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Acme United Corporation (ACU)

Primary Report (updated for Q4 results and revised projections)

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Acme is a leading U.S. producer of scissors and measuring products, such as rulers. Over the past few years, it has increased its market position through acquisitions, especially in the first-aid kit market. In 2011, it acquired the net assets of Pac-Safety Equipment. In 2012, it bought the net assets of C-Thru Ruler. In 2014, it completed its largest acquisition to date: the net assets of privately-held First Aid Only.

With acquisitions and internal growth, Acme's revenues and profits grew at compounded annual rates of 12.6% and 11.0%, respectively, from 2009 to 2014. In 2014, both revenues and profits increased by nearly 20%. Management expects continued double-digit growth in 2015.

Despite the cost of acquisitions, Acme has kept its debt burden manageable. It has spent \$18 million on acquisitions since 2011. Although its total debt has increased from \$13.5 million to \$24.1 million, retained earnings have kept pace. As a result, Acme's ratio of debt-to-total capitalization has been essentially flat at 38.0% in 2014, compared with 38.7% in 2011, and its interest coverage ratio (EBITDA-to-interest expense) has increased from 13.0 in 2011 to 18.4 in 2014.

In 2015, assuming no additional acquisitions, Acme should generate \$125 million in revenues, up 16.7% from \$107.2 million in 2014. About half of the increase will come from a full year's revenue from First Aid Only, the balance from organic growth across Acme's product lines. Net income is projected to increase 21% from \$4.8 million in 2014 to \$5.8 million in 2015 and earnings per share should rise 15% from \$1.36 to \$1.57 per share.

At the current share price of \$19.25, Acme's 2014 price-earnings multiple is 14.2 and its 2015 P/E is 12.3, both well below major market averages. The stock is thinly traded. 40% of outstanding shares and nearly 50% of beneficial shares are held by insiders (mostly CEO Walter Johnsen and COO Paul Olschan) and three institutions which hold stakes in excess of 5%. The low valuation suggests skepticism about whether the company can sustain its earnings growth. If it can, then the stock should deliver a total return about 17% in 2015, which is equivalent to projected EPS growth of about 15.4% plus the current 1.9% dividend yield. If the market gains greater confidence in the sustainability of Acme's earnings, multiple expansion could result in a total return in excess of 17% for 2015

Although Acme has a solid balance sheet, it is a small company competing in some segments against giants like Fiskars, 3M, Honeywell, Cintas and McKesson. In the long run, it may be better positioned to compete as part of a larger organization with access to significantly greater financial resources.

Common Stock Performance Rating: 1; Safety Rating: C-

Russell 2000: 1235.11

Shares Outst. (mil.)	Common Stock	2/25/15 Price	Div. per Share	Div. Yield	Tangible Book Val.	Proj '14 EPS	2014 P/E	Proj. '15 EPS	2015 P/E
3.29	Acme United (NYSE Mkt: ACU)	\$19.25	\$0.36	1.9%	\$7.62	\$1.36	14.2	\$1.57	12.3

Overview

Acme United Corporation is the successor to the Acme Shear Company, which was incorporated in Connecticut in 1882 and purchased a few years later by the Wheeler brothers, who moved the company to Bridgeport.

A grandson of the founder, Henry Wheeler, became president of the Company in 1941. Shortly after World War II, the company established a UK subsidiary to sell into the European market. By 1946, Acme Shear had become the world's largest scissors company. Mr. Wheeler expanded Acme's business into medical products (scissors, hemostats, scalpels and first aid kits) in 1965. The company went public in 1968 on the American Stock Exchange and still trades on the successor to the Amex, NYSE Market, under the symbol "ACU."

In the 1970s, Acme acquired the Wescott Rule Company, a leading manufacturer of rulers and other measuring products. Acme Shear then changed its name to Acme United Corporation. Later on, Acme expanded its operations into Canada with the acquisition of a Toronto-based measuring tools manufacturer, also coincidentally named Acme.

