

Acme United Corp. (ACU)

Company Report – November 19, 2022

Acme United Corporation, the leading consumer products company with a focus on first aid and safety products, as well as cutting solutions, had a tough third quarter, in which it faced higher costs for goods sold and higher interest expense. On the sales side, the Company still managed to set a new all-time third quarter record of \$49.7 million, compared to \$47.9 million in the same period of 2021, an increase of 4%.

Net income for the third quarter of 2022, however, was \$64,000 or \$0.02 per diluted share, compared to net income of \$2 million or \$0.50 per diluted share for the same period of 2021.

In response to these results, Acme has immediately implemented a series of cost reduction initiatives that are expected to generate over \$5.0 million in savings in 2023. The Company has:

- ❑ Reduced selling expenses by \$600,000;
- ❑ Implemented a wide range of productivity improvements in its manufacturing and distribution facilities, which will save \$2.4 million; and
- ❑ Lowered labor costs by \$800,000 annually.

We reiterate our buy recommendation for Acme United Corp. with a price target of \$36.38 for 2023, which is 46% above today's stock price.



- ❑ In addition to the cost reduction initiatives, solid growth opportunities in 2023, including new first aid and medical placement in the industrial and retail markets, additional Westcott craft products in the mass and ecommerce markets, and expanded sales of Spill Magic to large mass market retailers.
- ❑ Moreover, the Company recently purchased the promotional business of a former competitor of Safety Made with annual sales of approximately \$1.2 million.
- ❑ In June, Acme also increased its quarterly dividend to 14 cents per share, which was Acme's thirteenth dividend increase since 2004.



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."

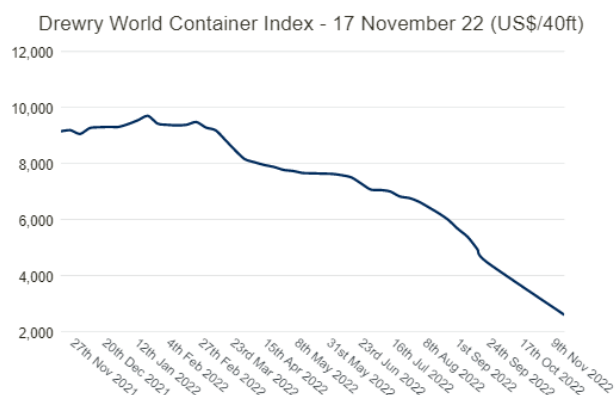
Challenges in 2022

The challenges that Acme United faced in 2022 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 addition, the cost to ship a container from Asia to the U.S. more than doubled in a year, peaking at approximately \$20,000.

In the U.S. ports the situation wasn't much better. The Los Angeles and Long Beach ports were overwhelmed with containers, which resulted in containers staying longer at the ports than contracted, causing unprecedented high demurrage costs.

Finally, a shortage of truck drivers to deliver the goods and high fuel costs caused freight costs to abnormally increase.



The cost to ship a 40-foot container is down almost 75% compared to a year ago.

In total, commencing in the first quarter of 2022, the Company will have incurred \$4.4 million in exceptional supply chain expenses, of which \$1.3 million was recognized in the third quarter. Approximately \$900,000 remains to be recognized in the fourth quarter of 2022, and \$400,000 in the first quarter of 2023.

Price Increases & Cost Reductions

Fortunately, the supply chain issues have substantially improved. The cost to ship a container across the Pacific has fallen to less than \$10,000. In addition, demurrage fees from the ports and the driver shortage have stabilized. As a result, Acme believes that the extra supply chain costs are largely a thing of the past.

Moreover, Acme has taken several initiatives to improve its earnings. First, it has again increased selling prices in the U.S. and Europe.

Also, 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.

Finally, 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.

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, a manufacturer of first aid kits, as well as the exclusive source for Dorcy, Life Gear and DieHard flashlights, in the promotional products industry. And a few week ago, Safety Made purchased the assets of Ready 4 Kits (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.

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.



Westcott gained new craft placement in 2023 at major mass market retailers and continues to move forward in e-commerce.

