

Acme United Corp. (ACU)

Company Report – August 13, 2022

Acme United Corporation, the leading consumer products company with a focus on first aid and safety products, as well as cutting solutions, reported the highest revenues in a quarter in the Company's history. With net sales of \$56.8 million, it achieved an increase of 27% over the second quarter of 2021.

Net income for the quarter was \$2.7 million, which was a decrease of 3% from last year after adjusting for a one-time tax credit of \$900,000. Earnings per share without the tax credit in 2021, were \$0.71 which is similar to 2022.

Despite the strong surge in sales, the Company's earnings for the second quarter were slightly lower compared with 2021 due to several economic and operational challenges, including COVID-related quarantines in China, demurrage fees, port failures, a lack of truck drivers, the weakening of the euro, and the highest inflation in the U.S. in 40 years.

To counter these challenges, the Company has again increased its selling prices in Europe and the U.S., it is implementing significant productivity improvements, and it is further reducing its reliance on Chinese manufacturing.

We reiterate our buy recommendation for Acme United Corp. with a price target of \$42.02, which is 49% above today's stock price.



- Acme United's Chairman and CEO Walter C. Johnsen said after the second quarter results were announced, "We are seeing improvement in our supply chain, and we intend to reduce our inventory gradually over the coming quarters. While the overall operating environment remains challenging, we continue to target revenues of approximately \$200 million in 2022. We continue to drive internal growth while seeking to identify potential acquisitions. In the second quarter, we also increased our credit facility with HSBC by \$15 million, to \$65 million. The increase will further support our growth initiatives."
- In June, Acme also increased its quarterly dividend to 14 cents per share, which was Acme's thirteenth dividend increase since 2004.



Market Data	
Price	\$28.23
Sector	Consumer Products
52-Week Price Range	\$27.22 - \$41.96
Shares Issued (m)	3.53
Market Cap (m)	\$99.51
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 twelve brands: Westcott, Clauss, Camillus, PhysiciansCare, Pac-Kit, First Aid Only, Cuda, DMT, Spill Magic, First Aid Central, Med-Nap, and Safety Made. 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 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 14 cents per share. Traditionally the Company increases the amount by 1 cent every 6 to 8 quarters, the last one being in June of this year. Mr. Johnsen commented on this occasion, "This is Acme's thirteenth dividend increase since 2004. The Company continues to make good business progress and we are delighted to provide this additional return to shareholders. Our balance sheet is strong, and we are confident in the business."

Challenges in Q2

The challenges that Acme United faced in the second quarter were plentiful and came in quick succession. The Chinese ports of Shenzhen and Shanghai abruptly closed due

to COVID. As a result, a large number of containers had to be rerouted to Ningbo, which caused an extra expense of approximately \$500,000 in the second quarter.

In the U.S. ports the situation wasn't much better. The Los Angeles and Long Beach ports were overwhelmed with containers, while on the East Coast the Ever Forward container ship was stuck, causing week-long delays before containers could be shipped to Acme's warehouses.



Although container shipping rates are still 4 to 5 times higher compared to pre-COVID levels, it's clear the peak is behind us.

In addition, inland transportation costs grew rapidly due to diesel prices increasing from approximately \$4 a gallon in March of 2022 to \$5.60 a gallon at the second quarter's end.

Another major event affecting the world during the past quarter is, of course, the war in Ukraine. Aside from the obvious humanitarian concerns, the war is having an impact on already strained supply chains and global inflation.

As the U.S. is rapidly raising interest rates to combat inflation, the Euro began a rapid decline against the U.S. dollar from about \$1.14 to \$1.02 to-date. Since Acme pays in dollars for products that are imported into Europe from China, the Company recognized an unanticipated expense of \$160,000 in the second quarter.

Price Increases & Cost Reductions

In order to counter these challenges, Acme has taken several initiatives to improve its earnings. First, it has again increased selling prices in the U.S. and Europe.

Secondly, the Company is implementing significant productivity improvements. Last year, it installed new warehouse management software in its largest facility located in Rocky Mount, North Carolina. The Company now expects savings of over \$300,000 annually, starting in June 2022, thanks to this new software.

In the Company's Med-Nap facility in Florida, a robotic filling machine is being installed, which is expected to become operational in the fourth quarter of 2022. Med-Nap manufactures alcohol prep pads, alcohol wipes, benzalkonium chloride wipes (BZK), antiseptic wipes, and other first aid products.