In the mid-1980s, Acme suffered a major blow when American Home Products, its primary customer for medical products, decided to end its relationship and bring production in-house. Acme then embarked upon an unsuccessful acquisition program in an attempt to compensate for the loss of business. As losses began to mount, its share price fell by nearly 90% to \$3 in the early 1990s, putting significant pressure on its Board of Directors.

In the mid-1990s, after terminating its relationships with the remaining members of the Wheeler family, the Board hired Walter Johnsen, a former venture capitalist and private equity banker at Smith Barney, as President and CEO. Mr. Johnsen had recently cashed out of a successful LBO investment in Marshall Products, a medical equipment supplier and had joined Acme's Board a year before becoming CEO. Along with his new position, Mr. Johnsen became a major shareholder in Acme.

Soon after Mr. Johnsen's arrival, Acme sold its hospital products business (but retained the first aid kit business, which still operates under the Physicians CARE brand name). It cut costs in the scissors and cutting tools business sharply by closing seven manufacturing plants in the U.S. and shifting production overseas (to China). The reduction in production costs helped Acme to expand its existing relationships with Staples and United Stationers, among others, and win new business in the student (i.e. educational) market with mass merchandisers like Wal-Mart and Target.

After returning to profitability, Acme acquired in 2004 Clauss Cutlery, a maker of scissors, utility knives and other cutting tools for the floral and industrial markets. With this acquisition, Acme expanded its distribution to industrial suppliers, like Fastenal and Grainger. In 2007, it bought out of bankruptcy the brand names and intellectual property of Camillus Cutlery, a maker of knives, machetes and other cutting tools primarily for the outdoorsman's market.

In 2011, Acme began to expand its presence in the first aid kit market by acquiring for \$3.1 million the net assets of Norwalk CT-based Pac-Kit Safety Equipment Company, a manufacturer of first aid kits for the industrial, transportation and marine markets. Pac-Kit is known for its high level of customer service, including tailoring kits to meet customer needs (e.g. first-aid kits for oil & gas drillers) and for quick order fulfillment. Pac-Kit had sales of \$5.4 million in 2010. Under Acme, Pac-Kits sales have

tripled, in part by expanding branded and private-label sales to and through distributors like Grainger and McMaster-Carr.

In June 2012, Acme purchased the net assets of the C-Thru Ruler Company, a supplier of drafting, measuring, lettering and stenciling products, for \$1.5 million. The C-Thru product lines acquired by Acme had generated sales of \$2.7 million in 2011. Among C-Thru’s products are transparent rulers, protractors, triangles and curves. The acquisition also expanded Acme’s product offerings in cutting and measuring tools serving the craft, home, hardware and office distribution channels.

In February 2014, Acme acquired the net assets of Vancouver WA-based and privately-held First Aid Only for \$13.8 million. FAO sells Smart Compliance[®] first aid kits, refills and safety products that help a broad range of companies meet OSHA requirements.

FAO has a refill system called Smart Tag, which alerts customers to the need to reorder items within the kit and gives them the information that they need to complete the automated reordering process quickly and efficiently, with minimal input from FAO personnel. Much of the cost savings from this low overhead reordering system is passed on to customers.

FAO had sales of \$17.3 million in 2013. The acquisition has been accretive. With FAO, Acme sees opportunities for growth and also for reducing costs. For example, Acme will begin to consolidate some of the operations of Physicians CARE, Pac-Kit and FAO into FAO’s Vancouver WA facilities.

Acme’s brands are highlighted below:

Acme United Corporation

Cutting and Measuring Tools Brands



www.wescottbrand.com



www.clausco.com



www.camillusknives.com



www.cuda.com

First Aid Kit Brands



www.physicianscare.com



www.pac-kit.com



www.firstaidonly.com

Business Segments

Acme United organizes and reports its business segments according to geographies. Its three segments are the United States, Canada and Europe. The U.S. is Acme's largest segment by far, accounting for 85% of net sales (for the nine month period ended September 30, 2014, the latest figures available) and 91.5% of operating income.