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.

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 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.

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.

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.

In June of this year, Acme acquired **Safety Made**, 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.

In 2021, Safety Made had revenues of approximately \$4.9 million and EBITDA of approximately \$1.2 million. The acquisition was immediately accretive.

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.

Safety Made in its turn purchased the assets of Ready 4 Kits in October of 2022.

RECENT EVENTS

Acme United Brand Safety Made Acquires Assets of Ready 4 Kits

Founded in 1996, and like Safety Made, based in New Hampshire, Ready 4 Kits custom designs logoed and imprinted first aid kits for promotional use across a number of categories and themes, including automotive, golf, disaster/survival, eco-friendly, health and wellness, outdoor and trade show/travel.



Active people and adventurers love the Ready 4 Kits safety kits when they’re out and about. They include items like sunscreen, alcohol wipes, first-aid scissors, bandages, etc.

Financial terms of the deal were not released, but the acquisition is expected to be immediately accretive for Acme United.

The fact that Safety Made and Ready 4 Kits are both based in New Hampshire is not entirely coincidental, as the two companies share some history. The President of Safety Made, and industry veteran, Paul Dubois has been in the sector for 20 years and started his career at... Ready 4 Kits, joining them right out of college. Ready 4 Kits was sold in 2012 to Tender Corp. and Dubois remained at the company until 2017, at which point he left to start Safety Made.

Now, being under the wings of Acme United, Safety Made had the acquisition power to purchase Ready 4 Kits. With a deep understanding of the demands of the promotional marketplace in the safety category, the combined offering of Safety Made and Ready 4 Kits, gives promotional distributors access to top-tier items and service levels at competitive prices.

Partnering with Acme United gives Safety Made a competitive advantage in the industry, by allowing it to leverage additional buying power and gain access to the many products that Acme manufactures.

At the same time, Safety Made is able to draw on Acme's considerable human and technological resources, which help improve its customers' experience by streamlining and accelerating production times. Thanks to the acquisition of Ready 4 Kits, the company will be the top brand in the kits category with the widest product offering for every promotional need.

New Safety Items Introduced at NSC Congress & Expo

One of the companies attending this year's NSC Congress & Expo in San Diego was Acme United. The fair is Acme's biggest marketing event of the year in the first aid category. As such, it gives a good indication of the outlook for the industry and Acme's first aid and safety brands.

The show was a true success for the Company with lots of exciting meetings. It had a large booth, which was packed with the latest products from the First Aid Only (FAO), Med-Nap, and First Aid Central. Also, the safety

cutter range of the Westcott brand was shown to the public. Consequently, the booth attracted lots of visitors.

At the NSC show, the latest add-on to the SmartCompliance cabinets was revealed, the SmartTab scanner. The scanner basically puts first aid cabinet refill management in the hands of every employee. As supplies are used, SmartTab ezRefill reminder tabs notify the user when it is time to reorder supplies. Thanks to the SmartTab scanner, the user can now simply scan the yellow SmartTab and a requisition is automatically sent to the supplier.

It's obvious that this scanner makes it easier to reorder, reduces the workload and assures companies that they stay compliant with regulations. The SmartTab scanner will be available in the first half of 2023.



The SmartTab Scanner is the latest innovation in SmartCompliance.

FAO also showed the Adaptable Line of first aid kits that are designed for remote and specialized work environments. The innovative Attach & Release First Aid Kit, for example, provides maximum versatility to attach to a vehicle, work equipment or a worker's belt.

The multi-purpose kit carries 165 supplies to treat bleeding, burns, cuts and scrapes. It has multiple straps so that the kit can be attached to a wide variety of work settings, such as construction equipment, janitorial carts, or warehouse racking.

The NSC Congress was also ideal to introduce the First Aid Only QuickTreat Dispensers. These are regular first aid kits with 370 first aid supplies for treating cuts, scrapes, swelling and burns. But the kits also feature

the pull and go technology, which allows someone to grab two of the most frequently needed items by simply sliding them out of the cover.



