohol wipes that are sold to the retail, industrial, and medical markets to meet cleaning and sterilization needs now and post pandemic. We look forward to expanding production to fulfill current requirements as well as that of future new products and customers."

OUTLOOK & VALUATION

Despite some serious headwinds in 2020 such as supply chain issues in the far east; and shops, schools, and offices that closed, Acme United gained market share in all its product categories. A truly outstanding achievement!

Although no guidance is given at the moment, the Company sees strength in sales and earnings growth so far in the first quarter of 2021. The brands keep picking up new distribution and winning new accounts. In addition, when America reopens, the Company will be able to immediately supply its existing office superstores and distributors with cutting tools and first aid supplies as it has built enough inventory. Moreover, new production capacity is soon coming on stream at DMT and Med-Nap.

In anticipation of all that growth, Acme has leased new headquarters in Shelton, Connecticut. The office is about 35,000 square feet, which is double the size of the old office building. It features numerous offices, meeting rooms and cubicles. The employees will each have individual workspaces in a large modern facility. The

cost of the new lease is comparable with the former space.

With the acquisition of Med-Nap, Acme United has again expanded its portfolio of smaller companies that can be easily integrated. The way to success is relatively comparable with each acquisition, the Company adds manpower and resources where necessary, introduces the new products to its existing clients worldwide, expands production, and puts its skilled marketing and sales teams to work. We're convinced that also in Med-Nap's case, Acme will be able to grow the business swiftly.

Thanks to the wonderful fourth quarter and full year financials, Acme United's stock recently reached a new all-time of \$42.14.

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 21.00x.

The Company gave no guidance. As we want to remain conservative in our estimates, we foresee more normalized growth for Acme in our model compared with 2020. We estimate full year 2021 EPS to reach \$2.69 per share, or a 16.5% increase compared with the 2020 number.

Applying our full fiscal year EPS estimate of \$2.69, and the 21.00x P/E multiple from the peer group, we reach the following calculation: \$2.10 estimated EPS multiplied by 2.69 = \$56.49.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$56.49, which is 34% above today's stock price.

SHARE DATA & OWNERSHIP

On March 3, 2021 Acme United had approximately 3,753,000 common shares outstanding. The principal owners of the Company's common stock are Capital Management Corp (10.6%), North Star Investment Management Corporation (10.3%), Walter Johnsen (8.1%), Renaissance Technologies LLC (5.5%), and Dimensional Fund Advisors (4.4%).

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 – FY 2020

All numbers in thousands

PERIOD ENDING	FY 2017	FY 2018	FY 2019	FY 2020
Total Revenue	130,550	137,321	142,457	164,003
Cost of Revenue	82,651	86,672	90,456	104,408
Gross Profit	47,899	50,649	52,001	59,595
Operating Expenses				
Selling, General and Administrative	40,103	43,192	43,572	48,182
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	40,103	43,192	43,572	48,182
Operating Income or Loss	7,796	7,457	8,429	11,413
Income from Continuing Operations				
Total Other Income (Expenses) Net	25	(68)	(98)	(666)
Earnings Before Interest And Taxes	7,820	7,389	8,331	10,746
Net Interest Expense	1,327	1,858	1,788	919
Income Before Tax	6,493	5,531	6,543	9,827
Income Tax Expense	1,196	933	1,030	1,728
Net Income From Continuing Ops	5,297	4,598	5,513	8,098
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	1,245*	-	-	-
Net Income	4,052	4,598	5,513	8,098
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$4,052	\$4,598	\$5,513	\$8,098

Annual Income Statement FY 2017 – FY 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.



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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