Acme United Corporation and Subsidiaries

Financial Data by Business Segment: 9 Mos. 2014

	U.S.	Canada	Europe	Consolidated
9 Mos. 2014				
Net sales	69,946	7,372	5,237	82,555
% of total	84.7%	8.9%	6.3%	100.0%
Operating income	5,752	652	(115)	6,289
as a % of net sales	7.8%	9.1%	-1.5%	7.0%
Interest exp.				343
Other exp. (inc.)				78
Income before taxes				5,868
as a % of net sales				6.6%

Although Acme has a much smaller presence in Canada, its operations there are more profitable, as evidenced a higher operating margin and also by a higher return on assets. Most likely, Canada generates higher investment returns for Acme because it is not burdened by corporate overhead.

Acme United Corporation and Subsidiaries

Financial Data by Business Segment: 9 Mos. 2013

	U.S.	Canada	Europe	Consolidated
9 Mos. 2013				
Net sales	55,992	6,549	5,657	68,198
% of total	82.1%	9.6%	8.3%	100.0%
Operating income	4,454	592	69	5,115
as a % of net sales	6.1%	7.3%	0.9%	5.7%
Interest exp.				242
Other exp. (inc.)				15
Income before taxes				4,858
as a % of net sales				5.4%

Acme's European operations have been hovering around breakeven for the past four years and were consistently unprofitable before that. Were it not for the achievement of profitability in 2012 and 2013, the company might have decided to close it down. However, Acme services the European operations of some of its U.S. mass market customers, like Staples, so it plans to stay. It believes it is just one mass market customer away from being consistently profitable there. An economic rebound in Europe could also boost sales and profitability. In 2014, Acme's sales in Europe fell 10%, so the segment probably posted a loss for the full year.

While the company's classification of business segments along geographic lines seems both reasonable and practical, the first aid kit business now generates \$35 million in annual revenues as a result of recent acquisitions, equal to about a third of the company's 2014 revenues. At that level, it makes sense for Acme to begin reporting its segment results under a different classification: by business in addition to geographies. The two segments would be (a) Cutting and Measuring Tools and (b) First Aid Kits (or Safety Products).

Most companies that break down segments according to business lines also report sales (and often profits) by geographies. Although Acme is a small company, it should not be too much trouble for it to do likewise.

New Business Initiatives

Beyond the acquisitions and the associated expansion of product lines, Acme has been a leader in the use of titanium and non-stick coatings in its cutting products. In recent years, the company has introduced a couple of lines of garden tools – one under its Clauss brand (with patented AirShoc ergonomic grips), the other under the (licensed) Scott Miracle-Gro brand. These products include pruners (with replaceable blades), snips, loppers, saws, knives, scissors and shears.

Besides titanium, the company has used and continues to experiment with variations in coatings technology, including titanium carbonitride and other metals, such as chromium. The goal is to produce cutting tools with stronger blades that operate more smoothly. For example, a Clauss AirShoc pruner promises a blade five times harder than steel that stays sharper longer, can be replaced without tools and whose performance will not be impeded by adhesives, saps and other residues. Its Wescott iPoint Orbit battery-powered pencil sharpener, which uses titanium blades, has been a great success. Acme also has high hopes for a recently launched putty knife with non-stick coating.

To date, most of these products have been well received in the marketplace, but some have not worked as well as advertised. This is a promising area for Acme with good growth potential, but it remains a work-in progress.

Competition

In scissors, Acme competes with Fiskars and 3M (under the Scotch brand) as well as a number of smaller, regional producers. In other cutting tools, the company faces a large number of competitors, including Fiskars and smaller regional firms, like Felco, Wallace and H.B. Smith. The sportsman's knives market is fragmented, with a few well-known brands, including Remington.

In first aid, safety and over-the-counter medicines, Acme has major competitors across its product lines. These include Cintas, Zee Medical, Honeywell (North Safety) and McKesson, as well as many smaller local and regional companies.