The First Aid Only QuickTreat Dispenser.

FINANCIALS

Similar to the third quarter, also nine months sales were never as high in Acme’s history as in 2022. They reached \$149.8 million compared to \$136.3 million in the same period in 2021, an increase of 10%.

Obviously, also nine months earnings were impacted by the exceptional supply chain costs and higher interest expense. They reached \$3.6 million or \$0.96 per diluted share. Excluding the impact of the PPP loan forgiveness of \$3.5 million, net income was \$7.8 million, or \$1.97 per diluted share, in the nine months ended September 30, 2021.

Chairman and CEO Walter C. Johnsen commented, “Our earnings, like those of many companies in our sector, have been adversely impacted by the massive global supply chain issues that occurred earlier in the year. We are seeing substantial improvement in the supply chain now. The cost to ship containers has dropped to prior year levels, or even less. We are no longer incurring significant demurrage charges as congestion in the ports has declined significantly.”

Amounts in \$000's	09/30/22	09/30/21
Net Sales	49,744	47,923
Cost of Goods Sold	33,819	30,918
S, G & A Expenses	14,972	14,044
Income From Operations	953	2,961
Pre-Tax Income	30	2,665
Income Tax Expense (benefit)	(34)	619
Net Income	64	2,046
Diluted Shares Outs.	3,683	4,058
Diluted EPS	0.02	0.50

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

Interest expense for the third quarter of 2022 was \$720,000, compared to \$230,000 and in the third quarter of 2021. Interest expense for the nine months ended September 30 was \$1.4 million, compared to \$670,000 for the same period of 2021. The increase for both periods was due to higher debt and higher interest rates.

Gross margin was 32.0% in the three months ended September 30, 2022 compared to 35.5% in the same period in 2021. Gross margin was 33.0% for the nine-month period ended September 30, 2022 compared to 35.8% for the same period in 2021. The declines in the three and nine months ended September 30, 2022 were again the exceptionally high ocean container costs and demurrage charges. The impact on gross margins due to the aforementioned supply chain expenses were 2.3% and 1.5% for the three and nine months ended September 30, 2022.

Balance Sheet As Of September 30, 2022

The Company’s bank debt less cash as of September 30, 2022 was \$64 million compared to \$38 million as of September 30, 2021. During the twelve-month period ended September 30, 2022, the Company paid approximately \$11 million for the acquisition of the assets of Live Safely Products, LLC, paid \$1.8 million in dividends on its common stock, and repurchased \$1.5 million of common stock.

Amounts in \$000's	09/30/22	09/30/21
Cash and Cash Eq.	4,218	5,306
Accounts Receivable	40,149	36,088
Inventories	66,210	48,795
Total Current Assets	114,567	92,647
Property & equipment	26,042	23,181
Intangible Assets, net	21,295	17,615
Total Assets	174,484	141,430
Accounts Payable	11,771	6,695
Total Current Liabilities	24,415	19,091
Bank Debt	57,131	40,454
Total Liabilities	95,503	64,883
Total Stockholder Equity	78,981	76,549
Selected balance sheet data for September 30, 2021 and September 30, 2020. Source: Company Press Release		

During the twelve-month period, inventory increased approximately \$17 million, primarily due to anticipated growth in the business, higher cost and purchasing additional safety stock to offset the impact of potential supply chain disruptions related to COVID-19. Inventory is expected to decline by approximately \$2 million by year-end.

Sales Up in All Three Segment

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

Amounts in \$000's	Q3 2022	Q3 2021
U.S.	42,943	41,060
Canada	3,629	3,585
Europe	3,172	3,278
Sales per segment for the third quarter ended September 30, 2022 and the third quarter ended September 30, 2021 (Source: Company Filing)		

For the three months ended September 30, 2022, net sales in the **U.S. segment** increased 4% compared to the same period in 2021. As a precaution against supply chain delays, customers increased purchases in the second quarter of 2022. This reduced sales in the third quarter of 2022. For the nine months ended September 30, 2022, net sales in the U.S. segment increased 12% compared to the same period in 2021. The growth was primarily attributable to increased sales of

first aid and medical products and Westcott school and office products.