The \$800,000 investment reduces the cost of buying alcohol wipes and pads abroad and has projected annual savings of \$350,000. Even more importantly, it reduces production costs for many Med-Nap products so that potentially new business can be gained in the large domestic medical and defense markets.

Moreover, in the fourth quarter of this year, Acme will install new bottling equipment in its Spill Magic plant. Spill Magic manufactures a wide variety of spill pickup products that handle anything from liquid spills, hazardous material spills and even biohazard spills. This \$580,000 investment is projected to generate annual savings of about \$450,000 in 2023 and thereafter.

Thirdly, it remains the Company's goal to reduce its reliance on Chinese manufacturing. About 10-years ago, Acme imported 80% of its products from China. Thanks to the acquisition of no less than seven North American manufacturers, the Company has reduced that number to 40%. For further acquisitions, Acme will continue to focus on targets in Western Europe, the U.S. and Canada.

Increased Domestic Sourcing

Although 40 percent of Acme's products are still sourced from China, domestic manufacturing is gaining significant importance. Since 2011, the Company has purchased no less than seven 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. Earlier this year, Acme acquired Safety Made, manufacturer of first aid kits, as well as the exclusive source for Dorcy, Life Gear and DieHard flashlights, in the promotional products industry (Also read Recent Events on page 7).

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.

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.



Westcott was once again a solid contributor to the second quarter results thanks to strong back-to-school sales.

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.

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 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.

Earlier this year, the Shooting, Hunting and Outdoor Trade (SHOT) Show was held in Las Vegas. Camillus successfully introduced several new, innovative products for hunting and outdoor recreation purposes at the event.

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.

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.



SmartCompliance large metal ANSI B first aid cabinet without medications for food service delivers cost savings and a convenient replenishment system that keeps a business ANSI compliant.

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 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.



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.

Since Acme bought DMT in 2016, sales have continued to rise fast. New equipment and machinery was since installed to significantly expand its production capacity. 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)**. 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.

Although no acquisition price was disclosed, Acme did mention that FAC generated approximately C\$4.3 million in revenues in 2019. What made the acquisition so attractive – next to the financial aspect – was the fact that FAC held a valid Medical Device Establishment License issued by Health Canada. This 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 opened many doors in Canada for Acme United. After all, regulations regarding medical products are very strict and differ significantly country by country. As a result, several of Acme's multinational customers that already purchased first aid products in the United States, could now also be served in their Canadian branches.

Mid-December 2020, Acme United 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.

Also in this case no purchase price was disclosed. For 2020, Med-Nap had estimated revenues of \$4.9 million and EBITDA of \$1.0 million. The existing management of Med-Nap has remained on board.

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, which 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 under private label and Med-Nap brands. Products are now also manufactured under the First Aid Only brand to include in first aid kits.

RECENT EVENTS

Acme United Expands First Aid Business With Lucrative Acquisition

In June of this year, Acme acquired Safety Made, a relatively small, easy to integrate first aid business. Safety Made was founded eight years ago, and has since become a well-known manufacturer of first aid kits, as well as the exclusive source for Dorcy, Life Gear and DieHard flashlights, in the promotional products industry.

Basically, Safety Made sources a wide variety of products, assembles them and then screen-prints a company's name or logo on the products. Companies use promotional products, like safety kits, to build brand awareness, make clients aware of a rebranding, hand out at an event or conference, or simply launch a marketing campaign.

Although the purchase price was not disclosed, Acme did mention that Safety Made had revenues in 2021 of approximately \$4.9 million and EBITDA of approximately \$1.2 million. The acquisition is expected to be accretive immediately. The company is located in Keene, New Hampshire and employs 24 people. Acme also purchased the Safety Made plant. It's also good to know that the founders and management of Safety Made will remain on board.

Walter C. Johnsen, Chairman and CEO of Acme United, commented, "We believe the acquisition of Safety Made provides a platform to expand sales of personalized products to many of Acme United's domestic and global customers. Although its primary business today is in first aid, we see opportunities in all our product ranges.



One of the numerous first aid kits produced by Safety Made as a promotional item.