Properties

In August 2013, Acme acquired a 340,000 sq. ft. warehousing and distribution facility on 33 acres in Rocky Mount, NC for \$2.8 million. It bought the property from a company that was liquidating its operations under Chapter 7 of the bankruptcy code. By all accounts, this was a bargain price, equal to \$8.24 per sq. ft. and less than \$85,000 per acre.

Acme has consolidated its warehousing and distribution operations for the cutting and measuring tools businesses into this facility. It invested \$1.4 million to bring the facility up to its specifications and exited two other facilities, a leased warehouse with 135,000 sq. ft. and a 40,000 sq. ft. facility in Fremont NC that it owned. Last April, the company reported that it had sold the Fremont plant for \$850,000 and recorded a gain of \$200,000 on sale.

The Rocky Mount facility nearly doubles the amount of space available to Acme, providing considerable additional space for warehousing, distribution, offices and manufacturing.

Major Shareholders

Nearly 50% of Acme's outstanding shares are held either by insiders or major institutional shareholders. The most recent listing, which includes insider holdings as of February 25, 2014 and major institutional shareholders as of December 31, 2014, is given in the table below:

Acme United Corporation

Major Shareholders

	Shares Owned	Shares Under Option	Shares Beneficially Owned	% of Class, Owned Shares Only	% of Class Beneficially Owned
Walter C. Johnsen, Chairman and CEO	343,720	225,700	569,420	10.5%	16.2%
North Star Investment Management	441,036	0	441,036	13.4%	13.4%
First Wilshire Securities Management	257,866	0	257,866	7.8%	7.8%
Brian S. Olschan, President and COO	39,576	173,200	212,776	1.2%	6.1%
Bard Associates	169,568	0	169,568	5.2%	5.2%
Other directors and officers	66,488	215,525	282,013	2.0%	8.1%
TOTALS	1,318,254	615,425	1,932,679	40.1%	49.5%

Based upon 3,289,455 shares outstanding as of November 3, 2014. For Mr. Johnsen, Mr. Olschan and other directors and officers, their % of class, including beneficially owned shares, is calculated by dividing total shares beneficially owned by the sum of total shares outstanding plus the shares that they hold under option. Thus, Mr. Johnsen's % of class beneficially owned equals 569,420 divided by the sum of 3,289,455 plus 225,700. The resulting percent of class calculation of 16.2% represents the equity stake in Acme that Mr. Johnsen would own if he (and only he) exercised all of his shares under option. Shareholdings (including shares under option) for directors and officers were obtained from Acme's 2014 proxy (from amounts outstanding as of February 25, 2014). Shareholdings from major institutional shareholders are from 13G and 13G/A SEC filings as of December 31, 2014.

Financials

Acme's financial performance over the four-year period ended December 31, 2014 has been remarkably consistent. Revenues and earnings have grown at a double-digit clip, due to acquisitions and organic growth; while profit margins have improved slightly. Revenues increased by 13.5% compounded from 2011 to 2014, while net income grew 19.4% and EPS by 14.3%. In 2014, revenues increased 19.7%, net income by 19.6% and EPS by 11.5%.

Acme United Corporation and Subsidiaries

Summary Financial Data: 2011-2014

	12 Months 31-Dec-11	12 Months 31-Dec-12	12 Months 31-Dec-13	12 Months 31-Dec-14
Net sales	73,302	84,370	89,577	107,222
Cost of goods sold	46,977	54,623	57,753	69,037
Gross profit	26,325	29,746	31,824	38,185
as % of net sales	35.9%	35.3%	35.5%	35.6%
SG&A expense	22,040	24,386	25,945	30,792
as % of net sales	30.1%	28.9%	29.0%	28.7%
Operating income	4,285	5,361	5,879	7,393
as % of net sales	5.8%	6.4%	6.6%	6.9%
Interest:				
Interest expense	(404)	(444)	(502)	(491)
Interest income	150	179	152	17
Interest expense, net	(255)	(264)	(350)	(474)
Other expense	(4)	(99)	(35)	(117)
Income bef. inc. tax exp.	4,026	4,997	5,494	6,802
as % of net sales	5.5%	5.9%	6.1%	6.3%
Income tax expense	1,215	1,448	1,491	2,014
Income tax rate	30.2%	29.0%	27.1%	29.6%
Net income	2,811	3,549	4,003	4,788
as % of net sales	3.8%	4.2%	4.5%	4.5%
Earnings per share:				
Basic	\$ 0.91	\$ 1.14	\$ 1.26	\$ 1.48
Diluted	\$ 0.91	\$ 1.13	\$ 1.22	\$ 1.36
Wtd. avg. shares outstanding				
Basic	3,100	3,116	3,168	3,240
Diluted	3,100	3,133	3,283	3,526

