

## Acme United Corp. (ACU)

Company Report – August 12, 2023

Acme United Corporation, the leading consumer products company with a focus on first aid and safety products, as well as cutting solutions, had an excellent second quarter of 2023, with net income increasing to \$3.4 million, or \$0.96 per diluted share, compared to net income of \$2.7 million, or \$0.71 per diluted share, for the same period of 2022, an increase of 26% in net income, and 35% in earnings per share.

The main reason for this significant improvement is a strong reduction in costs. In 2022, the cost of shipping a container from Shanghai to California increased sharply to as high as \$19,000 while Acme had budgeted a cost \$12,500 per container. This resulted in additional expenses in 2022 of approximately \$4 million. In 2023, however, container costs have declined again to about \$5,000 each. Moreover, the Company implemented a \$5 million cost savings plan in September of 2022, and it is now reaping the rewards of that effort.

Acme United’s Chairman and CEO Walter C. Johnsen said, “I am very pleased with our strong increase in earnings in the second quarter. As anticipated, due to inventory rebalancing by some customers, back-to-school sales were less than in the second quarter of last year. At the same time, our gross margins improved 4.8 percentage points due to the successful implementation of our \$5.0 million productivity plan for 2023, as well as lower container costs and other inbound shipping expenses.”

We reiterate our buy recommendation for Acme United Corp. with a price target of \$48.91 for 2023, which is 30% above today’s stock price.



- ▣ The Company has plenty of growth opportunities in 2023, including new first aid and medical placements in the industrial and retail markets, new Westcott craft products in the mass and ecommerce markets, new customers and programs with Camillus hunting and camping tools and expanded sales of Spill Magic products to large mass market retailers.
- ▣ Last year, 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 last 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."

### 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. Last 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.

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

### Possible Acquisition In 2023

During the conference call, following the announcement of the second quarter financials, Mr. Johnsen again alluded to a possible acquisition later this year. When asked about a new acquisition target, he mentioned, "We are completing the integration of last year's acquisitions, we are getting all the systems in place and are looking for additional space when they've grown out of their existing manufacturing plant. We are looking at a pretty steady flow of new possibilities."

## 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.



**The Camillus Chonk 6.75" pocket knife features a 440 stainless steel blade is bonded with Titanium that resists rust and corrosion and is up to 3X harder than untreated steel so the blade stays sharper, longer.**

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.



**Acme United has become the second largest player in the first aid area in North America.**

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 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 2022, 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. 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.

## RECENT EVENTS

### Cuda Shines at ICAST Show

The International Convention of Allied Sportfishing Trades, the flagship event for the worldwide recreational fishing industry – better known as ICAST – was recently held at the Orange County Convention Center in Orlando, Florida. The event offers an unequaled array of tackle, gear, apparel and accessories all at the fingertips of attendees ranging from tackle dealers to wholesalers and industry media.



**This year's gathering of the 66th annual International Convention of Allied Sportfishing Trades show drew more than 13,300 attendees from all 50 U.S. states and some 80 countries.**

For Cuda, ICAST is the main marketing event of the year. The brand introduced several new tools and accessories with unique features and benefits.

The show was a success for Cuda. Good meetings were held with exciting customers, but also with several smaller distributors.

Many of the buyers were interested in the new products and some already scheduled placement for them. Cuda continues to perform well. Driven by a growing number of exciting tools and accessories.

### Acme United Europe Launches Line of Writing Instruments Under Westcott Brand

A total of 4,561 exhibitors from 170 countries presented their products last week in Frankfurt, Germany as the international consumer goods fairs Ambiente, Christmasworld and Creativeworld joined forces for the first time to inspire the global lifestyle markets.

Also Acme United's European team had a booth at the Ambiente fair, where 154,000 buyers could see the latest in the areas of school & office supplies, writing instruments, and stationery. The eye catcher for Acme this year was a new line of writing instruments, which it mainly sells under private label, but also under the Westcott brand.

Although this may come as a surprise, it's actually a logical step since Acme United Europe acquired some of the assets of UMIXX, a German writing instruments and office supplies company, in 2021. Since then, Acme was able to add many new important customers for its UMIXX line of products. As a direct result, this new line of writing instruments was developed, which will shortly be available online at several major online retailers.

Georg Bettin, the Managing Director for Acme United Europe, commented, "The Ambiente Fair is one of the most important marketing events of the year for our Company. As such, this is an ideal venue to show the latest products in our assortment. Buyers were enthusiastic about our new Westcott products and also about our DMT line of sharpeners. All in all, our business is improving after the tough market we faced in 2022. The price increases that we implemented last year are helping to regain a positive momentum."

