

# Mossberg's Investor Digest

## Best Idea Profile: Acme United (AMEX:ACU)

### DESCRIPTION:

Acme United uses patented technologies to generate new products across three major product lines: cutting, measuring and safety. The cutting spectrum includes garden shears, scissors, paper trimmers, pencil sharpeners, industrial cutters, and survival knives marketed under the brand names of Westcott and Camillus. Acme's products are used for the school, office, craft, industrial, hardware, gardening and sporting goods markets. Measuring products include protractors, rulers and other math tools. The safety products include first aid kits, personal protection products and medication refills. This Connecticut-based company was founded in 1867 and employs approximately 157 non-union people.

### KEY INVESTMENT CONSIDERATIONS:

**History of Innovation** – 30% of sales are from products introduced in the last three years. Technological innovation is critical in a relatively mature industry and Acme continues to excel with its patented technologies. It leverages its performance-enhancing coating technology to bring products to broader markets.

**New Products are Gaining Distribution** – The Camillus knife line was totally refreshed last year. It has seen meaningful placement successes and will be in many more outdoor sporting goods stores and Wal-Mart this year. The company claims its knives and survivor tools are the "who's who" of the outdoor world. It recently signed Les Stroud of the popular network TV series "Survivor Man" to endorse its products.

**Strong Value Proposition** – Prospects for growth come from the development of new products, expansion into new geographic markets and new market channels. Once selling solely to office supply stores, the company has proven its ability to enter multiple new market channels with innovative new products.

**Selective Acquisitions will Garner Efficiencies of Scale and Scope** – Acme successfully integrated the SafetyPak acquisition in 2011 and is looking for more strategic opportunities to expand product and market channels. The company paid \$3.4 million in cash for SafetyPak, which is approximately 0.6x revenue. Small tuck-in acquisitions like this one, if bought at the right price, can add significant operating contribution.

**Growing Global Distribution** – Acme is actively building its footprint to service multinational customers, with teams in Hong Kong and China providing global sourcing and efficient delivery to an expanding global customer base.

**Strong First Quarter** – For Q1FY2012 Acme reported earnings per share of \$0.08, double the past year's comparable quarter. And management announced more new products in the pipeline.

### VALUATION:

**Stock Support** – Acme has increased its dividend for five consecutive years with a five-year annual dividend growth rate of 16.7% and has a stock buyback program in place. ACU flies under most investors' radar. It trades at TTM EPS multiple of 11, which is very reasonable within its Household Product sector. Revenues should be strong and are more predictable than margins given the vagaries of the product mix each quarter. However, margins are expected to be higher in the upcoming quarter on strong sales. Management expects revenues will be \$80-\$85 million in fiscal 2012 which would reflect almost 10% increase on the more modest sales expectation.

#### Acme United (AMEX:ACU)

Investment Data (as of 5/29/12)

<b>Recent Price</b>	<b>\$10.49</b>
52-Week Range	\$11.54 - \$8.52
Fiscal Year End	Dec
Dividend	\$0.28
Yield	2.60%
Shares Outstanding	3.1 M
Average Trading Volume (3 mos)	3,635
Market Capitalization	\$33 M
Cash	\$4 M
Long Term Debt	\$16 M
Enterprise Value (EV)	\$45 M
Book Value	\$8.95
TTM Revenue	\$75.8 M
P/ Revenue	0.4x
TTM EPS	\$0.95
P/ EPS	11x
TTM EBITDA	\$5.7 M
EV/ EBITDA	7.9x