Acme United Corporation and Subsidiaries

Summary Financial Data: 2011-2014

	Actual 12 Months 31-Dec-11	Actual 12 Months 31-Dec-12	Actual 12 Months 31-Dec-13	Estimated 12 Months 31-Dec-14
Operating income	4,285	5,361	5,879	7,393
Depreciation	795	862	934	1,202
Amortization	183	228	271	457
EBITDA	5,264	6,450	7,084	9,052
Purchase of PP&E	(941)	(681)	(4,592)	(2,001)
Proceeds from sale of PP&E	0	0	0	773
Purchase of patents/trademarks	(102)	(133)	(102)	(159)
Acquisition of assets	(3,127)	(1,474)	0	(13,806)
Payment rec'd on mort. rec.	0	0	1,727	0
EBITDA after capex & acq.	1,094	4,162	4,117	(6,141)
Cash paid for income taxes	(1,293)	(1,021)	(1,821)	(2,014)
Cash paid for interest	(390)	(436)	(505)	(491)
Adjustments	(121)	(470)	427	0
Stock comp. expense	428	428	490	451
Other inc. statement items	145	80	117	(300)
Chg. in oper. assets & liabs.	(1,970)	(6,305)	684	(1,659)
Net cash flow bef. financing	(2,106)	(3,561)	3,508	(10,154)
Dividends	(772)	(1,090)	(729)	(1,160)
Net borrowings	4,046	6,751	(1,408)	1,236
Purchase of treasury stock	(133)	(439)	0	0
Issuance of common stock	287	172	529	890
Foreign exchange	(70)	63	(7)	(170)
Net change in cash	1,252	1,897	1,894	(9,358)
EBITDA	5,264	6,450	7,084	9,052
Interest expense	404	444	502	491
Interest coverage	13.0	14.5	14.1	18.4

Acme's EBITDA has grown steadily over the past few years. From 2011 to 2014, it grew at a compounded annual rate of 19.8%. In 2014, EBITDA increased 27.8% to \$9.1 million.

Capital expenditures increased significantly in 2013, due to the purchase of the Rocky Mount, NC warehouse and distribution facility. Renovations to that facility have kept capital expenditures higher than the historical average in 2014, but well below the total for 2013.

Except for 2012, Acme has generated sufficient cash from operations (and after all investments except acquisitions) to cover its dividend. In 2012, the company experienced a sharp increase in working capital (especially receivables and inventory) that is probably due mostly to ramping up operations (and expanding distribution) for newly-acquired operations.

Acme United Corporation and Subsidiaries

Summary Financial Data: 2011-2014

	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
Balance Sheet				
ASSETS				
Cash and cash equivalents	7,853	9,750	11,644	2,286
Accounts receivable, net	12,904	16,442	15,629	19,477
Inventories	24,495	30,292	28,219	33,671
Deferred income taxes	1,335	1,370	1,276	1,000
PP&E, net	2,506	2,353	5,936	6,931
Note receivable	1,766	1,702	0	0
Intangible assets, net	3,285	4,240	4,072	12,689
Goodwill	0	0	0	1,340
Other assets	1,077	1,678	1,303	1,914
TOTAL ASSETS	55,222	67,828	68,079	84,959
LIABILITIES AND EQUITY				
Accounts payable	4,935	6,480	4,789	7,773
Other accrued liabilities	4,943	6,162	5,373	7,960
Long-term debt	17,568	24,320	22,912	24,147
Equity	27,775	30,866	35,005	39,428
TOTAL LIAB. AND EQUITY	55,222	67,828	68,079	79,308
KEY RATIOS				
Net income / sales	3.8%	4.2%	4.5%	4.5%
Sales / avg. assets		1.37	1.32	1.45
Avg. assets / avg. equity		2.10	2.06	1.98
Return on equity		12.1%	12.2%	12.9%
Debt-to-total capitalization	38.7%	44.1%	39.6%	38.0%