And that is exactly what makes this acquisition so attractive. First, Safety Made will be able to achieve immediate cost savings thanks to Acme's sourcing power directly from China and Egypt for first aid items. Up until now, Safety Made didn't have that option. In addition, Acme's salespeople will contact their existing customer base to explain and promote the possibilities of the new subsidiary. Moreover, in a next phase, other Acme products, such as Westcott scissors, DMT sharpeners, or Camillus knives can be screen-printed and sold as promotional items.

Another important reason for the acquisition is the fact that Safety Made has the number one online keyword position for many promotional first aid items. Acme can now further build upon Safety Made's knowledge in this area for its other product categories.

Acme Increases Bank Facility

In the second quarter, Acme also announced that it renewed and increased its loan facility with HSBC Bank.

The new agreement provides for borrowings up to \$65 million, which is an increase of \$15 million compared with the previous loan facility, at an interest rate of SOFR* plus 1.75% and expires on May 31, 2026. The terms of the credit facility (including the effective interest rate) otherwise are materially unchanged. The facility is intended to provide liquidity for growth, share repurchases, dividends, acquisitions, and other business activities.

* *The Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and loans that is replacing the London interbank offered rate (LIBOR).*

As of March 31, 2022, the Company had outstanding borrowings of \$40.2 million under its revolving loan agreement with HSBC.

FINANCIALS

Net income for the six months ended June 30, 2022, was \$3.6 million, or \$0.93 per diluted share, compared to \$9.3 million, or \$2.34 per diluted share, for the same period in 2021, a decrease of 62% in net income and 60% in diluted earnings per share.

Excluding the impact of the PPP loan forgiveness and the tax credit referred to above, the Company's adjusted net income for the six months ended June 30, 2021, was \$4.9 million, or \$1.23 per diluted share. Accordingly, net income for the six months ended June 30, 2022, decreased 27% compared to the adjusted net income for the same period in 2021, while diluted earnings per share decreased 25%.

The declines compared to adjusted net income and adjusted diluted earnings per share in 2021 were mainly due to lower gross margins as a percentage of sales in the respective periods.

SG&A expenses for the second quarter of 2022 were \$14.6 million or 26% of sales, compared with \$12.4 million or 28% of sales for the same period of 2021. SG&A expenses for the first six months of 2022 were \$28 million or 28% of sales, compared with \$25 million or 28% of sales in 2021.

Amounts in \$000's	06/30/22	06/30/21
Net Sales	56,773	44,847
Cost of Goods Sold	38,225	28,694
S, G & A Expenses	14,572	12,364
Income From Operations	3,976	3,789
PPP Loan Forgiveness	-	3,508
Pre-Tax Income	3,405	7,007
Income Tax Expense	666	(224)
Net Income	2,739	7,230
Diluted Shares Outs.	3,842	3,964
Diluted EPS	0.71	1.82

Selected income statement data for the quarters ended June 30, 2022 and June 30, 2021. Source: Company Press Release

Note that the second quarter of 2021 included the forgiveness of the Company's Paycheck Protection Program (PPP) loan in the amount of \$3.5 million, and a non-recurring tax credit of \$0.9 million related to stock-based compensation expense. Excluding these impacts, adjusted net income in the second quarter of 2021 was \$2.8 million. Net income for the second quarter of 2022 was \$2.7 million or \$0.71 per diluted share, compared to the adjusted net income for the second quarter of \$2.8 million or \$0.71 per diluted share, a decrease of 3% in net income and constant for earnings per share.

Gross margin was 33% in the three months ended June 30, 2022, versus 36% in the comparable period last year. Gross margin was 34% for the six month period ended June 30, 2022, compared to 36% for the same period of 2021. The lower gross margin was mainly due to product cost, inflation pressures, higher transportation costs and higher labor costs. Price increases partially offset the cost increases.

Segments Hold Their Ground Despite Tough Market Circumstances

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

For the three months ended June 30, 2022, net sales in the **U.S. segment** increased 33% compared to the same period in 2021 due to a combination of higher sales prices, increased volume, and the carryover of orders from our

first quarter of 2022 which were unfilled because of supply chain disruptions. For the six months ended June 30, 2022, net sales in the U.S. segment increased 16% compared to the same period in 2021. The growth was primarily attributable to strong sales of first aid products and Westcott school and office products.