For five days, the fully booked exhibition halls in Frankfurt were buzzing with reunions and



an energetic ordering mood. A total of 154,000 buyers came to Frankfurt to experience trends live and to order for their collections, with which they stimulate the consumer mood.

70 percent of visitors came from abroad. In addition to Germany, the strongest participating nations included Italy, France, the Netherlands, the USA, Great Britain, Spain, Turkey, Switzerland, Greece and Poland.

Paperworld is truly an international platform for the office and stationery market and a mirror of the industry. As such, the good mood among retailers and the high level of internationality and visitor quality make us optimistic for the new year.

## FINANCIALS

Net sales for the quarter ended June 30, 2023 were \$53.3 million compared to \$56.8 million in the second quarter of 2022, a decrease of 6%. The decrease was anticipated as several of the Company's largest customers are reducing their inventory, which they increased last year.

The gross margin was 37.5% in the second quarter of 2023 compared to 32.7% in 2022. The significantly higher gross margin was mainly due to the productivity improvement initiatives that began in Q4 of 2022, as well as lower transportation costs. Acme expects gross margins to remain stable in the second half of the year.

Amounts in \$000's	06/30/23	06/30/22
Net Sales	53,336	56,773
Cost of Goods Sold	33,314	38,225
S, G & A Expenses	14,772	14,572
<b>Income From Operations</b>	<b>5,250</b>	<b>3,976</b>
Pre-Tax Income	4,441	3,405
Income Tax Expense	998	667
<b>Net Income</b>	<b>3,443</b>	<b>2,738</b>
Diluted Shares Outs.	3,591	3,841
Diluted EPS	0.96	0.71

**Selected income statement data for the quarters ended June 30, 2023 and June 30, 2022. Source: Company Filing**

Net sales for the six months ended June 30, 2023 were \$99.2 million, compared to \$100.1 million in the same period in 2022, a decrease of 1%. Net income for the six months ended June 30, 2023 was \$4.4 million, or \$1.25 per diluted share, compared to \$3.6 million, or \$0.93 per diluted share, for the same period in 2022, an increase of 24% in net income and 34% in diluted earnings per share.

Gross margin was 36.6% for the six month period ended June 30, 2023, compared to 33.5% for the same period in 2022. The increase was primarily due to productivity improvements in the Company's manufacturing and distribution facilities, as well as lower ocean container costs and demurrage charges.

SG&A expenses for the second quarter of 2023 were \$14.8 million or 28% of sales compared with \$14.6 million or 26% of sales for the same period of 2022. SG&A expenses for the first six months of 2023 were \$29 million or 29% of sales compared with \$28 million or 28% of sales in 2022.

Operating profit in the second quarter increased 32% due to an improved gross margin and tight control of SG&A spending. Interest expense for the second quarter of 2023 was \$830,000 compared to \$420,000 in the second quarter of '22. The increase was entirely due to higher interest rates, in fact average debt declined by \$8 million in the second quarter of 2023 compared to Q2 of last year.

Acme's overall average interest rate in the second quarter of 2023 was 6.4% compared to 2.9% for the second quarter of 2022.

## Balance Sheet As Of June 30, 2023

The Company's bank debt less cash as of June 30, 2023 was \$47.5 million compared to \$59.8 million as of June 30, 2022. During the twelve-month period ended June 30, 2023, the Company distributed \$2.0 million in dividends on its common stock and generated approximately \$14.0 million in free cash flow, including a reduction in inventory of \$9.0 million. Net debt declined \$8 million from December 31, 2022.



Amounts in \$000's	06/30/23	06/30/22
Cash and Cash Eq.	3,401	1,760
Accounts Receivable	39,796	46,991
Inventories	55,944	65,039
Total Current Assets	103,471	117,437
Property & equipment	27,263	26,277
Intangible Assets, net	27,969	29,814
<b>Total Assets</b>	<b>161,846</b>	<b>177,815</b>
Accounts Payable	10,724	21,421
Total Current Liabilities	25,341	33,019
Bank Debt	39,979	50,263
<b>Total Liabilities</b>	<b>78,195</b>	<b>97,992</b>
Total Stockholder Equity	83,651	79,823
<b>Selected balance sheet data for June 30, 2023 and June 30, 2022. Source: Company Press Release</b>		

The company began to reduce its inventory being careful not to impact unexpected customer requirements would it be unprepared for another interruption.