Although debt has increased meaningfully since 2011, the company's debt-to-total capitalization ratio has increased more modestly. At December 31, 2014, it stood at 38.0%, down from 38.7% in 2011.

EBITDA coverage of interest has remained strong in the mid-teens or higher. (See previous page.)

Acme's debt is provided entirely by the commercial bank, HSBC, under a revolving loan facility. The facility was last increased in April 2013 from \$30 million to \$40 million. It was amended in December 2013 to accommodate the purchase of the Rocky Mountain NC facility. It matures on April 5, 2017. The interest rate is LIBOR plus 1.75%. The agreement has various covenants, requiring Acme to maintain a minimum level of tangible net worth and maximum debt-to-net worth and minimum fixed charge coverage ratios. As of September 30, 2014 and almost certainly through December 31, 2014, the company was in compliance with all of the covenants on the revolving loan facility.

Projections

Acme United Corporation and Subsidiaries

Summary Financial Data
Actual and Projected: 2013-2015

	Actual 3 Months 31-Dec-13	Actual 3 Months 31-Dec-14	Actual 12 Months 31-Dec-14	Projected 12 Months 31-Dec-15
Net sales	21,379	24,667	107,222	125,128
Cost of goods sold	14,004	15,691	69,037	80,582
Gross profit	7,375	8,976	38,185	44,546
as % of net sales	34.5%	36.4%	35.6%	35.6%
SG&A expense	6,612	7,872	30,792	35,662
as % of net sales	30.9%	31.9%	28.7%	28.5%
Operating income	763	1,104	7,393	8,884
as % of net sales	3.6%	3.5%	6.9%	7.1%
Interest:				
Interest expense	(122)	(136)	(491)	(550)
Interest income	13	5	17	40
Interest expense, net	(109)	(131)	(474)	(450)
Other expense	(19)	(39)	(117)	(75)
Income bef. inc. tax exp.	635	934	6,802	8,324
as % of net sales	3.0%	2.9%	6.3%	6.9%
Income tax expense	111	245	2,014	2,490
Income tax rate	17.5%	26.2%	29.6%	30.0%
Net income	524	689	4,788	5,809
as % of net sales	2.5%	2.8%	4.5%	4.6%
Earnings per share:				
Basic	\$ 0.16	\$ 0.21	\$ 1.48	\$ 1.76
Diluted	\$ 0.15	\$ 0.19	\$ 1.36	\$ 1.57
Wtd. avg. shares outstanding				
Basic	3,189	3,287	3,240	3,300
Diluted	3,395	3,625	3,526	3,700

Projections for 2015 assume the benefit from the acquisition of First Aid Only in April 2014 as well as a high level (of approximately 10%) of organic growth in the rest of the business. Profit margins and cost ratios are assumed to be relatively stable. Under these assumptions, 2015 earnings per share are projected to be \$1.57, up 15.4% from 2014.