Amounts in \$000's	Q2 2022	Q2 2021
U.S.	48,905	36,840
Canada	3,876	3,990
Europe	3,992	4,017

Sales per segment for the second quarter ended June 30, 2022 and the second quarter ended June 30, 2021 (Source: Company Filing)

European net sales for the three months ended June 30, 2022, decreased 1% in U.S. dollars but increased 12% in local currency compared to the second quarter of 2021. Net sales for the six months ended June 30, 2022, decreased 2% in U.S. dollars but increased 7% in local currency compared to the first half of 2021. The growth in the three and six months was mainly due to new customers in the office channel.

Net sales in **Canada** for the three months ended June 30, 2022, decreased 3% in U.S. dollars and were constant in local currency compared to the same period in 2021. Net sales for the six months ended June 30, 2022, increased 2% in U.S. dollars and 4% in local currency compared to the first half of 2021.

OUTLOOK & VALUATION

The latest acquisition, Safety Made, which Acme bought last month performed well, and was immediately accretive in the second quarter. In 2021, Safety Made had revenues of approximately \$5 million and pre-tax income of a little over \$1.1 million.

In the coming months, the Company will reduce its inventory with approximately \$4 million, as it foresees improvements in the global supply chain. This initiative will lower the Company's debt.

Despite unprecedented economic and operational challenges, Acme United successfully produced record sales in the

second quarter. While the overall operating environment remains tough, the Company is providing guidance of approximately \$200 million in sales for 2022, which is up about 10% compared with last year. Moreover, Chairman and CEO Walter C. Johnsen said in the second quarter conference call that he sees annual sales growing with \$20 million to \$25 million for each of the next three years. Adding one or two more acquisitions, should bring total annual sales close to \$300 million.

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 21.13x.

No earnings guidance for 2022 was given by the Company's management, but they are projecting substantial growth with sales expected to reach \$200 million. With diluted earnings per share at \$0.93 after six months, we expect earnings per share of \$1.97 for the full fiscal year 2022.

Applying our full fiscal year EPS estimate of \$1.97, and the 21.33x P/E multiple from the peer group, we reach the following calculation: \$1.97 estimated EPS multiplied by 21.33 = \$42.02.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$42.02, which is 49% above today's stock price.

SHARE DATA & OWNERSHIP

On August 5, 2022 Acme United had 3,525,002 common shares outstanding. The principal owners of the Company's common stock are Capital Management Corp (14.5%), North Star Investment Management Corporation (11.3%), Walter Johnsen (8.6%), Dimensional Fund Advisors (5.0%) and Renaissance Technologies LLC (4.6%).

MANAGEMENT

❑ WALTER C. JOHNSEN - CHAIRMAN AND CEO

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

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

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

❑ BRIAN OLSCHAN - PRESIDENT AND COO

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

ANNUAL INCOME STATEMENT FY 2019 – 6M 2022

All numbers in thousands

PERIOD ENDING	FY 2019	FY 2020	FY 2021	6M 2022
Total Revenue	142,457	164,003	182,088	100,106
Cost of Revenue	90,456	104,408	117,287	66,590
Gross Profit	52,001	59,595	64,801	33,515
Operating Expenses				
Selling, General and Administrative	43,572	48,182	52,030	28,169
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	43,572	48,182	52,030	28,169
Operating Income or Loss	8,429	11,413	12,771	5,347
Income from Continuing Operations				
Total Other Income (Expenses) Net	(98)	(666)	(196)	(147)
Earnings Before Interest And Taxes	8,331	10,746	12,575	5,200
Net Interest Expense	1,788	919	908	729
Income Before Tax	6,543	9,827	11,667	4,471
Income Tax Expense	1,030	1,728	1,519	903
Net Income From Continuing Ops	5,513	8,098	10,148	3,568
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	3,508*	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	5,513	8,098	13,656	3,568
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$5,513	\$8,098	\$13,656	\$3,568

Annual Income Statement FY 2019 – 6M 2022. Source: Company Filings

* In 2021, the U.S. small Business Administration forgave a \$3.5 million Paycheck Protection Program (PPP) loan. The year before, Acme United encountered numerous business and operational uncertainties resulting from the COVID-19 pandemic. The PPP loan was a key factor in enabling Acme to successfully meet the significant challenges that resulted from these uncertainties, including the Company's ability to avoid laying off any of its employees during the pandemic.



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