### Solid Canadian Segment

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, 2023, net sales in the U.S. segment decreased 8% compared to the same period in 2022. Sales of first aid and medical products were strong. However, sales of school and office products sales were negatively impacted by customer reductions of inventory, as they were heavily purchased in the second quarter of last year.

Amounts in \$000's	Q2 2023	Q2 2022
<b>U.S.</b>	45,200	48,905
<b>Canada</b>	4,376	3,876
<b>Europe</b>	3,760	3,992
<b>Sales per segment for the second quarter ended June 30, 2023 and the second quarter ended June 30, 2022 (Source: Company Filing)</b>		

European net sales for the three months ended June 30, 2023 decreased 6% in U.S. dollars and 7% in local currency compared to the second quarter of 2022. Net sales for the six months ended June 30, 2023 decreased 6% in U.S. dollars and 5% in local currency compared to the first half of 2022. The decline

in net sales for the three and six month periods were mainly due to the economic recession in Europe.

In Canada, however, net sales for the three months ended June 30, 2023 increased 13% in U.S. dollars and 21% in local currency compared to the same period in 2022. Net sales for the six months ended June 30, 2023 increased 2% in U.S. dollars and 8% in local currency compared to the first half of 2022.

The growth in the three and six month periods was mainly due to higher sales of first aid products as the Company continues to gain market share. Acme Canada is introducing several new products, particularly in the industrial segment, and it offers better pricing than most of its Canadian competitors because it has the scale of purchase.

## OUTLOOK & VALUATION

Acme United has not yet provided guidance for 2023. However, the Company did mention that it anticipates performance in 2023 to far exceed that of 2022. Although sales in the second half of 2023 may still be somewhat impacted by continued inventory reductions, Mr. Johnsen did mention in the conference call that sales so far in July were up compared with last year. Moreover, earnings are expected to thrive because shipping costs have pretty much normalized and the Company's cost savings program will be in full execution.

Acme United reduced its inventory by \$9.1 million during the past 12 months. Thanks to the lower inventory, as well as its strong earnings, the Company was able to reduce its bank debt less cash by \$12.3 million during the past year. As a result, the Company is in a strong position to pursue further growth opportunities, as well as a new acquisition.

### 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 23.86x.

Although Acme is not providing guidance at this moment, it is looking forward to a stronger performance in 2023 than last year, while it continues to look for potential acquisitions.

We are going to remain conservative in our estimates and expect earnings per share of \$2.05 for the full fiscal year 2023.

Applying our full fiscal year EPS estimate of \$2.05, and the 23.86x P/E multiple from the peer group, we reach the following calculation: \$2.05 estimated EPS multiplied by 23.86 = \$48.91.

**Based on these calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$48.91 for 2023, which is 30% above today's stock price.**

## SHARE DATA & OWNERSHIP

On August 3, 2023 Acme United had 3,568,000 common shares outstanding. The

principal owners of the Company's common stock are Capital Management Corp (16.5%), North Star Investment Management Corporation (10.3%), Walter Johnsen (8.6%), Dimensional Fund Advisors (5.0%) and Royce Investment Partners (4.0%).

## 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 2020 – 6M 2023

All numbers in thousands

PERIOD ENDING	FY 2020	FY 2021	FY 2022	6M 2023
<b>Total Revenue</b>	<b>164,003</b>	<b>182,088</b>	<b>193,962</b>	<b>99,175</b>
Cost of Revenue	104,408	117,287	130,403	62,872
<b>Gross Profit</b>	<b>59,595</b>	<b>64,801</b>	<b>63,559</b>	<b>36,303</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	48,182	52,030	57,285	28,865
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	48,182	52,030	57,285	28,865
<b>Operating Income or Loss</b>	<b>11,413</b>	<b>12,771</b>	<b>6,274</b>	<b>7,438</b>
<b>Income from Continuing Operations</b>				
Total Other Income (Expenses) Net	(666)	(196)	(246)	46
Earnings Before Interest And Taxes	10,746	12,575	6,028	7,484
Net Interest Expense	919	908	(2,396)	1,734
Income Before Tax	9,827	11,667	3,663	5,750
Income Tax Expense	1,728	1,519	628	1,318
Net Income From Continuing Ops	8,098	10,148	3,035	4,432
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	3,508*	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
<b>Net Income</b>	<b>8,098</b>	<b>13,656</b>	<b>3,035</b>	<b>4,432</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$8,098</b>	<b>\$13,656</b>	<b>\$3,035</b>	<b>\$4,432</b>

**Annual Income Statement FY 2020 – 6M 2023. 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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