Acme United Corporation and Subsidiaries

Summary Financial Data
Actual and Projected: 2013-2015

	Actual 3 Months 31-Dec-13	Estimated 3 Months 31-Dec-14	Estimated 12 Months 31-Dec-14	Projected 12 Months 31-Dec-15
Operating income	763	1,104	7,393	8,884
Depreciation	261	300	1,202	1,200
Amortization	69	112	457	500
EBITDA	1,093	1,516	9,052	10,584
Purchase of PP&E	(1,198)	(582)	(2,001)	(1,200)
Proceeds from sale of PP&E	0	0	773	500
Purchase of patents/trademarks	(35)	(40)	(159)	(160)
Acquisition of assets	0	0	(13,806)	0
Payment rec'd on mort. rec.	0	0	0	0
EBITDA after capex and acq.	(140)	666	(6,141)	9,724
Cash paid for income taxes	(442)	(245)	(2,014)	(2,490)
Cash paid for interest	(123)	(136)	(491)	(550)
Adjustments	427	0	0	0
Stock compensation expense	102	0	451	600
Other income statement items	(8)	(34)	(300)	(35)
Changes in oper. assets and liabs.	2,365	2,602	(1,659)	(5,171)
Net cash flow before financing	2,180	3,081	(10,154)	2,078
Dividends	(256)	(392)	(1,160)	(1,320)
Net borrowings	(2,119)	(6,197)	1,236	1,056
Purchase of treasury stock	0	0	0	0
Issuance of common stock	21	0	890	900
Foreign exchange	7	(20)	(170)	0
Net change in cash	(166)	(3,528)	(9,358)	2,714
EBITDA	1,093	1,516	9,052	10,584
Interest expense	122	136	491	550
Interest coverage	9.0	11.1	18.4	19.2

Under these projections, EBITDA is expected to grow 16.9% to \$10.6 million in 2015, after rising 27.8% to \$9.1 million in 2014.

Excluding the cost of the First Aid Only acquisition in 2014, cash flow from operations and after net capital expenditures is expected to be sufficient to cover total dividend payments in both 2014 and 2015. According to these projections, there is sufficient room to increase the dividend again in 2015.

Acme United Corporation and Subsidiaries

Summary Financial Data
Actual and Projected: 2013-2015

	Actual 31-Dec-13	Actual 31-Dec-14	Actual 31-Dec-14	Projected 31-Dec-15
Balance Sheet				
ASSETS				
Cash and cash equivalents	11,644	2,286	2,286	5,000
Accounts receivable, net	15,629	19,477	19,477	23,000
Inventories	28,219	33,671	33,671	38,000
Deferred income taxes	1,276	1,000	1,000	1,000
PP&E, net	5,936	6,931	6,931	6,431
Note receivable				0
Intangible assets, net	4,072	12,689	12,689	12,349
Goodwill	0	1,340	1,340	1,340
Other assets	1,303	1,914	1,914	2,000
TOTAL ASSETS	68,079	84,959	84,959	89,120
LIABILITIES AND EQUITY				
Accounts payable	4,789	7,773	7,773	9,000
Other accrued liabilities	5,373	7,960	7,960	9,500
Long-term debt	22,912	24,147	24,147	25,203
Equity	35,005	39,428	39,428	45,417
TOTAL LIABILITIES AND EQUITY	68,079	79,308	79,308	89,120
KEY RATIOS				
Net income / sales	2.5%	2.8%	4.5%	4.6%
Sales / Avg. total assets	1.23	1.20	1.45	1.49
Avg. total assets / avg. total equity	2.00	2.09	1.98	1.99
Return on equity	6.0%	7.0%	12.9%	13.7%
Debt-to-total capitalization	39.6%	38.0%	38.0%	35.7%

Alternatively, these projections anticipate that Acme's debt will increase only slightly, from \$24.1 million in 2014 to \$25.2 million in 2015. Actually, net of cash, Acme's debt is expected to drop from \$21.9 million in 2014 to \$20.2 million in 2015. Despite the projected slight increase in debt, Acme's ratio of debt-to-total capitalization is expected to decline from 38.0% at the end of 2014 to 35.7% at the end of 2015.