European net sales for the third quarter of 2022 decreased 3% in U.S. dollars but increased 13% in local currency compared to the same period of 2021. Net sales for the nine months ended September 30, 2022, decreased 3% in U.S. dollars but increased 9% in local currency compared to the same period of 2021. The growth in the three and nine months was mainly due to new customers in the office channel.

Net sales in **Canada** in Q3 2022 increased 1% in U.S. dollars and 3% in local currency compared to the same period in 2021. Net sales for the nine months ended September 30, 2022 increased 2% in U.S. dollars and 5% in local currency compared to the same period in 2021. The growth in the three and nine months was mainly due to higher sales of first aid products.

OUTLOOK & VALUATION

Acme United has an excellent first aid and medical business with strong recurring revenues from resales. It has the largest global market share of scissors and shears, which benefits from the school, office, craft, industrial and home users. Moreover, it gained new craft placement in 2023 at major mass market retailers and continues to move forward in e-commerce.

In the coming months, it will be installing new automated packaging equipment in the Spill Magic plant and a new robotic filling machine in the Med-Nap facility.

In summary, Acme has in place the growth platform for 2023 and a \$5 million cost savings and productivity plan that has been mostly implemented. In addition, the \$4.4 million in exceptional supply chain expenses that significantly impacted results this year, won't be an issue anymore in 2023.

The difficult environment that many companies are currently in, also create new opportunities. For example, in September, Acme United took over the sales of a small competitor of Safety Made by purchasing its inventory and intellectual property for

\$860,000. The additional annual revenues are forecast to be about \$1.4 million with about \$400,000 of EBITDA. Although small, it represents the kind of opportunistic situations that may arise.

All in all, we expect the combination of revenue growth, \$5.0 million of cost and productivity savings, and the normalization of supply chain expenses to position the Company for solid growth.

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 20.21x.

No earnings guidance for 2022 was given by the Company's management, but they slightly decreased the sales target to between \$190 million and \$195 million, down from its earlier guidance of \$200 million. Beyond 2022, the Company is confident that it will be able to continue on its growth path.

We are going to remain conservative in our estimates and expect earnings per share of \$1.80 for the full fiscal year 2023.

Applying our full fiscal year EPS estimate of \$1.80, and the 20.21x P/E multiple from the peer group, we reach the following calculation: \$1.80 estimated EPS multiplied by 20.21 = \$36.38.

Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$36.38 for 2023, which is 46% above today's stock price.

SHARE DATA & OWNERSHIP

On November 4, 2022 Acme United had 3,534,729 common shares outstanding. The principal owners of the Company's common stock are Capital Management Corp (14.6%), North Star Investment Management Corporation (11.3%), Walter Johnsen (8.6%), Dimensional Fund Advisors (5.0%) and Renaissance Technologies LLC (4.1%).

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 – 9M 2022

All numbers in thousands

PERIOD ENDING	FY 2019	FY 2020	FY 2021	9M 2022
Total Revenue	142,457	164,003	182,088	149,849
Cost of Revenue	90,456	104,408	117,287	100,374
Gross Profit	52,001	59,595	64,801	49,475
Operating Expenses				
Selling, General and Administrative	43,572	48,182	52,030	43,176
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	43,572	48,182	52,030	43,176
Operating Income or Loss	8,429	11,413	12,771	6,299
Income from Continuing Operations				
Total Other Income (Expenses) Net	(98)	(666)	(196)	(355)
Earnings Before Interest And Taxes	8,331	10,746	12,575	5,944
Net Interest Expense	1,788	919	908	1,442
Income Before Tax	6,543	9,827	11,667	4,502
Income Tax Expense	1,030	1,728	1,519	870
Net Income From Continuing Ops	5,513	8,098	10,148	3,632
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	3,508*	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	5,513	8,098	13,656	3,632
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$5,513	\$8,098	\$13,656	\$3,632

Annual Income Statement FY 2019 – 9M 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.



Acme United Corporation

US: ACU

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United States

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