Valuation

Acme United Corporation and Subsidiaries

Valuation Metrics as of the Market Close on February 25, 2015

Recent price	\$ 19.25	
52-week range	\$ 14.96	- \$ 20.50
Dividend	\$ 0.36	
Yield	1.9%	
Dividend payout	26.5%	
Shares outstanding	3,289	thousands
Market cap.	63,322	thousands
	EPS	PE
2014A	1.36	14.2
2015E	1.57	12.3
	Per Share	Multiple
Free cash flow	\$ 1.59	12.1
Book value	11.99	1.6
Tangible book	7.72	2.5
Sales (ttm)	32.60	0.6
Capitalization	Book	Market
Debt	24,147	24,147
Equity	39,428	63,322
Total	66,575	87,469
% debt	38.0%	27.6%
Enterprise value to	TTM	Multiple
EBITDA	9,052	9.7
Sales	107,222	0.8

At the closing share price on February 24, ACU was valued at 14.2 times 2014 earnings and 12.3 times projected 2015 earnings, both well below market averages. (By comparison, the S&P 500 is valued at 18.8 times estimated 2014 operating earnings and 17.9 times projected 2014 operating earnings. It is also valued at 20.5 times estimated 2014 "as reported" earnings and 18.9 times projected 2015 as reported earnings. The discount probably reflects a liquidity premium for S&P 500 companies and perhaps market uncertainty about whether ACU can continue to deliver double-digit earnings growth.

On other measures, such as price-to-book, price-to-tangible book and EBITDA-to-enterprise value, ACU also looks relatively cheap (compared with most other companies), but earnings growth will likely be the primary driver of ACU's share price performance in 2015 and beyond.

Technicals



After an advance that led to an intraday peak of \$20.40 on December 31, 2014, ACU's shares have traded sideways for most of 2015. With the fall from the early peak in 2015, ACU's shares are down 3.3% year-to-date, compared with a 2.5% gain in the Russell 2000 small cap index. This period of consolidation is welcome after the strong advance that ACU had in 2014. (ACU's stock had a total return of 37% in 2014, much better than the Russell 2000's 3.5% return.)

Given that ACU's forward P/E multiples are below market averages, the stock has the potential to outperform again in 2015, provided that ACU's financial performance meets my expectations. The stock can deliver a total return of 17%, which would consist of a share price gain of 15% (equal to projected earnings growth) plus ACU's dividend yield of 2%. If the market awards ACU a higher earnings multiple during the course of the year, the total return on the stock would exceed 17%.

Business Segment Financial Data: 2013 vs. 2012

Acme United Corporation and Subsidiaries

Financial Data by Business Segment: 2013

	U.S.	Canada	Europe	Consolidated
2013				
Net sales	73,608	8,092	7,877	89,577
% of total	82.2%	9.0%	8.8%	100.0%
Operating income	5,082	557	240	5,879
as a % of net sales	6.9%	6.9%	3.0%	6.6%
Assets	57,068	5,329	5,682	68,079
OI / assets	8.9%	10.5%	4.2%	8.6%
Capital exp.	4,500	47	45	4,592
Deprec. and amort.	1,116	9	80	1,205
EBITDA	6,198	566	320	7,084
EBITDA margin	8.4%	7.0%	4.1%	7.9%

Please note: In Acme United's 2013 10-K, the company did not include intangibles amortization cost in segment depreciation and amortization. It did, however, include intangibles amortization in the 2012 business segment data. Accordingly, I have included 2013 intangibles amortization expense in the table above for 2013 and allocated all of that additional expense to the company's U.S. segment.

Acme United Corporation and Subsidiaries

Financial Data by Business Segment: 2012

	U.S.	Canada	Europe	Consolidated
2012				
Net sales	67,510	8,808	8,052	84,370
% of total	80.0%	10.4%	9.5%	100.0%
Operating income	4,394	775	192	5,361
as a % of net sales	6.5%	8.8%	2.4%	6.4%
Assets	56,115	6,107	5,606	67,828
OI / assets	7.8%	12.7%	3.4%	7.9%
Capital exp.	656	14	11	681
Deprec. and amort.	980	36	73	1,089
EBITDA	5,374	811	265	6,450
EBITDA margin	8.0%	9.2%	3.3%	7.6%

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